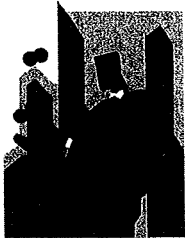


Slide 11-1

Chapter  
**11**

**STOCKHOLDERS' EQUITY:  
PAID-IN CAPITAL**



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Slide 11-2


**Corporations**

An entity created by law.

Existence is separate from owners.

Has rights and privileges.

Ownership can be



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**Advantages of Incorporation**

\_\_\_\_\_ personal liability for stockholders.

\_\_\_\_\_ of ownership.

Professional management.

Continuity of \_\_\_\_\_.



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Slide 11-4


**Disadvantages of Incorporation**

Heavy \_\_\_\_\_.

Greater \_\_\_\_\_.

\_\_\_\_\_ of formation.

Separation of ownership and management.




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Slide 11-5

**Publicly Owned Corporations Face Different Rules**

By LAW, publicly owned corporations must:

- Prepare financial statements in accordance with GAAP.
- Have their financial statement audited by an independent CPA.
- Comply with federal securities laws.
- Submit financial information for SEC review.




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Slide 11-6

**Formation of a Corporation**

- Each corporation is formed according to the laws of the state where it is located.
- The application for corporate status is called the \_\_\_\_\_ of \_\_\_\_\_.


The costs associated with incorporation are usually expensed immediately, but amortized over 5 years for tax purposes.



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Slide 11-7

## Rights of Stockholders



**Stockholders**

**Rights**

- ① Voting (in person or by \_\_\_\_\_).
- ② Proportionate distribution of \_\_\_\_\_.
- ③ Proportionate distribution of assets in a liquidation.

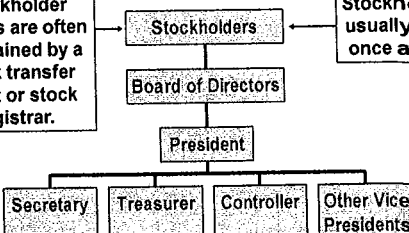
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## Rights of Stockholders

### Corporate Organization Chart

Stockholder ledgers are often maintained by a stock transfer agent or stock registrar.



Stockholders usually meet once a year.

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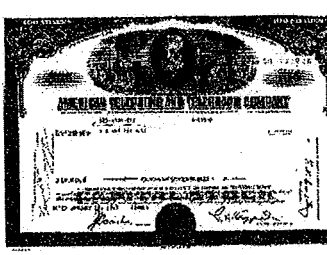
Slide 11-9

## Rights of Stockholders

Each unit of ownership is called a share of \_\_\_\_\_.

**A stock**

\_\_\_\_\_ serves as proof that a stockholder has purchased shares.

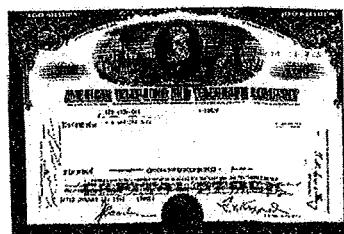


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Slide 11-10

## Rights of Stockholders

When the stock is sold, the stockholder signs a transfer endorsement on the back of the stock certificate.



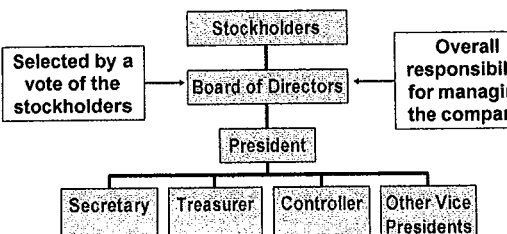
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Slide 11-11

## Functions of the Board of Directors

### Corporate Organization Chart

Selected by a vote of the stockholders



Overall responsibility for managing the company.

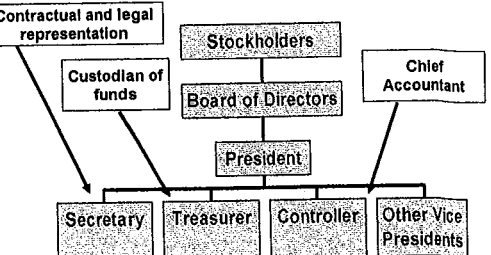
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## Functions of the Corporate Officers

