

Stockholders' Equity

Topics to be Discussed

- Review
 - Major Advantages and Disadvantages of Corporate Form of Organization
 - Type of Stock
 - Basic Rights of Stockholders
- Objectives of Accounting for Stockholders' Equity
- Issuance of Stock
 - for cash
 - for non-cash assets
- Treasury stock transactions
- Retained earnings
 - cash dividends
 - stock splits and dividends
 - appropriations
 - retained earnings statement

Composition of Owners' Equity

- Sole proprietorship
 - J. Doe, Capital
- Partnership
 - J. Doe, Capital
 - M. Doe, Capital
- Corporation
 - Common Stock
 - Retained Earnings

Major Advantages and Disadvantages of Corporate Form of Organization

- Limited Liability of Stockholders
- Mutual Agency
- Double Taxation

Types of Stock

- Common Stock
- Preferred Stock
- Values Assigned to Stock
 - par value
 - no-par stock, with stated value
 - true no-par stock (no par, no stated value)

Basic Rights of Stockholders

Right to vote

Right to share in earnings

Right to share in assets upon liquidation

Pre-emptive right - the right to maintain present percentage ownership interest by having first opportunity to acquire any new issuances of stock of the same class

Objectives of Accounting for Stockholders' Equity

To indicate source of stockholders' equity

invested - paid-in capital

earned - retained earnings

Clarity of presentation

avoid technical terms

Issuance of Stock

For Cash

At Par Value (\$10)

Cash in Bank	10	
Common Stock		10

Above Par Value

Cash in Bank	25	
Common Stock		10
Paid in Capital in Excess of Par - C/S		15

Below Par Value

Cash in Bank	8	
Paid in Capital in Excess of Par - C/S		2
Common Stock		10

In most states, initial issuance of stock below par is illegal
If legally issued below par, a contingent liability arises

No-Par Stock

Cash in Bank	
Common Stock	

Preferred Stock

the entries for the issuance of preferred stock would be the same as above
except for the substitution of the word "preferred" instead of "common"
stock

For Non-Cash Assets

the cost of a nonmonetary asset acquired in exchange for another nonmonetary
asset is the fair value of the asset surrendered unless the fair value of the as-
set received is more clearly evident

Treasury stock transactions

Definition

- stock of issuing corporation
- issued as fully paid
- subsequently reacquired by corporation
- not yet canceled or reissued

Reasons for reacquisition of stock

- to meet employee stock compensation contracts
- to meet potential merger needs
- to increase EPS by reducing shares outstanding
- to thwart take-over attempts
- to eliminate dissident stockholders
- to make a market in the stock

Accounting for Treasury Stock

Cost method

views the purchase and subsequent disposition of stock as one transactions
example

Common Stock (2,000 shares)	20,000
Paid-In Capital in Excess of Par	10,000
Retained Earnings	<u>120,000</u>
Total Stockholders' Equity	150,000

acquisition of 100 shares at \$18 per share

Treasury Stock	1,800	
Cash		1,800

balance sheet presentation

Common Stock (2,000 shares)	20,000	
Paid-in Capital in Excess of Par	10,000	
Retained Earnings	<u>120,000</u>	
Total Paid-in Capital and Retained Earnings	. 150,000	
Less: Treasury Stock (at cost)	<u>1,800</u>	
Total Stockholders' Equity	148,200	

sale of treasury stock

50 shares at \$20 per share

Cash in Bank	1,000	
Treasury Stock (cost)		900
Paid-in Capital - Treasury Stock		100

TYSON FOODS

2011 10-K REPORT

(in millions, except shares)

	October 1, 2011	October 2, 2010
SHAREHOLDERS' EQUITY:		
Common stock (\$0.10 par value):		
Class A-authorized 900 million shares:		
issued 322 million shares in both 2011 and 2010	32	32
Convertible Class B-authorized 900 million shares:		
issued 70 million shares in both 2011 and 2010	7	7
Capital in excess of par value	2,261	2,243
Retained earnings	3,801	3,113
Accumulated other comprehensive income	(79)	0
	<u>4,594</u>	<u>5,247</u>
Less treasury stock, at cost		
22 million shares in 2011 and 15 million shares in 2010	<u>(365)</u>	<u>(229)</u>
Total Shareholders' Equity	<u>\$ 5,657</u>	<u>\$ 5,166</u>

TWEEN BRANDS, INC.

