

**E15-13 (a,b)**

**Stock Split and Stock Dividend)**

The common stock of Warner Inc. is currently selling at \$110 per share. The directors wish to reduce the share price and increase share volume prior to a new issue. The per share par value is \$10; book value is \$70 per share. Five million shares are issued and outstanding.

(a) How much is the debit to retained earnings if the board votes a 2-for-1 stock split?

\$

(b) Prepare the necessary journal entries if the board votes a 100% stock dividend.

Description/Account	Debit	Credit
<input type="text"/>	<input type="text" value="50,000,000"/>	
<input type="text"/>		<input type="text" value="50,000,000"/>
(To record the declaration)		
<input type="text"/>	<input type="text" value="50,000,000"/>	
<input type="text"/>		<input type="text" value="50,000,000"/>
(To record the distribution)		

**Working : -**

(a) **\$0** No entry—simply a memorandum note indicating the number of shares has increased to 10 million and par value has been reduced from from \$10 to \$5 per share.

(b)

Description/Account	Debit	Credit
Retained Earnings (\$10 × 5,000,000)	50,000,000	
Common Stock Dividend Distributable		50,000,000
Common Stock Dividend Distributable	50,000,000	
Common Stock		50,000,000

**P15-1**

**(Equity Transactions and Statement Preparation)**

On January 5, 2010, Phelps Corporation received a charter granting the right to issue 5,000 shares of \$100 par value, 8% cumulative and nonparticipating preferred stock, and 50,000 shares of \$10 par value common stock. It then completed these transactions.

- Jan. 11 Issued 20,000 shares of common stock at \$16 per share.
- Feb. 1 Issued to Sanchez Corp. 4,000 shares of preferred stock for the following assets: machinery with a fair market value of \$50,000; a factory building with a fair market value of \$160,000; and land with an appraised value of \$270,000.
- July 29 Purchased 1,800 shares of common stock at \$17 per share. (Use cost method.)
- Aug. 10 Sold the 1,800 treasury shares at \$14 per share.
- Dec. 31 Declared a \$0.25 per share cash dividend on the common stock and declared the preferred dividend.
- Dec. 31 Closed the Income Summary account. There was a \$175,700 net income.

Record the journal entries for the transactions listed above. *(List multiple debit/credit entries from largest to smallest amount, e.g. 10, 5, 2.)*

Date	Description/Account	Debit	Credit
Jan. 11		320,000	
			200,000
			120,000
Feb. 1		270,000	
		160,000	
		50,000	
			400,000
			80,000
Jul. 29		30,600	
			30,600
Aug. 10		25,200	
		5,400	
			30,600
Dec. 31		37,000	
			32,000
			5,000
Dec. 31	Income Summary	175,700	

			175,700
--	--	--	---------

## Working

Date	Description/Account	Debit	Credit
Jan. 11	Cash (20,000 × \$16)	320,000	
	Common stock (20,000 × \$10)		200,000
	Paid-in capital in excess of par-Common		120,000
Feb. 1	Land	270,000	
	Factory Building	160,000	
	Machinery	50,000	
	Preferred stock (4,000 × \$100)		400,000
	Paid-in capital in excess of par-Preferred		80,000
Jul. 29	Treasury stock (1,800 × \$17)	30,600	
	Cash		30,600
Aug. 10	Cash (1,800 × \$14)	25,200	
	Retained earnings (1,800 × \$3)	*5,400	
	Treasury stock		30,600
Dec. 31	Retained earnings	37,000	
	Cash dividend payable-Preferred		** 32,000
	Cash dividend payable-Common		*** 5,000
Dec. 31	Income Summary	175,700	
	Retained earnings		175,700

\* The debit is made to Retained earnings because no Paid-in capital from Treasury stock exists.

\*\* (4,000 × 100 × 8%)

\*\*\* Common stock cash dividend:

Common shares outstanding	20,000
Common shares dividend	× \$0.25
	<u>\$5,000</u>