The course aims to help students develop an understanding of the organization of corporations, corporate stock and bond transactions, fiscal reports, income tax returns, and dividends. Students also analyze financial statements and complete a corporation practice set. An outline of course content includes: (1) equipment and supplies, (2) corporation formation, (3) advantages and disadvantages of the corporate form of business organization, and (4) corporate transactions affecting the stocks and bonds payable. Suggested procedures, strategies, and learning activities as well as resources for teachers and students are presented. A 16-page appendix offers evaluative instruments and keys for: (1) stocks and bonds, (2) division of corporate income, (3) work sheet and financial statement for a corporation, (4) analyzing financial reports, and (5) a case study. (MW)
CORPORATION ACCOUNTING
7709.31 (New: 7624.31)
Business Education

Written by Mariano G. Carino
And Approved by the Business Education Steering Committee
For Quinmester Courses

for the

DIVISION OF INSTRUCTION
Dade County Public Schools
Miami, FL 33132
1972
DADE COUNTY SCHOOL BOARD

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Miami, Florida 33132

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. COURSE TITLE</td>
<td>1</td>
</tr>
<tr>
<td>II. COURSE NUMBER</td>
<td>1</td>
</tr>
<tr>
<td>III. COURSE DESCRIPTION</td>
<td>1</td>
</tr>
<tr>
<td>Synopsis</td>
<td>1</td>
</tr>
<tr>
<td>Occupational Relationships</td>
<td>1</td>
</tr>
<tr>
<td>IV. COURSE ENROLLMENT GUIDELINES</td>
<td>1</td>
</tr>
<tr>
<td>Prior Experiences Needed</td>
<td>1</td>
</tr>
<tr>
<td>Pretest</td>
<td>1</td>
</tr>
<tr>
<td>V. COURSE OF STUDY PERFORMANCE OBJECTIVES</td>
<td>1</td>
</tr>
<tr>
<td>VI. COURSE CONTENT</td>
<td>2</td>
</tr>
<tr>
<td>Equipment and Supplies</td>
<td>2</td>
</tr>
<tr>
<td>Corporation Formation</td>
<td>3</td>
</tr>
<tr>
<td>Advantages and Disadvantages of the Corporate Form of Business Organization</td>
<td>3</td>
</tr>
<tr>
<td>Corporation Transactions Affecting the Stocks and Bonds Payable</td>
<td>4</td>
</tr>
<tr>
<td>VII. SUGGESTED PROCEDURES, STRATEGIES, AND LEARNING ACTIVITIES</td>
<td>6</td>
</tr>
<tr>
<td>Suggested Teaching Methods</td>
<td>6</td>
</tr>
<tr>
<td>Business Vocabulary</td>
<td>6</td>
</tr>
<tr>
<td>Case Study</td>
<td>6</td>
</tr>
<tr>
<td>Videotaped Lessons—Bookkeeping I</td>
<td>6</td>
</tr>
<tr>
<td>Learning Activity Packages—Bookkeeping I</td>
<td>6</td>
</tr>
<tr>
<td>Study Guides</td>
<td>6</td>
</tr>
<tr>
<td>Supervised Study</td>
<td>6</td>
</tr>
<tr>
<td>VIII. EVALUATIVE INSTRUMENTS</td>
<td>7</td>
</tr>
<tr>
<td>IX. RESOURCES FOR STUDENTS</td>
<td>7</td>
</tr>
<tr>
<td>X. RESOURCES FOR TEACHERS</td>
<td>8</td>
</tr>
<tr>
<td>APPENDIX</td>
<td>10</td>
</tr>
<tr>
<td>Stocks and Bonds</td>
<td>11</td>
</tr>
<tr>
<td>Division of Corporate Income</td>
<td>13</td>
</tr>
<tr>
<td>Work Sheet and Financial Statements for a Corporation</td>
<td>14</td>
</tr>
<tr>
<td>Analyzing Financial Reports</td>
<td>16</td>
</tr>
<tr>
<td>Case Study</td>
<td>17</td>
</tr>
<tr>
<td>Stocks and Bonds Key</td>
<td>18</td>
</tr>
<tr>
<td>Division of Corporate Income Key</td>
<td>20</td>
</tr>
<tr>
<td>Work Sheet and Financial Statements for a Corporation Key</td>
<td>21</td>
</tr>
<tr>
<td>Analyzing Financial Reports Solution</td>
<td>26</td>
</tr>
<tr>
<td>Case Study Key</td>
<td>27</td>
</tr>
</tbody>
</table>
I. COURSE TITLE—CORPORATION ACCOUNTING

