FAR Presentation Flashcards

Original Lurest equity practice | Fronts 1 and 2

Attempt every front before reading the answer sheets. Skill: distinguish a stock dividend, a split and a cash dividend, and repair a specified equity entry. Difficulty: intermediate. These four cards are focused original practice, not a full examination or a readiness score.

Original Lurest packet. A widely held US GAAP public corporation has 50,000 common shares issued and outstanding, $2.20 par, Common Stock $110,000, APIC $360,000 and Retained Earnings $230,000. Total equity is $700,000. There are enough authorized shares. No treasury, preferred or other classes, shareholder cash election, transaction costs, income, OCI, taxes or other transactions apply. Assume no legal capitalization beyond the stated par requirement.

Original Card 1 - Complete the share dividend

Starting from the original packet, Lurest declares and distributes a properly classified small 10% common-stock dividend on the same day. The share fair value is $18 that day. It is a stock dividend in substance, with no closely held exception. Calculate the additional shares, the total transfer from Retained Earnings, its par/APIC allocation, and the final Common Stock, APIC, Retained Earnings, total equity and outstanding shares. Write the entry and identify any cash or income effect.

Original Card 2 - Repair the actual par-only entry

Independent book-error alternative to Card 1: the shares have already been issued, and the only actual entry is Dr Retained Earnings $11,000 / Cr Common Stock $11,000. Actual balances are Common Stock $121,000, APIC $360,000 and Retained Earnings $219,000; total equity is $700,000 and 55,000 shares are outstanding. Write only the additional correction. Explain why the agreeing equity total does not validate the components. Do not repeat the share issuance or Common Stock credit.

Case assumptions are supplied for learning. No investor tax, market-price forecast, full legal-distribution assessment or EPS calculation is requested.

FAR Presentation Flashcards

Original Lurest equity practice | Fronts 3 and 4

Original Lurest packet. A widely held US GAAP public corporation has 50,000 common shares issued and outstanding, $2.20 par, Common Stock $110,000, APIC $360,000 and Retained Earnings $230,000. Total equity is $700,000. There are enough authorized shares. No treasury, preferred or other classes, shareholder cash election, transaction costs, income, OCI, taxes or other transactions apply. Assume no legal capitalization beyond the stated par requirement.

Original Card 3 - Replace the event with a split

Return to the original packet and replace the 10% dividend with an independent, genuine 2-for-1 stock split. Par value adjusts proportionately from $2.20. No other capitalization requirement or transaction applies. Report the new share count, par per share, Common Stock, APIC, Retained Earnings and total equity. State whether an equity reclassification entry is needed. This split is not cumulative with Cards 1 or 2.

Original Card 4 - Declare and then pay cash

Return to the completed correct 10% stock dividend in Card 1, not the split or the par-only error. Lurest later declares an ordinary $1 cash dividend for every common share then outstanding. No share changes occur before payment. Calculate the amount, the declaration entry, Retained Earnings, total equity and the declaration-date cash effect. Next, write the payment entry and state whether payment reduces Retained Earnings or total equity again. Explain the error from using the old 50,000-share count.

Retain your first attempt

For each card, record the event, the share count, the par/fair-value basis and the requested account effect. Keep any unfinished amount visible. After checking, choose the first unsupported input for a fresh retry; an answer-letter or local completion count is not an examination score.

Answer sheets follow. Do not turn to them until all four original fronts have been attempted.

Answers and worked checks

Card 1 - Fair value transferred within equity

Additional shares: 50,000 x 10% = 5,000. Fair-value transfer: 5,000 x $18 = $90,000. Par capital: 5,000 x $2.20 = $11,000. Therefore, APIC increases $79,000.

Dr Retained Earnings $90,000
Cr Common Stock $11,000
Cr APIC $79,000

After the completed correct stock dividend	Amount
Common Stock	$121,000
APIC	$439,000
Retained Earnings	$140,000
Total equity	$700,000
Outstanding common shares	55,000

The entry changes equity components without distributing cash or recognizing an expense. Thus neither cash nor income changes. Declaring and issuing on the same day avoids a separate distributable-period timing question. Do not treat the $90,000 capitalization as a liability or a cash payment.

Card 2 - Correct the missing excess over par

The actual entry already increased Common Stock by the correct $11,000. However, it transferred only par from Retained Earnings. The missing capitalization is $90,000 - $11,000 = $79,000.

Dr Retained Earnings $79,000
Cr APIC $79,000

APIC becomes $360,000 + $79,000 = $439,000; Retained Earnings becomes $219,000 - $79,000 = $140,000. Common Stock stays $121,000, shares stay 55,000 and total equity stays $700,000. Before and after, the components sum to $700,000; that agreement alone cannot prove the correct fair-value allocation. Do not debit an expense, pay cash or credit Common Stock a second time.

Answers and worked checks

Card 3 - Split shares and adjust par

The independent 2-for-1 split produces 100,000 shares at $1.10 par. Their product is still $110,000 Common Stock. APIC remains $360,000, Retained Earnings remains $230,000 and total equity remains $700,000. With the proportionate par adjustment and supplied assumptions, no equity reclassification entry is needed. The stock-dividend $90,000 transfer does not belong in this split alternative.

Card 4 - Cash declaration is the equity reduction

After the correct stock dividend, 55,000 shares are outstanding. Thus the cash dividend is 55,000 x $1 = $55,000. Using the old 50,000 shares understates the liability by $5,000.

At declaration:
Dr Retained Earnings $55,000
Cr Dividends Payable $55,000

Retained Earnings becomes $140,000 - $55,000 = $85,000. Total equity becomes $700,000 - $55,000 = $645,000. The components also reconcile: $121,000 + $439,000 + $85,000 = $645,000. Cash has not yet moved, while the dividend liability has increased $55,000.

At payment:
Dr Dividends Payable $55,000
Cr Cash $55,000

Payment clears the liability and reduces cash by $55,000. It creates no second Retained Earnings or total-equity reduction and no dividend expense. Consequently, equity remains $645,000 after payment. Track the declaration and payment as different accounting states.

Choose one narrow repair

For Card 1, check fair value versus par. For Card 2, copy the actual entry before correcting it. For Card 3, retain the event classification and proportionate par condition. For Card 4, identify the outstanding-share count and whether the question asks about declaration or payment. Then retry one unfamiliar, authorized item for that first gap.

Source check: October 28, 2026. General mechanics: Deloitte DART, stock dividends and splits (ASC 505-20); OpenStax 14.3, dividend and split accounting. 2026 FAR15 covers equity journals and dividends payable. Lurest, its figures and all four questions are original; no source example or assessment is reproduced.