cHAPTER 11

stockholders’ equity

# Student Learning Objectives and Related Assignment Materials

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| **Student Learning Objectives** | **Mini-Exercises** | **Exercises** | **Coached Problems** | **Problems (Groups  A & B)** | **Compre-hensive Problems** | **Skills Develop-ment Cases** | **Continuing Cases** |
| LO 11-1 Explain the role of stock in financing a corporation. | 1, 2, 3 | 1 |  |  |  | 4, 7 | 1† |
| LO 11-2 Explain and analyze common stock transactions. | 4\*, 5, 6 | 2, 3\*, 4, 5, 6\*, 7, 8\*, 9, 11\*, 17\* | 1, 3^, 4 | A1, A3^, A4, B1, B3^, B4 | 1+, 2^+ | 1, 2, 4 | 1† |
| LO 11-3 Explain and analyze cash dividends, stock dividends, and stock split transactions. | 7, 8\*, 9, 10 | 2, 4, 8\*, 9, 10, 11\*, 12^, 13, 14, 15, 16, 17\*, 18 | 2, 3^, 4 | A2, A3^, A4, B2, B3^, B4 | 1+, 2^+ | 1, 2, 3, 5, 6, 7 | 1†, 2^£ |
| LO 11-4 Describe the characteristics of preferred stock and analyze transactions affecting preferred stock. | 11, 12 | 3\*, 4, 5, 6\*, 7, 10 | 4 | A4, B4 |  |  | 1† |
| LO 11-5 Analyze the earnings per share (EPS), return on equity (ROE), and price/earnings (P/E) ratios. | 13, 14 | 16, 17\* | 3^, 5 | A3^, A5, B3^, B5 |  | 1, 2, 3 | 1†, 2^£ |
| LO 11-S1 Account for owners’ equity in other forms of business. | 15 | 18 |  |  |  |  |  |
| LO 11-S2 Record journal entries for large and small stock dividends. | 16 | 19 |  |  | 2^+ |  |  |

*(Table footnotes on next page.)*

# Student Learning Objectives and Related Assignment Materials, continued

\* Animated solution included in the PowerPoint Slides.

^ Particularly challenging; requires students to combine multiple concepts in order to advance to the next level of accounting knowledge.

**+** The Comprehensive Problems are comprised of CP11-1, which also covers LO 8-2, 9-3, and 10-3, and CP11-2, which also covers LO 3-3, 4-2, 4-3, 4-4, 6-3, 6-4, 7-3, 8-2, 9-2, 9-3, 9-5, 10-2, and 10-3.

† Continuing Case 11-1 builds on the story of Nicole’s Getaway Spa, introduced in earlier chapters. This case focuses on analyzing stockholder equity transactions and preparing journal entries, contrasting the voting rights of common and preferred stock, and deciding the impact of transactions on the ROE ratio. This case will be extended in future chapters.

£ Continuing Case 11-2 builds on the story of Wiki Art Gallery (WAG), an instructional case in Connect. This case focuses on deciding whether the company’s financial statements conform to GAAP and interpreting the term “earnings multiplier.” The case will be extended in future chapters.

# Overview

National Beverage is an ideal company to illustrate topics in this chapter because the stockholders’ equity section of its balance sheet is clean and straightforward.

Students learn how to account for stock issuances, repurchases into treasury, cash dividends on common and preferred stock, stock dividends, stock splits, and the effects of these transactions on key ratios.

# Synopsis of Chapter Revisions

* Updated focus company illustrations with National Beverage Corp.
* New Spotlight on Business Decisions to discuss the government’s JOBS Act and crowdfunding equity
* Revised list of reasons for stock repurchases, supported by new Spotlight on Business Decisions involving Safeway’s treasury stock purchase to boost EPS
* Revised Spotlight on Business Decisions to quantify tax savings from National Beverage’s cash dividend distribution prior to reaching the fiscal cliff
* Expanded illustration of dividend journal entries to include closing entry
* Simplified stock dividend discussion and moved journal entries for small and large stock dividends to chapter supplement
* New section to illustrate simple statement of stockholders’ equity
* Revised EPS and ROE illustrations to show impact of preferred dividends
* Updated ratio analyses in Exhibit 11.7, involving National Beverage and PepsiCo
* Inserted cash dividends into demonstration case A and deleted demonstration case B
* Reviewed, updated, and introduced new end-of-chapter material, including new comprehensive problem in a format that automatically posts journal entries to T-accounts and prepares a trial balance

# PowerPoint Slides

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| **Student Learning Objective** | **PowerPoint® Slides** |
| LO 11-1 Explain the role of stock in financing a corporation. | 11-2 through 11-6 |
| LO 11-2 Explain and analyze common stock transactions. | 11-7 through 11-20 |
| LO 11-3 Explain and analyze cash dividends, stock dividends, and stock split transactions. | 11-21 through 11-30 |
| LO 11-4 Describe the characteristics of preferred stock and analyze transactions affecting preferred stock. | 11-31 through 11-39 |
| LO 11-5 Analyze the earnings per share (EPS), return on equity (ROE), and price/earnings (P/E) ratios. | 11-40 through 11-44 |
| LO 11-S1 Account for owners’ equity in other forms of business. | 11-45 through 11-53 |
| LO 11-S2 Record journal entries for large and small stock dividends. | 11-54 through 11-56 |

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| **Animated Builds and Animated Solutions** | **PowerPoint® Slides** |
| Mini-Exercise 11-4 | 11-58 through 11-59 |
| Mini-Exercise 11-7 | 11-60 |
| Exercise 11-3 | 11-61 through 11-62 |
| Exercise 11-6 | 11-63 through 11-66 |
| Exercise 11-8 | 11-67 through 11-70 |
| Exercise 11-11 | 11-71 through 11-76 |
| Exercise 11-17 | 11-77 through 11-81 |

# Chapter Summary

**LO 11-1 Explain the role of stock in financing a corporation.**

* The law recognizes corporations as separate legal entities. Owners invest in a corporation and receive capital stock that can be bought from and sold to other investors. Stock provides a number of rights, including the rights to vote, to receive dividends, and share in residual assets at liquidation.

