

# Chapter 14

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## Retained Earnings, Treasury Stock, and the Income Statement

### T Questions

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1. The two main parts of stockholders' equity are *paid-in capital* and *retained earnings*.
2. Stock dividends are distributions by a corporation of its stock to its stockholders. Stock dividends are fundamentally different from cash dividends because stock dividends do *not* transfer the assets of the corporation to the stockholders. Stock dividends do not affect the corporation's assets or liabilities, nor do they affect total stockholders' equity. Instead, they merely rearrange in the stockholders' equity of the corporation.

Cash dividends transfer assets (cash) to the stockholders and so they decrease the corporation's total assets and total stockholders' equity.

3. Small stock dividends are distributions of less than 20-25%. For small stock dividends, Retained Earnings is debited for the *market* value of the stock to be distributed. For large stock dividends (25% or more), Retained Earnings is debited for the *par* value of the stock to be distributed.

4. To the corporation, one *similarity* between a stock dividend and a stock split is that both actions increase the number of shares outstanding. Both a 100% stock dividend and a 2-for-1 stock split double the number of outstanding shares. Also, neither a stock dividend nor a stock split changes the investor's total cost of the stock owned or the company's total stockholders' equity.

The *difference* is that the stock dividend shifts an amount from retained earnings to contributed capital. A stock split affects no account balances. The stock split changes the par value of the stock, whereas the stock dividend leaves par value per share unchanged.

5. Companies may purchase treasury stock (1) to have it on hand for distributions to officers and employees under bonus plans, (2) to support the stock's current market price, (3) to increase net assets by buying shares low and selling them high, and (4) to gather in the stock to avoid a takeover by an outside party.
6. The purchase of treasury stock (a) decreases assets, (b) does not affect the issued stock, and (c) decreases outstanding stock.
7. Treasury Stock has a debit balance. It is a contra stockholders' equity account (*not* an asset). Treasury Stock is reported below Retained Earnings on the balance sheet.
8. Restrictions on retained earnings can be reported in a note or by an appropriation of retained earnings. Notes are more common than retained earnings appropriations.
9. Four items on the income statement that generate income tax expense are (1) continuing operations, (2) discontinued operations, (3) extraordinary items, and (4) the cumulative effect of a change in accounting principle. An income tax saving is a reduction in income tax. It is caused by a loss or an expense.

10. Income from continuing operations is the result of the entity's central operations. It is more predictable from period to period than income from discontinued operations and extraordinary items. To provide stockholders and creditors with information useful for predicting the future income of the corporation, income from continuing operations is reported separately from other elements of net income.
11. Extraordinary items include losses arising from natural disasters (like floods, earthquakes, and tornadoes) and the taking of assets by a foreign government. Gains and losses due to employee strikes, the settlement of lawsuits, discontinued operations, and the sale of plant assets are *not* extraordinary items because they are normal business events.
12. Earnings per share (EPS) is the most widely used of all accounting statistics.
13. EPS is \$.50 [ $\$5,500 / (12,000 \text{ shares} - 1,000 \text{ shares} = 11,000 \text{ shares})$ ].
14. All prior-period adjustments affect Retained Earnings and thus appear on the statement of retained earnings.

## T Daily Exercises

(5-10 min.) **DE 14-1**

*Req. 1*

<b>Journal</b>					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
Mar.	19	Retained Earnings (200,000 × .05 × \$13)		130,000	
		Common Stock			
		(200,000 × .05 × \$2.50)			25,000
		Paid-in Capital in Excess of Par-Common			105,000

*Req. 2*

No effect on total assets.

No effect on total stockholders' equity.

*Req. 1*

<b>Journal</b>					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
July	15	Retained Earnings (30,000 × .50 × \$1)		15,000	
		Common Stock			15,000

*Req. 2*Stockholders' Equity

## Paid-in capital:

Common stock, \$1 par, 100,000 shares authorized, 45,000 (30,000 + 15,000) shares issued.....	\$ 45,000
Paid-in capital in excess of par [30,000 × (\$10 ! \$1)].....	<u>270,000</u>
Total paid-in capital.....	315,000
Retained earnings (\$60,000 ! \$15,000).....	<u>45,000</u>
Total stockholders' equity.....	<u>\$360,000</u>

1. Both cash dividends and stock dividends decrease Retained Earnings.
2. Stock dividends have no effect on a liability.
3. Stock dividends increase paid-in capital by the same amount that they decrease Retained Earnings.
4. Cash dividends decrease both total assets and total stockholders' equity, resulting in a decrease in the size of the company.
5. Stock dividends rearrange the account balances within stockholders' equity but have no effect on total stockholders' equity.

