**Exercises:**

**E 12-1**

 **Advantages:**

* limited liability of the shareholders
* can raise capital from a large number of investor through issuing shares or bonds
* its existence is not limited by the withdrawal of its owners
* central control over the operations by the board of directors
* not bound by the contract of one of the owners

 **Disadvantages:**

* legal fees paid in formation
* subject to various regulations
* owners may not control the organization even if they don't like managements' decisions
* both the organization and the owners are taxed

**E 12-2 Scissors Company**

|  |  |  |  |
| --- | --- | --- | --- |
| 21 April 20x8 |  |  |  |
| Unpaid Capital |  | 5,000 |  |
|  |  |  |  |
|  Share Capital |  | 5,000 |
|  |  |  |  |
|  |  |  |  |
| 1. If the shares are issued at the market price of TL 1,75
 |
|  |  |  |  |
| 04 May 20X8 |  |  |  |
| Cash |  | 8.750 |  |
|  Unpaid Capital |  | 5.000 |
|  Additional Paid-in Capital |  | 3.750 |
|  |  |  |  |
| 1. If the shares are issued at the par value of TL 1
 |
|  |  |  |  |
| 04 May 20X8 |  |  |  |
| Cash |  | 5.000 |  |
|  Unpaid Capital |  | 5.000 |
|  |  |  |  |

**E 12-3 Butterfly Company**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Cash |  | 78.000 |  |  |
| Building |  | 30.000 |  |  |
| Vehicles |  | 12.000 |  |  |
|  Share Capital |  | 120.000 |  |
|  |  |  |  |  |
|  |  |  |  |  |
| Capital- Shareholder A |  | 61.200 | 51.00% |
| Capital- Shareholder B |  | 30.000 | 25.00% |
| Capital- Shareholder C |  | 12.000 | 10.00% |
| Capital - Shareholder D |  | 15.000 | 12.50% |
| Capital - Shareholder E |  | 1.800 | 1.50% |
|  Total Capital |  | 120.000 | 100.00% |

**E12-4**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account Names** | **Debit** | **Credit** |
| a. |  |  |  |
| 5 May | Unpaid Capital | 80.000 |  |
|  |  Share Capital |  | 80.000 |
|  |  |  |  |
| 1 June  | Cash | 80.000 |  |
|  |  Unpaid Capital |  | 80.000 |
| b. |  |  |  |
| 5 May | Unpaid Capital | 80.000 |  |
|  |  Share Capital |  | 80.000 |
|  |  |  |  |
| 1 July  | Cash | 108.800 |  |
|  |  Unpaid Capital |  | 80.000 |
|  |  Additional Paid-in Capital |  | 28.800 |

**E12-5**

Journal Entry to record the declaration of stock dividend:

Retained Earnings 700.000 TL 3,50 x 5.000.000 x 4%

 Share Capital 200.000 TL 1 x 5.000.000 x4%

 Additional Paid-in Capital 500.000 TL (3,50 - 1) x 5.000.000 x 4%

The effect of the above transaction on the shareholders' equity section will be as follows:

 before after

 TL TL

Shareholders' Equity

 Paid-in Capital 5.000.000 5.200.000

 Share Capital 5.000.000 5.200.000

 Unpaid Capital

 Additional Paid-in Capital 8.000.000 8.500.000

 Legal Reserves 750.000 750.000

 Retained Earnings 5.150.000 4.450.000

 Net Income For the Year 9.157.000 9.157.000

Shareholders' Equity 28.057.000 28.057.000

**E12-6 Merit Corp. Appendix 12**

Maximum 1st legal reserves should be equal to 20% of paid in capital:

TL 138.000 (TL 690.000x 0.20)

1st egal reserves= net income x 5% = 11.477 (TL 229.534 x.05)

1st legal reserves balance at the beginning of the period= TL 27.000

 ending balance TL 27.000 + 11.477= TL 38.477

1st dividends should be equal to 5% of paid capital = TL 34.500(TL 690.000 x.05)

2nd legal reserves equal to 10% of dividends paid excluding 1st dividends:

Dividends declared: 150.000

1st dividends 34.500

Base for 2nd legal reserves 115.500

2nd legal reserves 11.550

**Note to the instructor: You might also want to show the effect on retained earnings:**

to retained earnings or extraordinary reserves:

Net income after tax: 229.534

less: 1st legal reserves -11.477

 1st dividends -34.500

 Dividends -115.500 (total dividends less 1st dividends)

 2nd legal reserves -11.550

 -56.507

 would cause a decrease in retained earnings

**E12-7**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Assets | Liabilities | S.H. Equity |
| a. Declaration of stock dividends | NE | NE | NE |
| b. Declaration of cash dividends | NE | Increase  | Decrease |
| c. Stock Split | NE | NE | NE |
| d. Appropriation of a portion of net income to legal reserves | NE | NE | NE |
| e. Purchase of Treasury Stocks | Decrease | NE | Decrease |

**E12-8**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account Names** | **Debit** | **Credit** |
| Feb 15 | Retained Earnings | 5.500 |  |
|  |  Share Capital (at par) |  | 2.200 |
|  |  Additional Paid-in Capital |  | 3.300 |
|  |  |  |  |

