**A.** Vargas Corporation is authorized to issue 20,000 shares of $50 par value, 10% Preferred stock and 125,000 shares of $3 par value common stock. On January 1, 2012, the ledger contained the following stockholders' equity balances.

|  |
| --- |
|   |

|  |  |
| --- | --- |
| Preferred Stock (10,000 shares)  | $500,000  |
| Paid-in Capital in Excess of Par Value-Preferred  | 75,000 |
| Common Stock (70,000 shares)  | 210,000 |
| Paid-in Capital in Excess of Par Value-Common | 700,000 |
| Retained Earnings  | 300,000 |

During 2012, the following transactions occurred.

|  |  |  |
| --- | --- | --- |
| Feb. 1 |   | Issued 2,000 shares of preferred stock for land having a fair market value of $125,000. |
| Mar. 1 |   | Issued 1,000 shares of preferred stock for cash at $65 per share.  |
| July 1 |   | Issued 16,000 shares of common stock for cash at $7 per share. |
| Sept. 1 |   | Issued 400 shares of preferred stock for a patent. The asking price of the patent was $30,000. Market values were preferred stock $70 and patent indeterminable.  |
| Dec. 1 |   | Issued 8,000 shares of common stock for cash at $7.50 per share.  |
| Dec. 31 |   | Net income for the year was $260,000. No dividends were declared. |

Journalize the transactions and the closing entry for net income.

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account/Description** | **Debit** | **Credit** |
| Feb. 1 |  |  |   |
|   |          |   |  |
|   |          |   |  |
| Mar. 1 |  |  |   |
|   |          |   |  |
|   |          |   |  |
| July 1 |  |  |   |
|   |          |   |  |
|   |          |   |  |
| Sept. 1 |  |  |   |
|   |          |   |  |
|   |          |   |  |
| Dec. 1 |  |  |   |
|   |          |   |  |
|   |          |   |  |
| Dec. 31 |  |  |   |
|   |          |   |  |

**B.** Enter the beginning balances in the accounts, and post the journal entries to the stockholders' equity accounts. (Use J2 for the posting reference.)

|  |  |
| --- | --- |
| **Preferred Stock** |   |
| **Date** |   | **Explanation** | **Ref.** | **Debit** | **Credit** | **Balance** |
| Jan. 1 | Balance |  |   |   |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |

|  |  |
| --- | --- |
| **Common Stock** |   |
| **Date** |   | **Explanation** | **Ref.** | **Debit** | **Credit** | **Balance** |
| Jan. 1 | Balance |  |   |   |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |

|  |  |
| --- | --- |
| **Paid-in Capital in Excess of Par Value-Preferred Stock** |   |
| **Date** |   | **Explanation** | **Ref.** | **Debit** | **Credit** | **Balance** |
| Jan. 1 | Balance |  |   |   |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |

|  |  |
| --- | --- |
| **Paid-in Capital in Excess of Par Value-Common Stock** |   |
| **Date** |   | **Explanation** | **Ref.** | **Debit** | **Credit** | **Balance** |
| Jan. 1 | Balance |  |   |   |  |
|  |   | J2 |  |  |  |
|  |   | J2 |  |  |  |

|  |  |
| --- | --- |
| **Retained Earnings** |   |
| **Date** |   | **Explanation** | **Ref.** | **Debit** | **Credit** | **Balance** |
| Jan. 1 | Balance |  |   |   |  |
|  |   | J2 |  |  |  |

|  |
| --- |
| **VARGAS CORPORATION** |
| **C**. Stockholders' equity |   |   |
|      |   |   |
|            |   |   |
|              ,   |   |   |
|                 $ par value,  |  |  |
|                 shares authorized,  |   |   |
|                 shares issued and outstanding |   | $ |
|             ,  |   |   |
|                  $ par value, |  |  |
|                 shares authorized, |   |   |
|                 shares issued and outstanding |   |  |
|                     |   |  |
|            |   |   |
|                  | $ |   |
|                  |  |   |
|                     |   |  |
|                     |   |  |
|           |   |  |
|                    Total stockholders' equity |   | $ |

Complete a stockholders' equity section at December 31, 2012.