ACCOUNTING 202

CHAPTER 12

TRUE-FALSE STATEMENTS

1. A corporation is not an entity which is separate and distinct from its owners.

2. A corporation can be organized for the purpose of making a profit or it may be nonprofit.

3. The Board of Directors represents the company's management.

4. If a corporation pays taxes on its income, then stockholders will not have to pay taxes on the dividends received from that corporation.

5. A corporation must be incorporated in each state in which it does business.

6. A stockholder has the right to vote in the election of the board of directors.

7. Net income and prior period adjustments to correct overstatements of prior years' net income are reported as additions in the Retained Earnings Statement.

8. Each of the individual debits and credits to the retained earnings account made during the year should be included in that period's Retained Earnings Statement.

9. The par value of common stock must always be equal to its market value on the date the stock is issued.

10. When no-par value stock does not have a stated value, the entire proceeds from the issuance of the stock becomes legal capital.

MULTIPLE CHOICE QUESTIONS

11. Ed Stone has invested $400,000 in a privately held family corporation. The corporation does not do well and must declare bankruptcy. What amount does Stone stand to lose?
    a. Up to his total investment of $400,000.
    b. Zero.
    c. The $400,000 plus any personal assets the creditors demand.
    d. $200,000.

12. Which of the following statements reflects the transferability of ownership rights in a corporation?
    a. If a shareholder decides to transfer ownership, he must transfer all of his shares.
    b. A shareholder may dispose of part or all of his shares.
    c. A shareholder must obtain permission from the board of directors before selling shares.
    d. A shareholder must obtain permission from at least three other stockholders before selling shares.

13. A corporate board of directors does *not* generally
    a. select officers.
    b. formulate operating policies.
    c. declare dividends.
    d. execute policy.

14. The ability of a corporation to obtain capital is
    a. enhanced because of limited liability and ease of share transferability.
    b. less than a partnership.
    c. restricted because of the limited life of the corporation.
    d. about the same as a partnership.

15. Becker Company is a publicly held corporation whose $1 par value stock is actively traded at $20 per share. The company issued 1,000 shares of stock to acquire land recently advertised at $25,000. When recording this transaction, Becker Company will
    a. debit Land for $25,000.
    b. credit Common Stock for $20,000.
    c. debit Land for $20,000.
    d. credit Paid-In Capital in Excess of Par Value for $24,000.

16. Simon Company issued 4,000 shares of its $5 par value common stock in payment of its attorney's bill of $30,000. The bill was for services performed in helping the company incorporate. Simon should record this transaction by debiting
    a. Legal Expense for $20,000.
    b. Legal Expense for $30,000.
    c. Organization Expense for $20,000.
    d. Organization Expense for $30,000.

17. Trailhead Inc.'s December 31, 2005 trial balance includes the following balances: Common stock, $14,000; Paid in Capital in Excess of Par, $36,000, Retained Earnings, $32,000; and Treasury stock, $3,200. Total stockholders' equity at December 31 2005 is
    a. $46,800
    b. $50,000
    c. $78,800
    d. $85,200

18. Two thousand shares of treasury stock of Meyer, Inc., previously acquired at $12 per share, are sold at $18 per share. The entry to record this transaction will include a
    a. credit to Treasury Stock for $36,000.
    b. debit to Paid-In Capital from Treasury Stock for $12,000.
    c. debit to Treasury Stock for $24,000.
    d. credit to Paid-In Capital from Treasury Stock for $12,000.

19. Rancho Corporation sold 100 shares of treasury stock for $40 per share. The cost for the shares was $30. The entry to record the sale will include
    a. a credit to Gain on Sale of Treasury Stock for $3,000.
    b. a credit to Paid-in Capital from Treasury Stock for $1,000.
    c. a debit to Paid-in Capital in Excess of Par Value for $1,000.
    d. a credit to Treasury Stock for $4,000.

20. Roberson Corporation was organized on January 1, 2005, with authorized capital of 500,000 shares of $10 par value common stock. During 2005, Roberson issued 20,000 shares at $12 per share, purchased 2,000 shares of treasury stock at $13 per share, and sold 2,000 shares of treasury stock at $14 per share. What is the amount of additional paid-in capital at December 31, 2005?
    a. $0.
    b. $2,000.
    c. $40,000.
    d. $42,000

ANSWERS

True and False
1. F 2. T 3. F 4. F 5. F 6. T 7. F 8. T 9. F 10. T

Multiple Choice
11. A 12. B 13. D 14. A 15. C 16. D 17. C 18. D 19. B 20. D