II. COURSE NUMBER—7709.31 (New: 7624.31)

III. COURSE DESCRIPTION

A. Synopsis
Students develop an understanding of the organization of corporations, corporate stock and bond transactions, fiscal reports, income tax returns, and dividends. Students also analyze financial statements and complete a corporation practice set.

B. Occupational Relationships
- Fixed-Capital Clerk
- Dividends-Deposit-Voucher Clerk
- Account Analyst
- Coupon-Collection Clerk
- Stock-Transfer Clerk
- Trust-Vault Clerk
- Billing Control Clerk
- Worksheet Clerk
- Accounting Clerk
- Inventory Clerk
- Bookkeeper I
- Bookkeeper II
- Audit Clerk

IV. COURSE ENROLLMENT GUIDELINES

A. Prior Experiences Needed
1. The student should have attained the objectives of Control Systems in Accounting prior to enrollment in this course.
2. The student may wish to take Cost Accounting concurrently with Corporation Accounting.
3. The student who has studied The Bull and the Bear: The Stock Market will find much information helpful in this accounting course.

B. Pretest
Successful completion of the pretest indicates that the student should proceed to another advanced bookkeeping and accounting course. Partial failure indicates placement within this course.

V. COURSE OF STUDY PERFORMANCE OBJECTIVES

Upon successful completion of this course, the student will be able to—

1. set up the bookkeeping system for a corporation;

2. calculate the values of stock on the basis of par value, book value, market value, and redemption;

3. calculate the dividends per share for cumulative preferred stock, noncumulative preferred stock, participating preferred stock, and nonparticipating preferred stock;
V. COURSE OF STUDY PERFORMANCE OBJECTIVES, Continued

4. list the advantages and disadvantages of a corporation as compared with a single proprietorship and a partnership;

5. record the basic corporation forms and records for a minute book, stock certificate book, capital stock transfer journal, and stockholder ledger;

6. record organization cost;

7. record the transactions of the purchase of a business by a corporation when purchasing the goodwill of a business, and purchasing the business that has goodwill;

8. record in the general journal and cash receipts journal transactions involving the sale of stock for cash, subscriptions receivable, and issuance of capital stock subscribed;

9. record the purchase and sale of treasury stock;

10. record the bonds payable of a corporation;

11. prepare the work sheet of a corporation;

12. prepare the financial statements of a corporation;

13. file a Federal Income Tax return for a corporation;

14. distribute the retained earnings to the stockholders;

15. analyze the financial reports of a corporation by using the balance sheet and income statement in calculating the different ratios and comparative studies to be used; and

16. complete a corporation practice set.

VI. COURSE CONTENT

A. Equipment and Supplies

1. Basic
   a. Desk 20" x 40" minimum, table top
   b. Machines
      (1) Ten-key adding machine
      (2) Full keyboard adding machine
      (3) Printing or electronic calculator
      (4) Bookkeeping machine
   c. Conference table 30" x 60" x 29" high
   d. Bookkeeping terminology dictionary
   e. Accounting paper—assorted
   f. Textbook
   g. Workbook
   h. Pencil, pen, and ruler (supplied by student)
VI. COURSE CONTENT, Continued

i. Overhead projector with roller attachment and screen
j. Opaque projector

2. Supplementary
   a. Videotape recorder or playback unit
   b. Videotape recorder table with electrical assembly
   c. Video monitor, 23", with connecting cables
   d. Listening station with eight head sets
   e. Videotaped lessons—Bookkeeping I (review)
   f. Bookkeeping wall charts
   g. Learning activity packages—Bookkeeping I (review)

