

Acct 301 Chapter 11 Group Activity  
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Authorized stock:

Common Stock: 50,000 shares no-par

Preferred Stock: 10,000 shares 10%, \$20 par

1. Prepare the journal entry for the sale of 2,000 shares of common at \$6.00 per share.
2. Prepare the journal entry for the sale of 300 shares of preferred at \$23 per share.
3. Prepare the journal entry for the purchase of 50 shares of common stock by the company at \$8.00 per share.
4. Prepare the Shareholders' Equity section of a balance sheet assuming the 3 journal entries above and Retained Earnings has a balance of \$10,000.
5. How much is the legal capital?
6. How much is the paid in capital?
7. How much is the total shareholders equity?
8. How much is the maximum dividend allowed by law.
9. Do corporations usually pay the maximum dividend allowed by law? Why or why not?
10. Assuming dividends of \$2,550 were declared and paid:
  - A. How much would be paid to the preferred?
    1. per share
    2. in total
  - B. How much would be paid to the common?
    1. in total
    2. per share

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1.	Cash (2,000 x \$6.00)	12,000	
	Common stock		12,000
2.	Cash (300 x \$23)	6,900	
	Preferred stock (300 x \$20)		6,000
	Paid in capital in excess of par-PS (6,900-6,000)		900
3.	Treasury Stock (50 x \$8.00)	400	
	Cash		400

4.	Common stock, no par	\$12,000	
	Preferred stock, 10%, \$20 par	6,000	
	Paid in capital in excess of par – PS	900	
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	Total paid in capital	18,900	
	Retained earnings	10,000	
	Treasury stock	( 400)	
		-----	
	Total shareholders equity	\$28,500	
		=====	

5.  $\$12,000 + \$6,000 = \$18,000$

6.  $\$18,900$

7.  $\$28,500$

8.  $\$10,000 - \$400 = 9,600$

9. No, because they need to retain capital in the business in order to replace old assets, buy more expensive inventory, and/or grow.

10. A. PS div per share:  $\$20 \text{ par} \times 10\% = \$2.00 \text{ per share}$   
 B. PS div in total:  $\$20 \times 10\% \times 300 = \$600$  or  $10\% \times 6,000 = \$600$

- A. CS div in total:  $\$2,550 - \$600 = \$1,950$   
 B. CS div per share:  $\$1,950 / (2,000 - 50) = \$1.00$