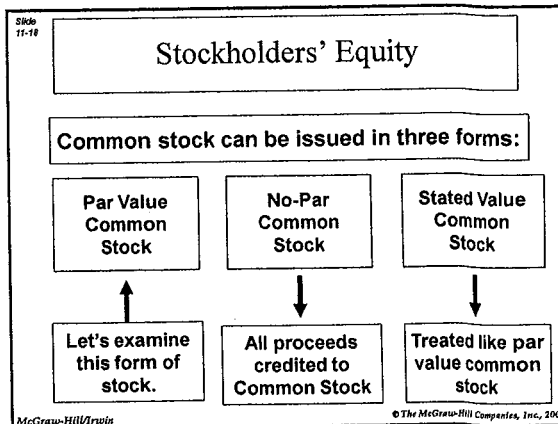
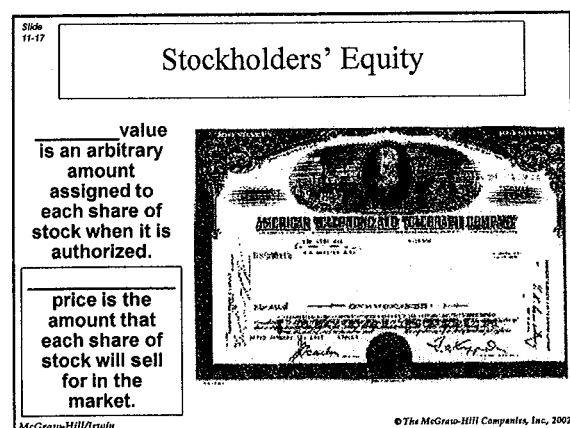
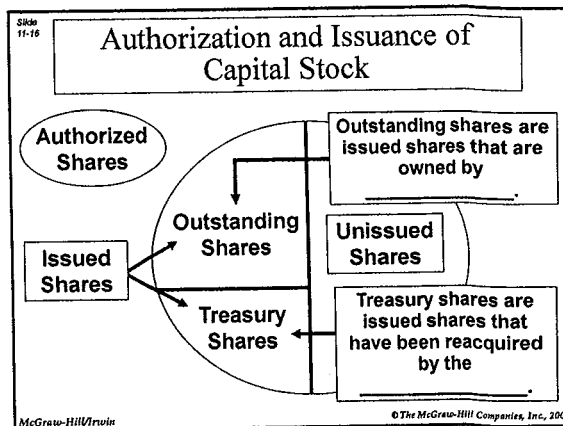
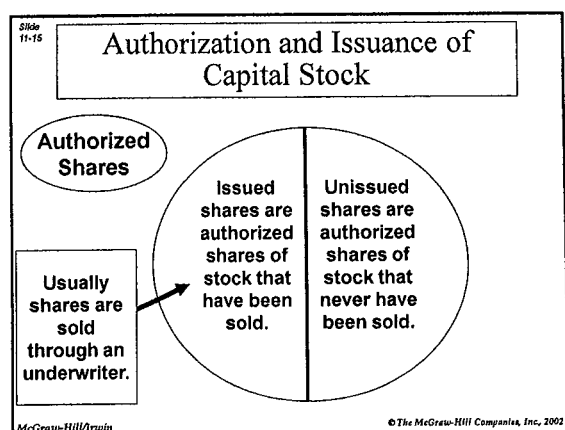
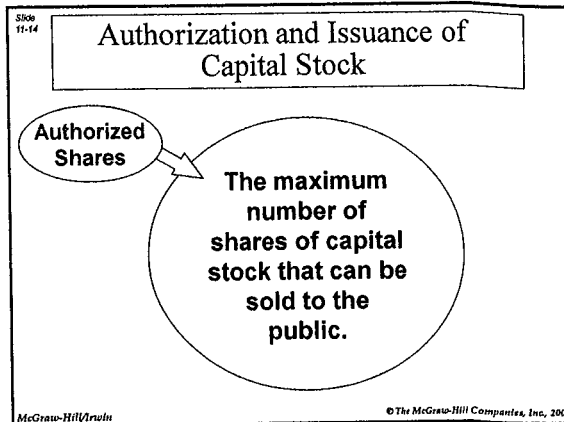
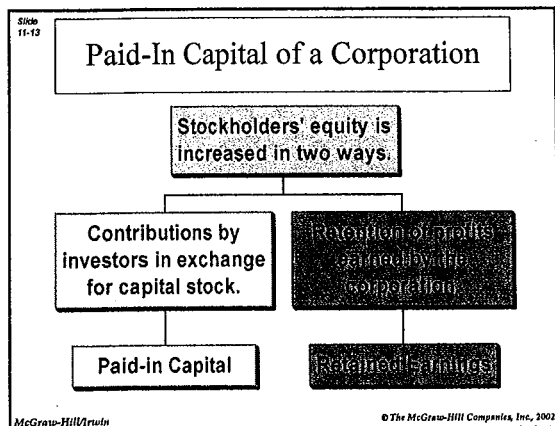
### Corporate Organization Chart

Contractual and legal representation



Chief Accountant

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### Issuance of Par Value Stock

**Record:**

The cash received.