**LO 11-2 Explain and analyze common stock transactions.**

* A number of key transactions involve common stock: (1) initial issuance of stock, (2) repurchase of stock into treasury, and (3) reissuance of treasury stock. Each is illustrated in this chapter. Note that these transactions have only balance sheet effects; corporations do not report income arising from gains or losses on transactions involving their own stock.

**LO 11-3 Explain and analyze cash dividends, stock dividends, and stock split transactions.**

* Cash dividends reduce stockholders’ equity (Retained Earnings) and create a liability (Dividends Payable) when they are declared by the board of directors (on the date of declaration). The liability is reduced when the dividends are paid (on the date of payment).
* Stock dividends are pro rata distributions of a company’s stock to existing owners. The transaction typically is accounted for by transferring an amount out of Retained Earnings and into contributed capital accounts.
* A stock split also involves the distribution of additional shares to owners but no additional amount is transferred into the contributed capital accounts. Instead, the per-share par value of stock is reduced.

**LO 11-4 Describe the characteristics of preferred stock and analyze transactions affecting preferred stock.**

* Preferred stock provides investors certain advantages including current dividend preferences and a preference on asset distributions in the event the corporation is liquidated.
* If preferred stock carries cumulative dividend rights, any part of a current dividend that is not paid (called *dividends in arrears*) must be paid in full before any additional dividends can be paid.

**LO 11-5 Analyze the earnings per share (EPS), return on equity (ROE), and price/earnings (P/E) ratios.**

* The earnings per share (EPS) ratio is calculated by dividing net income (less preferred dividends) by the average number of shares of common stock outstanding during the year. This ratio makes it easy to compare a company’s earnings over time, but it does not allow reliable comparisons across companies because it does not adjust for likely differences in the number of shares that each company has outstanding.
* The return on equity (ROE) ratio relates earnings to each dollar contributed to and retained by the company on behalf of common stockholders. Because it is calculated using dollar amounts contributed to and retained by a company, it allows comparisons to be made across companies.
* The price/earnings (P/E) ratio relates the company’s current stock price to its most recent annual earnings per share, indicating the value investors place on the company’s stock.

# Chapter Summary, continued

***Accounting Decision Tools***

1. **Earnings per Share (EPS) = (Net Income – Preferred Dividends) ÷ Average Number of Common Shares Outstanding**

* It tells you the amount of income generated for each share of common stock owned by stockholders.
* A higher ratio means greater profitability.

1. **Return on Equity (ROE) = (Net Income – Preferred Dividends) ÷ Average Common Stockholders’ Equity**

* It tells you the amount earned for each dollar invested by common stockholders.
* A higher ratio means stockholders are likely to enjoy greater returns.

1. **Price/Earnings (P/E) ratio = Current Stock Price (per share) ÷ Earnings per Share (annual)**

* It tells you how many times more than the current year’s earnings investors are willing to pay for a company’s common stock.
* A higher number means investors anticipate an improvement in the company’s future results.

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| Chapter Outline | Teaching Notes |
| I. Understand the Business |  |
| ***LO 11-1 Explain the role of stock in financing a corporation.*** | |
| A. Corporate Ownership |  |
| 1. Corporations can raise large amounts of money because investors can easily participate in a corporation’s ownership; this ease of participation is related to several factors: |  |
| a. Shares of stock can be purchased in small amounts. |  |
| b. Ownership interests are transferable. |  |
| c. Stockholders are not liable for the corporation’s debts. |  |
| 2. The law recognizes a corporation as a separate legal entity. |  |
| 3. To protect everyone’s rights, the creation and oversight of corporations are tightly regulated by law. |  |
| a. Corporations are created by submitting an application to a state government (not the federal government). |  |
| b. Because laws vary from state to state, you might decide to create a corporation in a state other than the one in which it operates. |  |
| 4. **Common stock**––The basic voting stock issued by a corporation to stockholders; owners of common stock usually enjoy a number of benefits: |  |
| a. Voting rights––For each share you own, you get a set number of votes on major issues. |  |
| b. Dividends––Stockholders receive a share of the corporation’s profits when distributed as dividends. |  |
| c. Residual claim––If the company ceases operations, stockholders share in any assets remaining after creditors have been paid. |  |
| d. Preemptive rights––To retain their ownership percentages, existing stockholders may be given the first chance to buy newly issued stock before it is offered to others. |  |
| B. Equity versus Debt Financing | Summarized in Exhibit 11.1 |
| 1. A company in need of a large amount of long-term financing can obtain it through: |  |
| a. Equity financing––Issuing new stock to investors. |  |
| i. Equity does not have to be repaid. Debt must be repaid or refinanced. | The “Spotlight on Business |
| ii. Dividends are optional. Interest must be paid on debt. | Decisions” feature addresses crowdfunding |
| b. Debt financing––Borrowing money from lenders. |  |
| i. Interest on debt is tax deductible. Dividends on stock are not tax deductible. |  |
| ii. Debt does not change stockholder control. A stock issue dilutes existing stockholders’ control. |  |

