

Answer on Question #38352 – Management – Other

Below is the common equity section (in millions) of Fethe Industries' last two year-end balance sheets:

2012

2011

Common stock

\$2,000

\$1,000

Retained earnings

2,000

2,340

Total common equity

\$4,000

\$3,340

The company has never paid a dividend to its common stockholders. Which of the following statements is CORRECT?

- a. The company's net income in 2011 was higher than in 2012.
- b. The company issued common stock in 2012.
- c. The market price of the company's stock doubled in 2012.
- d. The company had positive net income in both 2011 and 2012, but the company's net income in 2009 was lower than it was in 2011.
- e. The company has more equity than debt on its balance sheet.

Answer b. is correct because the common stock balance has increased from 1000 to 2000 in 2012 and it could be only because of issuance of new capital.