

ACCTG 211 – Exam 2 – Practice Exam Solutions

1. **D** – 500,000 authorized; 200,000 issued; 178,000 outstanding. Authorized shares are the total number of shares a company can issue. Chase actually issued 200,000 shares. Once shares are issued, they are always classified as issued. However, the stock buyback and the employee bonus will impact the number of outstanding vs. treasury shares.

Purchased 30,000 shares – This will reduce the number of outstanding shares by 30,000 and increase the number of treasury shares to 30,000

Outstanding shares = 200,000 – 30,000 = 170,000

Treasury shares = 30,000

Employee bonuses of 8,000 shares – These 8,000 shares were treasury shares (typically companies use treasury shares for employee bonuses rather than issuing new shares), but will now be classified as outstanding shares again since they have been given out to employees.

Outstanding shares = 170,000 + 8,000 = 178,000

Treasury shares = 30,000 – 8,000 = 22,000

Issued = Outstanding + Treasury

Issued = 178,000 + 22,000 = 200,000

2. **C** - \$636,000. The biggest trick to this problem is recognizing that treasury stock is a contra equity account so it will reduce the value of shareholders' equity. All of the other accounts increase the value of shareholders' equity.

Contributed capital = \$300,000 + \$50,000 + \$220,000 + \$9,000 – \$20,000

Contributed capital = \$559,000

Shareholder's equity = Contributed capital + Retained earnings

Shareholder's equity = \$559,000 + \$77,000

Shareholder's equity = \$636,000

3. **C** – For this problem you will need to find Ferro Co.’s retained earnings for this year then add the retained earnings for the year to the beginning balance of the retained earnings account because retained earnings is a continuously increasing account.

Retained earnings for the year = Net income – Dividends

Retained earnings for the year = \$80,000 - \$50,000 = \$30,000

Total retained earnings = Beginning retained earnings + Retained earnings for the year

Total retained earnings = \$10,000 + \$30,000 = \$40,000

4. **B** – A clothing company will use a computer to run its business so the computer is considered equipment. Inventory is only goods that a company sales as part of its core operations. For a clothing company, clothing would be considered inventory.
5. **C** – In a period of decreasing costs, we have used LIFO when we should have used FIFO. In a period of decreasing costs, FIFO will have the larger COGS expense. This means that COGS will be understated and Inventory will be overstated.

<u>Assets</u>	<u>Liabilities</u>	<u>SE</u>	<u>Rev</u>	<u>Exp</u>	<u>NI</u>
O				U	
<u>Assets</u>	<u>Liabilities</u>	<u>SE</u>	<u>Rev</u>	<u>Exp</u>	<u>NI</u>
O	NE	O	NE	U	O

6. **D** – Nike will incur freight-out costs of \$8,000. FOB destination means that the seller will pay the shipping costs. Nike is the seller in this problem. When the seller pays the shipping cost, shipping costs are immediately expenses as an operating expense. The cost of shipping is only included in the value of the inventory when the buyer pays the shipping cost.

7. **B** - According to the matching principle, expenses should be matched with the revenues they help generate. Even though the company paid cash for this inventory at the beginning of the year, they cannot expense it until the inventory is actually sold.

8. **A** – Debit retained earnings \$1,000,000; Credit common stock \$125,000; Credit APIC \$875,000. Stock dividends reduce the retained earnings section of the shareholders' equity account.

Stock dividend = \$40 x 25,000 = \$1,000,000

Increase in common stock = \$5 x 25,000 = \$125,000

Increase in APIC = \$1,00,000 – \$125,000 = \$875,000

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
				125,000 common stock		(1,000,000) stock dividend
				875,000 APIC		

9. D

Retained Earnings = Beginning Balance + Net Income – Dividends

RE= 350,000 + (780,000 – 520,000) – 100,000

RE= 510, 000

10. D – Debit dividends for \$40,000 and Credit dividends payable for \$40,000. We debit dividends because the account will reduce the retained earning section of shareholders' equity. We credit dividends payable because it is a liability that is increasing.