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| Chapter Outline | Teaching Notes |
| II. Study the Accounting Methods |  |
| ***LO 11-2 Explain and analyze common stock transactions.*** | |
| A. Common Stock Transactions |  |
| 1. Items reported in the stockholders’ equity section of balance sheets: | Illustrated in Exhibit 11.2 |
| a. Contributed capital––Reports the amount of capital the company received from investors’ contributions, in exchange for the company’s common and preferred stock. |  |
| b. Retained earnings––Reports the cumulative amount of net income earned by the company less the cumulative amount of dividends declared since the corporation was first organized. |  |
| c. Treasury stock––Reports shares that were previously owned by stockholders but have been bought back and are now held by the corporation. | Accounting rules relating to |
| d. Accumulated Other Comprehensive Income (Loss)––Reports unrealized gains and losses, which are temporary changes in the value of certain assets and liabilities the company holds. | Accumulated Other Comprehensive  Income (Loss) are introduced in Appendix D |
| B. Authorization, Issuance, and Repurchase of Stock |  |
| 1. A corporation’s charter indicates the maximum number of shares of stock that the corporation is allowed to issue. | Summarized in Exhibit 11.3 |
| a. **Authorized shares**––The maximum number of shares of capital stock of a corporation that can be issued, as specified in the charter. | * Supplemental Enrichment Activity (Activity) #1 |
| b. **Issued shares**––Shares of stock that have been distributed by the corporation. |  |
| c. **Treasury stock**––Issued shares that have been reacquired by the company. |  |
| d. **Outstanding shares**––Shares that are currently held by stockholders (not the corporation itself). |  |
| 2. Stock Authorization |  |
| a. **Par value––**An insignificant value per share of capital stock specified in the charter; serves as the basis for legal capital. | *Stress that par value is not related in any way to the market value of stock.* |
| i. Par value is an old concept originally introduced to prevent stockholders from removing contributed capital of businesses about to go bankrupt; stronger laws and regulations exist today to prevent this from happening. |  |
| * As a result, par value no longer has this use. |  |
| * However, some states charge corporate fees based on total par value, so it is typically set at a token amount. |  |
| b. **No-par value stock**––Capital stock that has no par value specified in the corporate charter. |  |

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| Chapter Outline | Teaching Notes |
| 3. Stock Issuance––The sale of stock from the corporation to an investor. | * Activity #2 |
| a. Involves providing shares of a corporation’s ownership, usually in exchange for cash. |  |
| i. Initial public offering *(*or IPO) ––The very first sale of a company’s stock to the public. |  |
| ii. Seasoned new issue––Additional issuances of new stock by the company if it has issued stock previously. |  |
| b. Stock issuances for cash are recorded by: |  |
| i. Debiting Cash, crediting Common Stock (for the number of shares sold times the par value per share), and crediting Additional Paid-in Capital account (for the cash received in excess of this amount). |  |
| ii. If the corporate charter does not specify a par value for the stock, the total proceeds from the sale of stock will be credited to Common Stock. |  |
| 4. Stock Exchanged Between Investors |  |
| a. When a company sells stock to the public, the transaction is between the issuing corporation and the buyer. |  |
| b. After this initial stock sale, investors can sell shares to other investors without directly affecting the corporation. |  |
| 5. Stock used to Compensate Employees––To encourage employees to work hard for a corporation, employee pay packages often include a combination of base pay, cash bonuses, and stock options. |  |
| a. Stock options allow employees to buy the company’s stock at a predetermined price, often equal to the then-current market price. |  |
| b. If stock price increases, employees can then exercise their options to acquire the stock at the lower predetermined price. |  |
| c. If stock price decreases, employees have not lost anything. |  |
| d. Accounting rules require that, at the time the company grants stock options, an expense must be reported for the estimated cost associated with stock options even if the option price equals the current stock price. | *The specific accounting procedures are covered in an intermediate accounting course.* |

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| Chapter Outline | Teaching Notes |
| 6. Repurchase of Stock |  |
| a. A corporation may want to repurchase its stock from existing stockholders to: |  |
| i. Send a signal to investors that the company itself believes its own stock is worth purchasing. |  |
| ii. Obtain shares that can be reissued as payment for purchases of other companies. | The “Spotlight on Business Decisions” feature addresses |
| iii. Obtain shares to reissue to employees as part of employee stock purchase plans. | the use of treasury stock purchases to boost earnings |
| iv. Reduce the number of shares to increase per-share measures of earnings and stock value. | per share (and executive bonuses) |
| b. Most companies record the purchase of treasury stock using the cost incurred to acquire the shares. |  |
| i. Stock repurchases are recorded by debiting Treasury Stock and crediting Cash. |  |
| ii. Treasury Stock is not an asset. |  |
| ii. Treasury Stock is a permanent account that is reported as contra-equity, subtracted from total stockholders’ equity. | *Stress that the +xSE notation is a reminder* |
| 7. Reissuance of Treasury Stock |  |
| a. When a company resells shares of its treasury stock, it does not report a gain or loss on sale, even if it issues the shares for more or less than they cost when the company reacquired them. |  |
| b. The reissuance of treasury stock at a price above its repurchase price is recorded by debiting Cash, crediting Treasury Stock (for its original cost), and crediting Additional Paid-In Capital (for the excess). |  |
| c. If treasury stock were reissued at a price below its repurchase price, the difference between the repurchase price and the reissue price is recorded as a reduction in Additional Paid-in Capital. |  |
| ***LO 11-3 Explain and analyze cash dividends, stock dividends, and stock split transactions.*** | |
| C. Cash Dividends on Common Stock |  |
| 1. Investors acquire common stock because they expect a return on their investment. Return can come in two forms dividends and increases in stock price. |  |
| a. Growth investment––Stocks that pay little or no dividends. |  |
| b. Income investments––Stocks that consistently pay dividends. | The “Spotlight on Business Decisions” feature addresses |
| 2. A corporation does not have a legal obligation to pay dividends; it is a decision made by the board of directors. | the impact of tax rates on dividends. |

