EXERCISE 16-5 (10-15 minutes)

<table>
<thead>
<tr>
<th></th>
<th>Preferred</th>
<th>Common</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(a)</strong> One year in arrears</td>
<td>$14,000</td>
<td></td>
<td>$ 14,000</td>
</tr>
<tr>
<td>Current year</td>
<td>14,000</td>
<td>$210,000</td>
<td>224,000</td>
</tr>
<tr>
<td>Participating (4%) 7</td>
<td>8,000</td>
<td>120,000</td>
<td>128,000</td>
</tr>
<tr>
<td>(4% \frac{$366,000 - $238,000}{3,200,000})</td>
<td>$36,000</td>
<td>$330,000</td>
<td>$366,000</td>
</tr>
<tr>
<td><strong>(b)</strong></td>
<td>$14,000</td>
<td>$352,000</td>
<td>$366,000</td>
</tr>
<tr>
<td><strong>(c)</strong> Current year</td>
<td>$14,000</td>
<td>$210,000</td>
<td>$224,000</td>
</tr>
<tr>
<td>Additional 3% to common</td>
<td>90,000</td>
<td>90,000</td>
<td>90,000</td>
</tr>
<tr>
<td>Participating (1.625%)</td>
<td>3,250</td>
<td>48,750</td>
<td>52,000</td>
</tr>
<tr>
<td>(1.625% \frac{$366,000 - $314,000}{3,200,000})</td>
<td>$17,250</td>
<td>$348,750</td>
<td>$366,000</td>
</tr>
</tbody>
</table>
EXERCISE 16-7 (15-20 minutes)

(a) Retained Earnings

($40 \times 10\% \times 5,000,000) \cdots 20,000,000

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Dividend Distributable</td>
<td>500,000</td>
</tr>
<tr>
<td>Paid-in Capital in Excess of Par</td>
<td>19,500,000</td>
</tr>
</tbody>
</table>

Stock Dividend Distributable \cdots 500,000

Common Stock \cdots 500,000

(b) Retained Earnings \cdots 2,500,000

<table>
<thead>
<tr>
<th>Account</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Dividend Distributable</td>
<td>2,500,000</td>
</tr>
</tbody>
</table>

Stock Dividend Distributable \cdots 2,500,000

Common Stock \cdots 2,500,000

(c) Stock dividends on treasury stock can be viewed as a purposeless act since the firm could simply issue previously unissued stock with a rather routine vote of the board of directors. However, corporations acquire treasury stock to have shares available for sale or other use which do not have to go through the registration process. By issuing stock dividends on treasury stock the proportion of the treasury stock to issued stock is retained. The possible need to register new shares is reduced.

(d) None. Stock dividends are simply a form of restructuring the common equity. Retained earnings are transferred to the Stock and Paid-in Capital accounts. The total book equity does not change.
EXERCISE 16-9 (10-15 minutes)

(a) Retained Earnings........................................... 97,500
    Common Stock Dividend
    Distributable ........................................... 25,000
    Paid-in Capital in Excess of Par .................. 72,500
    (50,000 shares X 5% X $39 = $97,500)

    Common Stock Dividend Distributable ........... 25,000
    Common Stock .......................................... 25,000

(b) Retained Earnings........................................... 80,000
    Notes Payable to Stockholders .................. 80,000

(c) No entry, memorandum note to indicate that par value is reduced to $2 and shares outstanding are now 250,000 (50,000 X 5).

(d) January 5, 2002
    Investments (Bonds) ................................... 35,000
    Gain on Appreciation of Investments (Bonds) ................. 35,000

    Retained Earnings .................................... 135,000
    Property Dividends Payable ......................... 135,000

    January 25, 2002
    Property Dividends Payable ......................... 135,000
    Investments (Bonds) ................................... 135,000
Transactions:

(a) Assuming Gutsy Co. declares and pays a $.50 per share cash dividend.
(1) Total assets—decrease $5,000
(2) Common stock—no effect
(3) Paid-in capital in excess of par—no effect
(4) Retained earnings—decrease $5,000
(5) Total stockholders’ equity—decrease $5,000

(b) Gutsy declares and issues a 10% stock dividend when the market price of the stock is $14.
(1) Total assets—no effect
(2) Common stock—increase $2,000 (10,000 X 10%) X $2
(3) Paid-in capital in excess of par—increase $12,000 (1,000 X $14) – $2,000
(4) Retained earnings—decrease $14,000 ($14 X 1,000)
(5) Total stockholders’ equity—no effect

(c) Gutsy declares and issues a 40% stock dividend when the market price of the stock is $15 per share.
(1) Total assets—no effect
(2) Common stock—increase $8,000 (10,000 X 40%) X $2
(3) Paid-in capital in excess of par—no effect
(4) Retained earnings—decrease $8,000
(5) Total stockholders’ equity—no effect

(d) Gutsy declares and distributes a property dividend
(1) Total assets—decrease $30,000 (5,000 X $6)
(2) Common stock—no effect
(3) Paid-in capital in excess of par—no effect
(4) Retained earnings—decrease $30,000
(5) Total stockholders’ equity—decrease $30,000
Note:
The journal entries made for the above transaction are:

Investments in ABC stock 20,000
  Gain in appreciation of securities 20,000
(To record increase in value of securities to be issued)

Retained Earnings 50,000
  Investment in ABC stock 50,000
(To record distribution of property dividend)

(e) Gutsy declares a 2-for-1 stock split
(1) Total assets—no effect
(2) Common stock—no effect
(3) Paid-in capital in excess of par—no effect
(4) Retained earnings—no effect
(5) Total stockholders’ equity—no effect