Assets	=	Liabilities	+	Shareholders' equity
				Contributed capital
				+
				Retained earnings
		40,000		
		Dividends		(40,000)
		Payable		Dividends

11. C – In a period of decreasing inventory costs, we used FIFO when we should have used LIFO. In a period of decreasing inventory costs, FIFO will have the larger COGS expense. This means that COGS will be overstated and Inventory will be understated.

<u>Assets</u>	<u>Liabilities</u>	<u>SE</u>	<u>Rev</u>	<u>Exp</u>	<u>NI</u>
U				O	
<u>Assets</u>	<u>Liabilities</u>	<u>SE</u>	<u>Rev</u>	<u>Exp</u>	<u>NI</u>
U	NE	U	NE	O	U

12. **C** – Ending inventory being overstated means that assets are overstated because inventory is an asset. Additionally we know that COGS was understated if inventory was overstated.

Assets	Liabilities	SE	Rev	Exp	NI
O				U	
Assets	Liabilities	SE	Rev	Exp	NI
O	NE	O	NE	U	O

13. **A** – Because COGS was understated last period our accounting system will adjust for this and overstate COGS the next period. Since nothing else was wrong the effects next year will look like this.

Assets	Liabilities	SE	Rev	Exp	NI
NE	NE	NE	NE	O	U

14. **B** – This problem is a wordy way of saying that depreciation expense is overstated. Buildings are depreciated; however, land is not depreciated. Since the value of the land was depreciated along with the value of the building, it causes us to overstate depreciation expense.

Thus, we can initially deduce that depreciation expense and accumulated depreciation are overstated. Remember that when accumulated depreciation is overstated assets will be understated.

Assets	Liabilities	SE	Rev	Exp	NI
U				O	
Assets	Liabilities	SE	Rev	Exp	NI
U	NE	U	NE	O	U

15. **A** – Using a longer useful life would cause the yearly depreciation expense to be understated. If depreciation expense is understated, accumulated depreciation is also understated, which means assets are overstated.

Assets	Liabilities	SE	Rev	Exp	NI
O				U	
Assets	Liabilities	SE	Rev	Exp	NI
O	NE	O	NE	U	O

16. **A** - The company should include the total cost of the equipment in an asset called equipment, and then the company should depreciate it over the useful life of the long-term asset. The amount it should depreciate is called the depreciable base, which is the cost of the asset minus the intended salvage value.

17. **B**

Depreciation expense = (Cost – Salvage value)/Useful life

Depreciation expense = (\$115,000 - \$10,000)/5 = \$21,000

18. **D**

Depreciation expense = \$21,000 per year

After two years, accumulated depreciation= \$42,000

Carrying Value= \$115,000 - \$42,000 = 73,000

19. **A** – Find the relative value of each asset:

\$500,000/\$2,000,000 = .25

\$1,000,000/\$2,000,000 = .50

\$1.6 mill x .25 = \$400,000

\$1.6 mil x .50 = \$800,000

20. **D** – Accumulated depreciation is a contra-asset which can be found in the assets section of the balance sheet.

21. **C** – To solve this problem you will first need to solve for the annual depreciation expense under straight line depreciation. However, this will not be the answer because we only used the machine for 9 months during 2004.

$$\text{Annual depreciation expense} = (\$9,300 - \$700)/8 = \$1,075$$

$$\text{9-month depreciation expense} = \$1,075 \times 9/12 = \$806.25$$

22. **C** – To find the book value on Dec 31, 2005 you will first need to solve for the accumulated depreciation on Dec 31, 2005. We solved for the depreciation expense for 2004 in the problem above. Since we will use the machine for all of the 2005 the depreciation expense for 2005 will be \$1,075.

$$\text{Accumulated depreciation Dec 31, 2005} = \$806.25 + \$1,075 = \$1,881.25$$

$$\text{Book value Dec 31, 2005} = \$9,300 - \$1,881.25 = \$7,418.75$$

23. **B** – Loss of 418.75

$$\text{Gain (Loss) on Sale} = \text{Cash from Sale} - \text{Book Value of Asset}$$

$$\text{Gain (Loss) on Sale} = \$7,000 - 7,418.75 = (418.75)$$

24. **C** – Expense as they are incurred, unless the project is considered technologically feasible.