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| Chapter Outline | Teaching Notes |
| 3. Board of directors considers tax consequences and whether there are: |  |
| a. Sufficient retained earnings |  |
| i. State laws often restrict dividends to the balance in Retained Earnings. |  |
| ii. Loan agreements may require minimum balance in Retained Earnings; disclosure is required in the financial statement notes |  |
| b. Sufficient cash to pay dividend. |  |
| 4. Four important dates: |  |
| 1. **Declaration date**––The date on which the board of directors officially approves a dividend. |  |
| i. Dividends, a temporary account, and Dividends Payable are both increased. |  |
| ii. Until the closing entries are recorded (see below), the Dividends account is accounted for as a decrease to Stockholders’ Equity. |  |
| iii. Dividends are not an expense; they are a distribution of prior profits. |  |
| b. **Record date**––The date on which the corporation prepares the list of current stockholders as shown on its records; dividends can be paid only to the stockholders who own stock on that date. | *Stress that no entry is made on this date.* |
| c. **Payment date**––The date on which a cash dividend is paid to the stockholders of record; the Cash and Dividends Payable accounts are both decreased. | * Activity #3 |
| d. Year-end: |  |
| i. Closing entries include the transfer of the Dividends account balance (debit) to Retained Earnings; entry includes a debit to Retained Earnings and a credit to Dividends. |  |
| ii. This closing entry has no effect on total stockholders’ equity. |  |
| D. Stock Dividends and Stock Splits |  |
| 1. **Stock dividend**––A dividend that distributes additional shares of a corporation’s own stock. | * Activity #5 |
| a. Recorded by transferring an amount from Retained Earnings to contributed capital accounts; amount transferred depends on the size of the stock dividend.. |  |
| i. Large stock dividend |  |
| * More than 25% of currently outstanding shares. |  |
| * Transfer is recorded at par value and, so, decrease in Retained Earnings equals increase in Common Stock |  |

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| Chapter Outline | Teaching Notes |
| ii. Small stock dividend |  |
| * Less than 25% of currently outstanding shares. |  |
| * Transfer is recorded at market value and, so, decrease in Retained Earnings is greater than increase in Common Stock. |  |
| * Excess of market value over par value is recorded as Additional Paid-in Capital. |  |
| b. Regardless of size, stock dividends affect only balances within stockholders’ equity; it does not change total stockholders’ equity. | Impact on stockholders’ equity illustrated in Exhibit 11.4 |
| c. Reasons for stock dividends: |  |
| i. Lower the market price per share of stock |  |
| ii. Demonstrate commitment to stockholders while conserving cash during difficult times. | The “Spotlight on Business Decisions” feature addresses |
| iii. Signal an expectation of significant future earnings. | choosing between stock |
| 2. Stock Splits | dividends and stock splits. |
| a. **Stock split––**An increase in the total number of authorized shares by a specified ratio; does not affect retained earnings. | * Activity #5 |
| b. Stock splits do not decrease retained earnings. | * Activity #6 |
| c. Cash is not affected when the company splits its stock, so the total resources of the company do not change. |  |
| d. Typically, a stock split involves revising the corporate charter to reduce the per-share par value of all authorized shares, so that the total par value across all shares is unchanged. | Impact on stockholders’ equity illustrated in Exhibit 11.4 |
| ***LO 11-4 Describe the characteristics of preferred stock and analyze transactions affecting preferred stock.*** | |
| E. **Preferred Stock**––Stock that has specified rights over common stock. |  |
| 1. Preferred stock differs from common stock: |  |
| a. Preferred stock allows different voting rights (anywhere from zero to super-voting rights). |  |
| b. Dividends on preferred stock, if any, may be paid at a fixed rate, specified as either a dollar amount or a percentage per share. |  |
| c. Preferred stock carries priority over common stock. |  |
| i. Any dividends the corporation declares must be paid to preferred stockholders before they can be paid to common stockholders. |  |
| ii. If the corporation goes out of business, its assets will be sold and used to pay creditors and then preferred stockholders; common stockholders are paid last from whatever assets remain after paying preferred stockholders. |  |