(5–10 min.) **DE 14-4**

*Req. 1*

Stockholders' Equity

Paid-in capital:	
Common stock, \$5 (\$10 / 2) par, 100,000 (50,000 × 2) shares authorized, 40,000 (20,000 × 2) shares issued.....	\$200,000
Paid-in capital in excess of par-common.....	<u>70,000</u>
Total paid-in capital.....	270,000
Retained earnings.....	<u>85,000</u>
Total stockholders' equity.....	<u>\$355,000</u>

*Req. 2*

No account balances changed after the stock split.

All were unchanged.

(5-10 min.) **DE 14-5**

*Req. 1*

Stockholders' Equity

Paid-in capital:	
Common stock, \$20 (\$10 × 2) par, 25,000 (50,000 / 2) shares authorized, 10,000 (20,000 / 2) shares issued.....	\$200,000
Paid-in capital in excess of par-common.....	<u>70,000</u>
Total paid-in capital.....	270,000
Retained earnings.....	<u>85,000</u>
Total stockholders' equity.....	<u>\$355,000</u>

*Req. 2*

No account balances changed after the stock split.

All were unchanged.

(5-10 min.) **DE 14-6**

Split the stock 2-for-1.

Market price of the stock should drop to \$29.50 (\$59 / 2) per share.

A 100% stock dividend will also decrease the stock price to around \$29.50 (\$59 / 2) per share.

*Req. 1*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Treasury Stock (600 × \$5)		3,000	
	Cash			3,000
	Purchased 600 shares of treasury stock at \$5 per share.			

*Req. 2*

Stockholders' Equity [*After Purchase of Treasury Stock*]

Paid-in capital:

Common stock, \$1 par, 10,000 shares authorized, 8,000 shares issued, 7,400 shares outstanding.....	\$ 8,000
Paid-in capital in excess of par-common.....	12,000
Retained earnings.....	<u>14,600</u>
Subtotal.....	34,600
Less treasury stock, 600 shares at cost (of \$5 per share).....	<u>(3,000)</u>
Total stockholders' equity.....	<u>\$31,600</u>

*Req. 3*

The purchase of treasury stock always *decreases* total stockholders' equity.

Jupiter's purchase of treasury stock *decreased* total stockholders' equity by \$3,000, the cost of the treasury stock.

*Req. 1*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Cash (400 × \$12)		4,800	
	Treasury Stock—Common (400 × \$5)			2,000
	Paid-in Capital from Treasury Stock Transactions			2,800
	To sell 400 shares of treasury stock above cost.			

*Req. 2*

Stockholders' Equity [*After Purchase and Sale of Treasury Stock*]

Paid-in capital:

Common stock, \$1 par, 10,000 shares authorized, 8,000 shares issued, 7,800 shares outstanding.....	\$ 8,000
Paid-in capital in excess of par-common.....	12,000
Paid-in capital from treasury stock transactions.....	2,800
Retained earnings.....	<u>14,600</u>
Subtotal.....	37,400
Less treasury stock, 200 shares at cost (of \$5 per share).....	<u>(1,000)</u>
Total stockholders' equity.....	<u>\$36,400</u>

*Req. 3*

The sale of treasury stock always *increases* total stockholders' equity.

Jupiter's sale of treasury stock *increased* total stockholders' equity by \$4,800, the full sale price of the treasury stock sold.

(10 min.) **DE 14-9**

<b>Journal</b>				
	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
a.	Treasury Stock, Common (2,000 × \$6)		12,000	
	Cash			12,000
b.	Cash (1,000 × \$8)		8,000	
	Treasury Stock, Common (1,000 × \$6)			6,000
	Paid-in Capital from Treasury Stock			
	Transactions			2,000

Balance sheet at December 31, 20X0 will report:

Stockholders' equity:

Less Treasury stock, 1,000 shares at cost (of \$6 per share)..... \$(6,000)

(5 min.) **DE 14-10**

Total stockholders' equity will be \$3,700,000 (\$4,053,000 ! \$353,000).

The company will be *smaller* after the stock retirement because it has less assets and less stockholders' equity.