B. Corporation Formation
   1. Share of stock
   2. Stockholders
   3. Stock certificate
   4. Board of directors
   5. Certificate of incorporation
   6. Charter
   7. Subscribers
   8. Capital stock values
      a. Par
      b. Book
      c. Market (use the financial section of a newspaper)

9. Different kinds of stock
   a. Common
   b. Cumulative preferred
   c. Noncumulative preferred
   d. Participating preferred
   e. Nonparticipating preferred

10. Proprietorship accounts used in corporation accounting
    a. Capital stock
       (1) Capital stock—common
       (2) Capital stock—preferred
    b. Retained earnings, there are other names for this account in which you would want to bring out at this time such as—
       (1) Earned surplus
       (2) Earnings retained in the business
       (3) Retained income
       (4) Accumulated earnings

C. Advantages and Disadvantages of the Corporate Form of Business Organization

1. Advantages
   a. Stockholder is not personally liable
   b. Stockholder may transfer his ownership without the consent of other owners
   c. Stockholder may borrow money by using his stock as security
   d. Life of a corporation is not relegated to the life of the owners
VI. COURSE CONTENT, Continued

2. Disadvantages
   a. Charter limits the activities in which a corporation may engage
   b. Corporation may be limited in its ability to borrow funds
   c. Federal and state regulations imposed on corporations
   d. Paper work involved for a corporation

D. Corporation Transactions Affecting the Stocks and Bonds Payable

1. Organizing the initial corporation books
   a. Organization cost
      (1) Fees and expenses necessary in the formation of a corporation
      (2) Recording (cash payments journal)
      (3) Intangible asset
      (4) Written off over a five year period or longer
   b. Authorization of capital stock
      (1) Approved by the secretary of state, in each state
      (2) Amount of stock or different types of stock a corporation may issue

2. Purchase of a business by a corporation
   a. Purchase of a business with goodwill
      (1) Goodwill
         (a) Amount paid for the business is greater than book value
         (b) Intangible asset
         (c) Amount is not recognized until either purchased or sold
      (2) Asset accounts are debited for their book value
      (3) Liabilities assumed are credited
      (4) Capital accounts of the business being purchased are credited for the amount agreed upon
      (5) Capital accounts of the business being purchased are not permanent accounts in the operation of the corporation

3. Sale of capital stock
   a. Cash sale
   b. Installment sale
      (1) Subscriptions receivable
      (2) Capital stock subscribed
      (3) Capital stock
   c. Treasury stock—has a debit balance and is a minus proprietorship account. (stock that has been issued and reacquired by the corporation)

4. Bonds payable
   a. Record the sale of the bonds issued
   b. Record the interest payment of the bonds
   c. Record the bond sinking fund
      (1) Trustees for the bond holders
      (2) Long-term investment (asset)
VI. COURSE CONTENT, Continued

d. Record the retirement of a bond issued
   (1) Bonds payable is debited which reduces your liability
   (2) Bond sinking fund is credited which reduces your asset and cancels your obligations

5. Fiscal period for a corporation
   a. Prepare the work sheet
      (1) Adjustments
         (a) Goodwill
         (b) Organizational cost
         (c) Federal income tax (state income tax)
      (2) Income statement columns
      (3) Balance sheet columns
   b. Prepare the income statement
      (1) Organizational cost—shown as an expense under the heading "Other Expense"
      (2) Net income calculated before the deduction for federal income taxes
      (3) Federal income taxes deducted from the net income before taxes; difference is "net income after federal income taxes"
   c. Prepare the capital statement
      (1) Capital stock—common and preferred
      (2) Less treasury stock
      (3) Plus capital stock subscribed
      (4) Plus retained earnings
         (a) Net income tax after federal income taxes
         (b) Less goodwill written off
      (5) Less dividends on stock
   d. Prepare the balance sheet
      (1) Subscriptions receivable—listed as an asset under the current asset section
      (2) Bond sinking fund—listed as an asset under the long-term investment
      (3) Goodwill and organization cost—listed as an asset under the intangible assets
      (4) Capital or stockholders equity—listed as a proprietorship account, which might include
         (a) retained earnings
         (b) treasury stock
         (c) capital stock subscribed
   e. Prepare the federal income tax—use the income statement prepared for the corporation in filing the income tax form for the corporation

