Quick Questions On Paying Dividends

The We'll Go Broke Corporation has 10,000 shares of \$5 par common stock and 1,000 shares of \$100 par 8% cumulative preferred stock outstanding. During the first three years of operation income was -\$20,000, \$10,000, and \$100,000 respectively. On December 15 of year three, the Board of Directors voted to pay their first-ever dividends. Payable on March 15th, to stockholders of record as of February 10, were preferred dividends, and a cash dividend to common stockholders of \$1.25 per share. Make the Journal Entries necessary to record the declaration and payment of these dividends and calculate the balance of Retained Earnings as of April 1 of year four.

DATA SUMMARY:

10,000 shares of \$5 par Common Stock outstanding 1,000 shares of \$100 par 8% cumulative Preferred Stock outstanding

Cumulative 3 years of income: -\$20,000 + \$10,000 + \$100,000 = \$90,000

Annual Preferred Dividend: (1,000)(\$100)(.08) = \$8,000; 3 years = (3)(\$8,000) = \$24,000

Common Dividend: (10,000)(\$1.25) = \$12,500

Retained Earnings: \$90,000 - (\$24,000 + \$12,500) = \$53,500

DATE		ACCOUNT TITLE AND DESCRIPTION	PR	DEBIT	CREDIT
Dec.	15	Retained Earnings (\$8,000)(3)		24,000	
	-	Preferred Stock Dividend Payable			24,000
Dec.	15	Retained Earnings (10,000)(\$1.25)		12,500	
		Common Stock Dividend Payable			12,500
March	15	Preferred Stock Dividend Payable		24,000	
		Common Stock Dividend Payable		12,500	
		Cash			36,500
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