25. **C**

$$\text{Depletion rate per unit} = (\text{Cost of natural resource} - \text{Salvage value})/\text{Estimated units of output}$$

$$\text{Depletion rate per unit} = (\$1,000,000 - \$150,000)/500,000 \text{ tons} = \$1.70/\text{ton}$$

$$\text{Depletion per year} = \text{Depletion per unit} \times \text{units of output used}$$

$$\text{Depletion per year} = \$1.70 \times 125,000 = \$212,500$$

26. **C** – Inventory is an asset and since it is being overstated assets will be overstated. When we overstate our ending inventory we will understate our cost of goods sold expense. Understating an expense will cause us to overstate our net income.

27. **A** – Not recording depreciation expense will cause our expenses to be understated. Additionally, because we understated depreciation it will cause our assets to be overstated.

Assets	Liabilities	SE	Rev	Exp	NI
O				U	
Assets	Liabilities	SE	Rev	Exp	NI
O	NE	O	NE	U	O

28. **C**

Annual depreciation expense = $(\$70,000 - \$4,000)/6 \text{ years} = \$11,000/\text{year}$

Accumulated depreciation after 3 years = $\$11,000 \times 3 = \$33,000$

Book value = $\$70,000 - \$33,000 = \$37,000$

29. **C**

Depreciation rate per unit = $(\$70,000 - \$4,000)/120,000 = \$0.55$

Depreciation expense year 4 = $17,000 \times \$0.55 = \$9,350$

30. **D** – The accumulated depreciation in year 2 will be the sum the depreciation expenses in years 1 and 2.

Depreciation expense year 1 = $25,000 \times \$0.55 = \$13,750$

Depreciation expense year 2 = $30,000 \times \$0.55 = \$16,500$

Accumulated depreciation year 2 = $\$13,750 + \$16,500 = \$30,250$

31. **A**

Accumulated depreciation after Year 4 = $\$11,000 \times 4 = \$44,000$

Book value after Year 4 = $\$70,000 - \$44,000 = \$26,000$

Gain or Loss = $\$30,000 - \$26,000 = \$4,000 \text{ gain}$

32. B

Accumulated depreciation Year 5 = 105,000 units produced to date x \$0.55 per unit = \$57,750

Book value after Year 5 = \$70,000 - \$57,750 = \$12,250

Gain or Loss = \$10,000 - \$12,250 = -\$2,250 loss

33. D

Annual depreciation expense = (\$110,000 - \$0)/8 = \$13,750

Accumulated depreciation year 6 = \$13,750 x 6 = \$82,500

Book value at year 6 = \$110,000 - \$82,500 = \$27,500

Gain or Loss = \$12,000 - \$27,500 = -\$15,500 Loss

34. D

Accelerated depreciation rate = 2/5 = 0.4

Depreciation expense year 1 = \$65,000 x 0.4 = \$26,000

Book value end of year 1 = \$65,000 - \$26,000 = \$39,000

Depreciation expense year 2 = \$39,000 x 0.4 = \$15,600

35. B – Note that this problem picks up where the last problem left off.

Book value end of year 2 = \$39,000 - \$15,600 = \$23,400

Depreciation expense year 3 = \$23,400 x 0.4 = \$9,360

Accumulated depreciation year 3 = \$26,000 + \$15,600 + \$9,360 = \$50,960

Carrying value = \$65,000 - \$50,960 = \$14,040

36. C – LIFO would result in the highest COGS and therefore the lowest income and lowest income tax expense.

37. C – Replacement cost

38. **C** – Inventory is an asset so when we understate ending inventory we are understating our assets. Additionally if we understate our ending inventory we will overstate our cost of goods sold which will cause us to understate net income.