The number of shares issued  $\times$  the par value per share in the Common Stock account.

The remainder is assigned to Contributed Capital in Excess of Par.



Prepare the journal entry to record an issuance of 10,000 shares of \$2 par value stock for \$25 per share which occurred on September 1, 2003.

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Slide 11-20

### Issuance of Par Value Stock

The journal entry to record an issuance of 10,000 shares of \$2 par value stock for \$25 per share on September 1, 2003, should include a credit to common stock for the par value of the shares issued.

Date	Description	Debit	Credit
1-Sep	Cash	250,000	
	Common Stock		20,000
	Contributed Capital in Excess of Par		230,000

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### Issuance of Par Value Stock

#### Stockholders' Equity with Common Stock

Stockholders' Equity	
Contributed capital:	
Common Stock - \$2 par value; 50,000 shares authorized; 10,000 shares issued and outstanding	\$ 20,000
Contributed Capital in Excess of Par	230,000
Retained earnings	65,000
<b>Total stockholders' equity</b>	<b>\$ 315,000</b>

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### Preferred Stock

A separate class of stock, typically having priority over common shares in . . .

- Dividend distributions (rate is usually stated).
- Distribution of assets in case of liquidation.

**Other Features Include:**

Cumulative dividend rights.	Usually callable by the company.	Normally has no voting rights.
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### Cumulative Preferred Stock

**Cumulative Vs. Noncumulative**

Dividends in arrears must be paid before dividends may be paid on common stock.	Undeclared dividends from current and prior years do not have to be paid in future years.
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### Stock Preferred as to Dividends

Example: Consider the following partial Statement of Stockholders' Equity.

Common stock, \$80 par value; 4,000 shares authorized, issued and outstanding	\$ 200,000
Preferred stock, 9%, \$100 par value; 1,000 shares authorized, issued and outstanding	100,000
<b>Total contributed capital</b>	<b>\$ 300,000</b>

During 2002, the directors declare cash dividends of \$5,000. In year 2003, the directors declare cash dividends of \$42,000.

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### Stock Preferred as to Dividends

	Preferred	Common
<b>If Preferred Stock is Noncumulative:</b>		
Year 2002 \$5,000 dividends declared	\$ 5,000	\$ -
Year 2003		
Step 1: Current preferred dividend	\$ 9,000	
Step 2: Remainder to common shareholders		\$ 33,000
<b>If Preferred Stock is Cumulative:</b>		
Year 2002 \$5,000 dividends declared	\$ 5,000	\$ -
Year 2003		
Step 1: Dividends in arrears	\$ 4,000	
Step 2: Current preferred dividend	9,000	
Step 3: Remainder to common shareholders		\$ 29,000
Totals	\$ 13,000	\$ 29,000

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### Convertible Preferred Stock

I just converted 100 shares of preferred stock into 1,000 shares of common stock and ended up with a higher dividend yield!

Some preferred stock is convertible into shares of common stock.

Gee, I can't do that with MY preferred stock!

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### Preferred Stock

Stockholders' Equity with Common and Preferred Stock	
<b>Stockholders' Equity</b>	
Contributed capital:	
Preferred Stock - \$100 par value; 1,000 shares authorized; 50 shares issued and outstanding	\$ 5,000
Common Stock - \$10 par value; 50,000 shares authorized; 30,000 shares issued and outstanding	300,000
Contributed Capital in Excess of Par	1,000
Retained earnings	65,000
<b>Total stockholders' equity</b>	<b>\$ 371,000</b>

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### Stock Issued for Assets Other Than Cash

Companies sometimes issue stock in exchange for non-cash assets.

Since no cash is received, record the transaction at the market value of the goods or services received.

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**I love this stuff!**

**Can we do some more?**

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### Market Value

Accounting by the issuer. → Common stock is carried at issue price.

Accounting by the investor. → Investments in marketable securities are carried at market value.

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### Market Price of Preferred Stock

Factors affecting market price of preferred stock:

- Dividend rate
- Risk
- Level of interest rates

The return based on the market value is called the "dividend yield."



