

## Stockholders' Equity

## CORPORATIONS

- ⌘ Legal entity
- ⌘ Share system
- ⌘ Ownership interest
  - Preferred stock
  - Common stock
- ⌘ Corporate Capital
  - Capital stock
  - Additional paid-in capital
  - Retained earnings

## ISSUANCE OF STOCK

- ⌘ Par value stock
- ⌘ No-par stock
- ⌘ Lump-sum sales
- ⌘ Noneash stock transactions
- ⌘ Costs of issuing stock.

## RETAINED EARNINGS

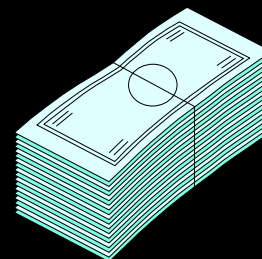
- ⌘ That portion of Stockholder's Equity which has arisen from profitable operations.
- ⌘ Retained earnings is not money.
- ⌘ Input/Output Formula:
  - Beginning retained earnings
  - (+) Prior period adjustments
  - (+) Net income (loss)
  - Dividends
  - Ending retained earnings

## TREASURY STOCK

- ⌘ A company may acquire its own stock on the open market.
- ⌘ The company may retire this stock.
- ⌘ The company may hold this stock in which case it is called treasury stock.
- ⌘ An important principle to understand: Treasury stock is not an asset of the firm.

## TREASURY STOCK--TWO METHODS

- ⌘ The par value method.
- ⌘ The cost method



## THE COST METHOD

- ⌘ Record treasury stock at cost
- ⌘ Reissuance above cost—no gains
- ⌘ Reissuance below cost

## COMMON STOCK STATUS

- ⌘ Authorized
- ⌘ Issued
- ⌘ Outstanding



## PREFERRED STOCK

- ⌘ Preference as to dividends
- ⌘ Preference as to assets in the event of liquidation.



## PREFERRED STOCK FEATURES

- ⌘ Cumulative preferred stock
  - Dividends in arrears
- ⌘ Participating preferred stock
- ⌘ Convertible preferred stock
- ⌘ Callable preferred stock
- ⌘ Redeemable preferred stock

## ACCOUNTING AND REPORTING

- ⌘ Recorded at par value
- ⌘ Reported as stockholders' equity

## DIVIDENDS

- ⌘ Cash dividends
- ⌘ Property Dividends
- ⌘ Liquidating Dividends
- ⌘ Stock Dividends
- ⌘ Stock Splits



## CASH DIVIDENDS

- ⌘ Declaration date
- ⌘ Date of record
- ⌘ Date of payment
- ⌘ Reduce retained earnings
- ⌘ Paid only to outstanding shares



## PROPERTY DIVIDENDS

- ⌘ This refers to the distribution of assets other than cash to the shareholders.
- ⌘ Property is distributed at its fair market value.

## LIQUIDATING DIVIDENDS

Any dividend not based on earnings reduces paid-in capital and to that extent is a liquidating dividend.



## STOCK DIVIDENDS

- ⌘ The distribution additional shares of a corporations own stock on a pro rata basis
- ⌘ Small stock dividends
- ⌘ Large Stock Dividends



## STOCK SPLITS

- ⌘ A stock split is an increase in the number of shares outstanding with a corresponding decrease in the par value of the stock.
- ⌘ Here we make a memorandum entry to decrease the par value of the stock.
- ⌘ Note that neither stock dividends nor stock splits have any effect on the total stockholders' equity.

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