**1) (Entries for Stock Dividends and Stock Splits)**

The stockholders' equity accounts of G.K. Chesterton Company have the following balances on December 31, 2008.

Common stock, $10 par, 310,000 shares issued and outstanding $3,100,000

Paid-in capital in excess of par 1,200,000

Retained earnings 5,600,000

Shares of G.K. Chesterton Company stock are currently selling on the Midwest Stock Exchange at $41.

Prepare the appropriate journal entries for each of the following. (a) and (b) and provide answer for (c). ***(List multiple debit/credit entries in order of magnitude.)***

**(a)** A stock dividend of 5% is declared and issued.

|  |  |  |
| --- | --- | --- |
| **Description / Account** | **Debit** | **Credit** |
|  |  |  |
|  |  |  |
|  |  |  |
| (to record declaration) |  |  |
|  |  |  |
|  |  |  |
| (to record distribution of shares) |  |  |

**(b)** A stock dividend of 100% us declared and issued.

|  |  |  |
| --- | --- | --- |
| **Description / Account** | **Debit** | **Credit** |
|  |  |  |
|  |  |  |
| (to record declaration) |  |  |
|  |  |  |
|  |  |  |
| (to record distribution of shares) |  |  |

**(c)** How much of a reduction in retained earnings results when a 2-for-1 stock split is declared and issued? $ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**2) (Equity Items on the Balance Sheet)**

The following are selected transactions that may affect stockholders' equity.

1. Recorded accrued interest earned on a note receivable.

2. Declared a cash dividend.

3. Declared and distributed a stock split.

4. Recorded a retained earnings restriction.

5. Recorded the expiration of insurance coverage that was previously recorded as prepaid insurance.

6. Paid the cash dividend declared in item 2 above.

7. Recorded accrued interest expense on a note payable.

8. Declared a stock dividend.

9. Distributed the stock dividend declared in item 8.

In the table below, indicate the effect each of the nine transactions has on the financial statement elements listed. Use the following codes:

I = Increase D = Decrease NE = No effect

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **Assets** | **Liabilities** | **Stockholders' Equity** | **Paid-in Capital** | **Retained Earnings** | **Net Income** |
| 1 |  |  |  |  |  |  |
| 2 |  |  |  |  |  |  |
| 3 |  |  |  |  |  |  |
| 4 |  |  |  |  |  |  |
| 5 |  |  |  |  |  |  |
| 6 |  |  |  |  |  |  |
| 7 |  |  |  |  |  |  |
| 8 |  |  |  |  |  |  |
| 9 |  |  |  |  |  |  |