39. **B**

$$\text{COGAS} = 100(\$2) + 300(\$3) + 200(\$5) = \$2,100$$

$$\text{COGS} = 200(\$5) + 300(\$3) + 50(\$2) = \$2,000$$

$$\text{Ending Inventory} = \$2,100 - \$2,000 = \$100$$

Alternatively, you could have realized that you will sell all of the units other than 50 units at \$2. This means you would have \$100 in your ending inventory (50 x \$2 = \$100).

40. **B**

$$\text{COGS LIFO} = (200)(\$5) + (300)(\$3) + (50)(\$2) = \$2,000$$

41. **A**

$$\text{COGS FIFO} = (100)(\$2) + (300)(\$3) + (150)(\$5) = \$1,850$$

42. **D**

$$\text{Cost per unit} = [(100)(\$2) + (300)(\$3) + (200)(\$5)]/600 = \$3.50$$

$$\text{COGS weight average} = 550 \times \$3.50 = \$1,925$$

$$\text{Gross margin} = \$3,500 - \$1,925 = \$1,575$$

43. **A** – This is because LIFO expenses the units most recently purchased.

44. **D** – Dividends are **not** decreased by a debit.

45. **A** - This transaction increases cash and increases common stock. Therefore, cash, an asset, is debited (see that it is written first) and common stock, an equity account, is credited (see that it is indented and written second).

46. **A** – This problem assumes that prices will be increasing over time, which is the typical case. LIFO will expense the most recently purchased inventory first, which will be the most expensive inventory. Thus, in a period of rising costs, income before taxes will be lowest under LIFO. This means that the tax expense will be the lowest under LIFO as well.

47. **C** – Corporation

48. **B** –To start this problem we can use the equation for solving for the value of ending inventory; however, we will want to use algebra to put the equation in terms of COGS since that is what we are asked to find COGS in this problem.

$$\text{End Inv} = \text{Beg Inv} + \text{Purchases} + \text{Shipping} - \text{COGS}$$

$$\text{COGS} = \text{Beg Inv} + \text{Purchases} + \text{Shipping} - \text{End Inv}$$

$$\text{COGS} = \$9,000 + \$58,000 + \$1,000 - \$6,000$$

$$\text{COGS} = \$62,000$$

49. **B** –To start this problem we can use the equation for solving for the value of ending inventory; however, we will want to use algebra to put the equation in terms of purchases since that is what we are asked to find purchases in this problem.

$$\text{End Inv} = \text{Beg Inv} + \text{Purchases} + \text{Shipping} - \text{COGS}$$

$$\text{Purchases} = \text{End Inv} - \text{Beg Inv} - \text{Shipping} + \text{COGS}$$

Before we can plug the values into this equation, we will need to solve for COGS. If gross profit is 25% of sales, we then know that COGS must be 75% of sales because gross profit percentage and COGS percentage will always equal 100%.

$$\text{COGS} = \$160,000 \times 0.75 = \$120,000$$

$$\text{Purchases} = \text{End Inv} - \text{Beg Inv} - \text{Shipping} + \text{COGS}$$

$$\text{Purchases} = \$68,000 - \$96,000 - \$0 + \$120,000$$

$$\text{Purchases} = \$92,000$$

50. **B** – The “3/10” portion of the credit terms tell us that LionTutors will receive a 3% discount if they pay within 10 days. LionTutors paid Amazon on 8/6 so they will receive the 3% discount. The “n/30” portion of the credit terms says that if you don’t pay within 10 days, the entire amount is due within 30 days. If LionTutors had paid after the 10-day discount period was over, they would have recognized \$0 for the discount.

Discount Recognized = \$3,000 x 0.03

Discount Recognized = \$90

51. **D** – When inventory is purchased, assets increase by the value of the inventory. Since the inventory was purchased on account, liabilities will increase by the value of the inventory. Both assets and liabilities are understated because the value of the inventory was understated. Revenues and expenses are not affected by this transaction because inventory is not expensed until it is sold.