2008 10-K REPORT

(In thousands, except share amounts)

	January 31, 2009	February 2, 2008
STOCKHOLDERS EQUITY:		
Preferred stock, \$.01 par value, 50 million shares authorized		
Common stock, \$.01 par value, 100 million shares authorized, 37.1 million and 37.0 million shares issued, 24.8 million and 24.7 million shares outstanding at January 31, 2009 and February 2, 2008, respectively		
	371	370
Treasury stock, at cost, 12.3 million shares at January 31, 2009 and February 2, 2008, respectively	(362,459)	(356,545)
Paid in capital	192,367	185,893
Retained earnings	350,963	368,108
Accumulated other comprehensive loss	(5,469)	(2,827)
Total shareholders' equity	<u>175,773</u>	<u>194,999</u>

FRANKLIN COVEY CO.

August 31, 2007 10-K REPORT

Stock Options

In connection with changes to our CEO's compensation plan (Note 20), the CEO was granted 187,000 shares of . . . common stock during the second quarter of fiscal 2005. The . . . stock award was valued at \$2.16 per share, which was the closing market price of our common stock on the measurement date and resulted in \$0.4 million of expense that was included as a component of selling, general, and administrative expense in fiscal 2005. The cost of the common stock issued from treasury was \$3.2 million and the difference between the cost of the treasury stock and fair value of the award, which totaled \$2.8 million, was recorded as a reduction of additional paid-in capital.

Retained Earnings

Cash Dividends

Important Dates

- Date of declaration
- Ex-dividend date
- Date of record
- Date of payment

date of declaration

Retained Earnings	XX	
Cash Dividends Payable		XX

date of record

no entry

date of payment

Cash Dividends Payable	XX	
Cash in Bank		XX

Stock Dividends and Splits

Stock Dividend

nonreciprocal issuance by a corporation of its own stock to its stockholders on a pro rata basis
 purpose - to give evidence of earnings

Stock Split

nonreciprocal issuance by a corporation of its own stock to its stockholders on a pro rata basis
 purpose - to alter market price of stock

Stock Dividends and Stock Splits

- ☛ many recipients look upon stock dividends as distributions of corporate earnings equal to FMV of shares received
- ☛ investor is no better off after a stock dividend or a stock split than before
 - percentage ownership remains the same
 - can only obtain income by selling securities
- ☛ a stock dividend could be viewed as a “stock split in the form of a dividend”

**Beacon Roofing Supply, Inc.
SEPTEMBER 30, 2008 10-K REPORT**

Three-for-Two Stock Split

In May 2006, the Company's Board of Directors declared a three-for-two common stock split, which was paid in the form of a [50%] stock dividend on June 12, 2006 to the stockholders of record at the close of business on May 31, 2006. Accordingly, all share and per share data and the related capital amounts for all periods presented reflect the effects of this split, except for items that are otherwise designated. In addition, the Company's treasury stock was retired in May 2006.

Appropriation of Retained Earnings

entries

Unappropriated Retained Earnings	XX	
Appropriated Retained Earnings		XX
 Bonds Payable	XX	
Cash		XX
 Appropriated Retained Earnings	XX	
Unappropriated Retained Earnings		XX

Discloses management intention regarding distribution of earnings
Does not set aside cash

Statement of Retained Earnings

McMenimen Corporation
Retained Earnings Statement
For the Year Ended December 31, 20x2

Retained Earnings, December 31, 20x1	\$100,000
Add: Net Income	<u>30,000</u>
	130,000
Deduct: Dividends Declared	<u>20,000</u>
Retained Earnings, December 31, 20x2	\$110,000