**13-47 Journalizing Stock Transactions**

Lighthouse Company began operations on Jan. 1. Authorized were 25,000 shares of $1 par value common stock and 5000 shares of 10%, 100 par value convertible preferred stock. The following transactions involving stockholder’s equity occurred during the first year of operations.

Jan 1 Issued 1000 shares of common stock to the corporation promoters in exchange for property valued at $23,000 and services valued at $5000. The property had cost the promoters $18,000 three years before and was carried on the promoters’ books at $15,000.

Feb 23 Issued 1500 shares of convertible preferred stock with a par value of $100 per share. Each share can be converted to five shares of common stock. The stock was issued at a price of $120 per share, and the company paid $6000 to an agent for selling the shares.

Mar 10 Sold 2500 shares of the common stock for $26 per share. Issues costs were $2000.

Apr 10 Sold 5000 shares of common stock under stock subscriptions at $37 per share. No shares are issued until a subscription contract is paid in full. No cash was received.

July 14 Exchanged 1200 shares of common stock and 190 shares of preferred stock for a building with a fair market value of $72,000. The building was originally purchased for $65,000 by the investors and has a book value of $48,000. In addition, 900 shares of common stock were sold for $27,000 in cash.

Aug 3 Received payments in full for half of the stock subscriptions and payments on account on the rest of the subscriptions. Total cash received was $138,000. Shares of stock were issued for the subscriptions paid in full.

Dec 1 Declared a cash dividend of $10 per share on preferred stock, payable on December 31 to stockholders of record on December 15, and a $1.50 per share dividend on common stock, payable on January 5 of the following year to stockholders of record on December 15. (No dividends are paid on unissued subscribed stock.)

Dec 31 Paid the preferred stock dividend.

Dec 31 Received notice from holders of stock subscriptions for 1000 shares that they would not pay further on the subscriptions because the price of the stock had fallen to $19 per share. The amount still due in these contracts was $35,000. Amounts previously paid on the contracts are forfeited according to the agreements.

Net income for the first year of operations was $80,000. Assume that revenues and expenses were

closed to a temporary account, Income Summary. Use this account to complete the closing process.

**Instructions:**

1. Prepare the journal entries to record the preceding transactions on Lighthouse’s books.
2. Prepare the Stockholders’ Equity section of the balance sheet as December 31 for Lighthouse.

**13-49 Reconstruction of Equity Transactions**

Manti Company had the following account balances on its balance sheet at December 31, 2011, the end of its first year of operations. All stock was issued on a subscription basis.

Common stock subscriptions receivable……………………………………………………..$150,000

Common stock, $1 par………………………………………………………………………………… 3,000

Common stock subscribed…………………………………………………………………………. 9,000

Paid-in capital in excess of par – common……..………………………………………….. 348,000

8% preferred stock, $100 par……………………………………………………………………… 120,000

Paid-in capital in excess of par - 8% preferred…………………………………………… 60,000

10% preferred stock, $50 par…………………………………………………………………….. 25,000

Retained earnings……………………………………………………………………………………… 10,000

The reported net income for 2011 was $55,000. Assume that revenues and expenses were closed to a temporary account, Income Summary. Use this account to complete the closing process

**Instructions:** From the date given, reconstruct in summary form the journal entries to record all transactions involving the company’s stockholders. Indicate the amount of dividends distributed on each class of stock.

**13-61 Stockholders’ Equity Transactions**

Squires Inc. was organized on Jan 2, 2010, with authorized capital stock consisting of 40,000 shares of 10%, $200 par value preferred, and 300,000 shares of no par, no stated value common. During the first two years of the company’s existence, the following selected transactions took place.

2010

Jan 2 Sold 15,000 shares of common stock at $14.

2 Sold 4000 shares of preferred stock at $211.

Mar 2 Sold common stock as follows: 11,300 shares at $19; 3900 shares at $24.

July 10 Acquired a nearby place of land, appraised at $500,000, for 800 shares of preferred stock and 34,000 shares of common. (Preferred stock was recorded at $211, the balance being assigned to common.)

Dec 16 Declared the regular preferred dividend and a $1.75 common dividend.

28 Paid dividends declared on December 16.

31 Assume that revenues and expenses were closed to a temporary account. Income Summary. The income summary account showed a credit balance of $600,000, which was transferred to Retained Earnings.

2011

Feb 27 Reacquired 11,000 shares of common stock at $18. The treasury stock is carried at cost. (State law requires that an appropriation of Retained Earnings be made for the purchase price of treasury stock. Appropriations are to be returned to Retained Earnings upon resale of the stock.)

Jun 17 Resold 8,000 shares of the treasury stock at $21.

July 31 Resold all of the remaining treasury stock at $16.

Sep 3o Sold 17,000 additional shares of common stock at $22.

Dec 16 Declared the regular preferred dividend and a $0.70 common dividend.

Dec 28 Dividends declared on December 16 were paid.

Dec 31 The income summary account showed a credit balance of $550,000, which was transferred to Retained Earnings.

**Instructions:**

1. Give the journal entries to record these transactions.
2. Prepare the Stockholders’ Equity section of the balance sheet as of December 31, 2011.

**13-66 Sample CPA Exam Questions**

1. On January 2, 2012, Kine Co. granted Morgan, its president, compensatory stock options to buy 1000 shares of Kine’s $10 par common stock. The options call for a price of $20 per share and are exercisable beginning on December 31, 2012. The options can be exercised any time during the three years beginning with this date. Morgan exercised the options on December 31, 2012. The market price of the stock was $40 on January 2, 2012, under $70 on December 31, 2012. The fair value of options was $25. By what net amount should stock holders’ equity increase as a result of the grant and exercise of the options?
2. $20,000
3. $25,000
4. $30,000
5. $50,000
6. A company issued rights to its existing shareholders without consideration. The rights allowed the recipients to purchase unissued common stock for an in excess of par value. When the rights are issued, which of the following accounts will be increased?

**Common Stock Additional Paid-in Capital**

1. Yes Yes
2. Yes No
3. No No
4. No Yes
5. If a corporation sells some of its treasury stock at a price that exceeds its costs, this excess should be
6. Reported as a gain in the income statement
7. Treated as a reduction in the carrying amount of remaining treasury stock.
8. Credited to Additional Paid-In Capital.
9. Credited to Retained Earnings.
10. Which of the following should be reported as a stockholders’ equity contra account?
11. Discount on convertible bonds
12. Premium on convertible bonds
13. Cumulative foreign exchange translation loss
14. Organization costsq