(5 min.) **DE 14-11**

1. Maximum amount of dividend to declare: \$1,165,000, the unappropriated amount of retained earnings.
2. Retained earnings have been restricted (appropriated) "to absorb the effect of any contingencies that may arise." Apparently the board of directors wanted to avoid using \$400,000 of the company's retained earnings for dividends. If a large loss occurs, the Retained Earnings account may have a \$400,000 balance to absorb the loss and hopefully keep from falling into a negative (deficit) balance.

(5-10 min.) **DE 14-12**

Ninja Motor Corporation  
Income Statement  
Year Ended December 31, 20X1

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Net sales revenue  
Cost of goods sold  
Gross profit  
Operating expenses—detailed  
Operating income  
Other gains (losses)—detailed  
Income (loss) from continuing operations before income tax  
Income tax expense  
Income (loss) from continuing operations  
Discontinued operations, income (loss), less income tax  
Income before extraordinary item and cumulative  
effect of change in accounting method, less income tax  
Extraordinary gain or loss, less income tax  
Cumulative effect of change in accounting method,  
less income tax  
Net income (net loss)

(10 min.) **DE 14-13**

*Req. 1*

*Gross profit* (same as *Gross margin*) = \$260,000

*Req. 2*

The *loss on restructuring* and the *gain on sale of machinery* result from activities that fall outside Allied Electronics' main business endeavor, which is selling electronics products.

*Req. 3*

*Income from continuing operations* = \$54,000

Allied's continuing operations will continue from period to period. Their continuity makes income from continuing operations a good predictor of future net income.

*Req. 1*

	<i>Millions</i>
(Loss) before cumulative effect of accounting change and before extraordinary loss.....	\$(2,560)
Cumulative effect of accounting change (expense), \$58, less income tax saving, \$22.....	(36)
Extraordinary (loss), \$207, less income tax saving, \$78.....	<u>(129)</u>
Net (loss).....	<u><u>\$(2,725)</u></u>

*Req. 2*

$$\text{EPS} = \frac{\$(2,725), (\text{loss})}{1,906 \text{ shares}} = \underline{\underline{\$(1.43)}}$$

ETransmission Corporation	
Income Statement	
Year Ended December 31, 20X3	
Net sales revenue	\$182,000
Cost of goods sold	<u>71,000</u>
Gross profit	111,000
Operating expenses	<u>64,000</u>
Operating income	47,000
Other gains (losses)	<u>(2,000)</u>
Income from continuing operations before income tax	45,000
Income tax expense (35%)	<u>15,750</u>
Income from continuing operations	29,250
Loss on discontinued operations, \$15,000, less income tax saving of \$5,250	<u>(9,750)</u>
Income before extraordinary item	19,500
Extraordinary gain, \$5,000, less income tax of \$1,750	<u>3,250</u>
Net income	<u><u>\$22,750</u></u>

Earnings per share of common stock  
(10,000\* shares of common stock outstanding):

Income from continuing operations [(\$29,250 ! \$3,000) / 10,000*]	\$2.63
Loss on discontinued operations (\$9,750 / 10,000*).....	<u>(.98)</u>
Income before extraordinary item [(\$19,500 ! \$3,000) / 10,000*].	1.65
Extraordinary gain (\$3,250 / 10,000*).....	<u>.33</u>
Net income [(\$22,750 ! \$3,000) / 10,000*].....	<u>\$1.98</u>

\*

Number of Common Shares Outstanding	×	Fraction of Year	Period	=	Weighted-Average Number of Common Shares Outstanding
8,000	×	8/12	Jan.-Aug.	=	5,333
14,000	×	4/12	Sept.-Dec.	=	<u>4,667</u>
Weighted-average number of common shares outstanding during the year.....					<u>10,000</u>

*Req. 1*

$$\text{Earnings per share} = \frac{\text{Net income ! Preferred dividends}}{\text{Weighted-average shares of common stock outstanding}}$$

*Req. 2*

Earnings per share of common stock:

Income (loss) from continuing operations.....	\$X.XX
Income (loss) from discontinued operations.....	<u>.XX</u>
Income (loss) before extraordinary item and cumulative effect of change in accounting method.....	X.XX
Extraordinary gain or loss.....	.XX
Cumulative effect of change in accounting method.....	<u>.XX</u>
Net income (net loss).....	<u>\$X.XX</u>

*Req. 3*

Earnings per share is useful because it relates a company's income to one share of the company's stock. Stock prices are quoted at an amount per share, and investors usually consider how much they must pay for a certain number of shares. Earnings per share is used to help determine the value of a share of stock.

