

ACCY493-Fall 2003

11/10/2003 (or thereabouts, give or take a week, depending on your convenience)

Prof. Doogar

## QUIZ #4 & Solution

NAME: \_\_\_\_\_

Section: D1 D2 MSA

### Question

H company has 30,000 shares of \$10 par value common stock authorized and 20,000 shares issued and outstanding. On August 15, 2003, H purchased 1,000 shares of treasury stock for \$16 per share. H used the cost method to account for treasury stock. On September 14, 2003, H sold 500 shares of treasury stock for \$20 per share. In October 2003, H declared and distributed 1950 shares as a stock dividend from unissued shares when the market value of the common stock was \$21 per share. On December 20, H declared a \$1 per share cash dividend, payable on January 10, 2004, to the shareholders of record on December 31, 2003.

- A. How should H account for the treasury stock transactions it entered into?
  - B. How should the treasury stock be presented in H's Balance Sheet on 12/31/03?
  - C. How should H account for the stock dividend?
  - D. How would the stock dividend affect stockholders' equity? Why?
  - E. How should H account for the cash dividend? How does the declaration of the cash dividend affect H's Balance Sheet on 12/31/03?
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- A. H Company should account for the purchase of the treasury stock on August 15, 2003, by debiting Treasury Stock and crediting Cash for the cost of the purchase (1,000 shares X \$16 per share). Hsuchou should account for the sale of the treasury stock on September 14, 2003, by debiting Cash for the selling price (500 shares X \$20 per share), crediting Treasury Stock for cost (500 shares X \$16 per share), and crediting additional Paid-in Capital from Treasury Stock Transactions for the excess of the selling price over the cost (500 shares X \$4 per share).
  - B. The remaining treasury stock (500 shares X \$16 per share) should be presented separately in the stockholders' equity section of Hsuchou's December 31, 2003, balance sheet as an unallocated reduction of stockholders' equity. These shares are considered issued but not part of common stock outstanding.
  - C. H should account for the stock dividend by debiting Retained Earnings for \$21 per share (the market value of the stock in October 2003, the date of

the stock dividend) multiplied by the 1,950 shares distributed. H should then credit Common Stock for the par value of the common stock (\$10 per share) multiplied by the 1,950 shares distributed, and credit Additional Paid-In Capital for the excess of the market value (\$21 per share) over the par value (\$10 per share) multiplied by the 1,950 shares distributed.

- D. Total stockholders' equity does not change, but, because this is considered a small stock dividend, recognition has been made of capitalization of retained earnings equivalent to the market value of the additional shares resulting from the stock dividend.
- E. H should account for the cash dividend on December 20, 2003, the declaration date, by debiting Retained Earnings and crediting Cash Dividends payable for \$1 per share multiplied by the number of shares outstanding 21,450. A cash dividend is a distribution to the corporation's stockholders. The liability for this distribution is incurred on the declaration date, and it is a current liability because it is payable within one year (January 10, 2004). The effect of the cash dividend on Hsuchou's balance sheet at December 31, 2003, is an increase in current liabilities and a decrease in retained earnings.