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### Market Price of Common Stock

Factors affecting market price of common stock:

- Investors' expectations of future profitability.
- Risk that this level of profitability will not be achieved.

Changes in market value have no impact on the books of the issuer.




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### Stock Splits

- Companies use stock splits to \_\_\_\_\_ market price.
- Outstanding shares increase, but par value is decreased proportionately.



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### Stock Splits - Example

Assume that a corporation had 5,000 shares of \$1 par value common stock outstanding before a 2-for-1 stock split.

	Before Split	After Split	
Common Stock Shares	5,000	10,000	Increase
Par Value per Share	\$ 1.00	\$ 0.50	Decrease
Total Par Value	\$ 5,000	\$ 5,000	No Change

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### Treasury Stock

No voting or dividend rights

Contra equity account

Treasury shares are issued shares that have been reacquired by the corporation.

When stock is reacquired, the corporation records the treasury stock at cost.

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### Treasury Stock - Example

On May 1, 2003, East Corp. reacquired 3,000 shares of its common stock at \$55 per share.

Prepare the journal entry for May 1.

Date	Description	Debit	Credit
1-May	Treasury Stock	165,000	
	Cash		165,000
	3000 shares × \$55 = \$165,000		

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### Treasury Stock - Example

On December 3, 2003, East Corp. reissued 1,000 shares of the stock at \$75 per share.

Prepare the journal entry for December 3.

$1,000 \text{ shares} \times \$75 = \$75,000$

Date	Description	Debit	Credit
3-Dec	Cash	75,000	
	Treasury Stock		55,000
	Contributed Capital in Excess of Par		20,000

$1,000 \text{ shares} \times \$55 \text{ cost} = \$55,000$

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### Stockholders' Equity - Presentation

Stockholders' Equity	
Contributed capital:	
Preferred Stock - \$100 par value, 1,000 shares authorized; 50 shares issued & outstanding	\$ 5,000
Common Stock - \$10 par value; 50,000 shares authorized; 30,000 shares issued and outstanding	300,000
Contributed Capital in Excess of Par	21,000
Retained earnings	65,000
Subtotal	\$ 391,000
Less: Treasury stock	110,000
Total Stockholders' equity	\$ 281,000

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### End of Chapter 11



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**ACCOUNTING**  
**Stockholders' Equity WS 1**

Name \_\_\_\_\_

**Romas Inc. was incorporated in January 2010. In 2010, net income was \$800,000. The board of directors declared and paid a cash dividend of \$1 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.**

**Additional Info:**

**Preferred stock: 4,000 shares issued at \$100 per share**

**Common Stock: 120,000 shares sold at \$9 per share**

**Complete the stockholders' equity section of Romas Inc's balance sheet at December 31, 2010.**

**Stockholders' equity:**

**8% cumulative preferred stock, \$100 par value,  
4,000 shares authorized and issued** \$ \_\_\_\_\_

**Common stock, \$5 par value, 200,000 shares  
Authorized; 120,000 shares issued** \_\_\_\_\_

**Additional Paid-in capital: Common Stock** \_\_\_\_\_

**Total Paid-in Capital** \_\_\_\_\_

**Retained Earnings** \_\_\_\_\_

**Total Stock Holders Equity** \_\_\_\_\_



**ACCOUNTING**  
**Stockholders' Equity WS 2**

Name \_\_\_\_\_

Patty's Pizza Inc. was incorporated in January 2010. In 2010, net income was \$600,000. The board of directors declared and paid a cash dividend of \$1 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.

**Additional Info:**

**Preferred stock: 5,000 shares issued at \$100 per share**

**Common Stock: 110,000 shares sold at \$14 per share**

**Complete the stockholders' equity section of Patty's Pizza Inc's balance sheet at December 31, 2010.**

**Stockholders' equity:**

**8% cumulative preferred stock, \$100 par value,  
5,000 shares authorized and issued** \$ \_\_\_\_\_

**Common stock, \$5 par value, 200,000 shares  
Authorized; 110,000 shares issued** \_\_\_\_\_

**Additional Paid-in capital: Common Stock** \_\_\_\_\_

**Total Paid-in Capital** \_\_\_\_\_

**Retained Earnings** \_\_\_\_\_

**Total Stock Holders Equity** \_\_\_\_\_

**ACCOUNTING**  
**Stockholders' Equity-WS 3**

Name \_\_\_\_\_

**Maggie Inc. was incorporated in January 2010. In 2010, net income was \$400,000. The board of directors declared and paid a cash dividend of \$1 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.**

