

Corporate Organization and Capital Stock

DEMONSTRATION PROBLEM

The Inn was organized on September 16 of this year with a charter providing for authorized capital as follows:

- a. 1,500 shares of preferred 10 percent \$50-par-value stock
- b. 30,000 shares of no-par common stock (\$10 stated value)

During the first year of operation, The Inn completed the following transactions:

- Sept. 16 Received subscriptions to 15,000 shares of common stock at \$14 per share, collecting 25 percent of the subscription price.
- 22 Received bill from an attorney for \$3,500 representing services performed for processing the articles of incorporation. The attorney agreed to accept 300 shares of common stock for services rendered. Paid-in Capital in Excess of Stated Value, \$500.
- 27 Received subscriptions to 300 shares of preferred 10 percent stock at \$53 per share, collecting 10 percent of the subscription price.
- Oct. 4 Subscribers to 15,000 shares of common stock paid an additional 50 percent of the subscription price.
- 15 Sold 200 shares of preferred 10 percent stock at \$52 per share for cash.
- 22 Bought land and building from B. C. Cranston, one of the promoters. The land is appraised at \$51,000, and the building is appraised at \$120,000. Cranston has an outstanding mortgage on the property amounting to \$82,000. Cranston agreed to accept 8,500 shares of common stock for her equity, and the corporation agreed to assume the outstanding mortgage obligation.
- 26 Subscribers to 150 shares of preferred 10 percent stock paid the remaining 90 percent of the subscription price. The corporation issued 150 shares of preferred stock.
- Nov. 14 Paid W. L. Bates \$852 as reimbursement for promotional expenses.
- 22 Subscribers to 7,500 shares of common stock paid an additional 25 percent of the subscription price. The corporation issued 7,500 shares of common stock.

Instructions

1. Open the following selected accounts:
 - 311 Preferred 10 Percent Stock
 - 312 Preferred 10 Percent Stock Subscribed
 - 313 Paid-in Capital in Excess of Par Value
 - 314 Common Stock
 - 315 Common Stock Subscribed

316 Paid-in Capital in Excess of Stated Value

2. Record the transactions in general journal form. After each entry, post to the selected ledger accounts.
3. Prepare the Stockholders' Equity Paid-in Capital section of the balance sheet.

Solution

GENERAL JOURNAL

PAGE 1

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|----------|---|---------------|------------|------------|----|
| 1 | 20 — | | | | | 1 |
| 2 | Sept. 16 | Subscriptions Receivable, Common Stock | | 210,000.00 | | 2 |
| 3 | | Common Stock Subscribed | 315 | | 150,000.00 | 3 |
| 4 | | Paid-in Capital in Excess of Stated Value | 316 | | 60,000.00 | 4 |
| 5 | | Received subscriptions to 15,000 | | | | 5 |
| 6 | | shares at \$14 per share. | | | | 6 |
| 7 | | | | | | 7 |
| 8 | 16 | Cash | | 52,500.00 | | 8 |
| 9 | | Subscriptions Receivable, Common Stock | | | 52,500.00 | 9 |
| 10 | | Received 25 percent of the | | | | 10 |
| 11 | | subscription of September 16 on | | | | 11 |
| 12 | | 15,000 shares. | | | | 12 |
| 13 | | (\$210,000 x 0.25) | | | | 13 |
| 14 | | | | | | 14 |

Solution (continued)