(5-10 min.) **DE 14-18**

ETransmission Corporation  
Income Statement (partial)  
Year Ended December 31, 20X3

{		}
Net income.....		\$22,750
Other comprehensive income:		
Unrealized loss on investments.....	\$(4,000)	
Foreign-currency translation adjustment.....	<u>2,000</u>	<u>(2,000)</u>
Comprehensive income.....		<u>\$20,750</u>

Earnings per share data do *not* apply to other comprehensive income.

(10 min.) **DE 14-19**

De Graff Corporation  
Statement of Retained Earnings  
Year Ended December 31, 20X5

Retained earnings, December 31, 20X4, as originally reported.....	\$390,000
Prior-period adjustment—To correct error in the income tax of 20X4.....	<u>10,000</u>
Retained earnings, December 31, 20X4, as adjusted.....	400,000
Net income for 20X5.....	<u>114,000</u>
	514,000
Dividends for 20X5.....	<u>(41,000)</u>
Retained earnings, December 31, 20X5.....	<u>\$473,000</u>

*Req. 1*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Retained Earnings		21,000	
	Cash			21,000

*Req. 2*

\$85,000 (\$20,000 + \$65,000)

*Req. 3*

Stock dividend was “small,” as indicated by its percentage (8%) and by the increases in both the Common Stock account and the Additional Paid-in Capital account.

*Req. 4*

Cost of treasury stock Allied purchased during 20X5 = \$9,000

Allied’s cost of treasury stock sold during 20X5 = \$4,000

Allied sold the treasury stock for \$17,000 (\$4,000 + \$13,000)

**T Exercises**(10-15 min.) **E 14-1***Req. 1*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Retained Earnings			
	(80,000 × .50 × \$1)		40,000	
	Common Stock			40,000
	Distributed a 50% common stock dividend.			

*Req. 2*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
	Retained Earnings			
	[(80,000 + 40,000) × \$.30]		36,000	
	Dividends Payable			36,000
	Declared a cash dividend.			
	Dividends Payable		36,000	
	Cash			36,000
	Paid a cash dividend.			

*Req. 3*

Stockholders' equity	
Paid-in capital:	
Common stock, \$1 par, 500,000 shares authorized, 120,000 shares issued	\$120,000
Paid-in capital in excess of par—common [80,000 × (\$4 ! \$1)]	<u>240,000</u>
Total paid-in capital	360,000
Retained earnings (\$150,000 ! \$40,000 ! \$36,000)	<u>74,000</u>
Total stockholders' equity	<u>\$434,000</u>

*Req. 1*

<b>Journal</b>					
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
May	26	Retained Earnings			
		(50,000 × .10 × \$16)		80,000	
		Common Stock			
		(50,000 × .10 × \$8)			40,000
		Paid-in Capital in Excess of Par—Common			40,000
		Distributed a 10% common stock dividend.			

*Req. 2*

Stockholders' equity	
Paid-in capital:	
Common stock, \$8 par, 100,000 shares authorized, 55,000 shares issued	\$440,000
Paid-in capital in excess of par—common (\$50,000 + \$40,000)	<u>90,000</u>
Total paid-in capital	530,000
Retained earnings (\$140,000 ! \$80,000)	<u>60,000</u>
Total stockholders' equity	<u>\$590,000</u>

Nov. 6 Called in the outstanding \$4 par common stock and distributed 4 shares of \$1 (\$4 / 4) par common stock for each old share previously outstanding.

Stockholders' equity	
Paid-in capital:	
Common stock, \$1 par, 800,000 (200,000 × 4) shares authorized, 200,000 (50,000 × 4) shares issued	\$200,000
Paid-in capital in excess of par	100,000
Retained earnings	210,000
Total stockholders' equity	<u>\$510,000</u>

- a. *Decrease* stockholders' equity by \$7,500 (1,500 × \$5).
- b. *No effect.*
- c. *No effect.*
- d. *Increase* stockholders' equity by \$4,200 (600 × \$7).

*Note:* Some students may argue that the increase is \$3,000 [600 × (\$7.00 ! \$2.00)], but that is incorrect. To see this, examine the entry to record sale of the treasury stock:

Cash (600 × \$7).....	4,200	
Treasury Stock (600 × \$2).....		1,200
Paid-in Capital from Treasury Stock		
Transactions (or Additional Paid-in Capital).....		3,000

Observe that the two credits to stockholders' equity, totaling \$4,200, record an increase of \$4,200, not \$3,000. Also, the sale of treasury stock brought in cash of \$4,200.

