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| **Advantages** | **Disadvantages** |
| 1. Corporations can raise more money than a proprietorship. | 1. Ownership and management are often separated |
| 2. A corporation has a continuous life | 2. The earnings of a corporation may be subject to double taxation |
| 3. The transfer of corporate ownership is easy | 3. Government regulation is expensive |
| 4. There is no mutual agency among the stockholders and the corporation | 4. Start-up costs are higher than other business forms. |
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| --- | --- | --- | --- |
| Date | Accounts and explanation | Debit | Credit |
|  | Cash ($5 per share x 3,000 Shares) | $ 15,000 |  |
|  | Common Stock-$1 Stated Value ($1/share x 3,000 shares) |  | $ 3,000 |
|  | Paid-In Capital in Excess of stated- Common ($4/share x 3,000 shares) |  | $ 12,000 |
|  | Issued Common Stock at a premium |  |  |

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| Date | Accounts and explanation | Debit | Credit |
|  | Furniture | $ 18,000 |  |
|  | Common Stock-$1 Par Value ($1 par value x 5,000 shares) |  | $ 5,000 |
|  | Paid-In Capital in Excess of stated- Common ($18,000- $5000) |  | $ 13,000 |
|  | Issued Common Stock in exchange for furniture |  |  |

**Authorized Stock**- The maximum number of shares of stock that the corporate charter allows the corporation to issue.

**Preferred Stock**- Stock that gives its owners certain advantages over common stockholders, such as the right to receive dividends before the common stockholders and the right to receive assets before the common stockholders if the corporation liquidates.

**Paid-in Capital in Excess of Par**- Represents amounts received from stockholders in excess of par value.

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| Date | Accounts and explanation | Debit | Credit |
| 31-Mar | Treasury Stock-Common ($5/share x 1,000 shares) | $ 5,000 |  |
|  | Cash |  | $ 5,000 |
|  | Purchased Treasury Stock |  |  |

**Treasury Stock**- A Corporation’s own stock that it has previously issued and later reacquired.

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| Date | Accounts and explanation | Debit | Credit |
| 3-Apr | Cash ($4.30/share x 200shares) | $ 860 |  |
|  | Paid-in capital from treasury Stock Transactions ($0.70/share x 200 shares | $ 140 |  |
|  | Treasury Stock-Common ($5/share x 200 shares) |  | $ 1,000 |
|  | Sold treasury stock below cost. |  |  |

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| Date | Accounts and explanation | Debit | Credit |
| 4-Apr | Cash ($4.50/share x 200shares) | $ 900 |  |
|  | Paid-in capital from treasury Stock Transactions | $ 60 |  |
|  | Retained Earnings ($1,000-$900-$60) | $ 40 |  |
|  | Treasury Stock-Common ($5/share x 200 shares) |  | $ 1,000 |
|  | Sold Treasury Stock below cost |  |  |

**Cash Dividends**

1. **Declaration date.** The declaration of a cash dividend creates an obligation (liability) for the corporation.
2. **Payment Date.** Payment of the dividend usually follows the record date by a week or two.

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| Date | Accounts and explanation | Debit | Credit |
| 30-May | Dividends Payable | $ 1,135 |  |
|  | Cash |  | $ 1,135 |
|  | Payment of Cash Dividend |  |  |

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| --- | --- | --- | --- |
| Date | Accounts and explanation | Debit | Credit |
| 31-Dec | Retained Earnings | $ 1,135 |  |
|  | Cash Dividends |  | $ 1,135 |
|  | To Close Cash Dividends |  |  |

**Dividend in Arrears-** A preferred stock dividend is in arrears if the dividend has not been paid for the year and the preferred stock is cumulative.

**Cumulative Preferred Stock-** Preferred stock whose owners must receive all dividends in arrears plus the current year dividend before the corporation pays dividends to the common stockholders.

**Noncumulative Preferred Stock-** Preferred stock whose owners do not received passed dividends.

Remember that a stock dividend does not affect assets, liabilities, or *total* stockholders’ equity. A stock dividend merely rearranges the balances in the stockholders’ equity accounts, leaving total stockholders’ equity unchanged.

**Stock Splits-** An increase in the number of issued and outstanding shares of stock coupled with a proportionate reduction in the par value of the stock.

**Preferred dividends** = Outstanding shares x Par value x Preferred dividend rate

**Earnings per share** = (net income – preferred dividends) / Average number of common shares outstanding

**Price/earnings ratio** = Market price per share of common stock / Earnings per share

**Rate of return on common stockholders’ equity** = (net income – Preferred dividends) / Average common stockholders’ equity