

## Quiz

1. Which one of the following definitions is correct?

- A. The stated value of a share of stock, as it would be shown on a stock certificate, is called the book value.
- B. Both a shareholder and a stockholder are terms that apply to only non-employee owners of common stock.
- C. The maximum number of shares that a firm can issue as of today is referred to as the number of shares outstanding.
- D. The dedicated capital of a firm is the number of shares of stock issued multiplied by the par value per share.**
- E. The number of shares of common stock that are owned by investors are referred to as the number of authorized shares.

**The maximum number of shares which can be issued is the authorized number.**

2. The number of authorized shares is established in the:

- A. corporate by-laws.
- B. initial minutes of the board of directors' meeting.
- C. articles of incorporation.**
- D. financial statements of the firm.
- E. statutes of the state of incorporation.

3. The maximum number of shares of common stock that can be authorized is:

- A. limited to the number of shares that are initially issued.
- B. limited to five times the number of shares that are initially issued.
- C. limited to ten times the number of shares that are initially issued.
- D. limited by the state statute in the state of incorporation.
- E. unlimited.**

**The maximum number of shares that can be authorized is unlimited.**

4. Bledsloe Industries has 150,000 shares of stock authorized of which 100,000 are issued. The board of directors has voted to sell as many additional shares as they can without seeking shareholder approval. What is the maximum number of additional shares that can be sold given this restriction?

- A. 0
- B. 50,000**
- C. 100,000
- D. 150,000
- E. unlimited

**The maximum additional shares that can be issued without shareholder approval is equal to the authorized minus the outstanding number of shares.**

5. Which of the following are concerns which tend to limit the number of authorized shares?

- I. limited par value
  - II. state taxes
  - III. limited dedicated capital
  - IV. investor concerns
- A. I only
  - B. II only
  - C. I and III only
  - D. II and IV only**
  - E. III and IV only

**State taxes imposed on authorized shares and investor concerns about future stock issues tend to limit the number of authorized shares.**

6. The River Café just issued 5,000 additional shares of \$1 par value stock at a sales price of \$11.60 per share. What is the total addition to capital surplus?

- A. \$1
- B. \$10.60
- C. \$5,000
- D. \$53,000**
- E. \$58,000

**Total addition to capital surplus = 5,000 x (\$11.60 - \$1).**

7. Black Rock, Inc., has 125,000 authorized shares of \$1 par value stock. The common stock account has a value of \$87,500 and the capital surplus account has a value of \$452,000. How many shares of stock are outstanding?

- A. 37,500 shares
- B. 62,500 shares
- C. 87,500 shares**
- D. 125,000 shares
- E. 452,000 shares

**Number of outstanding shares = Common stock account value / Par value per share.**

8. The Bridge Tire Company has a common stock account value of \$45,000, capital surplus of \$179,000, and retained earnings of \$211,000. The par value of the stock is \$1 and the market value of \$22 per share. Which one of the following statements is correct given this information?

- A. The firm has a total market value of \$435,000.
- B. The firm has 179,000 shares of stock outstanding.
- C. If the firm sells one more share of stock at the current market value, the common stock account will increase by \$22.
- D. The book value of equity is \$224,000.

**E. The firm has earned a total of \$211,000 from its inception until today that it has not yet distributed to its shareholders.**

**The common stock will increase by the par value of \$1.**

9. A firm has \$1 par value common stock outstanding. The balance sheet shows a capital surplus amount of \$74,000, a common stock balance of \$61,000, and retained earnings of \$58,000. What is the book value per share?

- A. \$2.61
- B. \$3.16**
- C. \$5.77
- D. \$16.69
- E. \$19.30

**Total equity is \$193,000 and the number of shares outstanding is 61,000.**

10 Which of the following will increase the book value per share?

- I. sale of newly issued shares at a market price which exceeds the book value of the previously issued shares
- II. additional net income which is not being currently distributed to shareholders
- III. a dividend payment
- IV. a sale of newly issued shares at a time when the market value per share equals the book value per share

A. I and III only

B. II and IV only

**C. I and II only**

D. II and III only

E. I, II, and III only

**dividend payment lowers the book value per share.**

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