110.000 shares x 0.02 = 2200 shares

2200 shares x TL 2.5 per share= TL 5.500 market value

Additional Paid in Capital = TL 5.500 – 2.200 = TL 3.300

**E 12-9**

|  |  |  |
| --- | --- | --- |
|  | Before | After |
| Par Value of the Stock | TL 3 | TL 1 |
| # of outstanding Stocks | 250.000 | 750.000 |

|  |  |
| --- | --- |
| Shareholders’ Equity | TL |
| **Paid-in Capital** | **750.000** |
|  Share Capital | 750.000 |
|  Unpaid Capital | 0 |
|  Additional Paid-in Capital | 790.000 |
|  Legal Reserves | 15.000 |
|  Extraordinary Reserves | 99.500 |
| Net Income for the Period | 210.000 |
| Total Shareholders’ Equity | **1.864.500** |

**Problems**

**P12-1**

04 June 20X7

Treasury Stock 9,487.50

 Cash 9,487.50

13 June 20X7

Cash 3,300.00 250 shares x TL13,20

 Treasury Stock 3,162.50 250 shares x TL 12,65

 Additional Paid-in Capital-

 Tr.Stock 137.50 TL 3.300 - 3.162,50

20 June 20X7

Cash 1,390.00 125 shares x TL 11,120

Additional Paid in Capital-Tr.Stock 137.50 equal to additional paid in capital above

Retained Earnings 53.75 remaining amount

 Treasury Stock 1,581.25 125 shares x TL 12,65

27 June 20X7

Cash 3,324.00 300 shares x TL 11,08

Retained Earnings 471.00 difference between cost and sales amount

 Treasury Stock 3,795.00 300 shares x TL 12,65

**P12-2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Account Names** | **Debit** | **Credit** |
| 5 Oct | Treasury Stock | 2.000.000 |  |
|  |  Cash |  | 2.000.000 |
|  |  |  |  |
| 17 Oct | Cash | 625.000 |  |
|  |  Treasury Stocks |  | 500.000 |
|  |  Additional Paid-in Capital- Treasury Stocks |  | 125.000 |
|  |  |  |  |
| 21 Oct | Cash | 520.000 |  |
|  | Retained Earnings | 155.000 |  |
|  | Additional Paid-in Capital-Treasury Stocks | 125.000 |  |
|  |  Treasury Stocks |  | 800.000 |

Shareholders’ Equity at 01/10/20X7 = TL 54.000.000

On Oct 5 TL 54.000.000 -2.000.000 = TL 52.000.000

On Oct 17 TL 52.000.000 + 500.000 + 125.000 = TL 52.625.000

On Oct 21 TL 52.625.000 +800.000 – 155.000 -125.000=53.145.000

**P 12-3 Appendix 12**

**Legal Reserves=**158.000\*5%=7.900

Upper Limit=320.000\*20%= 64.000

Legal Reserves after appropriation=7.900+30.500=38.400

42.900<64.000 🡺 appropriate 7.900

**1st Dividends** = 320.000\*5%=16.000

**Other Dividends:**

 **To Shareholders=**46.000-16.000 = 30.000

 **To BOD** = 24.000

 **= 54.000**

**2nd Legal Reserves** = 54.000\*10%= 5.400

**Extraordinary Reserves** = 248.000-90.000-7.900-16.000-54.000-5.400 = 74.700

**P 13-4 Sunny Corp**

Journal Entries:

31-Mar-X9

Unpaid Capital 125,000

 Share Capital 125,000

5-May-X9

Cash 185,938

(TL 1,975 x 62.500shares+ 62500 shares at TL 1)

 Unpaid Capital 125,000

 Additional Paid in Capital 60,938

**to record legal reserves:**

31 March 20X9 Retained Earnings 23,625

 Legal Reserves 23,625

**to record dividends:**

31 March 20X9 Retained Earnings 123,000

 Dividends Payable 123,000

Declaration dividends to shareholders and the board

**To record payment of dividends:**

20 April 20X9

Dividend Payable 123,000

 Cash 123,000

|  |
| --- |
| **Sunny Corporation Statement of Changes in Equity For the Year 20X9 -TL** |
|  | Paid-in Capital | Additional Paid-in Capital | Legal Reserves | Retained Earnings | Total Shareholders' Equity |
| **Balance 31.Dec.20X8** | **125,000**  | **170,800**  | **6,365**  | **279,000**  | **581,165**  |
| **Changes in Equity:** |  |  |  |  |  |
| Increase in paid-in capital | 125,000  |  |  |  | **125,000**  |
| Increase in additional paid-in capital |  | 60,938  |  |  | **60,938**  |
|  Reserves |  |  | 23,625  | (23,625) | **0**  |
| **Net Income Directly Recognized in the Equity** | **250,000**  | **231,738**  | **29,990**  | **255,375**  | **767,103**  |
| Net Income for the year 20X9 |  |  |  | 387,000  | **387,000**  |
|  Dividends |  |  |  | (123,000) |  |
| **Balance 31.Dec.20X9** | **250,000**  | **231,738**  | **29,990**  | **519,375**  | **1,031,103**  |

|  |
| --- |
| **Sunny Corporation Partial Statement of Financial Position 31 December 20X9 -TL** |
| **Shareholders' Equity** |  |
|  Paid-in Capital | 250,000  |
|  Share Capital | 250,000  |
|  Unpaid Capital |  |
|  Additional Paid-in Capital | 231,738  |
|  Legal Reserves | 29,990  |
|  Retained Earnings | 519,375  |
| Shareholders' Equity | 1,031,103  |