- e. *No effect.*
- f. *Increase* stockholders' equity by \$825,000 (50,000 × \$16.50).

Journal				
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	CREDIT
Feb.	4	Cash (20,000 × \$15)		300,000
		Common Stock		300,000
		Issued no-par common stock.		
Apr.	22	Treasury Stock—Common		
		(1,000 × \$14)		14,000
		Cash		14,000
		Purchased treasury stock.		
Aug.	22	Cash (600 × \$16)		9,600
		Treasury Stock—Common		
		(600 × \$14)		8,400
		Paid-in Capital from Treasury		
		Stock Transactions		1,200
		Sold treasury stock.		

Journal				
DATE		ACCOUNTS AND EXPLANATIONS	POST. REF.	CREDIT
Nov.	27	Treasury Stock—Common		
		(25,000 × \$6)		150,000
		Cash		150,000
		Purchased treasury stock.		

Stockholders' equity	
Paid-in capital:	
Common stock, \$5 par, 500,000 shares authorized, 50,000 shares issued	\$250,000
Paid-in capital in excess of par	150,000
Total paid-in capital	400,000
Retained earnings	520,000
Subtotal	920,000
Less treasury stock (25,000 shares at cost)	(150,000)
Total stockholders' equity	<u>\$770,000</u>

*Req. a*

Stockholders' equity:	
Total paid-in capital	\$220,000
Retained earnings—Note X	250,000
Total stockholders' equity	<u>\$470,000</u>

Note X— Long-term debt (or Restriction of retained earnings).  
The company's long-term debt agreement restricts retained earnings in the amount of \$100,000.

*Req. b*

Stockholders' equity:	
Total paid-in capital	\$220,000
Retained earnings:	
Appropriated to conform to long-term debt agreement	\$100,000
Unappropriated	<u>150,000</u>
Total retained earnings	250,000
Total stockholders' equity	<u>\$470,000</u>

*Req. c*

Tadashi's maximum dividend declaration could be \$150,000, the *unrestricted* amount of retained earnings.

Beauvette Corporation		
Income Statement		
Year 20X3		
Sales revenue		\$410,000
Cost of goods sold		<u>245,000</u>
Gross profit		165,000
Operating expenses		<u>106,000</u>
Income from continuing operations		59,000
Loss on discontinued operations, \$50,000, less income tax saving of \$20,000		<u>(30,000)</u>
Income before extraordinary item and cumulative effect of change in depreciation method		29,000
Extraordinary gain, \$15,000, less income tax of \$6,000		9,000
Cumulative effect of change in depreciation method, \$7,000, less income tax saving of \$3,000		<u>(4,000)</u>
Net income		<u>\$34,000</u>

20X3 was an okay year. Income from continuing operations, the best predictor of annual income, was \$59,000 on sales of \$410,000. The company sold an unprofitable segment (the discontinued operation), and removal of this loss should help operations in 20X4. Many investors ignore the extraordinary gain and the cumulative effect of the accounting change for the purpose of predicting the company's future income.

(5-10 min.) **E 14-9**

$$\begin{aligned} \text{EPS} &= [\$71,000 - (1,600 \times \$5.00 \times 1/4)] / (52,000 \text{ shares} - 2,000 \text{ shares}) \\ &= \$69,000 / 50,000 \text{ shares} \\ &= \$1.38 \end{aligned}$$

(10-15 min.) **E 14-10**

Earnings per share:	
Income from continuing operations	
[\$(115,400 - \$5,000) / 46,000]	\$2.40
Loss on discontinued operations (\$8,280 / 46,000)	(.18)
Income before extraordinary items	
[\$(107,120 - \$5,000) / 46,000]	2.22
Extraordinary gain (\$59,400 / 46,000)	1.29
Net income [(\$166,520 - \$5,000) / 46,000]	<u>\$3.51</u>

Computations:

$$\text{Preferred dividends: } 10,000 \times \$10 \times .05 = \$5,000$$

Weighted-average shares of common stock outstanding:

Number of Common Shares Outstanding		Fraction of Year	=	Weighted-Average Number of Common Shares Outstanding
40,000	×	4/12	=	13,333
49,000	×	8/12	=	32,667

