

Question 5 (15 marks)

Parallel Consulting Ltd began 1 Jan 2006 with 200,000 shares of \$1 par value common stock outstanding. The stockholders' equity is as follows:

Stockholders' equity		
Capital stock:		
Ordinary share, \$1 par value, 1,000,000 shares authorized, 200,000 shares issued and outstanding		\$200,000
Additional paid-in capital:		
Share premium – Ordinary share	<u>500,000</u>	
Total paid-in capital		\$700,000
Retained Earnings		<u>150,000</u>
Total stockholders' equity		\$850,000

The company made the following transactions during the year:

- 4th April - The company declared and issued a 20% stock dividend. The market value of the share is \$2.40.
- 8th November - The company declared a two-for-one stock split. The stock split is completed on the same day.

REQUIRED:

- (a) Prepare necessary journal entries for the above stock-related transactions.

(6 marks)

- (b) If Parallel Consulting had net income of \$250,000 and paid cash dividends of \$75,000 during the year, prepare the shareholders' equity section of the company's balance sheet as at 31 December 2006.

(9 marks)

END OF TMA 2