GENERAL JOURNAL

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|----------|--|---------------|------------|------------|----|
| 1 | 20— | | | | | 1 |
| 2 | Sept. 22 | Organization Expense | | 3,500.00 | | 2 |
| 3 | | Common Stock | 314 | | 3,000.00 | 3 |
| 4 | | Paid-in Capital in Excess of Stated Value | 316 | | 500.00 | 4 |
| 5 | | Exchanged 300 shares for attorney's | | | | 5 |
| 6 | | fees. | | | | 6 |
| 7 | | | | | | 7 |
| 8 | 27 | Subscriptions Receivable, Preferred 10 Percent | | | | 8 |
| 9 | | Stock | | 15,900.00 | | 9 |
| 10 | | Preferred 10 Percent Stock Subscribed | 312 | | 15,000.00 | 10 |
| 11 | | Paid-in Capital in Excess of Par Value | 313 | | 900.00 | 11 |
| 12 | | Received subscriptions to 300 shares | | | | 12 |
| 13 | | at \$53 per share. | | | | 13 |
| 14 | | | | | | 14 |
| 15 | 27 | Cash | | 1,590.00 | | 15 |
| 16 | | Subscriptions Receivable, Preferred | | | | 16 |
| 17 | | 10 Percent Stock | | | 1,590.00 | 17 |
| 18 | | Received 10 percent of the | | | | 18 |
| 19 | | subscription of September 27 on | | | | 19 |
| 20 | | 300 shares. | | | | 20 |
| 21 | | (\$15,900 x 0.10) | | | | 21 |
| 22 | | | | | | 22 |
| 23 | Oct. 4 | Cash | | 105,000.00 | | 23 |
| 24 | | Subscriptions Receivable, Common Stock | | | 105,000.00 | 24 |
| 25 | | Received 50 percent of the | | | | 25 |
| 26 | | subscription of September 16 on | | | | 26 |
| 27 | | 15,000 shares. | | | | 27 |
| 28 | | (\$210,000 x 0.50) | | | | 28 |
| 29 | | | | | | 29 |
| 30 | 15 | Cash | | 10,400.00 | | 30 |
| 31 | | Preferred 10 Percent Stock | 311 | | 10,000.00 | 31 |
| 32 | | Paid-in Capital in Excess of Par Value | 313 | | 400.00 | 32 |
| 33 | | Issued 200 shares at \$52 per share. | | | | 33 |
| 34 | | | | | | 34 |
| 35 | 22 | Land | | 51,000.00 | | 35 |
| 36 | | Building | | 120,000.00 | | 36 |
| 37 | | Mortgage Payable | | | 82,000.00 | 37 |
| 38 | | Common Stock | 314 | | 85,000.00 | 38 |
| 39 | | Paid-in Capital in Excess of Stated Value | 316 | | 4,000.00 | 39 |
| 40 | | Exchanged 8,500 shares for building | | | | 40 |
| 41 | | and land. | | | | 41 |
| 42 | | | | | | 42 |

Solution (continued)

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PAGE 3

| | DATE | DESCRIPTION | POST. REF. | DEBIT | CREDIT | |
|----|---------|---|------------|-----------|-----------|----|
| 1 | 20— | | | | | 1 |
| 2 | Oct. 26 | Cash | | 7,155.00 | | 2 |
| 3 | | Subscriptions Receivable, Preferred 10 Percent Stock | | | 7,155.00 | 3 |
| 4 | | Received 90 percent of the subscription of September 27 on 150 shares. (\$15,900 x 0.90 x 0.50) | | | | 4 |
| 5 | | | | | | 5 |
| 6 | | | | | | 6 |
| 7 | | | | | | 7 |
| 8 | | | | | | 8 |
| 9 | 26 | Preferred 10 Percent Stock Subscribed | 312 | 7,500.00 | | 9 |
| 10 | | Preferred 10 Percent Stock Issued 150 shares. | 311 | | 7,500.00 | 10 |
| 11 | | | | | | 11 |
| 12 | | | | | | 12 |
| 13 | Nov. 14 | Organization Expense | | 852.00 | | 13 |
| 14 | | Cash | | | 852.00 | 14 |
| 15 | | Paid W. L. Bates as reimbursement for promotional expenses. | | | | 15 |
| 16 | | | | | | 16 |
| 17 | | | | | | 17 |
| 18 | 22 | Cash | | 26,250.00 | | 18 |
| 19 | | Subscriptions Receivable, Common Stock | | | 26,250.00 | 19 |
| 20 | | Received 25 percent of the subscription of September 16 on 7,500 shares. (\$210,000 x 0.25 x 0.50) | | | | 20 |
| 21 | | | | | | 21 |
| 22 | | | | | | 22 |
| 23 | | | | | | 23 |
| 24 | 22 | Common Stock Subscribed | 315 | 75,000.00 | | 24 |
| 25 | | Common Stock Issued 7,500 shares. | 314 | | 75,000.00 | 25 |
| 26 | | | | | | 26 |
| 27 | | | | | | 27 |