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| Chapter Outline | Teaching Notes |
| 2. Preferred stock issuances for cash are recorded by debiting Cash, crediting Preferred Stock (for the number of shares sold times the par value per share), and crediting Additional Paid- in Capital Preferred account (for the cash received in excess of this amount). | The “Spotlight on The World” feature addresses the accounting for preferred stock using GAAP and IFRS. |
| 3. Preferred Stock Dividends | * Activity #4 |
| a. Preferred stock offers dividend preferences. |  |
| i. **Current dividend preference**––The feature of preferred stock that grants priority on preferred dividends over common dividends. |  |
| * After the current dividend preference has been met and if no other preference exists, dividends can be paid to the common stockholders. * The current dividend preference does not carry over to later years unless the preferred stock is designated as cumulative. |  |
| ii. **Cumulative dividend preference**––The preferred stock feature that requires current dividends not paid in full to accumulate for every year in which they are not paid. |  |
| * **Dividends in arrears**––Cumulative unpaid amounts that must be paid before any common dividends are paid. * Because dividends are not a liability until declared, dividends in arrears are not reported on the balance sheet. * Instead, dividends in arrears are disclosed in the notes to the financial statements. |  |
| F. Retained Earnings |  |
| 1. Retained earnings represent the company’s total earnings that have been retained in the business (rather than being distributed to stockholders). |  |
| 2. Account balance increases when the company reports net income on the income statement and decreases when the company reports a net loss (expenses greater than revenues) or declares cash or stock dividends to stockholders. |  |
| 3. Should a company ever accumulate more net losses than net income, it will report a negative (debit) balance in the Retained Earnings account; this amount is: |  |
| a. Shown in parentheses in the stockholders’ equity section of the balance sheet. |  |
| b. Deducted when computing total stockholders’ equity. |  |
| c. Typically called an Accumulated Deficit. |  |
| G. Statement of Stockholders’ Equity | Illustrated in Exhibit 11.5 |
| 1. Shows all changes in the stockholder equity accounts. |  |
| 2. Has a column for each stockholder equity account. |  |

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| Chapter Outline | Teaching Notes |
| III. Evaluate the Results |  |
| ***LO 11-5 Analyze the earnings per share (EPS), return on equity (ROE), and price/earnings (P/E) ratios.*** | |
| A. Earnings per Share (EPS) | Illustrated in Exhibit 11.6 |
| 1. The amount of income generated for each share of common stock owned by stockholders. |  |
| 2. Because preferred stock has priority over common stock, any dividends on preferred stock are subtracted when computing EPS. |  |
| 3. EPS = (Net Income – Preferred Dividends) ÷ Average Number of Common Shares Outstanding. |  |
| 4. A higher ratio means greater profitability. |  |
| 5. Reported on income statement immediately below Net Income or in the notes to the financial statements. |  |
| 6. Effective and widely used measure for comparing a company with itself over time; not appropriate for comparing across companies. |  |
| B. Return on Equity (ROE) Ratio | Illustrated in Exhibit 11.6 |
| 1. The amount of income earned for each dollar of stockholders’ equity. |  |
| 2. ROE = Net Income divided by Average Stockholders’ Equity. | *Consider whether you wish to cover footnote regarding* |
| 3. A higher ratio means stockholders are likely to enjoy greater returns. | *impact of preferred stock on this ratio* |
| 4. **Financial leverage**––Rather than relying on equity financing, a company relies on debt. |  |
| 1. A company may be able to generate more profit from using these borrowed funds than it incurred for interest on that debt; this increases the company’s ROE. |  |
| 1. Financial leverage isn’t always the best strategy; the amount of interest expense may exceed the profit generated from the borrowed funds. |  |
| C. Price/Earnings (P/E) Ratio | Illustrated in Exhibit 11.6 |
| 1. Measures how many times more than the current year’s earnings investors are willing to pay for a company’s common stock. |  |
| 2. P/E ratio = Current Stock Price (per share) divided by Earnings per Share (annual). |  |
| 3. A higher number means investors anticipate an improvement in the company’s future results. |  |

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| Chapter Outline | Teaching Notes |
| IV. Supplement 11A: Owners’ Equity for Other Forms of Business |  |
| ***LO 11-S1 Account for owners’ equity in other forms of business.*** | |
| A. Owner’s Equity for a Sole Proprietorship |  |
| 1. Sole proprietorship––Unincorporated business owned by one person. |  |
| 2. Capital account––Records investments by the owner and is used to accumulate periodic income or loss. | Accounting summarized in Exhibit 11A.1 |
| 3. Drawing account––Used to record the owner’s withdrawals of cash and other assets from the business. | *Stress that it is similar to the Dividends account* |
| i. Closed to the capital account at the end of each accounting period. |  |
| ii. After drawing account is closed, capital account reflects the cumulative total of all investments by the owner and all earnings of the business less all withdrawals from the entity by the owner. |  |
| 4. Financial statements of a sole proprietorship do not report Income Tax Expense or Income Taxes Payable; instead, the net income of a sole proprietorship is taxed when it is included on the owner’s personal income tax return. |  |
| i. Statement of owner’s equity replaces the statement of retained earnings or statement of stockholders’ equity. |  |
| ii. Do not report Income Tax Expense or Income Taxes Payable; instead, the net income of a sole proprietorship is taxed when it is included on the owner’s personal income tax return. |  |
| iii. The owner’s salary is not recognized as an expense. |  |
| * An employer/employee contractual relationship cannot exist with only one party involved. |  |
| * The owner’s salary is therefore accounted for as a distribution of profits—a withdrawal—instead of salary expense, as it would be in a corporation. |  |
| B. Owner’s Equity for a Partnership |  |
| 1. Partnership––Defined by the Uniform Partnership Act as “an association of two or more persons to carry on as co-owners of a business for profit.” |  |
| 2. A partnership is formed by two or more persons reaching mutual agreement about the terms of the relationship. |  |
| 3. Agreement should specify |  |
| a. Division of income |  |
| b. Management responsibilities |  |
| c. Transfer or sale of partnership interests |  |
| d. Disposition of assets upon liquidation |  |
| e. Procedures to be followed in case of the death of a partner |  |
| 4. If the partnership agreement does not specify these matters, the laws of the resident state are binding. |  |

