

Chapter 10- Corporate Structure and Equity

Hello everyone! This week the resource will be walking through Corporate Structure and Equity! Additionally, I will be providing Accounting group tutoring sessions from 6:30-7:30pm on Tuesdays over Microsoft Teams each week. If you would like to attend those sessions or want to schedule a 1-on-1 appointment with one of our fantastic accounting tutors, please visit www.baylor.edu/tutoring to make an appointment! -Jerry

Public companies: Companies whose stock is actively traded on the stock market and are owned by stockholders

Private companies: Companies whose stock is not traded on the stock market and have a few major stockholders

Features of a Corporation:

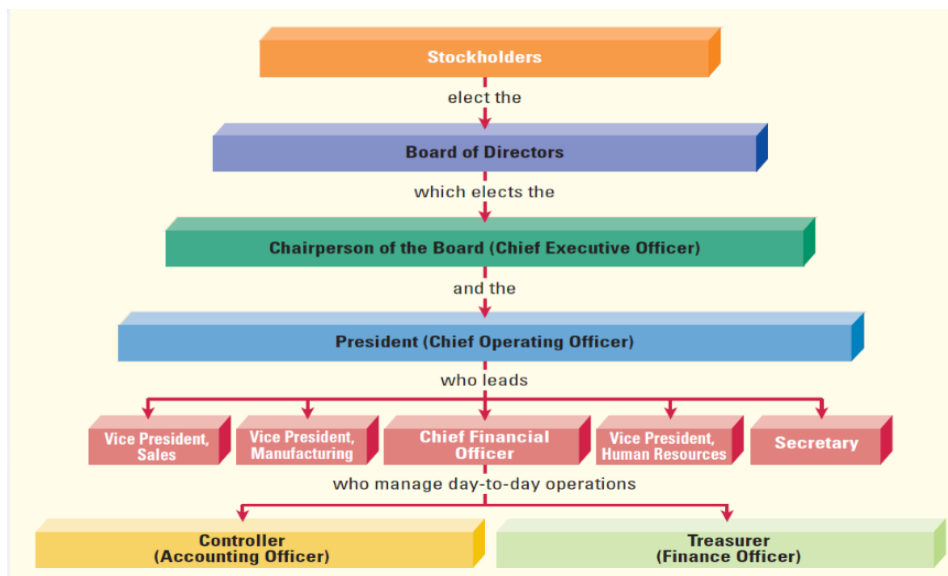
Advantages:

- Easier to raise capital
- Continuous life and easy to transfer ownership through selling stock
- Stockholders are protected from liability

Disadvantages:

- Ownership and management have different goals
- Double taxation
- Government Regulation

Corporate Structure:



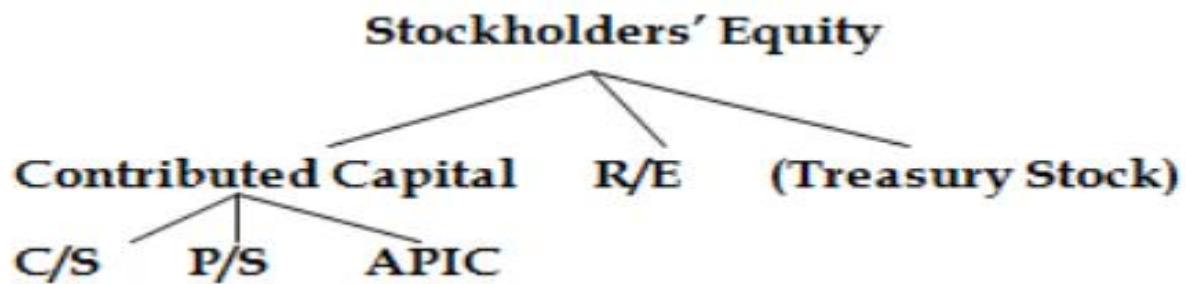
(Source: Pearson Education)

Rights of Stockholders:

- Vote on matters that come to stockholders
- Receive dividends
- Receive a proportionate share of assets upon liquidation of the company
- To preemptively buy stock to preserve proportional control over the company

Stockholder's Equity:

This section of the balance sheet is divided into the following categories:



(Source: Pearson Education)

- **Paid in Capital** is the amount of equity that stockholders have contributed to the organization through purchasing stock and paying in capital
- **Common stock:** Most frequent form of stock
- **Preferred Stock:** stock that has certain benefits such as receiving dividends and liquidated assets before regular stockholders
- **Treasury stock:** Previously issued stock that has been bought back by the company and reduces stockholder's equity. This is a contra-equity account
- **Retained Earnings** is the amount of equity that a company produces through profitable operations. This account is reduced by dividends

These videos from Edspira provide an overview of the journal entries for each type of stock and walk through problems dealing with each:

Common and Preferred stock:

<https://www.youtube.com/watch?v=TZ2uWgtQXBo&feature=youtu.be>

APIC (Stock in excess of par): <https://www.youtube.com/watch?v=W0podz5qYfY&feature=youtu.be>

Treasury stock: <https://www.youtube.com/watch?v=MusfMph9xEQ&feature=youtu.be>

Dividends and Stock Splits

Cash Dividends-

Company must have enough retained earnings and cash to pay dividends

Board of director declares a date for dividends to be paid (creating a dividend payable)

- DR: Retained Earnings
- CR: Dividends Payable

Date of record defines when the stockholders will be paid (no Journal entry here)

Date of Payment: resolves liability and pays stockholders

- DR: Dividends Payable
- CR: Cash

Stock Dividends:

Same idea as cash dividends but with stock instead of cash

Declaration Date:

- DR: Retained Earnings
- CR Stock Dividends Distributable
- CR: APIC (if needed)

Date of Record: NO JE

Date of Payment:

- DR: Stock Dividends Distributable
- CR: Common Stock (can also be preferred stock)

*Note: If less than a 25% dividend record the stock at market value. If greater than 25%, record at par value.

Stock Split:

This situation arises when a company makes exist shares of stock into more shares. For example, a person who has 100 shares of stock and undergoes a 2:1 stock split would have 200 shares of stock after the split. There is **no** journal entry here.

You are going to need to know how the following situations impact the balance sheet. This chart illustrates the effects. I strongly recommend memorizing the journal entries for each situation and then thinking through those to figure out their impact on the balance sheet. This chart can come in handy in a bind though and can help you think through those entries and their effect on the balance sheet

Transaction	Effect on Total		
	Assets	=	Liabilities + Stockholders' Equity
Issuance of stock—common and preferred	Increase		No effect Increase
Purchase of treasury stock.....	Decrease		No effect Decrease
Sale of treasury stock	Increase		No effect Increase
Declaration of cash dividend.....	No effect		Increase Decrease
Payment of cash dividend.....	Decrease		Decrease No effect
Stock dividend—large and small	No effect		No effect No effect
Stock split	No effect		No effect No effect

(Source: Pearson Education)

I hope that the Financial Accounting resources I shared with you this semester were helpful and efficient in addressing your academic needs. As we approach the end of the fall semester, I would like to let you know that there will be one more resource for this class next week, which will help you review the material for your final exam. All resources for this semester can be found here: https://www.baylor.edu/support_programs/index.php?id=967950



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. Also, please do not forget that the week of November 16 - 20 is the last week where group tutoring sessions will take place. If you wish to attend the last session, please make sure you check out the tutoring center website (<https://www.baylor.edu/tutoring>) and follow the instructions to register for group tutoring.