Assets	Liabilities	SE	Rev	Exp	NI
U	U				
Assets	Liabilities	SE	Rev	Exp	NI
U	U	NE	NE	NE	NE

52. **B** – Debit cash \$80,000; Credit common stock \$80,000. We debit cash because it is an asset that is increasing, and we credit common stock because it is a SE account that is increasing.

Assets	=	Liabilities	+	Shareholders' equity
				Contributed capital
				+
				Retained earnings
\$80,000 cash				\$80,000 common stock

53. **B** – The value of inventory at the end of the period was overstated because the lower of cost or market rule was not taken into account. Inventory is an asset so assets were overstated.

If the company did not revalue the inventory with the LCM rule, they did not record the corresponding loss. This type of problem requires you to consider a loss to be an expense. Losses have the same effect as expenses, as they both decrease net income.

Assets	Liabilities	SE	Rev	Exp	NI
O				U	
Assets	Liabilities	SE	Rev	Exp	NI
O	NE	O	NE	U	O

54. **B** – \$124,600. All costs related to purchasing the equipment, shipping the equipment, and getting the equipment ready to use are capitalized. All costs incurred after the equipment is ready to use are not capitalized. For this problem, the only cost that does not need to be capitalized is the annual salary of the equipment operator as that is an operating expense incurred once the equipment is functioning and ready to use.

The invoice price of the equipment was \$100,000; however, the company did not pay \$100,000 because it received a 5% cash discount. This means that the company got a \$5,000 discount on the equipment ($\$100,000 \times 0.05 = \$5,000$), which we need to take into account.

Invoice price	\$100,000
Cash discount	-\$5,000
Delivery expense	\$3,000
Insurance while in transit	\$500
Installation expense	\$8,000
Employee training	\$1,100
Customization	<u>\$17,000</u>
	\$124,600

55. **C** – Amortization expense of \$10,000

We can immediately cross out choices A and B because depletion is used on natural resources. Patents are intangible assets, so they need to be amortized. We amortize them over the legal life or useful life, whichever is **shorter**.

Amortization expense = (Cost – Salvage Value) / Useful Life

Amortization expense = (\$100,000 – 0) / 10 = \$10,000

56. **C** – \$780

With periodic record keeping, we record the expense for all units sold at the end of the period. Using FIFO, we assume that the first units purchased are the first to be sold.

Units sold = 70 + 40 = 110

COGS = 100(\$7) + 10(\$8) = \$780

57. **B** – \$1,100

The units that were not taken into COGS are the units remaining in ending inventory.

End Inv = 40(\$8) + 20(\$9) + 60(\$10) = \$1,100

58. **C** – \$780

With perpetual record keeping, we record the expense for each sale as soon as it is made. Using FIFO, we assume that the first units purchased are the first to be sold.

COGS 9/7/2018 = 70(\$7) = \$490

COGS 9/23/2018 = 30(\$7) + 10(\$8) = \$290

Total COGS = \$490 + \$290 = \$780

Note that the total COGS found using FIFO periodic and FIFO perpetual are the same.

59. **B** – \$1,100

The units that were not taken into COGS are the units remaining in ending inventory.

$$\text{End Inv} = 40(\$8) + 20(\$9) + 60(\$10) = \$1,100$$

Note that the ending inventory found using FIFO periodic and FIFO perpetual are the same.

60. **C** – \$1,020

With periodic record keeping, we record the expense for all units sold at the end of the period. Using LIFO, we assume that the last units purchased are the first to be sold.

$$\text{Units sold} = 70 + 40 = 110$$

$$\text{COGS} = 60(\$10) + 20(\$9) + 30(\$8) = \$1,020$$

61. **A** – \$860

The units that were not taken into COGS are the units remaining in ending inventory.

$$\text{End Inv} = 20(\$8) + 100(\$7) = \$860$$

62. **B** – \$830

With perpetual record keeping, we record the expense for each sale as soon as it is made. Using LIFO, we assume that the last units purchased are the first to be sold.

$$\text{COGS 9/7/2018} = 70(\$7) = \$490$$

$$\text{COGS 9/23/2018} = 20(\$9) + 20(\$8) = \$340$$

$$\text{Total COGS} = \$490 + \$340 = \$830$$

Note that the total COGS found using LIFO periodic and LIFO perpetual are different because we have to use the last units in *as of the date of sale* when using LIFO perpetual.

