1. The cumulative effect of the declaration and payment of a cash dividend on a company's financial statements is to
   a. decrease total liabilities and stockholders' equity.
   b. increase total expenses and total liabilities.
   c. increase total assets and stockholders' equity.
   d. decrease total assets and stockholders' equity.

. 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

2. Common Stock Dividends Distributable is classified as a(n)
   a. asset account.
   b. stockholders' equity account.
   c. expense account.
   d. liability account.

O: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

3. The effect of a stock dividend is to
   a. decrease total assets and stockholders' equity.
   b. change the composition of stockholders' equity.
   c. decrease total assets and total liabilities.
   d. increase the book value per share of common stock.

: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

4. If a corporation declares a 10% stock dividend on its common stock, the account to be debited on the date of declaration is
   a. Common Stock Dividends Distributable.
   b. Common Stock.
   c. Paid-in Capital in Excess of Par.
   d. Retained Earnings.

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

5. Which one of the following events would *not* require a formal journal entry on a corporation's books?
   a. 2 for 1 stock split
   b. 100% stock dividend
   c. 2% stock dividend
   d. $1 per share cash dividend

O: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

6. Stock dividends and stock splits have the following effects on retained earnings:

| | Stock Splits | Stock Dividends |
|---|---|---|
| a. | Increase | No change |
| b. | No change | Decrease |
| c. | Decrease | Decrease |
| d. | No change | No change |

, SO: 1, Bloom: C, Difficulty: Medium, Min: 1, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

43. Dividends are predominantly paid in
7, a. earnings.
b. property.
c. cash.
d. stock.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

44. If a stockholder receives a dividend that reduces retained earnings by the fair market value of the stock, the stockholder has received a
8, a. large stock dividend.
b. cash dividend.
c. contingent dividend.
d. small stock dividend.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Industry/Sector, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

45. Of the various dividends types, the two most common types in practice are
9, a. cash and large stock.
b. cash and property.
c. cash and small stock.
d. property and small stock.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

46. Regular dividends are declared out of
10, a. Paid-in Capital in Excess of Par.
b. Treasury Stock.
c. Common Stock.
d. Retained Earnings.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Communications, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

47. A corporation is not committed to a legal obligation when it declares
11, a. a cash dividend.
b. either a cash dividend or a stock dividend.
c. a stock dividend.
d. a distribution date.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

48. Which of the following is *not* a significant date with respect to dividends?
12, a. The declaration date
b. The incorporation date
c. The record date
d. The payment date

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Communication, IMA: FSA

85. On January 1, Soft Corporation had 80,000 shares of $10 par value common stock outstanding. On June 17, the company declared a 15% stock dividend to stockholders of record on June 20. Market value of the stock was $15 on June 17. The stock was distributed on June 30. The entry to record the transaction of June 30 would include a

13.

a. credit to Common Stock for $120,000.
b. debit to Common Stock Dividends Distributable for $180,000.
c. credit to Paid-in Capital in Excess of Par for $60,000.
d. debit to Stock Dividends for $60,000.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

86. Cork Inc. declared a $160,000 cash dividend. It currently has 6,000 shares of 7%, $100 par value cumulative preferred stock outstanding. It is one year in arrears on its preferred stock. How much cash will Cork distribute to the common stockholders?

14.

a. $76,000.
b. $84,000.
c. $118,000.
d. None.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

87. Land Inc. has retained earnings of $800,000 and total stockholders' equity of $2,000,000. It has 200,000 shares of $5 par value common stock outstanding, which is currently selling for $30 per share. If Land declares a 10% stock dividend on its common stock:

15.

a. net income will decrease by $100,000.
b. retained earnings will decrease by $100,000 and total stockholders' equity will increase by $100,000.
c. retained earnings will decrease by $600,000 and total stockholders' equity will increase by $600,000.
d. retained earnings will decrease by $600,000 and total paid-in capital will increase by $600,000.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

88. On December 31, 2012, Stock, Inc. has 3,000 shares of 6% $100 par value cumulative preferred stock and 45,000 shares of $10 par value common stock outstanding. On December 31, 2012, the directors declare a $15,000 cash dividend. The entry to record the declaration of the dividend would include:

16.

a. a credit of $3,000 to Cash Dividends.
b. a note in the financial statements that dividends of $3 per share are in arrears on preferred stock for 2012.
c. a debit of $15,000 to Common Stock.
d. a credit of $15,000 to Dividends Payable.

SO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

99. Which one of the following amounts increases each period when accounting for long-term notes payable?
17.
a. Cash payment
b. Interest expense
c. Principal balance
d. Reduction of principal

SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

100. In the balance sheet, mortgage notes payable are reported as
18.
a. a current liability only.
b. a long-term liability only.
c. both a current and a long-term liability.
d. a current liability except for the reduction in principal amount.