GENERAL LEDGER

ACCOUNT Preferred 10 Percent Stock ACCOUNT NO. 311

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|---------|------------|------------|-------|-----------|---------|-----------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Oct. 15 | 200 shares | J2 | | 10,000.00 | | 10,000.00 |
| 26 | 150 shares | J3 | | 7,500.00 | | 17,500.00 |

Solution (continued)

GENERAL LEDGER

ACCOUNT Preferred 10 Percent Stock Subscribed ACCOUNT NO. 312

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|----------|------------|------------|----------|-----------|---------|-----------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Sept. 27 | 300 shares | J2 | | 15,000.00 | | 15,000.00 |
| Oct. 26 | 150 shares | J3 | 7,500.00 | | | 7,500.00 |

ACCOUNT Paid-in Capital in Excess of Par Value ACCOUNT NO. 313

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|----------|------|------------|-------|--------|---------|----------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Sept. 27 | | J2 | | 900.00 | | 900.00 |
| Oct. 15 | | J2 | | 400.00 | | 1,300.00 |

ACCOUNT Common Stock ACCOUNT NO. 314

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|----------|--------------|------------|-------|-----------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Sept. 22 | 300 shares | J2 | | 3,000.00 | | 3,000.00 |
| Oct. 22 | 8,500 shares | J2 | | 85,000.00 | | 88,000.00 |
| Nov. 22 | 7,500 shares | J3 | | 75,000.00 | | 163,000.00 |

ACCOUNT Common Stock Subscribed ACCOUNT NO. 315

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|----------|----------------|------------|-----------|------------|---------|------------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Sept. 16 | 15,000 shares | J1 | | 150,000.00 | | 150,000.00 |
| Nov. 22 | (7,500 shares) | J3 | 75,000.00 | | | 75,000.00 |

ACCOUNT Paid-in Capital in Excess of Stated Value ACCOUNT NO. 316

| DATE | ITEM | POST. REF. | DEBIT | CREDIT | BALANCE | |
|----------|------|------------|-------|-----------|---------|-----------|
| | | | | | DEBIT | CREDIT |
| 20— | | | | | | |
| Sept. 16 | | J1 | | 60,000.00 | | 60,000.00 |
| | | J2 | | 500.00 | | 60,500.00 |
| Oct. 22 | | J2 | | 4,000.00 | | 64,500.00 |

Solution (continued)

| | | | | |
|----|---|---------------------|---------------------|----|
| 1 | <i>Stockholders' Equity</i> | | | 1 |
| 2 | <i>Paid-in Capital:</i> | | | 2 |
| 3 | <i>Preferred 10 Percent Stock, \$50 par</i> | | | 3 |
| 4 | <i>(1,500 shares authorized, 350 shares issued)</i> | <i>\$ 17,500.00</i> | | 4 |
| 5 | <i>Preferred 10 Percent Stock Subscribed (150 shares)</i> | <i>7,500.00</i> | | 5 |
| 6 | <i>Paid-in Capital in Excess of Par Value</i> | <i>1,300.00</i> | <i>\$ 26,300.00</i> | 6 |
| 7 | <i>Common Stock, no-par, stated value \$10 per share</i> | | | 7 |
| 8 | <i>(30,000 shares authorized, 16,300 shares issued)</i> | <i>\$163,000.00</i> | | 8 |
| 9 | <i>Common Stock Subscribed (7,500 shares)</i> | <i>75,000.00</i> | | 9 |
| 10 | <i>Paid-in Capital in Excess of Stated Value</i> | <i>64,500.00</i> | <i>302,500.00</i> | 10 |
| 11 | <i>Total Paid-in Capital</i> | | <i>\$328,800.00</i> | 11 |
| 12 | | | | 12 |