

#### **P8-4 Stock transactions for corporate expansion**

Vaga Optics produces medical lasers for use in hospitals. The accounts and their balances appear in the ledger of Vaga Optics on December 31 of the current year as follows:

Preferred 2% Stock, \$120 par (50,000 shares authorized, 25,000 shares issued)	\$ 3,000,000
Paid-In Capital in Excess of Par—Preferred Stock	400,000
Common Stock, \$75 par (500,000 shares authorized, 300,000 shares issued)	22,500,000
Paid-In Capital in Excess of Par—Common Stock	540,000
Retained Earnings	55,000,000

At the annual stockholders' meeting on January 31, the board of directors presented a plan for modernizing and expanding plant operations at a cost of approximately \$9,500,000. The plan provided (a) that the corporation borrow \$4,500,000, (b) that 20,000 shares of the unissued preferred stock be issued through an underwriter, and (c) that a building, valued at \$1,200,000, and the land on which it is located, valued at \$900,000, be acquired in accordance with preliminary negotiations by the issuance of 27,400 shares of common stock. The plan was approved by the stockholders and accomplished by the following transactions:

- Mar. 8. Borrowed \$4,500,000 from Conrad National Bank, giving a 6% mortgage note.
- 13. Issued 20,000 shares of preferred stock, receiving \$130 per share in cash.
- 26. Issued 27,400 shares of common stock in exchange for land and a building, according to the plan.

No other transactions occurred during March.

#### **Instructions**

Illustrate the effects on the accounts and financial statements of each of the preceding transactions.