SO: 4, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

101. A mortgage note payable with a fixed interest rate requires the borrower to make installment payments over the term of the loan. Each installment payment includes interest on the unpaid balance of the loan and a payment on the principal. With each installment payment, indicate the effect on the portion allocated to interest expense and the portion allocated to principal.
19.

| | Portion Allocated to Interest Expense | Portion Allocated to Payment of Principal |
|---|---|---|
| a. | Increases | Increases |
| b. | Increases | Decreases |
| c. | Decreases | Decreases |
| d. | Decreases | Increases |

SO: 4, Bloom: C, Difficulty: Medium, Min: 2, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

102. The entry to record an installment payment on a long-term note payable is
20.
a. Mortgage Payable
Cash
b. Interest Expense
Cash
c. Mortgage Payable
Interest Expense
Cash
d. Bonds Payable
Cash

SO: 4, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: None, IMA: FSA

103. Winter Company purchased a building on January 2 by signing a long-term $600,000 mortgage with monthly payments of $5,400. The mortgage carries an interest rate of 10 percent.
21.
The entry to record the first monthly payment will include a
a. debit to the Cash account for $5,400.
b. credit to the Cash account for $5,000.
c. debit to the Interest Expense account for $5,000.
d. credit to the Mortgage Payable account for $5,400.

SO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AACSB: Analytic, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

17. Stockholders of a corporation directly elect
    a. the president of the corporation.
    b. the board of directors.
    c. the treasurer of the corporation.
    d. all of the employees of the corporation.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

18. The chief accounting officer in a company is known as the
    a. controller.
    b. treasurer.
    c. vice-president.
    d. president.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Industry/Sector, AICPA FN: Reporting, AICPA PC: Leadership, IMA: None

19. A factor which distinguishes the corporate form of organization from a sole proprietorship or partnership is that a
    a. corporation is organized for the purpose of making a profit.
    b. corporation is subject to more federal and state government regulations.
    c. corporation is an accounting economic entity.
    d. corporation's temporary accounts are closed at the end of the accounting period.

SO: 1, Bloom: C, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: FSA

20. Which one of the following would *not* be considered an advantage of the corporate form of organization?
    a. Limited liability of owners
    b. Separate legal existence
    c. Continuous life
    d. Government regulation

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: Ethics, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: Communication, IMA: Reporting

21. The concept of an "artificial being" refers to which form of business organization?
    a. Partnership
    b. Sole proprietorship
    c. Corporation
    d. Limited partnership

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

22. The two ways that a corporation can be classified by purpose are
    a. general and limited.
    b. profit and not-for-profit.
    c. state and federal.
    d. publicly held and privately held.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

23. The two ways that a corporation can be classified by ownership are
    a. publicly held and privately held.
    b. stock and non-stock.
    c. inside and outside.
    d. majority and minority.

SO: 1, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

24. The sale of common stock below par
a. is a common occurrence in most states.
b. is not permitted in most states.
c. is a practice that most stockholders encourage.
d. requires that a liability be recorded for the difference between the sales price and the par value of the shares.

SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

25. Paid-In Capital in Excess of Stated Value
a. is credited when no-par stock does not have a stated value.
b. is reported as part of paid-in capital on the balance sheet.
c. represents the amount of legal capital.
d. normally has a debit balance.

SO: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

26. A separate paid-in capital account is used to record each of the following *except* the issuance of
a. no-par stock.
b. par value stock.
c. stated value stock.
d. treasury stock above cost.

O: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting

27. Barton Company is a publicly held corporation whose $1 par value stock is actively traded at $32 per share. The company issued 3,000 shares of stock to acquire land recently advertised at $100,000. When recording this transaction, Barton Company will
a. debit Land for $100,000.
b. credit Common Stock for $96,000.
c. debit Land for $96,000.
d. credit Paid-In Capital in Excess of Par for $98,000.

SO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

28. Crain Company issued 2,000 shares of its $5 par value common stock in payment of its attorney's bill of $40,000. The bill was for services performed in helping the company incorporate. Crain should record this transaction by debiting
a. Legal Expense for $10,000.
b. Legal Expense for $40,000.
c. Organization Expense for $10,000.
d. Organization Expense for $40,000.

SO: 3, Bloom: C, Difficulty: Medium, Min: 2, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Measurement, AICPA PC: Problem Solving, IMA: FSA

29. In the financial statements, organization costs appears
a. immediately below Retained Earnings in the stockholders' equity section.
b. in the income statement.
c. as part of paid-in capital in the stockholders' equity section.
d. as an intangible asset.

O: 3, Bloom: K, Difficulty: Easy, Min: 1, AACSB: None, AICPA BB: Legal/Regulatory, AICPA FN: Reporting, AICPA PC: None, IMA: Reporting