

Dutchess Community College
ACC 104 – Financial Accounting
Quiz Prep Chapter 11
Reporting & Analyzing Stockholders Equity

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Disclaimer

This *Quiz Prep* is provided as an outline of the key concepts from the chapter.

It is not intended to be comprehensive or exhaustive.

Quizzes may include material from the classroom lectures, the text or the homework assignments.

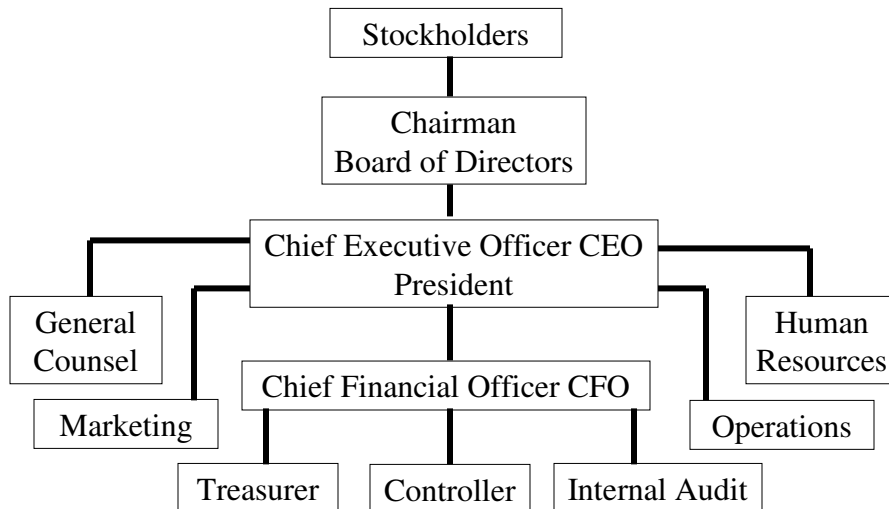
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3 Primary Forms of Business Organization

	Sole Proprietor	Partnership	Corporation
Set-up	Easy	Easy/Hard	Hard
Life	Limited	Limited	Unlimited
Borrow	Hard	Hard	Easier
Regulations	Few	Few	Many
Liability	Unlimited	Unlimited	Limited
Taxation	Single	Single	Double

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Corporation Management



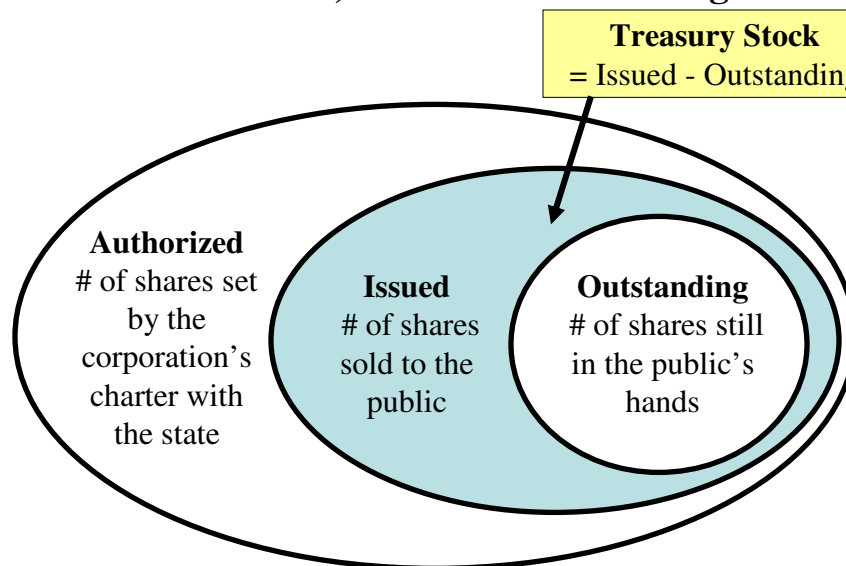
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Stockholders Rights

- Vote for Board of Directors
- Receive Dividends
- Pre-emptive Right – maintain percentage ownership of company when new shares are issued
- Share in assets upon liquidation

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Authorized, Issued & Outstanding



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Par – No Par

Par Value Stock has been assigned a nominal value within the corporate charter from the state, e.g., \$1 or \$.01 per share. This is a somewhat archaic technique to maintain a minimum amount of legal capital. Many states no longer require a par value.