6. Dividends
   a. Declaring
   b. Recording
   c. Paying

7. Analyzing the financial stability
   a. Prepare comparative financial statements
VI. COURSE CONTENT, Continued

b. Prepare ratio analysis of the financial statement
   (1) Current ratio
   (2) Acid-test ratio
   (3) Equity ratio
   (4) Current assets to fixed assets ratio

c. Prepare percentage analysis of financial statements
   (1) Compare net income to net sales
   (2) Compare cost of merchandise sold to net sales
   (3) Compare operating expenses to net sales
   (4) Calculate the rate of return on owner's capital

d. Graphic analysis of financial statements
   (1) Line
   (2) Bar

VII. SUGGESTED PROCEDURES, STRATEGIES, AND LEARNING ACTIVITIES

A. Suggested Teaching Methods
   The methods that seem best suited for this course are small and
   large group discussions, supervised or independent study, video-
   taped presentations, individualized instructions, lectures,
   projects, case study, and problem solving.

B. Business Vocabulary
   Students increase their accounting terminology as it relates to
   a special system of keeping records.

C. Case Study
   Students analyze business problems based on their knowledge of
   accounting principles and managerial theories.

D. Videotaped Lessons—Bookkeeping I
   Students are encouraged to view selected taped lessons for
   reinforcement purposes.

E. Learning Activity Packages—Bookkeeping I
   The LAPs parallel video taped lessons. They provide activities
   that might strengthen the students' weaknesses.

F. Study Guides
   Study guides may be used as a self-evaluating instrument, part
   of a pretest, quiz, or study sheet.

G. Supervised Study
   This time allotment permits the students to work in groups and/or
   independently under the teacher's supervision. The teacher may
   also arrange simulation of an accounting department wherein the
   students are responsible for a particular phase of the accounting
   system.
VIII. EVALUATIVE INSTRUMENTS

The tests included in the Appendix are examples of test items that may be used to evaluate the overall progress of each student. The tests have been designed to measure the course objectives as outlined. The key to each test is also provided. The evaluative items included in these tests are as follows:

1. Stocks and Bonds
   To determine if the students know the procedures that should be followed in establishing financial funding of a corporation, relating accounting principles, and recording stock and bond business transactions.

2. Division of Corporate Income
   To determine if students can calculate the value of the different types of stocks and the distribution of net income to the owners of the corporation.

3. Work Sheet and Financial Statements for a Corporation
   To determine if students can prepare the work sheet and the financial statements as they relate to corporation accounting.

4. Analyzing Financial Reports
   To measure students' abilities to aid management in decision-making policies of a corporation.

5. Case Study
   To measure the students' abilities to grasp managerial concepts, either written or oral.

II. RESOURCES FOR STUDENTS

A. Books


IX. RESOURCES FOR STUDENTS, Continued

B. Workbooks

Accompanying workbooks are available for the texts listed above from the publishers.

C. Media


Videotaped Presentations - Available from the Department of Media Services, Dade County Public Schools.

D. Practice Sets


X. RESOURCES FOR TEACHERS

A. Books


B. Teacher Manuals and Solution Keys

Available from the publishers of the student texts.

