EXERCISE 16-4 (10-15 minutes)

<table>
<thead>
<tr>
<th></th>
<th>Preferred</th>
<th>Common</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Preferred stock is non-cumulative, non-participating</td>
<td>$16,000</td>
<td>$74,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>(b) Preferred stock is cumulative, non-participating</td>
<td>$48,000</td>
<td>$42,000</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

EXERCISE 16-4 (Continued)

<table>
<thead>
<tr>
<th></th>
<th>Preferred</th>
<th>Common</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(c) Preferred stock is cumulative, participating</td>
<td>$57,778</td>
<td>$32,222</td>
<td>$90,000</td>
</tr>
</tbody>
</table>

*Dividends in arrears $32,000
Current dividend 16,000
Pro rata share to common ($250,000 X 8%) $20,000
Balance dividend pro rata 20/45 X $22,000 9,778
25/45 X $22,000 12,222

EXERCISE 16-6 (10-15 minutes)

(a) No entry—simply a memorandum indicating the number of shares has increased to 18 million and par has been reduced from $10 to $5 per share.
EXERCISE 16-6 (Continued)

(b) Retained Earnings................................. 90,000,000
    Stock Dividend Distributable ............... 90,000,000

Stock Dividend Distributable..................... 90,000,000
    Common Stock ................................ 90,000,000

(c) Stock dividends and splits serve the same function with regard to the securities markets. Both techniques allow the board of directors to increase the quantity of shares and channel share prices into the “popular trading range.”

For accounting purposes the 20%-25% rule reasonably views large stock dividends as substantive stock splits. It is necessary to capitalize par value with a stock dividend because the number of shares is increased and the par value remains the same. Earnings are capitalized for purely procedural reasons.

EXERCISE 16-8 (10-12 minutes)

(a) Retained Earnings (15,000 X $37).............. 555,000
    Common Stock Dividend
        Distributable................................. 150,000
    Paid-in Capital in Excess of Par............. 405,000

    Common Stock Dividend Distributable ..... 150,000
    Common Stock ................................ 150,000

(b) Retained Earnings (300,000 X $10)........... 3,000,000
    Common Stock Dividend
        Distributable................................. 3,000,000

    Common Stock Dividend Distributable ..... 3,000,000
    Common Stock ................................ 3,000,000

(c) No entry, the par becomes $5.00 and the number of shares outstanding increases to 600,000.
EXERCISE 16-14 (30-35 minutes)

(a) 1. **Dividends Payable—Preferred**
   
   $(2,000 \times 10)$ ................................................... 20,000
   
   **Dividends Payable—Common**
   
   $(20,000 \times 2)$ ................................................... 40,000
   
   **Cash** .......................................................... 60,000

2. **Treasury Stock** .................................................. 68,000
   
   **Cash** $(1,700 \times 40)$ ................................... 68,000

3. **Land** .............................................................. 30,000
   
   **Treasury Stock** $(700 \times 40)$ ..................... 28,000
   
   **Paid-in Capital From Treasury Stock** ....... 2,000

4. **Cash** $(500 \times 105)$ ............................................. 52,500
   
   **Preferred Stock** $(500 \times 100)$................... 50,000
   
   **Paid-in Capital in Excess of Par—Preferred** ........ 2,500

5. **Retained Earnings** $(1,900 \times 45)$ ..................... 85,500
   
   **Common Stock Dividend Distributable**
   
   $(1,900 \times 5)$ ................................................... 9,500
   
   **Paid-in Capital in Excess of Par—Common** ........ 76,000

6. **Common Stock Dividend Distributable** ........ 9,500
   
   **Common Stock** ........................................ 9,500

7. **Retained Earnings** ............................................ 66,800
   
   **Dividends Payable—Preferred**
   
   $(2,500 \times 10)$ ................................................... 25,000
   
   **Dividends Payable—Common**
   
   $(20,900 \times 2)$ ................................................... 41,800

8. **Retained Earnings** ............................................ 200,000
   
   **Retained Earnings Appropriated for Plant Expansion** ........ 200,000
EXERCISE 16-14 (Continued)

(b) Anne Cleves Company
Stockholders’ Equity—12/31/01

Capital stock
- Preferred stock, 10%, $100 par, 10,000 shares authorized, 2,500 shares issued and outstanding $ 250,000
- Common stock, $5 par, 100,000 shares authorized, 21,900 shares issued, 20,900 shares outstanding 109,500
  Total capital stock 359,500

Additional paid-in capital 205,500
  Total paid-in capital 565,000

Retained earnings
- Appropriated for plant expansion 200,000
- Unappropriated 427,700
  Total paid-in capital and retained earnings 1,192,700

Less cost of treasury stock (1,000 shares common) 40,000
  Total stockholders’ equity 1,152,700

Computations:
- Preferred stock $200,000 + $50,000 = $250,000
- Common stock $100,000 + $ 9,500 = $109,500
- Additional paid-in capital: $125,000 + $2,000 + $2,500 + $76,000 = $205,500

Unappropriated retained earnings: $450,000 – $85,500 – $66,800 – $200,000 + $330,000 = $427,700

Treasury stock $68,000 – $28,000 = $40,000