

# Corporate Organization and Capital Stock

## STUDY GUIDE QUESTIONS

### PART 1 True/False

For each of the following statements, circle T if the statement is true and F if the statement is false.

- |   |   |   |
|---|---|---|
| T | F | 1. The normal balance of Discount on Preferred 9 Percent Stock is on the credit side.   |
| T | F | 2. Preemptive right means that preferred stockholders may buy new shares of common stock before common stockholders.                  |
| T | F | 3. Subscriptions Receivable, Common Stock, is classified as a stockholders' equity account.   |
| T | F | 4. The amount by which the issuing price of a stock falls below the par value is called a premium.                                    |
| T | F | 5. Stockholders' equity in a corporation can also be referred to as capital.  |
| T | F | 6. No-par stock has no value printed on the stock certificates.   |
| T | F | 7. The Organization Costs account is classified as an expense account.  |
| T | F | 8. A credit balance in the Retained Earnings account is called a deficit.   |
| T | F | 9. Before it can pay any dividends on common stock, a corporation must pay dividends on preferred stock.                              |
| T | F | 10. Retained Earnings refers to net income set aside to pay federal income taxes.   |
| T | F | 11. Preferred stock dividends are guaranteed.   |
| T | F | 12. A corporation's own stock is called nonparticipating preferred stock.   |
| T | F | 13. Stockholders' equity consists of paid-in capital and retained earnings.   |
| T | F | 14. The balance of the Common Stock Subscribed account represents the stated value or the par value of the shares subscribed.         |
| T | F | 15. Double taxation means that corporate net income is taxed first as a corporate entity and then again as dividends to stockholders. |

### PART 2 Completion—Language of Business

Complete each of the following statements by writing the appropriate word(s) in the spaces provided.

- The approved articles of incorporation received from a state are called the corporation's \_\_\_\_\_.
- A corporation's stock that is actually in the hands of its stockholders is called \_\_\_\_\_.

3. Stock that has no value printed on the stock certificate is known as \_\_\_\_\_ stock.
4. Incorporation fees paid to the state are classified as \_\_\_\_\_.
5. The owners of a corporation are referred to as \_\_\_\_\_.
6. The amount by which the issued price of stock exceeds the par value of the stock is called the \_\_\_\_\_.
7. Distributions of earnings of a corporation are called \_\_\_\_\_.
8. The maximum amount of stock that a corporation may issue is referred to as its \_\_\_\_\_.
9. The type of corporation having a relatively small group of owners is called a(n) \_\_\_\_\_ corporation.
10. "An artificial being, invisible, intangible, and existing only in contemplation of the law" is called a(n) \_\_\_\_\_.

### PART 3 Classifying Accounts and Their Balances

For each of the following items, determine the proper matching account classification, and decide whether the normal balance of the account is debit or credit. Write the identifying letter and either Dr. or Cr. in the answer column.

*Answer*

- |       |  |                         |
|-------|--|-------------------------|
| _____ | 1. Premium on Common Stock                   | A. Assets               |
| _____ | 2. Retained Earnings (surplus)               | B. Liabilities          |
| _____ | 3. Preferred 8 Percent Stock                 | C. Stockholders' Equity |
| _____ | 4. Paid-in Capital in Excess of Stated Value | D. Revenue              |
| _____ | 5. Preferred Stock Subscribed                | E. Expenses             |
| _____ | 6. Retained Earnings (deficit)               |                         |
| _____ | 7. Common Stock Subscribed                   |                         |
| _____ | 8. Organization Costs                        |                         |
| _____ | 9. Subscriptions Receivable, Common Stock    |                         |
| _____ | 10. Discount on Preferred 8 Percent Stock    |                         |