C. Magazines and/or Periodicals

X. RESOURCES FOR TEACHERS, Continued

C. Magazines and/or Periodicals, Continued


APPENDIX
The Morris Corporation is authorized to issue 6,000 shares of common stock par value $100, of which 1,000 shares are outstanding at the beginning of the year. The corporation is also authorized to issue 2,000 shares of 6% preferred stock, par value $100, of which 1,000 shares were outstanding at the beginning of the year.

The Morris Corporation uses the following accounts relating to capital stock:

- Subscriptions Receivable—Preferred Stock
- Subscriptions Receivable—Common Stock
- Capital Stock Subscribed—Preferred Stock
- Capital Stock Subscribed—Common Stock
- Capital Stock—Preferred
- Capital Stock—Common

Directions: Record the following transactions in the cash receipts journal, cash payment journal and a general journal.

Jan. 4. Received subscriptions for common stock as follows:
   L. Smith, 83 Taft Street, Miami, Florida, 1,000 shares
   K. Brown, 102 N.W. 49th Street, Miami Florida, 500 shares

4. Received cash from subscribers to common stock as the initial partial payment for the subscribed common stock as follows:
   L. Smith, $25,000
   K. Brown, $12,500

Mar. 1. Received cash from subscribers to common stock for the second payment as follows:
   L. Smith, $25,000
   K. Brown, $12,500

Apr. 12. Received a subscription for 500 shares of preferred stock from C. Carr, 1884 N.W. 34th Street, Miami, Florida.

12. Received cash, $25,000 from C. Carr for the initial partial payment for his subscribed preferred stock.

May 2. Received cash from subscribers to common stock for the third payment as follows:
   L. Smith, $25,000
   K. Brown, $12,500

June 1. Received cash, $25,000 from C. Carr as the final payment for his subscribed preferred stock. Issued Preferred Stock Certificate No. 21 to C. Carr for the preferred stock that has been paid in full.

June 15. Received cash, $200,000, for a bond issued with a face value of $200,000.
STOKES AND BON:K, Continued

July 1. Received cash from subscribers to common stock for final payments as follows:
   L. Smith, $25,000
   K. Brown, $12,500

1. Issued Common Stock Certificates Nos. 49 and 50 for common stock that has been paid in full for:
   L. Smith, Certificate No. 49, 1,000 shares
   K. Brown, Certificate No. 50, 500 shares

Dec. 31. Issued Check No. 426 for $6,000 to the trustee bank for the semiannual interest on the bonds payable.

31. Issued Check No. 427 for $10,000 to the trustee bank for the bond sinking fund.
The Green Trucking Corporation has issued 500 shares of 5% participating cumulative preferred stock, par value $100 a share. It has also issued 500 shares of $50 par value common stock. The results of the operations over a 5-year period are as follows:

1965 $5,000 net income
1966 $1,000 net loss
1967 $3,500 net income
1968 $500 net loss
1969 $8,000 net income

Directions: 1. Show the distribution of net income or net loss for each year.

2. All net losses in the "Balance of Retained Earnings" column must be satisfied first before any distribution of dividends.

3. On your working papers use the columnar headings that are given as follows: Year Ended, Balance of Retained Earnings, Transferred to Retained Earnings, Net Income or Net Loss, Preferred Stock Dividends—Regular; Deficit for the Year; Payment of Previous Deficit; Balance of Deficit for Prior Years, Common Stock Dividends, Dividends Per Share on Each Stock—Preferred; Common.
### Trial Balance

On December 31, of the current year, the account balances in the general ledgers of the Mason Corporation were as follows:

<table>
<thead>
<tr>
<th>Account</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$9,000</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>$3,500</td>
</tr>
<tr>
<td>Allowance for Bad Debts</td>
<td>$120</td>
</tr>
<tr>
<td>Merchandise Inventory</td>
<td>$15,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>$2,000</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
<td>$800</td>
</tr>
<tr>
<td>Equipment</td>
<td>$20,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Equipment</td>
<td>$1,400</td>
</tr>
<tr>
<td>Building</td>
<td>$50,000</td>
</tr>
<tr>
<td>Accumulated Depreciation—Building</td>
<td>$2,000</td>
</tr>
<tr>
<td>Land</td>
<td>$6,000</td>
</tr>
<tr>
<td>Goodwill</td>
<td>$1,000</td>
</tr>
<tr>
<td>Organizational Cost</td>
<td>$200</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$2,500</td>
</tr>
<tr>
<td>FICA Tax Payable</td>
<td>$100</td>
</tr>
<tr>
<td>Employees Income Tax Payable</td>
<td>$200</td>
</tr>
<tr>
<td>State Unemployment Tax Payable</td>
<td>$22</td>
</tr>
<tr>
<td>Federal Unemployment Tax Payable</td>
<td>$70</td>
</tr>
<tr>
<td>Dividends Payable</td>
<td>$1,000</td>
</tr>
<tr>
<td>Property Tax Payable</td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax Payable</td>
<td></td>
</tr>
<tr>
<td>Capital Stock</td>
<td>$30,000</td>
</tr>
<tr>
<td>Retained Earnings</td>
<td>$8,500</td>
</tr>
<tr>
<td>Income and Expense Summary</td>
<td></td>
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<tr>
<td>Sales</td>
<td>$90,000</td>
</tr>
<tr>
<td>Sales Returns and Allowances</td>
<td>$250</td>
</tr>
<tr>
<td>Purchases</td>
<td>$50,000</td>
</tr>
<tr>
<td>Purchases Returns and Allowances</td>
<td>$1,500</td>
</tr>
<tr>
<td>Purchases Discount</td>
<td>$700</td>
</tr>
<tr>
<td>Advertising Expense</td>
<td>$2,500</td>
</tr>
<tr>
<td>Delivery Expense</td>
<td>$300</td>
</tr>
<tr>
<td>Miscellaneous Selling Expense</td>
<td>$300</td>
</tr>
<tr>
<td>Sales Salary Expense</td>
<td>$8,500</td>
</tr>
<tr>
<td>Bad Debts Expense</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense—Building</td>
<td></td>
</tr>
<tr>
<td>Depreciation Expense—Equipment</td>
<td></td>
</tr>
<tr>
<td>Insurance Expense</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous Administrative Expense</td>
<td>$500</td>
</tr>
<tr>
<td>Office Salary Expense</td>
<td>$10,000</td>
</tr>
<tr>
<td>Payroll Tax Expense</td>
<td>$1,000</td>
</tr>
<tr>
<td>Property Tax Expense</td>
<td></td>
</tr>
<tr>
<td>Supplies Expense</td>
<td></td>
</tr>
<tr>
<td>Organizational Expense</td>
<td></td>
</tr>
<tr>
<td>Federal Income Tax</td>
<td></td>
</tr>
</tbody>
</table>
Worksheet and Financial Statements for a Corporation, Continued

Directions: 1. Prepare the work sheet for the current year ending December 31. Additional data given below:

- Allowance for Bad Debts 1/3% of net sales (round off to the nearest dollar)
- Merchandise Inventory, December 31, $20,000
- Supplies Inventory, December 31, $400
- Value of insurance policies, $300
- Rate of depreciation on equipment, 10% (round off)
- Rate of depreciation on building, 5% (round off)
- Goodwill to be written off, $300
- Organizational cost to be written off, $50
- Estimated property taxes for the year, $800
- Federal income taxes for the period, 25% of net income before taxes (round off)

2. Prepare an income statement.

3. Prepare a capital statement.

4. Prepare a balance sheet.
ANALYZING FINANCIAL REPORTS

Directions: 1. Calculate the following ratios from the financial statements prepared for the Mason Corporation:

1. Current ratio
2. Acid-Test ratio
3. Equity ratio
4. Ratio of current assets to fixed assets
CASE STUDY

As a bookkeeper of a partnership firm you are asked by one of the partners what the advantages and disadvantages are in switching over to a corporate form of business. List three advantages and three disadvantages of the corporate form of business organization as compared to a partnership.
<table>
<thead>
<tr>
<th>Date</th>
<th>Account Title</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 4</td>
<td>Sub. Rec.-Com. Stk./L. Smith</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>Capital Stock Sub., Common</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sub. Rec.-Com. Stk./A. Brown</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Capital Stock Sub., Common</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apr. 12</td>
<td>Sub. Rec.-Pref. Stk./C. Carr</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Capital Stock Sub., Preferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td>June 1</td>
<td>Capital Stock Sub. Preferred</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td></td>
<td>Capital Stock Preferred</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Issued Preferred Stock Certificate No. 21</td>
<td></td>
<td></td>
</tr>
<tr>
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### Cash Receipts Journal

<table>
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<tr>
<th>Date</th>
<th>Accounts Credited</th>
<th>P General Credit</th>
<th>Sales Credit</th>
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<tbody>
<tr>
<td>Jan. 4</td>
<td>Sub. Rec.-Com. Stk./L. Smith</td>
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<tr>
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<td>Sub. Rec.-Com. Stk./K. Brown</td>
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<td>Mar. 1</td>
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<td>25,000</td>
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<td></td>
<td>Sub. Rec.-Com. Stk./K. Brown</td>
<td>12,500</td>
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<tr>
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### Cash Payments Journal

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<th>Accounts Payable Debit</th>
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<tbody>
<tr>
<td>Dec. 31</td>
<td>426</td>
<td>Interest Expense</td>
<td>6,000</td>
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<tr>
<td></td>
<td>427</td>
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DIVISION OF CORPORATE INCOME EY

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Balance of Retained Earnings</th>
<th>Transferred to Retained Earnings</th>
<th>Net Income or Net Loss</th>
<th>Preferred Stock Dividends</th>
<th>Balance of Deficit for Prior Years</th>
<th>Common Stock Dividends</th>
<th>Dividends Per Share on Each Stock</th>
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<tbody>
<tr>
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### Mason Corporation

#### Work Sheet

For Year Ended December 31, 19—

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<tr>
<th>Account Title</th>
<th>Acct. No.</th>
<th>Trial Balance Debit</th>
<th>Adjustments Debit</th>
<th>Income Statement Debit</th>
<th>Balance Sheet Debit</th>
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<tbody>
<tr>
<td>Cash</td>
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<tr>
<td>Accounts Receivable</td>
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<tr>
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<td></td>
<td>b 20000</td>
<td>c 15000</td>
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<tr>
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<td></td>
<td>d 1600</td>
<td>400</td>
</tr>
<tr>
<td>Prepaid Insurance</td>
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<td></td>
<td>e 500</td>
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<tr>
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<td>b 20000</td>
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<td>Sales</td>
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<td>Sales Returns and Allowances</td>
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Total: 160250 181350 35300 44360 67750 112200 110050 95760
## WORK SHEET AND FINANCIAL STATEMENTS FOR A CORPORATION, Continued

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<tr>
<th>Account Title</th>
<th>Acct. No.</th>
<th>Trial Balance Debit</th>
<th>Trial Balance Credit</th>
<th>Adjustments Debit</th>
<th>Adjustments Credit</th>
<th>Income Statement Debit</th>
<th>Income Statement Credit</th>
<th>Balance Sheet Debit</th>
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<td>1000</td>
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<td>j</td>
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<td>800</td>
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<tr>
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<tr>
<td>Net Income after Federal Taxes</td>
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**Adjusted Trial Balance:**

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<tr>
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<th>Debit</th>
<th>Credit</th>
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<tr>
<td>Income Statement</td>
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<tr>
<td>Federal Income Tax</td>
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<tr>
<td>Net Income after Federal Taxes</td>
<td>112200</td>
<td>112200</td>
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</tbody>
</table>
Mason Corporation
Income Statement
For Year Ended December 31, 19--

Income from Sales:
Sales $390000
Less Sales Returns and Allowances 250
Net Sales $389750

