

# Organizing a Corporation and Paying Dividends

Section 11.1 Starting a Corporation

# Bellwork



**YOU CAN DO IT  
I BELIEVE IN YOU**

# Bellwork continued

What are examples of *intangible assets*?

What are examples of *tangible assets*?

Define the following:

- Patents
- Trademarks
- Organization costs
- Brand names
- Copyrights
- Goodwill

# Bellwork continued

What are examples of *tangible assets*?

What are examples of *intangible assets*?

# Bellwork continued...

An intangible asset is a non-physical asset having a useful life greater than one year. These assets are generally recognized as part of an acquisition, where the acquirer is allowed to assign some portion of the purchase price to acquired intangible assets. Few internally-generated intangible assets can be recognized on an entity's balance sheet. Examples of intangible assets are:

## Marketing-related intangible assets

- Trademarks
- Newspaper mastheads
- Internet domain names
- Noncompetition agreements

## Customer-related intangible assets

- Customer lists
- Order backlog
- Customer relationships

## Artistic-related intangible assets

- Performance events
- Literary works
- Musical works
- Pictures
- Motion pictures and television programs

## Contract-based intangible assets

- Licensing agreements
- Service contracts
- Lease agreements
- Franchise agreements
- Broadcast rights
- Employment contracts
- Use rights (such as drilling rights or water rights)

## Technology-based intangible assets

- Patented technology
- Computer software
- Trade secrets (such as secret formulas and recipes)

# Bellwork continue...

When an intangible asset is acquired, it is recorded at its *historic cost*.

Historic Cost means the original cost at the time of transaction.

# Bellwork continue...

January 1. Lyons Company purchased a patent from another company for \$200,000.

Which two accounts would be involved?

*Cash & Patent*

Cash		Patent	
Dr	Cr	Dr	Cr
Normal Balance	\$200,000	\$200,000	

Patent.....\$200,000

Cash .....\$200,000

# Bellwork continue...

A portion of a plant asset's cost that is transferred to an expense account in each fiscal period during a plant asset's useful life is known as *depreciation expense*.

The portion of an intangible asset's cost that is transferred to an expense account in each fiscal period during the life of the intangible asset life is referred to *amortization expense*.



# Bellwork continue...

Amount of yearly amortization expense should be based on the intangible asset's *useful or legal life, whichever is less.*

January 1. Lyons Company purchased a patent from another company for \$200,000.

Patent.....	\$200,000
Cash .....	\$200,000

Patent has legal & useful life of 5 years. Cost of the patent will be spread out over 5 years.

Amortization Expense.....	\$40,000
Patent.....	\$40,000

# Bellwork continue...

Patent has legal & useful life of 5 years. Cost of the patent will be spread out over 5 years.

Amortization Expense.....\$40,000

Patent..... \$40,000

Normally, Lyons would continue making this entry at the end of each 4 years. At the end of the fifth year the patent will have a balance of zero.

Unfortunately, a competitor patents another device that makes Lyon's patent worthless.



# Bellwork continue...

Patent.....\$200,000  
     Cash .....\$200,000  
 Amortization Expense.....\$40,000  
     Patent..... \$40,000

Unfortunately, a competitor patents another device that makes Lyon's patent worthless. When this happens the asset must be written down immediately.

Cash		Patent		Amortization Expense	
Dr	Cr	Dr	Cr	Dr	Cr
Normal Balance				Normal Balance	
	\$200,000	\$200,000	\$40,000	\$40,000	
			\$160,000	\$160,000	

# Bellwork continue...

Patent.....\$200,000

Cash .....\$200,000

Amortization Expense.....\$ 40,000

Patent.....\$ 40,000

Amortization Expense.....\$160,000

Patent.....\$160,000

# Bellwork continue...

On January 1, 20X1, Hayner Company purchased a copyright for \$50,000. The copyright will expire on December 31, 20X4.

1. On January 1, 20X1, Hayner Co. will debit Copyright for what amount?
2. On December 31, 20X1, Hayner Co. will debit Amortization Expense for what amount?
3. On December 31, 20X2, Hayner Co. determines that the copyright no longer has any value to the company. What must the company do?

Jan 1, '11	Patent.....	\$50,000	
	Cash .....		\$50,000
Dec 31, '11	Amortization Expense.....	\$12,500	
	Patent.....		\$12,500
Dec 31, '12	Amortization Expense.....	\$37,500	
	Patent.....		\$37,500

# Section 11.2

## Journalizing a Stock Subscription

### Subscribing for *capital stock*:

- Entering into an agreement with a corporation to buy capital stock and pay at a later date
- Corporations are contracting with investors to sell capital stock with payment to be received at a later date.
- Future payment for the stock may be made all at one time or on an installment plan.

# Subscribing for capital stock – pg 324

January 5, Daniel Herring subscribed for 2,000 shares of Lamplight's common stock at \$10.00 per share. He agreed to pay \$10,000 on March 1 and \$10,000 no later than July 1.

Subscription amount – 2,000 shares

Stated-value of common stock - \$10.00

Common stock value - \$20,000

Which two accounts are involved?

