

EMBA5401 Accounting

Equity

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Corporations

An entity created by law.

Existence is separate from owners.

Has rights and privileges.

Ownership can be



Privately, or Closely Held



Publicly Held

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Why Businesses Incorporate

Stockholders have no personal liability.

Transferability of ownership.

Professional management.

Continuity of existence.



Privately, or Closely Held



Publicly Held

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Publicly Owned Corporations face Different Rules

- **Disclose financial information.**
- **Financial statements prepared in accordance with GAAP.**
- **CPAs must audit the financial statements.**
- **Must comply with securities laws.**
- **Must submit financial information for SPK review.**

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Rights of Stockholders



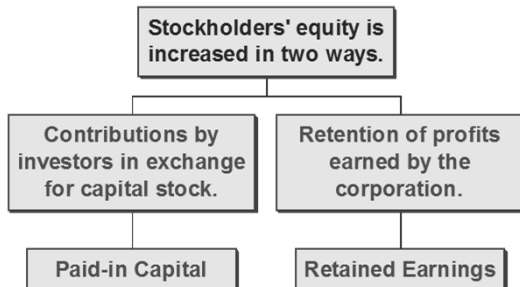
Rights

- **Voting (in person or by proxy).**
- **Proportionate distribution of dividends.**
- **Proportionate distribution of assets in a liquidation.**

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Paid-In Capital of a Corporation



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Stockholders' Equity

Par value is an arbitrary amount assigned to each share of stock when it is authorized.

Market price is the amount that each share of stock will sell for in the market.

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Issuance of Par Value Stock

Record:

The cash received.

The number of shares issued x the par value per share in the Common Stock account.

The remainder is assigned to Contributed Capital in Excess of Par (=Additional Paid In Capital).



Prepare the journal entry to record an issuance of 100,000 shares of 1TL par value stock for 5TL per share which occurred on September 1, 2009.

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Issuance of Par Value Stock

The journal entry to record an issuance of 100,000 shares of 1TL par value stock for 5TL per share on September 1, 2012 should include an increase to common stock account for the par value of the shares issued.

Assets		=	Liabilities		+	Equity	
Cash	+500,000					C/S	+100,000
						APIC	+400,000

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Issuance of Par Value Stock

Stockholders' Equity with Common Stock

Stockholders' Equity

Paid In Capital:

Common Stock	100,000 TL
Additional Paid In Capital	400,000
Retained earnings	-
Total stockholders' equity	500,000 TL

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Preferred Stock

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

- Dividend distributions.
- Distribution of assets in case of liquidation.

Usually has a stated dividend rate.

May be 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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Preferred Stock

Stockholders' Equity with Common and Preferred Stock

Stockholders' Equity

Contributed capital:

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

Issuing stock

Established in 2008

200,000 shares authorized par 1TL C/S
 10,000 shares authorized par 100TL cumul. P/S

2008- issued 100,000 shares of C/S at 8TL per share
 2009- issued 5,000 shares of P/S (par 100TL, 8%, cumul) at par
 2010- issued 5,000 shares of P/S (par 100TL, 8%, cumul) for 512,000TL

Prepare entries

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Calculating dividends and Retained Earnings

- No Div in 2008 & 2009
- RE of 70,000TL at end of 2009
- 2010 NI of 400,000TL
- Dividends of 0.50TL were paid to C/S in 2010

•What is the amount of Retained Earnings at end of 2010?

$$\text{RE} = 70,000 + (400,000 - 170,000) = 300,000$$

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Stock Issued for Assets Other Than Cash

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



Record the transaction at the market value of the goods or services received.



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Market Value

Accounting by the issuer.



Common stock is carried at original issue price.

Accounting by the investor.



Investments in marketable securities are carried at market value.