**Additional Info:**

**Preferred stock: 5,000 shares issued at \$100 per share**

**Common Stock: 100,000 shares sold at \$14 per share**

**Complete the stockholders' equity section of Maggie Inc's balance sheet at December 31, 2010.**

**Stockholders' equity:**

**8% cumulative preferred stock, \$100 par value,  
5,000 shares authorized and issued** \$ \_\_\_\_\_

**Common stock, \$2 par value, 200,000 shares  
Authorized; 100,000 shares issued** \_\_\_\_\_

**Additional Paid-in capital: Common Stock** \_\_\_\_\_

**Total Paid-in Capital** \_\_\_\_\_

**Retained Earnings** \_\_\_\_\_

**Total Stock Holders Equity** \_\_\_\_\_

**ACCOUNTING**  
**Stockholders' Equity-WS 4**

Name \_\_\_\_\_

**Brent's Burger's Inc. was incorporated in January 2010. In 2010, net income was \$900,000. The board of directors declared and paid a cash dividend of \$1 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.**

**Additional Info:**

**Preferred stock: 5,000 shares issued at \$100 per share**

**Common Stock: 100,000 shares sold at \$20 per share**

**Complete the stockholders' equity section of Brent's Burger's Inc's balance sheet at December 31, 2010.**

**Stockholders' equity:**

**6% cumulative preferred stock, \$100 par value,  
5,000 shares authorized and issued** \$ \_\_\_\_\_

**Common stock, \$2 par value, 200,000 shares  
Authorized; 100,000 shares issued** \_\_\_\_\_

**Additional Paid-in capital: Common Stock** \_\_\_\_\_

**Total Paid-in Capital** \_\_\_\_\_

**Retained Earnings** \_\_\_\_\_

**Total Stock Holders Equity** \_\_\_\_\_

**ACCOUNTING**  
**Stockholders' Equity WS 5**

Name \_\_\_\_\_

Maddie's CupCake Inc. was incorporated in January 2010. In 2010, net income was \$1,000,000. The board of directors declared and paid a cash dividend of \$2 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.

**Additional Info:**

Preferred stock: 6,000 shares issued at \$100 per share

Common Stock: 70,000 shares sold at \$20 per share

Complete the stockholders' equity section of Maddie's CupCake Inc's balance sheet at December 31, 2010.

**Stockholders' equity:**

7% cumulative preferred stock, \$100 par value,  
6,000 shares authorized and issued \$ \_\_\_\_\_

Common stock, \$2 par value, 200,000 shares  
Authorized; 70,000 shares issued \_\_\_\_\_

Additional Paid-in capital: Common Stock \_\_\_\_\_

Total Paid-in Capital \_\_\_\_\_

Retained Earnings \_\_\_\_\_

Total Stock Holders Equity \_\_\_\_\_

**ACCOUNTING**  
**Stockholders' Equity WS 6**

Name \_\_\_\_\_

Brad's Bunny Farm was incorporated in January 2010. In 2010, net income was \$600,000. The board of directors declared and paid a cash dividend of \$3 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.

**Additional Info:**

Preferred stock: 5,000 shares issued at \$100 per share

Common Stock: 50,000 shares sold at \$15 per share

Complete the stockholders' equity section of Brad's Bunny Farm balance sheet at December 31, 2010.

**Stockholders' equity:**

9% cumulative preferred stock, \$100 par value,  
5,000 shares authorized and issued \$ \_\_\_\_\_

Common stock, \$3 par value, 200,000 shares  
Authorized; 50,000 shares issued \_\_\_\_\_

Additional Paid-in capital: Common Stock \_\_\_\_\_

Total Paid-in Capital \_\_\_\_\_

Retained Earnings \_\_\_\_\_

Total Stock Holders Equity \_\_\_\_\_

# **STOCKHOLDERS' EQUITY** **Journalizing Transactions WS 7**

Bahram Inc. specializes in lemonade and ice tea sales. It is organized as a corporation. During the month of June, the stockholders' equity accounts of Bahram Inc. were affected by the following events:

- June 2            The Corporation sold 3,000 shares of capital stock at \$10 per share. Par Value of the stock is \$1.
- June 10          The Corporation declared a 20 cents per share dividend on its 3,000 shares of outstanding stock, payable on June 25.
- June 25          The Corporation paid the dividend declared on June 10.
- June 30          The Income Summary account showed a credit balance of \$120,000 and the June 25 payment of dividends was the only cash dividend for the year. The corporation's accounts are closed monthly.