*Subscriptions Receivable & Stock Subscribed –  
Common*

*Asset  
(Owner)*

*Stockholders' Equity*

# Subscribing for capital stock – pg 324

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Subscription amount – 2,000 shares

Stated-value of common stock - \$10.00

Common stock value - \$20,000

Subscriptions Receivable		Stock Subscribed - Common	
Dr	Cr	Dr	Cr
Normal Balance			Normal Balance
\$20,000			\$20,000



# Journalizing a Stock Subscription– pg 324

GENERAL JOURNAL												PAGE 1									
						1		2		3		4		5		6		7		8	
DATE	ACCOUNT TITLE		DOC.	POST	GENERAL				ACCT. REC.	SALES	SALES TAX PAYABLE				SALES DISC.	CASH					
			NO.	REF.	DEBIT		CREDIT		CREDIT	CREDIT	DEBIT		CREDIT		CREDIT	DEBIT					
1	2018 JAN	5																			
			M1		20	0	0	0													
2																					
3																					

Subscriptions Receivable		Stock Subscribed - Common	
Dr	Cr	Dr	Cr
Normal Balance			Normal Balance
\$20,000			\$20,000

# Journalizing cash received for a stock sub. – pg 325

CASH RECEIPTS JOURNAL												PAGE 3										
				1		2		3		4		5		6		7		8				
DATE		ACCOUNT TITLE		DOC. NO.	POST REF.	GENERAL				ACCT. REC.	SALES	SALES TAX PAYABLE		SALES DISC.	CASH							
						DEBIT		CREDIT		CREDIT	CREDIT	DEBIT	CREDIT	CREDIT	DEBIT							
1	2018 MAR	1	SUB. RECV.	R45			10	0	0	0									10	0	0	0
2																						

Subscriptions Receivable		Cash	
Dr	Cr	Dr	Cr
Normal Balance		Normal Balance	
	\$10,000	\$10,000	

# Journalize issuance of stock previously subscribed – pg 325

When a stock subscription is fully paid for, a stock certificate is issued to the stockholder.

July 1. Issued Stock Certificate No. 7 to Daniel Herring for 2,000 shares of \$10.00 stated-value common stock. Memorandum No. 67.

Stock Subscribed - Common		Capital Stock - Common	
Dr	Cr	Dr	Cr
	Normal Balance		Normal Balance
\$20,000			\$20,000

# Journalize issuance of stock previously subscribed – pg 325

## GENERAL JOURNAL

PAGE 7

				1	2	3	4	5	6	7	8		
DATE	ACCOUNT TITLE		DOC. NO.	POST REF.	GENERAL		ACCT. REC.	SALES	SALES TAX PAYABLE		SALES DISC.	CASH	
					DEBIT	CREDIT	CREDIT	CREDIT	DEBIT	CREDIT	CREDIT	DEBIT	
1 2018 JULY 1	STOCK SUB - COMMON		M67		20 000 0								
2	CAPITAL STOCK - COMMON					20 000 0							
3													

Stock Subscribed - Common

Capital Stock - Common

Dr

Cr

Dr

Cr

Normal Balance

Normal Balance

\$20,000

\$20,000

# T-accounts – pg 325

Stock Subscribed - Common		Capital Stock - Common	
Dr	Cr	Dr	Cr
	Normal Balance		Normal Balance
July 1 \$20,000	Jan 5 \$20,000		Jan 5 \$300,000
			July 1 \$ 20,000
	(New Bal \$0)		(New Bal \$320,000)

## Very important:

- Lamplight records the issuance of stock only to the original stockholder.
- A stockholder may later decide to sell shares of stock.
- Lamplight DOES NOT journalize such stock transfers because these transactions DO NOT generate additional capital for the corporation.
- The new owner must be recorded so that dividends are paid to the correct person.

# Balance Sheet of a Newly Formed Corporation – pg 326

The Accounting Equation:

$$\begin{array}{l} \text{_____} \\ \text{_____} \end{array} = \text{_____} +$$

For a corporation it will look like this:

$$\begin{array}{l} \text{_____} \\ \text{_____} \end{array} = \text{_____} +$$

# Corporation Balance Sheet – as of Jan. 5th

		Assets	
Current Assets:			
Cash.....	\$297,600.00		
Subscriptions receivable .....	<u>20,000.00</u>		
Total current assets .....		\$317,600.00	
Intangible Assets:			
Organization Cost		<u>2,400.00</u>	
Total Assets:			
<u>\$320,000.00</u>			
Stockholders' Equity			
Paid-In Capital:			
Capital Stock – Common		\$300,000.00	
Stock Subscribed – Common		<u>20,000.00</u>	
Total Paid-in Capital			<u>\$320,000.00</u>
Total Stockholders' Equity			

Orig. \$300K -  
\$2,400 org.  
cost

*Long term inv and plant assets  
would be listed before intangible*

# Audit your understanding

What accounts are affected, and how, when subscribed stock is issued?

*When a stock subscription is fully paid for, a stock certificate is issued to the stockholder.*

Answer:

Stock Subscribed is debited

Capital Stock is credited (the kind of stock issued will be included in the account title).



# Audit your understanding

How are assets of a nonphysical nature reported on the balance sheet?

Answer:

Under the heading Intangible Assets, as the last subdivision of the Asset section.

**REMEMBER:** *Long term investments and plant assets would be listed before intangible assets.*