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| Chapter Outline | Teaching Notes |
| 5. Primary advantages of a partnership versus a corporation: |  |
| a. Ease of formation |  |
| b. Complete control by the partners |  |
| c. Lack of income taxes on the business itself |  |
| 6. Primary disadvantage is unlimited liability of each partner for the partnership’s debts. |  |
| 7. Accounting for partners’ equity is same as for a sole proprietorship, except that separate capital and drawings accounts are established for each partner. | Accounting summarized in Exhibit 11A.2 |
| a. Investments by each partner are credited to that partner’s Capital account and withdrawals are debited to the respective Drawings account. |  |
| b. The net income of a partnership is divided among the partners in accordance with the partnership agreement and credited to the partner Capital accounts. |  |
| c. The respective Drawings accounts are closed to the partner Capital accounts. |  |
| d. After the closing process, each partner’s Capital account reflects the cumulative total of all that partner’s investments plus that partner’s share of the partnership earnings less all that partner’s withdrawals. |  |
| C. Other Business Forms |  |
| 1. Other forms of business blend features of the “pure” organizational forms described to create hybrid business. |  |
| a. S Corporations |  |
| b. Limited Liability Partnerships (LLPs |  |
| c. Limited Liability Companies (LLCs). |  |
| 2. LLC, an increasingly common form of business, combines legal characteristics of corporations with the tax treatment of partnerships. |  |
| 3. Accounting for these hybrid entities generally follows the methods described above. |  |

|  |  |
| --- | --- |
| Chapter Outline | Teaching Notes |
| V. Supplement 11B: Recording Stock Dividends |  |
| ***LO 11-S2 Record journal entries for large and small stock dividends.*** | |
| A. Stock Dividends |  |
| 1. Recorded by transferring an amount from Retained Earnings to Common Stock (and possibly other contributed capital accounts). | * Activity #5 |
| 2. This transfer is called capitalizing retained earnings. |  |
| 3. The amount transferred is either the stock’s par value (for large dividends) or its market value (for small dividends); distinction between large and small stock dividends is generally 25% of outstanding shares. |  |
| B. Large Stock Dividends |  |
| 1. A stock dividend is large when the issue is more than 25 percent of the outstanding shares. |  |
| 2. A large stock dividend is recorded at the stock’s par value. |  |
| C. Small Stock Dividends |  |
| 1. A stock dividend is small when less than 25 percent of the company’s outstanding shares are issued. |  |
| 2. A small stock dividend is accounted for at the market value of the company’s stock. |  |
| 3. Because market value exceeds par value, the company must record the excess as Additional Paid-In Capital. |  |

# Supplemental Enrichment Activities

Note: These activities would be suitable for individual or group activities.

1. Use the following for an in-class discussion of the concepts of authorized, issued, and outstanding.

Ask your students if they have ever attended an evening reception at which drink tickets were sold.

Typically, the host will have a roll of authorized tickets and will issue individual tickets as people buy them. These drink tickets will be held by the people until they are exchanged with the bartender for drinks. The returned drink ticket will then be either destroyed by the bartender or given back to the host to reissue. At any time during the evening, there are likely to be some tickets on the roll available for future sale, some still outstanding in people’s pockets, and some already returned to the host for possible reuse. Ask your students to match the tickets in this story to the terms (1) authorized, (2) issued, and (3) treasury.

Solution:

Just like the host with the initial roll of drink tickets, a corporation is authorized to issue a specific number of shares. Shares will be “issued” to stockholders and will remain outstanding until they are returned to the company’s treasury (usually in exchange for cash). This “treasury stock” will either be destroyed or reissued just like the used drink tickets.

1. Handout 11–1

Use Handout 11–1 for an in-class activity designed to review the preparation of journal entries for various stock transactions. The solution follows the handout master.

1. Handout 11–2

Use Handout 11–2 for an in-class activity designed to review the recording of cash dividends. The solution follows the handout master.

1. Handout 11–3

Use Handout 11–3 for an in-class activity designed to review concepts relating to dividends on preferred stock. The solution follows the handout master.

1. Handout 11–4

Use Handout 11–4 for an in-class activity designed to review the recording of stock dividends. The solution follows the handout master.

# Supplemental Enrichment Activities, continued

1. Use the following for an in-class discussion of the concepts of stock dividends and stock splits:

A company’s board of directors must choose between a large 100 percent stock dividend and a 2-for-1 stock split. Both have the effects of doubling the number of shares outstanding and reducing the per-share market price. What should the board consider in making this decision?

Solution:

The decision may be closely related to how stock dividends and splits are accounted for.

a. A stock dividend causes a reduction in Retained earnings, whereas a “true” stock split doesn’t.

b. A company that expects some financial struggles in the future will want to use a 2-for-1 stock split because this doesn’t reduce Retained earnings, which means it doesn’t reduce its ability to declare cash dividends in the future.

c. On the other hand, if the company is expecting financial success in the near future, it won’t care that Retained earnings is reduced by a stock dividend because future earnings will build up Retained earnings enough to allow cash dividends to be declared. In fact, it may want to use a stock dividend just to show confidence that the company is expecting to do well in the near future.