## **GENERAL JOURNAL**


**STOCKHOLDERS' EQUITY**  
**Journalizing Transactions WS 8**

Taylor Toys specializes in toys for dogs. It is organized as a corporation. During the month of May, the stockholders' equity accounts of Taylor Toys were affected by the following events:

- May 2            The corporation sold 10,000 shares of capital stock at \$20 per share. Par Value of the stock is \$5.
- May 8            The corporation declared a 25 cents per share dividend on its 5,000 shares of outstanding stock, payable on May 25.
- May 25           The corporation paid the dividend declared on May 8.
- May 31           The Income Summary account showed a credit balance of \$140,000 and the May 25 payment of dividends was the only cash dividend for the year. The corporation's accounts are closed monthly.

**GENERAL JOURNAL**


# **STOCKHOLDERS' EQUITY** **Journalizing Transactions WS 9**

The Sammi and Kristin Sweets specialize in making frozen Strawberry Short Cakes. It is organized as a corporation. During the month of March, the stockholders' equity accounts of Sammi and Kristin's were affected by the following events:

- March 2      The Corporation sold 10,000 shares of capital stock at \$12 per share. Par Value of the stock is \$4.
- March 12     The corporation declared a 35 cents per share dividend on its 10,000 shares of outstanding stock, payable on March 25.
- March 25     The Corporation paid the dividend declared on March 12.
- March 31     The Income Summary account showed a credit balance of \$88,000 and the March 25 payment of dividends was the only cash dividend for the year. The corporation's accounts are closed monthly.

## **GENERAL JOURNAL**




**ACCOUNTING**  
**Stockholders' Equity WS 10**

Name \_\_\_\_\_

The Singer Group was incorporated in January 2010 for their farewell tour. In 2010, net income was \$2,200,000. The board of directors declared and paid a cash dividend of \$7 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.

**Additional Info:**

Preferred stock: 6,000 shares issued at \$100 per share

Common Stock: 25,000 shares sold at \$19 per share

Complete the stockholders' equity section of the Singer Group balance sheet at December 31, 2010.

**Stockholders' equity:**

11% cumulative preferred stock, \$100 par value,  
6,000 shares authorized and issued \$ \_\_\_\_\_

Common stock, \$5 par value, 200,000 shares  
Authorized; 25,000 shares issued \_\_\_\_\_

Additional Paid-in capital: Common Stock \_\_\_\_\_

Total Paid-in Capital \_\_\_\_\_

Retained Earnings \_\_\_\_\_

Total Stock Holders Equity \_\_\_\_\_

## STOCKHOLDERS' EQUITY

### Journalizing Transactions WS 11

The Doggie Barkery specializes in homemade treats for dogs. It is organized as a corporation. During the month of May, the stockholders' equity accounts of The Doggie Barkery were affected by the following events:

- |        |   |
|--------|---|
| May 2  | The corporation sold 5,000 shares of capital stock at \$15 per share. Par Value of the stock is \$2.  |
| May 12 | The corporation declared a 10 cents per share dividend on its 5,000 shares of outstanding stock, payable on May 25.   |
| May 25 | The corporation paid the dividend declared on May 12.   |
| May 31 | The Income Summary account showed a credit balance of \$150,000 and the May 25 payment of dividends was the only cash dividend for the year. The corporation's accounts are closed monthly. |

# GENERAL JOURNAL

[illegible]

**ACCOUNTING**  
**Stockholders' Equity WS 12**

Name \_\_\_\_\_

**Brandon Baseball was incorporated in January 2010. In 2010, net income was \$880,000. The board of directors declared and paid a cash dividend of \$4 per share to the common stockholders in addition to satisfying the preferred stock dividend requirements.**

**Additional Info:**

**Preferred stock: 3,000 shares issued at \$100 per share**

**Common Stock: 20,000 shares sold at \$22 per share**

**Complete the stockholders' equity section of Brandon Baseball balance sheet at December 31, 2010.**

**Stockholders' equity:**

**11% cumulative preferred stock, \$100 par value,  
3,000 shares authorized and issued** \$ \_\_\_\_\_

**Common stock, \$2 par value, 200,000 shares  
Authorized; 20,000 shares issued** \_\_\_\_\_

**Additional Paid-in capital: Common Stock** \_\_\_\_\_

**Total Paid-in Capital** \_\_\_\_\_

**Retained Earnings** \_\_\_\_\_

**Total Stock Holders Equity** \_\_\_\_\_