**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.