# HANDOUT 11–1

# STOCK TRANSACTIONS

Prepare the journal entries required to record the following transactions and then post them to the related T-accounts:

Strait Corp. sold 10,000 shares of $1 par value stock for $25 per share on May 1.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | | |
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|  | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

On December 1, Strait Corp. repurchased 1,000 shares of its stock on the market when it was trading for $16 per share.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

# HANDOUT 11–1, CONTINUED

On December 15, Strait Corp. sold 500 of the treasury shares for $30 each.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

On December 30, Strait Corp. sold 500 of the treasury shares for $15 each.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |  |  |  |  | |

# HANDOUT 11–1 SOLUTION

# STOCK TRANSACTIONS

Prepare the journal entries required to record the following transactions and then post them to the related T-accounts:

Strait Corp. sold 10,000 shares of $1 par value stock for $25 per share on May 1.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | May 1 | Cash (10,000 × $25) | 250,000 |  | |  | Common Stock (10,000 × $1) |  | 10,000 | |  | Additional Paid-in Capital ($250,000 – $10,000) |  | 240,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | May 1 | 250,000 |  |  | |  |  |  |  | | * Common Stock (SE) +  |  |  |  |  | | --- | --- | --- | --- | |  |  | 10,000 | May 1 | |  |  |  |  | |
|  |  |
|  | – Additional Paid-in Capital (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 240,000 | May 1 | |  |  |  |  | |

On December 1, Strait Corp. repurchased 1,000 shares of its stock on the market when it was trading for $16 per share.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Dec. 1 | Treasury Stock (1,000 × $16) | 16,000 |  | |  | Cash (–A) |  | 16,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | May 1 | 250,000 |  |  | |  |  | 16,000 | Dec. 1 | | + Treasury Stock (xSE) –   |  |  |  |  | | --- | --- | --- | --- | | Dec. 1 | 16,000 |  |  | |  |  |  |  | |

On December 15, Strait Corp. sold 500 of the treasury shares for $30 each.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Dec. 15 | Cash (500 × $30) | 15,000 |  | |  | Treasury Stock (500 × $16) |  | 8,000 | |  | Additional Paid-in Capital (500 × [$30 – $16]) |  | 7,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | May 1 | 250,000 |  |  | |  |  | 16,000 | Dec. 1 | | Dec. 15 | 15,000 |  |  | | + Treasury Stock (xSE) –   |  |  |  |  | | --- | --- | --- | --- | | Dec. 1 | 16,000 |  |  | |  |  | 8,000 | Dec. 15 | |
|  |
| – Additional Paid-in Capital (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 240,000 | May 1 | |  |  | 7,000 | Dec. 15 | |

# HANDOUT 11–1 SOLUTION, CONTINUED

On December 30, Strait Corp. sold 500 of the treasury shares for $15 each.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Dec. 30 | Cash (500 × $15) | 7,500 |  | |  | Additional Paid-in Capital (500 × [$16 – $15]) | 500 |  | |  | Treasury Stock (500 × $16) |  | 8,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | May 1 | 250,000 |  |  | |  |  | 16,000 | Dec. 1 | | Dec. 15 | 15,000 |  |  | | + Treasury Stock (xSE) –   |  |  |  |  | | --- | --- | --- | --- | | Dec. 1 | 16,000 |  |  | |  |  | 8,000 | Dec. 15 | |  |  | 8,000 | Dec. 30 | | Balance | 0 |  |  | |
| – Additional Paid-in Capital (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 240,000 | May 1 | |  |  | 7,000 | Dec. 15 | | Dec. 30 | 500 |  |  | |

# HANDOUT 11–2

# CASH DIVIDENDS

Jones Corp. has 200,000 shares of stock authorized, 120,000 shares issued, and 100,000 shares outstanding. On August 1, Jones’ Board of Directors declared a cash dividend of $0.50 per share, with a record date of September 1. The dividend will be paid on October 1.

Prepare the journal entries required to record the transactions described above, as needed, and then post them to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Aug. 1 |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Sept. 1 |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Oct. 1 |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

# HANDOUT 11–2 SOLUTION

# CASH DIVIDENDS

Jones Corp. has 200,000 shares of stock authorized, 120,000 shares issued, and 100,000 shares outstanding. On August 1, Jones’ Board of Directors declared a cash dividend of $0.50 per share, with a record date of September 1. The dividend will be paid on October 1.

Prepare the journal entries required to record the transactions described above, as needed, and then post them to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Aug. 1 | Dividends (100,000 × $0.50) | 50,000 |  | |  | Dividends Payable |  | 50,000 | | |
|  |  |
| + Dividends (D) –   |  |  |  |  | | --- | --- | --- | --- | | Aug 1 | 50,000 |  |  | |  |  |  |  | | - Dividends Payable (L) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 50,000 | May 1 | |  |  |  |  | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Sept. 1 | *No Entry* |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Oct. 1 | Dividends Payable | 50,000 |  | |  | Cash |  | 50,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | Oct. 1 | 50,000 |  |  | |  |  |  |  | | - Dividends Payable (L) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 50,000 | May 1 | | Oct. 1 | 50,000 |  |  | |

# HANDOUT 11–3

# PREFERRED DIVIDENDS

On January 1, Garden State issued 10,000 shares of $10 par preferred stock for $19 per share. Prepare the journal entry required to record this transaction and post it to the appropriate T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Jan. 1 |  |  |  | |  |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
|  | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

The stock pays a cumulative annual dividend of 7% of par value. What is the total amount of the annual dividends that would be paid, if declared, to preferred stockholders?

