



Chapter 12

Acquiring Additional Capital for a Corporation

Objectives

As related to acquiring capital for a corporation, be able to:

- Define accounting terms
- Identify accounting concepts and practices
- Journalize entries for issuing additional capital stock
- Journalize entries for buying and selling treasury stock
- Journalize entries for bonds payable

Terms

- Discount on Capital Stock
- Treasury Stock
- Bond
- Bond issue
- Trustee
- Bond sinking fund
- Retiring a bond issue
- Term bonds
- Serial bonds

Section 12.1


Capital Stock Transactions

A primary source of capital to fund corporate expansions is _____.

Answer: Retained Earnings

Retained earnings represents earnings not paid to stockholders as dividends.

Sometimes, retained earnings are not enough.



Two ways both new and existing corporations can acquire additional capital is buy:

1. Selling stock to investors
2. Borrowing money

Articles of the incorporation are usually written to permit the issue of more shares of stock than initially sold to investors.

Stock option

- Gives an investor the right, but not the obligation, to buy or sell a stock at an agreed upon price and date.
- There are two types of options:
 1. Puts, which is a bet that a stock will fall
 2. Calls, which is a bet that a stock will rise.

Issuing Preferred Stock at Par Value

Par Value

- Is not directly related to market value
- A value assigned to a share of stock and printed on the stock certificate

Market Value

- The price at which a share of stock may be sold on the stock market

Discount on capital stock

- An amount less than par or stated value as which capital stock is sold

Issuing Preferred Stock at Par Value

What do we know:

- On March 1
- Received cash from Brenda Henson
- For 800 shares of \$100 par value preferred stock at \$100 per share.

Calculate the amounts to be recorded:

No. of shares	800
X Par Value	\$ 100
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Equals	\$800,000

Issuing Preferred Stock at Par Value

Calculate the amounts to be recorded:

No. of shares	800
X Par Value	<u>\$ 100</u>
Equals	\$800,000 (total par value)

Transaction will be recorded in the Cash Receipts Journal.

Debit Cash	\$800,000
Credit Capital Stock – preferred	\$800,000

Issuing Preferred Stock for more than Par Value

What do we know:

- On April 6th
- Received cash from Adam Kellogg
- For 300 shares of \$100 par value preferred stock at \$120 per share.

Calculate the amounts to be recorded:

No. of shares	300
X Total rcvd per share	<u>\$120</u>
Total cash received	\$36,000

No. of shares	300
X Par Value per share	<u>\$100</u>
Total Par Value	\$30,000

Amount rcvd in excess of Par Value - \$6,000

Issuing Preferred Stock for more than Par Value

Calculate the amounts to be recorded:

No. of shares	300
X Total rcvd per share	<u>\$120</u>
Total cash received	\$36,000

No. of shares	300
X Par Value per share	<u>\$100</u>
Total Par Value	\$30,000

Transactions will be journalized in the Cash Receipts Journal.

Debit Cash \$36,000

Credit Capital Stock – preferred
 \$30,000

Credit Paid-in capital in excess of
Par Value – Preferred
 \$6,000

Important – the value of the stock is only \$30,000 (Par Value)

Issuing Preferred Stock for less than Par Value

What do we know:

- On August 9th
- Received cash from Hazel Deloach
- For 500 shares of \$100 par value preferred stock at \$90 per share.

Calculate the amounts to be recorded:

No. of shares	500
X Total rcvd per share	<u>\$ 90</u>
Total cash received	\$45,000

No. of shares	500
X Par Value per share	<u>\$100</u>
Total Par Value	\$50,000

Total discount amount: \$5,000

Issuing Preferred Stock for Less than Par Value

Calculate the amounts to be recorded:

No. of shares	500
X Total rcvd per share	<u>\$ 90</u>
Total cash received	\$45,000

No. of shares	500
X Par Value per share	<u>\$100</u>
Total Par Value	\$50,000

Total discount amount: \$5,000

Transactions will be journalized in the Cash Receipts Journal.

Debit Cash	\$45,000
Debit Discount on Sale of Stock – Preferred	\$5,000

Credit Capital Stock – preferred
\$50,000

Important – the value of the stock is only \$50,000 (Par Value)

Debits must equal credits.

Issuing Preferred Stock for Assets other than Cash

What do we know:

- On October 7th
- Received office equipment from Steven McBee valued at \$12,000
- For 100 shares of \$100 par value preferred stock.

Calculate the amounts to be recorded:

No. of shares	100
X Total rcvd per share	<u>\$120</u>
Total cash received	\$12,000

No. of shares	100
X Par Value per share	<u>\$100</u>
Total Par Value	\$10,000

Amount received in excess of par value: \$2,000

Issuing Preferred Stock for Assets other than Cash

Calculate the amounts to be recorded:

No. of shares	100
X Total rcvd per share	<u>\$120</u>
Total cash received	\$12,000

No. of shares	100
X Par Value per share	<u>\$100</u>
Total Par Value	\$10,000

Amount received in excess of par value: \$2,000

Transactions will be journalized in the Cash Receipts Journal.

Debit Office Equipment	\$12,000
Credit Capital Stock – preferred	\$10,000
Credit Paid-in capital in excess of Par Value – Preferred	\$2,000

Important – the value of the stock is only \$10,000 (Par Value)

Debits must equal credits.

Issuing Common Stock with no Par Value

What do we know:

- On July 8th
- Received cash from Elizabeth Griffin
- For 1000 shares of common stock at \$14 per share

Calculate the amounts to be recorded:

No. of shares	1000
X Total rcvd per share	<u>\$14</u>
Total cash received	\$14,000

Issuing Common Stock with no Par Value

Calculate the amounts to be recorded:

No. of shares	1000
<u>X Total rcvd per share</u>	<u>\$14</u>
Total cash received	\$14,000

Transactions will be journalized in the Cash Receipts Journal.

Debit Cash	\$14,000
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Credit Capital Stock – Common	\$14,000
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Issuing Common Stock with a Stated Value

What do we know:

- On October 10th
- Received cash from Alice Baker
- For 100 shares of \$10 stated value of common stock at \$12 per share

Calculate the amounts to be recorded:

No. of shares	100
<u>X Total rcvd per share</u>	<u>\$12</u>
Total cash received	\$1,200

No. of Shares	100
<u>X Total Stated Value</u>	<u>\$10</u>
Total Value of Common	\$1,000

Amount paid in excess: \$200

Issuing Common Stock with a Stated Value

Calculate the amounts to be recorded:

No. of shares	100
X Total rcvd per share	<u>\$12</u>
Total cash received	\$1,200

No. of Shares	100
X Total Stated Value	<u>\$10</u>
Total Value of Common	\$1,000

Amount paid in excess: \$200

Transactions will be journalized in the Cash Receipts Journal.

Debit Cash \$1,200

Credit Capital Stock – Common
 \$1,000

Credit Paid in excess of stated
value – Common \$200

Remember: Dr = Cr