63. **D** – \$1,050

The units that were not taken into COGS are the units remaining in ending inventory.

$$\text{End Inv} = 30(\$7) + 30(\$8) + 60(\$10) = \$1,050$$

64. **B** – \$899

With periodic record keeping, we record the expense for all units sold at the end of the period.

$$\text{Units sold} = 70 + 40 = 110$$

We need to record all units at their weighted-average cost.

$$\text{COGAS} = 100(\$7) + 50(\$8) + 20(\$9) + 60(\$10) = \$1,880$$

$$\text{Weighted-average cost per unit} = \text{COGAS} / \text{Units available for sale}$$

$$\text{Weighted-average cost per unit} = \$1,880 / (100 + 50 + 20 + 60) = \$8.17$$

$$\text{COGS} = \text{Units sold} * \text{Weighted-average cost per unit}$$

$$\text{COGS} = 110(\$8.17) = \$899$$

65. **D** – \$981

The units that were not taken into COGS are the units remaining in ending inventory.

$$\text{End Inv} = 120(\$8.17) = \$980$$

We could also use the following method to find ending inventory:

$$\text{End Inv} = \text{COGAS} - \text{COGS}$$

$$\text{End Inv} = \$1,880 - \$899 = \$981$$

*Note that our answers for ending inventory vary slightly due to the rounding of the weighted-average cost per unit. However, D is the closest answer regardless.

66. B – \$54,000

Annual preferred dividend = # of Preferred Shares x Rate x Par Value

Annual preferred dividend = 10,000 x .10 x \$18 = \$18,000

Because this preferred stock is cumulative, the unpaid dividends from 2016 and 2017 carry over and must be paid before the common shareholders receive dividends.

\$18,000 x 3 years = \$54,000

67. C – \$26,000

The common shareholders receive the amount left over after the preferred shareholders receive their dividend.

Common dividend = Total dividend – Preferred dividend

Common dividend = \$80,000 – \$54,000 = \$26,000

68. A – \$18,000

Annual preferred dividend = # of Preferred Shares x Rate x Par Value

Annual preferred dividend = 10,000 x .10 x \$18 = \$18,000

Because this preferred stock is non-cumulative, the unpaid dividends from 2016 and 2017 do not carry over.

69. D – \$62,000

The common shareholders receive the amount left over after the preferred shareholders receive their dividend.

Common dividend = Total dividend – Preferred dividend

Common dividend = \$80,000 – \$18,000 = \$62,000

70. C – \$50,000

Annual preferred dividend = # of Preferred Shares x Rate x Par Value

Annual preferred dividend = 10,000 x .10 x \$18 = \$18,000

Because this preferred stock is cumulative, the unpaid dividends from 2016 and 2017 carry over and must be paid before the common shareholders receive dividends.

\$18,000 x 3 years = \$54,000

However, only \$50,000 was declared. The maximum amount that will be paid out is the amount declared. The remaining \$4,000 will carry over as an unpaid dividend.

71. A – \$0

The common shareholders receive the amount left over after the preferred shareholders receive their dividend.

Common dividend = Total dividend – Preferred dividend

Common dividend = \$50,000 – \$50,000 = \$0

72. C – Stockholders' equity remains the same after a stock dividend. Retained earnings will decrease, but contributed capital will increase by the same amount.

