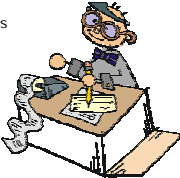


Slide 1

5.7 Stockholders Equity

- Objectives
 - Difference between Equity and Debt
 - Basic Definitions
- Main Types of Stocks
 - Common Stock
 - Preferred Stock
 - Treasury Stock
- Dividends




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Slide 2

Equity versus debt financing

- Creditors receive repayment of money loaned
- Investors share in both the successes and failures of the business




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Stock Issuance

- Authorized Stock
 - Amount of stock the charter says a company CAN sell to pull in capital
 - No formal accounting entry for authorized stock
- Issuance of Stock
 - The stock sold by a company to generate capital




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Slide 4

Par and No-Par value stocks

- Par value stock
 - Capital stock that has been assigned a value per share in the corporate charter
 - Years ago, it was used to determine the "legal capital" per share that must be retained to protect corporate creditors
- No Par value stock
 - Capital stock that has NOT been assigned a value in the corporate charter




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Slide 5

Main Type of Stocks

- Common or Capital Stock
 - Basic Rights
 - Right to vote in corporate matters
 - Preemptive right – permits existing stockholders to purchase additional shares when the company issues new stock to protect their percentage of ownership
 - Right to receive cash dividends
 - Right to ownership of all corporate assets once obligations to everyone
 - Common stockholders' are the "true" owners of the business



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Slide 6

Accounting for par value common stock issuance

Milton-Wilson Corporation issued 10,000 shares of \$1 par stock for \$8 per share on March 10th. How do you account for this issuance?

3/10 Cash	\$80,000
Common Stock	\$10,000
Additional paid in capital	\$70,000

Note: issued 10,000 shares of stock



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Slide 7

Accounting for no par value common stock issuance

Milton-Wilson Corporation issued 10,000 shares for \$8 per share on March 10th. How do you account for this issuance?

3/10 Cash	\$80,000	Common Stock	\$80,000
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Note: Issued 10,000 shares of stock




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Slide 8

Issuance of Stock problem

Flint Corp was organized on April 10th. Record the journal entries for Flint to account for the following

1. The state authorized 100,000 shares of no-par common stock
2. The company exchanged 4,000 shares of common stock to its attorney in return for help in drawing up the incorporation papers for the business. Fees for this work is normally \$22,000.
3. Flint exchanged 12,400 shares of common stock to an individual who contributed land worth \$25,000 and a building worth \$60,000.




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Slide 9

Issuance of Stock problem

4. Scott J. Flint paid \$102,000 for 15,000 shares of common stock
5. Another individual exchanged a \$22,500 machine and received 3,300 shares
6. The attorney sells her shares to her sister and mother.




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Main Types of Stock

- Preferred Stock
 - Basic rights
 - Usually allowed to receive only a "fixed" cash dividend
 - In the case of liquidation of the firm the preferred stock holders' are entitled to their cash dividends plus have their claims paid in full
 - These limited rights are due to the fact they have no "voting" rights on corporate matters
 - Sometimes have other privileges such as converting to common stock if certain criteria is met




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Accounting for Preferred Stock

- Preferred stock may have par value or no par value
- Milton – Wilson Corporation issued 2000 shares of \$5 par preferred stock for \$16 per share on August 11th.



8/11 Cash	\$32,000		
	Preferred Stock	\$10,000	
	Add'l pd in capital	\$22,000	

Note: Issued 2000 shares of preferred stock


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Issuance of Preferred Stock Problem

Flint Company were authorized 35,000 shares of 7% preferred A stock (\$15 par) and 22,000 shares of 10% preferred B stock (\$20 par)

1. Flint issued 18,000 shares of Preferred A stock for \$28 per share on October 10th
2. Flint issued 5,000 shares of Preferred B stock for \$37 per share on January 2nd.




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Main Types of Stock

- Treasury Stock
 - Corporation's own stock that has been issued, fully paid for, reacquired by the corporation and held in treasury for future use
 - Reacquired for various reasons:
 - Reissued for bonus and stock compensation plans
 - Increase trading of company's stock in the market
 - Reduce the number of shares outstanding and thereby increase earnings per share



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Accounting for Treasury Stock

The Treasury Stock account is a Contra Stockholders' equity account ... it reduces or offsets the other stock accounts

Milton – Wilson Corporation repurchases 800 shares of common stock for \$9 per share on Dec 2nd.

12/2 Treasury Stock	\$7,200
Cash	\$7,200

Note: repurchased 800 shares of commons stock



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Treasury Stock Problem

Flint Corporation reacquired 800 shares of its common stock for \$11 per share on February 3rd.

2/3 Treasury Stock	\$8,800
Cash	\$8,800

Note: reacquired 800 shares of common stock



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Treasury Stock Problem

Of the 800 shares of no par common stock that Flint corporation reacquired at \$11 each 200 of the shares are reissued at \$15 each on April 10th.

4/10 Cash	\$3,000	
	Treasury Stock	\$2200
	Retained Earnings	\$ 800

Note: issued 200 shares of treasury stock

If this had been par value common stock we would have credited Add'l paid in capital \$800




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Dividends

- Distributions by a corporation to its stockholders on a pro rata basis (*pro rata means that if you own 10% of the stock you will receive 10% of the dividends*)
- Reported as a per share amount such as \$1.00 per share
- Companies are under NO obligation to pay out dividends. Microsoft for years didn't pay dividends they essentially re-invested all earnings back into the company




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Accounting for Dividends

- 3 major dates involved in the paying out of dividends to stockholders
 - Declaration Date
 - Date the Board of Directors declare the dividend and announce it to the stockholders thus committing the company to a legal obligation
 - Date of record
 - Date that the ownership of the outstanding shares is determined for dividend purposes
 - Date of Payment
 - Date the dividend checks are mailed to the owners of record determined on the Date of record




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Accounting for Cash Dividends

Milton – Wilson Corporations' Board of Directors declared a \$0.62 dividend per share on June 10th. The Date of record is June 30th and Date of Payment is July 31st. There are currently 9,200 shares of common stock outstanding (issued stock)

Prepare all required journal entries



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Accounting for Cash Dividends

Date of Declaration
6/10 Retained Earnings \$5,704
Dividends Payable \$5,704
Note: to record declaration of cash dividend

Date of Record – No Entry Necessary

Date of Payment
7/31 Dividends Payable \$5,704
Cash \$5,704
Note: to record dividend payment




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Accounting for Stock Dividends

- Pro rata distribution of the company's own stock to stockholders
- Results in a decrease in retained earnings and an increase in paid-in capital
- Unlike cash dividends...it doesn't decrease total stockholders equity or total assets




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Accounting for Stock Dividends

- Purpose of Stock Dividends
 - Satisfy stockholders' dividend expectations without spending cash
 - Increase marketability of stock by increasing number of shares and making the stock price easier for small investors to purchase
 - Emphasize that a portion of stockholders' equity has been permanently re-invested in the business



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Accounting for Stock Dividends

Milton-Wilson declares a 10% stock dividend when the stock's current market price is \$12 (\$8 par) and current outstanding shares is 10,000 on Jul 8th.

7/8 Retained Earnings	\$12,000
Common Stock	\$8,000
Add'l paid in capital	\$4,000

Note: declared and paid a 10% stock dividend



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