Complete the following table to explain how dividends would be allocated between preferred and common stockholders:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Dividend | To Preferred Stockholders | To Common Stockholders |
| Current | $100,000 |  |  |
| Year 2 | 5,000 |  |  |
| Year 3 | 10,000 |  |  |
| Year 4 | None |  |  |
| Year 5 | 20,000 |  |  |

# HANDOUT 11–3 SOLUTION

# PREFERRED DIVIDENDS

On January 1, Garden State issued 10,000 shares of $10 par preferred stock for $19 per share. Prepare the journal entry required to record this transaction and post it to the appropriate T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | Jan. 1 | Cash (10,000 × $20) | 190,000 |  | |  | Preferred Stock (10,000 × $10 ) |  | 100,000 | |  | Additional Paid-in Capital |  | 90,000 | | |
|  |  |
| + Cash (A) –   |  |  |  |  | | --- | --- | --- | --- | | Jan. 1 | 190,000 |  |  | |  |  |  |  | | – Preferred Stock (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 100,000 | Jan. 1 | |  |  |  |  | |
|  |  |
|  | – Additional Paid-In Capital (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 90,000 | Jan. 1 | |  |  |  |  | |

The stock pays a cumulative annual dividend of 7% of par value. What is the total amount of the annual dividends that would be paid, if declared, to preferred stockholders?

Par value of $100,000 × 7% = $7,000 to preferred

Complete the following table to explain how dividends would be allocated between preferred and common stockholders.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | Total Dividend | To Preferred Stockholders | To Common Stockholders |
| Current | $100,000 | $ 7,000 | $93,000 |
| Year 2 | 5,000 | 5,000 | 0 |
| Year 3 | 10,000 | 9,000  (2,000 in arrears + 7,000) | 1,000 |
| Year 4 | None | 0 | 0 |
| Year 5 | 20,000 | 14,000 | 6,000 |

# HANDOUT 11–4

# STOCK DIVIDENDS AND STOCK SPLITS

Jennings Corp. has 1,000,000 shares of $1 par value stock authorized, 200,000 shares issued, and 150,000 shares outstanding. On March 31, Jones’ Board of Directors declared a 10% stock dividend at a time that the stock carried a market value of $30. Prepare the journal entry required to record this transaction and then post it to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | March 31 |  |  |  | |  |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |
|  | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |

Compute the number of shares outstanding after the March 31 stock dividend.

Jennings Corp. announced a 100% stock dividend on June 30. Prepare the journal entry required to record this transaction and then post it to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | June 30 |  |  |  | |  |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
|  | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

Compute the number of shares outstanding after the June 30 stock dividend.

# HANDOUT 11–4, continued

Jennings Corp. announced a 2 for 1 stock split on September 30. Prepare the journal entry required to record the transaction described above and then post it to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | September 30 |  |  |  | |  |  |  |  | |  |  |  |  | | |
|  |  |
| |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |
|  | |  |  |  |  | | --- | --- | --- | --- | |  |  |  |  | |  |  |  |  | |

Compute the number of shares outstanding after the September 30 stock split.

# HANDOUT 11–4 SOLUTION

# STOCK DIVIDENDS AND STOCK SPLITS

Jennings Corp. has 1,000,000 shares of $1 par value stock authorized, 200,000 shares issued, and 150,000 shares outstanding. On March 31, Jones’ Board of Directors declared a 10% stock dividend at a time that the stock carried a market value of $30.

Prepare the journal entry required to record the transaction described above and then post it to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | March 31 | Retained Earnings ($30 × 150,000 × 10%) | 4,500,000 |  | |  | Common Stock ($1 × 150,000 × 10%) |  | 15,000 | |  | Additional Paid-in Capital |  | 4,485,000 | | |
|  |  |
| – Retained Earnings (SE) +   |  |  |  |  | | --- | --- | --- | --- | | March 31 | 4,500,000 |  |  | | – Common Stock (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 15,000 | March 31 | |
|  | – Additional Paid-In Capital (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 4,485,000 | March 31 | |

Compute the number of shares outstanding after the March 31 stock dividend.

150,000 + (150,000 × 10%) = 165,000 shares

Jennings Corp. announced a 100% stock dividend on June 30. .

Prepare the journal entry required to record the transaction described above and then post it to the related T-accounts:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | June 30 | Retained Earnings ($1 × 165,000) | 165,000 |  | |  | Common Stock |  | 165,000 | | |
|  |  |
| – Retained Earnings (SE) +   |  |  |  |  | | --- | --- | --- | --- | | March 31 | 4,500,000 |  |  | | June 30 | 165,000 |  |  | | – Common Stock (SE) +   |  |  |  |  | | --- | --- | --- | --- | |  |  | 15,000 | March 31 | |  |  | 165,000 | June 30 | | – Additional Paid-In Capital (SE) + | | | | |  |  | 4,485,000 | March 31 | |

Compute the number of shares outstanding after the June 30 stock dividend.

165,000 old shares + 165,000 new shares = 330,000 shares

# HANDOUT 11–4 SOLUTION, continued

Jennings Corp. announced a 2 for 1 stock split on September 30.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  |  |  |  | | --- | --- | --- | --- | | September 30 | *Memorandum entry only: A 2-for-1 stock split caused the number of shares outstanding to increase from 330,000 shares to 660,000 shares and the par value to decrease from $1.00 per share to $0.50 per share.* |  |  | |

330,000 old shares + 330,000 new shares = 660,000 shares