73. B – Debit treasury stock for \$44,000, Credit cash for \$44,000

Treasury stock is recorded at cost. The original par value and issue price do not matter. We paid \$22,000 to repurchase the shares, so we record them at \$22 each.

$$\text{Treasury stock} = \$22 \text{ per share} * 2,000 \text{ shares} = \$44,000$$

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
(\$44,000) cash				(\$44,000) treasury stock		

Treasury stock is a contra-equity, so we decrease contributed capital when treasury stock is purchased. Because of that, treasury stock is the debit. Cash is an asset decreasing, so cash is the credit.

74. D – Debit cash \$30,000, credit treasury stock \$22,000, and credit paid-in capital \$8,000

$$\text{Cash} = 1,000 \text{ shares} * \$30 \text{ per share} = \$30,000$$

$$\text{Treasury stock sold} = 1,000 \text{ shares} * \$22 \text{ per share} = \$22,000$$

$$\text{Paid-in capital from treasury stock transactions} = \$30,000 - \$22,000 = \$8,000$$

Treasury stock is recorded at cost, so when we sell it we also change the treasury stock account by the **cost** of the shares.

Assets	=	Liabilities	+	Shareholders' equity		
				Contributed capital	+	Retained earnings
\$30,000 cash				\$22,000 treasury stock		\$8,000 paid-in capital

Cash is an asset increasing, so cash is the debit. Treasury stock is a contra-equity account, so we increase contributed capital when we sell treasury stock. Therefore, treasury stock is credited. Since we are receiving more cash than we paid for the shares, we increase paid-in capital, which makes it a credit.

75. **C** – Debit cash \$20,000, debit paid-in capital \$2,000, and credit treasury stock \$22,000

Cash = 1,000 shares * \$20 per share = \$20,000

Treasury stock sold = 1,000 shares * \$22 per share = \$22,000

Paid-in capital from treasury stock transactions = \$20,000 - \$22,000 = (\$2,000)

Treasury stock is recorded at cost, so when we sell it we also change the treasury stock account by the **cost** of the shares.

Assets	=	Liabilities	+	Shareholders' equity
				Contributed capital + Retained earnings
				\$22,000 treasury stock
\$20,000 cash				(\$2,000) paid-in capital

Cash is an asset increasing, so cash is the debit. Treasury stock is a contra-equity account, so we increase contributed capital when we sell treasury stock. Therefore, treasury stock is credited. Since we are receiving less cash than we paid for the shares, we decrease paid-in capital, which makes it a debit.

76. **E** – None of the above; There is no entry recorded for a stock split.

77. **B** – 80,000 shares outstanding, \$0.50 par value, \$10 market value

A 4:1 (four-for-one) stock split means that each share is split into four shares. The number of shares is multiplied by four, but the par value and market value are each divided by four.

78. **C** – \$30,000

Original depreciation expense = (Cost – Salvage) / Useful life = \$10,000 per year

Original depreciation expense = (\$120,000 - \$20,000) / 10 years = \$10,000 per year

Accumulated depreciation after 3 years = 3(\$10,000) = \$30,000

79. C – \$16,000

Book value after year 3 = Cost – Accumulated depreciation

Book value after year 3 = \$120,000 - \$30,000 = \$90,000

Revised depreciation expense = (Book value – New salvage) / Remaining useful life

Revised depreciation expense = (\$90,000 - \$10,000) / 5 years = \$16,000

80. D – \$142,000

Number of shares outstanding before stock dividend:

100,000
- 20,000
80,000
x 2
160,000

Stock dividend:

of New Shares = # Shares outstanding before stock dividend x Percentage

of New Shares = 160,000 x .10 = 16,000

Value of stock dividend = # of New Shares x Market Value

Value of stock dividend = 16,000 x \$20 = \$320,000

Number of shares outstanding after stock dividend:

160,000
+ 16,000
176,000

Cash dividend:

Cash Dividend = 176,000 shares x \$0.50 dividend per share = \$88,000

Ending RE = Beginning RE + Net Income – Cash Dividends – Stock Dividends

Ending RE = \$300,000 + \$250,000 - \$320,000 - \$88,000 = \$142,000