Weighted-average number of common shares  
outstanding..... 46,000

(10 min.) **E 14-11**

Light Crust, Inc.	
Statement of Retained Earnings	
Year Ended December 31, 20X3	
	<i>Millions</i>
Retained earnings, December 31, 20X2, as originally reported	\$395.3
Prior period adjustment (decrease)	<u>(3.8)</u>
Retained earnings, December 31, 20X2, as adjusted	391.5
Net income for 20X3	<u>111.9</u>
	503.4
Dividends for 20X3	<u>(39.8)</u>
Retained earnings, December 31, 20X3	<u>\$463.6</u>

(10 min.) **E 14-12**

The Parisian Hotel Company	
Statement of Income and Retained Earnings (partial)	
Year Ended December 31, 20X7	
	<i>Millions</i>
Net income for 20X7	\$141
Retained earnings, December 31, 20X6	<u>413</u>
	554
Dividends for 20X7 (\$2 + \$85)	(87)
Retirement of preferred stock	<u>(11)</u>
Retained earnings, December 31, 20X7	<u>\$456</u>

(10 min.) **E 14-13**

*Req. 1*

Income from continuing operations.....	\$95,000
Loss on discontinued operations.....	(30,000)
Extraordinary gain.....	<u>8,000</u>
Net income.....	\$73,000
Other comprehensive income:	
Foreign-currency translation adjustment (a loss).....	<u>(3,000)</u>
Comprehensive income.....	<u>\$70,000</u>

*Req. 2*

$$\begin{array}{l} \text{Earnings per} \\ \text{share for} \\ \text{net income} \end{array} = \frac{\$73,000}{20,000} = \$3.65$$

Unused data: Treasury stock transactions do not affect net income or comprehensive income.

NEWSTATE Corp.					
Statement of Stockholders' Equity					
Year Ended December 31, 20X2					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance, December 31, 20X1	\$600,000	\$1,100,000	\$1,700,000	\$(78,000)	\$3,322,000
Stock dividend	300,000		(300,000)		—
Sale of treasury stock		5,000		31,000	36,000
Issuance of common stock	2,500	11,500			14,000
Net income			275,000		275,000
Cash dividends			(180,000)		(180,000)
Balance, December 31, 20X2	\$902,500	\$1,116,500	\$1,495,000	\$(47,000)	\$3,467,000

*Req. 1*

Journal				
DATE	ACCOUNTS AND EXPLANATIONS	POST. REF.	DEBIT	CREDIT
20X5				
Feb.	Cash (100,000 × \$11)		1,100,000	
	Common Stock (100,000 × \$1)			100,000
	Paid-in Capital in Excess of Par-Common			1,000,000
	Issued stock.			
Sept.	Retained Earnings (3,100,000 × .10 × \$12)		3,720,000	
	Common Stock (3,100,000 × .10 × \$1)			310,000
	Paid-in Capital in Excess of Par-Common			3,410,000
	Distributed a 10% stock dividend.			

Req. 2

Omni Communications, Inc.				
Statement of Stockholders' Equity				
Year Ended December 31, 20X5				
	Common Stock	Paid-in Capital in Excess of Par	Retained Earnings	Total
Bal., Dec. 31, 20X4	\$3,000,000 <sup>1</sup>	\$ 6,000,000	\$7,000,000	\$16,000,000
Issuance of stock	100,000	1,000,000 <sup>2</sup>		1,100,000
Stock dividend	310,000 <sup>3</sup>	3,410,000 <sup>5</sup>	(3,720,000) <sup>4</sup>	—
Bal., Dec. 31, 20X5	\$3,410,000	\$10,410,000	\$3,280,000	\$17,100,000

Computations:

$$^1 3,000,000 \text{ shares} \times \$1 \text{ par value} = \$3,000,000$$

$$^2 100,000 \text{ shares} \times (\$11 - \$1) = \$1,000,000$$

$$\frac{^3 \text{Shares outstanding before stock dividend}}{3,000,000 + 100,000} \times \frac{\text{Stock dividend}}{.10} \times \frac{\text{Par value per share}}{\$1} = \frac{\text{Increase in common stock}}{\$310,000}$$

$$\begin{aligned} \text{Shares issued in stock dividend} \\ = 310,000 \text{ shares} \end{aligned}$$

$$^4 310,000 \text{ dividend shares} \times \$12 \text{ market price} = \$3,720,000$$

$$^5 \$3,720,000 - \$310,000 = \$3,410,000$$