

Illustration of a Quasi-reorganization

The Gaston Company has sustained heavy losses over a period of time and conditions warrant that Gaston undergo a quasi-reorganization at December 31, 20X9.

Selected balance sheet items prior to the quasi-reorganization are as follows:

Inventory was recorded in the accounting record at December 31, 20X9, at its market value of \$6,000,000. Cost was \$6,500,000.

Property, plant and equipment was recorded in the accounting records at December 31, 20X9, at \$12,000,000, net of accumulated depreciation. The appraised value was \$8,000,000.

Stockholders' equity on December 31, 20X9, was as follows:

| | |
|---|---------------------|
| Common stock, par value \$10 per share; authorized, issued and outstanding, 700,000 shares | \$ 7,000,000 |
| Capital in excess of par | 1,600,000 |
| Retained earnings (deficit) | (900,000) |
| | <hr/> |
| | <u>\$ 7,700,000</u> |

Under the terms of the quasi-reorganization, the par value of the common stock is to be reduced from \$10 per share to \$5 per share.

Questions

Immediately after the quasi-reorganization has been accomplished, the total of stockholders' equity should be

- A. \$3,300,000
- B. \$3,500,000
- C. \$3,700,000
- D. \$4,200,000

Immediately after the quasi-reorganization has been accomplished, retained earnings (deficit) should be

- A. \$0
- B. \$ (200,000)
- C. \$(4,400,000)
- D. \$(4,900,000)