No Par Value Stock has no stated nominal value.

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Journal Entries

Authorized Shares – No entry is required.

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Journal Entries

Issued Shares – No Par Value

EXAMPLE: Corporation issues 1,000 shares of no par value stock for \$5 per share

	Dr	Cr
Cash	5,000	
Common Stock		5,000

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Journal Entries

Issued Shares – Par Value

EXAMPLE: Corporation issues 1,000 shares of \$1 par value stock for \$5 per share

	Dr	Cr
Cash	5,000	
Common Stock		1,000
Paid-in Capital in Excess of Par*		4,000

*Also known as *Additional Paid In Capital*.

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Treasury Stock

Treasury Stock is stock that is authorized and issued to the public which is bought back by the corporation.

EXAMPLE: Corporation buys back 500 shares of stock from the public at \$6 per share.

	Dr	Cr
Treasury Stock	3,000	
Cash		3,000

The Treasury Stock journal entry is the same whether the stock is *Par* or *No Par*

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Treasury Stock

Treasury Stock

- reduces the amount of stock *outstanding*
- does not change the amount *authorized* or *issued*
- Is a *Contra-Equity* account

Outstanding = Issued – Treasury Stock

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Cash Dividends

Cash Dividends are a distribution of earnings to the shareholders

- declared by the Board of Directors
- corporation must have
 - retained earnings
 - cash

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Cash Dividends

3 key dates related to cash dividends:

- Declaration Date
- Date of Record
- Payment Date

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Cash Dividends

Declaration Date

- The date that the company announces that a dividend will be paid.
- A legal obligation is established.
- Journal Entry required

EXAMPLE: \$1 dividend per share on 5,000 shares Issued and Outstanding:

	Dr	Cr
Dividends	5,000	
Dividends Payable		5,000

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Cash Dividends

Date of Record

The date at which the ownership of the shares is established.

- Anyone purchasing the shares after this date will NOT receive the dividend, i.e., the stock is trading *ex (without)-dividend*.
- No entry is required

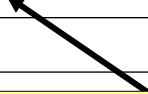
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Cash Dividends

Payment Date

The date on which the dividend will be paid to the shareholders of record (i.e., those who owned the stock on the *Date of Record*).

	Dr	Cr
Dividends Payable	5,000	
Cash		5,000



Note that this reverses the accrual entry made at declaration date.

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Preferred Stock

Preferred Stock is another form of Equity Ownership.

Common Stock dividends are determined periodically and therefore vary and may not be paid at all.

Preferred Stock dividends are a set amount and must be paid before any Common Stock dividend.

Additionally, Preferred Stock ranks ahead of Common Stock in bankruptcy.

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Cumulative Preferred Stock

If a preferred dividend is not paid on a **Cumulative Preferred Stock**, it is *accumulated*.

All accumulated unpaid preferred dividends must be paid before a common stock dividend can be paid.

EXAMPLE:

- A preferred stock has an annual dividend of \$10 per share.
- The prior year's preferred dividend was not paid.
- Therefore, \$20 must be paid this year before a common stock dividend can be declared.

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Balance Sheet Presentation

Stockholders Equity

Capital Stock

Preferred Stock

Common Stock

Additional Paid in Capital

Preferred Stock

Common Stock

Retained Earnings

Total Paid In Capital and Retained Earnings

Less: Treasury Stock

Total Stockholders Equity

Only if there
are shares
with a stated
Par Value

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Return On Equity Ratio

The full name of this ratio is *The Return on Common Stockholder's Equity Ratio*, though it is more commonly known as ROE.

Must be paid before
the Common Equity

$$\text{ROE} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Average Common Stockholders Equity}}$$

Higher is Better