Cost of Merchandise Sold:
Merchandise Inventory January 1, 19-- 15000
Purchases $450000
Less Purchases Returns and All. 1500
Purchases Discount 700 2200
Net Purchases $47800
Total Cost of Merchandise Available for Sale 62800
Less Merchandise Inventory, December 31, 19-- 20000
Cost of Merchandise Sold $42800

Gross Profit on Sales 46950

Operating Expenses:
Selling Expenses:
Advertising Expense 2500
Delivery Expense 300
Miscellaneous Selling Expense 300
Sales Salary Expense 8500
Depreciation Expense–Building 2500
Depreciation Expense–Equipment 2000
Total Selling Expenses $16600

Administrative Expenses:
Bad Debts Expense 180
Insurance Expense 500
Miscellaneous Administrative Expense 500
Office Salary Expense 10000
Payroll Tax Expense 1000
Property Tax Expense 800
Supplies Expense 1600
Total Administrative Expense 14580

Total Operating Expenses $31180
Net Income From Operations 15770

Other Expenses:
Organizational Expense 50
Net Income Before Federal Income Taxes 15720
Less Federal Income Taxes 1430
Net Income After Federal Income Taxes $14290
Mason Corporation  
Capital Statement  
For Year Ended December 31, 19—

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Capital Stock</td>
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<td>Retained Earnings:</td>
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<td>Total Retained Earnings Available</td>
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<td>Less: Goodwill Written Off</td>
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<td>Balance December 31, 19—</td>
<td>$15718</td>
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<tr>
<td>Total Capital December 31, 19—</td>
<td>$25718</td>
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</table>
# Mason Corporation

## Balance Sheet

**December 31, 19--**

### Assets

#### Current Assets:
- **Cash**
- **Accounts Receivable** $3,500
- **Less Allowances for Bad Debts** $300
- **Merchandise Inventory** $20,000
- **Supplies** $400
- **Prepaid Insurance** $300

**Total Current Assets** $32,900

#### Fixed Assets:
- **Equipment** $20,000
  - **Less: Accumulated Depreciation-Equip.** $16,600
- **Building** $50,000
  - **Less: Accumulated Depreciation-Build.** $45,500
- **Land** $6,000

**Total Fixed Assets** $63,000

#### Intangible Assets:
- **Goodwill** $700
- **Organizational Cost** $150

**Total Intangible Assets** $850

**Total Assets** $101,850

### Liabilities

#### Current Liabilities:
- **Accounts Payable** $2,500
- **FICA Tax Payable** $100
- **Employee Income Tax Payable** $200
- **State Unemployment Tax Payable** $22
- **Federal Unemployment Tax Payable** $30
- **Dividends Payable** $1,000
- **Property Tax Payable** $500
- **Federal Income Tax Payable** $1,430

**Total Current Liabilities** $6,132

### Capital

- **Capital Stock** $80,000
- **Retained Earnings** $1,5718

**Total Capital** $95,718

**Total Liabilities and Capital** $101,850
ANALYZING FINANCIAL REPORTS SOLUTION

1. Current ratio
   current assets: $32,900
   current liabilities: $6,132
   ratio: 5.4 : 1

2. Acid-Test ratio
   quick assets: $12,200
   current liabilities: $6,132
   ratio: 2.0 : 1

3. Equity ratio
   total capital: $395,718
   total liabilities: $6,132
   ratio: 15.6 : 1

4. Ratio of current assets to fixed assets
   current assets: $32,900
   fixed assets: $68,100
   ratio: .5 : 1
CASE STUDY KEY

Advantages

1. Stockholders not personally liable.
2. Stockholders may transfer their ownership without the consent of the other owners.
3. Stockholders may borrow money by using their stock as security.
4. Life of a corporation is not relegated to the life of the owners.
5. Corporation is a legal entity.

Disadvantages

1. Charter limits activities in which a corporation may engage.
2. Corporation may be limited in its ability to borrow funds.
3. Federal and state regulations imposed on corporations.
4. Paper work involved for a corporation.