Accounting Notes

Corporations, Issuing Stock, Dividends, Stockholder's Equity

Characteristics of Corporations:

Separate legal entity - a corporation is a distinct entity that exists apart from its owners (stockholders)

Continuous life - the life of the corporation continues regardless of changes in the ownership of the corporation's stock

No mutual agency - a stockholder can not commit the corporation to a contract unless they are also on officer in the corporation.

Limited liability of stockholders - stockholders have no personal obligation for the corporation's liabilities. The most the stockholders can lose is the amount they invested in the corporation.

Separation of ownership & management - stockholders own the business, but the board of directors manage the business.

Corporate taxation - corporate income is subject to double taxation. Once at the corporate level and then at the stockholder's level.

Government regulation - corporations are subject to government regulation mainly to ensure that corporations disclose all information that investors and creditors need to have to make informed decisions.

Stockholder s Equity:

Stockholder's equity consists of two basic sources:

(1) Paid in Capital - investments by the stockholders
(2) Retained Earnings - capital that the corporation has earned from operations

Issuance (Sale) of Stock:

If issued for par

Cash	Shares * Par value	
Common (or Preferred) Stock		Shares * Par Value

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Issuance (Sale) of Stock:

If issued for more than par

Cash	Shares * Sales price	
Common (or Preferred) Stock		Shares * Par value
Paid in Capital in excess of par, Common (or Preferred)		Difference

If stock has no par value

Cash	Shares * Sales price	
Common Stock		Shares * Sales price

Note: If the stock has no par value, but does have a stated value, then the stock is recorded in the same manner as par value stock. Any excess capital received above the stated value of the stock is credited to "Paid in Capital in excess of stated value, Common"

If stock is issued for noncash assets:

Asset	Market Value	
Common Stock		Shares * Par value
Paid in Capital in excess of Par, Common		Difference

Recording Cash Dividends:

Declaration of a cash dividend

Retained Earnings	Total Dividends	
Dividends Payable, Preferred		Preferred Dividends
Dividends Payable, Common		Common Dividends

Recording Cash Dividends:

Payment of dividend

Dividends Payable, Preferred	$xxxx	
Dividends Payable, Common	xxxx	
Cash		$xxxx

Preferred Stock Dividends:

Preferred Stock's dividend preference is stated as a percentage or as a dollar amount

6% preferred stock - means that preferred stockholders will receive an annual dividend of 6% of the par value of the stock

$6 preferred stock - means that preferred stockholders will receive an annual dividend of $6 for each share of stock

Cumulative Preferred Stock - preferred stockholders must receive all dividends for the current year and dividends in arrears for prior years before the corporation can pay any dividends to the common stockholders.

Allocating Dividends:

Total Dividends Declared		$xxxx	
Annual Preferred Dividend	$xxxx		
Preferred Dividends in Arrears	xxxx		Can not exceed total
Total Preferred Stock Dividends		xxxx	dividends declared
Total Common Stock Dividends		$xxxx	

Calculating Book Value per share:

Book Value - amount of owner's equity on the corporation's books for each share of its stock

Redemption Value - a set price that a corporation is required to pay to redeem (retire) the preferred stock from the stockholders

Liquidation Value - the amount a corporation agrees to pay preferred stockholders for each share of stock they own if the corporation liquidates.

Step 1: Calculate Preferred Stock's Equity

Redemption (or Call) Value	Share * Redemption price
Cumulative dividends	Dividends in arrears
Stockholders equity allocated to Preferred Stock	Total
Book Value per share	Total PS Equity / # shares outstanding

Step 2: Calculate Common Stock's Equity

Total Stockholder's Equity	Total equity
Less equity allocated to PS	Equity for PS
Equity allocated to Common Stock	Remainder allocated to CS
Book Value per share	Total CS equity / # shares outstanding

Rate of Return on Assets - represents a company's success in using its assets to earn income

$$\text{Return on Assets} = \frac{\text{Net Income + Interest Expense}}{\text{Average Total Assets}}$$

Rate of Return on Equity

$$\text{Return on Equity} = \frac{\text{Net Income - Preferred Dividends}}{\text{Average Common Stock Equtiy}}$$

Accounting for Income Taxes:

Income Tax Expense = Income before income tax * Income tax rate
(from Income Statement)

Income Tax Payable = Taxable income * Income tax rate
(from tax return)

Recording Income taxes:

Income Tax Expense	$xxxx	
Income Tax Payable		$xxxx
Deferred Tax Liability		Difference

Format for the Stockholder s Equity section of the Balance Sheet:

Paid in Capital:			
Preferred Stock, 5%, _$_ par, _#_ shares authorized, _#_ shares issued		$xxxxx	
Paid in Capital in Excess of Par - Preferred		xxxx	
Common Stock, _$_ par, _#_ shares authorized _#_ shares issued			xxxxx
Paid in Capital in Excess of Par - Common	xxxx		
Donated Capital		xxxxx	
Total Paid in Capital		$xxxxx	
Retained Earnings	xxxxx		
Total Stockholder š Equity		$xxxxx	