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Market Price of Common Stock

Factors affecting market price of common stock:

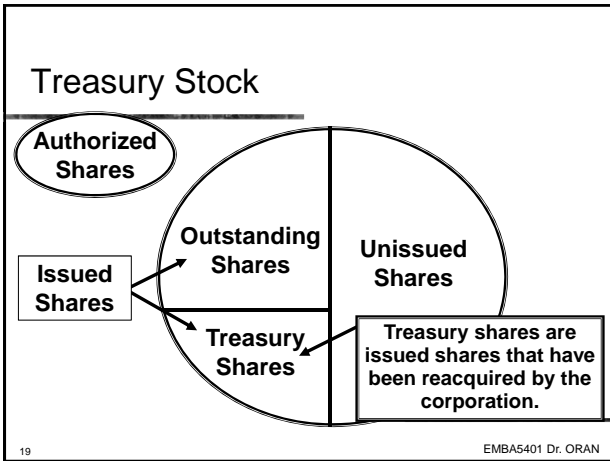
- Investors' expectations of future profitability.
- Risk that this level of profitability will not be achieved.

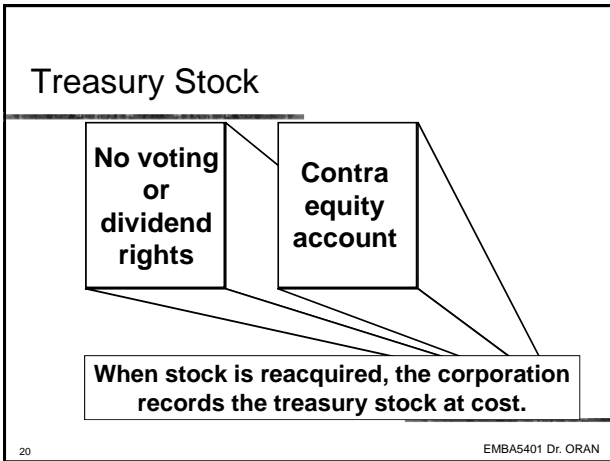
Changes in market value have no impact on the books of the issuer.



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Treasury Stock Example

On May 1, 2011 East Corp. reacquired 3,000 shares of its common stock at 55TL per share.

Prepare the journal entry for May 1.

Assets		=	Liabilities		+	Equity	
Cash	-165,000					Treasury Stock	-165,000

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Treasury Stock Example



On December 3, 2012 East Corp. reissued 1,000 shares of the stock at 75TL per share.

Prepare the entry for December 3.

Assets		=	Liabilities		+	Equity	
Cash	+75,000					Treasury Stock	+55,000
						APIC-T/S	+20,000

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Stockholders' Equity Presentation

Stockholders' Equity

Paid in capital:

Common Stock	100,000
Preferred Stock	50,000
Additional Paid in Capital	225,000
Retained earnings	492,000
Subtotal	867,000
Less: Treasury stock	110,000
Total Stockholders' equity	757,000

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Reporting the Results of Operations

Information about net income is used by investors, creditors, and other financial statement users.

Normal, recurring revenue and expense transactions.

Unusual, nonrecurring events that affect net income.

Income from continuing operations.

1. The results of discontinued operations.

2. The impact of extraordinary items.

3. The effects of changes in accounting principles.

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Income Statement		
For the Year Ended December 31, 2011		
Net Sales		\$8,000,000
Cost of goods sold		4,500,000
Gross margin		\$3,500,000
Operating expenses:		
Selling expenses	\$1,500,000	
General & Admin. exp.	920,000	
Depreciation Expense	800,000	2,720,000
Operating Profit		780,000
Interest Expense		120,000
Earnings Before Taxes		660,000
Tax Expense		132,000
Net Income from Continuing Operations		\$ 528,000
Discontinued Operations		45,000
Net Income for the period		573,000
Other Comprehensive Income (Loss)		(140,000)
Comprehensive Income for the period		\$ 433,000

This tax expense does not include effects of unusual, nonrecurring items.

These unusual, nonrecurring items are each reported net of taxes.

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Other	
<ul style="list-style-type: none"> ■ Cash Dividends ■ Stock Dividends 	

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