



# Shareholders' Equity

## - Accounting Principles

2022. 5.

Yangin Yoon

# Agenda

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- Recap the previous class
- Concept of equity
- Stock
- A statement of change in equity

# Recap the previous class

- Equity
  - ✓  $\text{Equities} = \text{Asset} - \text{Liability}$
- Closing Entry
  - After preparing the income statement, we add a closing entry.
  - The final business results are accumulated through equity (e.g., Retained Earnings).

2021.12.31. (example)

Revenue	\$10,000	Cost of Goods	\$6,800
Interest Income	\$200	Salary Expense	\$2,000
		Retained Earning	\$1,400

# Equity



- A company can acquire assets by using funds from either liabilities or equities.
- Equities are usually involved in following events:
  - 1) Establishing a company
  - 2) Reporting net income
  - 3) Providing dividends to shareholders
  - 4) And other events

# Equity

- Equities are **increased** with following events:

## 1) Establishing a company

2021.1.2. (example)

Cash	\$10,000	Capital Stock	\$10,000
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## 2) Making a positive profit (net-income)

2021.12.31. (example)

Revenue	\$10,000	Cost of Goods	\$6,800
Interest Income	\$200	Salary Expense	\$2,000
		Retained Earning	\$1,400

# Equity

- Equities are **decreased** with following events:

## 1) Providing dividends

2022.2.20. (example)

Retained Earning

\$500

Cash

\$300

## 2) Reporting a loss (net-income)

2021.12.31. (example)

Revenue

\$10,000

Cost of Goods

\$9,800

Interest Income

\$200

Salary Expense

\$2,000

Retained Earning

\$1,600

Any Questions?

# Stock (Equity)

- A Stock represents ownership of an entity (i.e., corporation or company).
  - A company issues stocks to its shareholders when it receives capital from shareholders.
  - Usually, the stock has a par value.





# Stock (Equity)

- A Stock represents ownership of an entity (corporation or company).
  - The number of shareholder(s) can be one, two, or many.
  - Important decision(s) is made by shareholders (**shareholder vote**).

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### SUSTAINABLE BUSINESS

## Costco Shareholder Vote Signals Focus on Supply-Chain Emissions

Shareholders voted for a resolution calling for a tougher climate plan, against the wishes of the retailer's board

By [Dieter Holger](#)

Jan. 26, 2022 6:00 am ET

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One of the year's first shareholder votes on climate change points to a sharpened focus on supply chains among investors.

[Costco Wholesale Corp. shareholders voted Thursday for a proposal that called on the retailer to set out plans to reach net-zero greenhouse-gas emissions by 2050 or sooner, in line with scientific recommendations to limit global warming to 1.5 degrees Celsius. The](#)



The company's board opposed the proposal.  
“While we seek and will continue to seek to influence our suppliers to reduce their emissions, we cannot directly control their actions,” Costco said in its statement against the resolution.

<https://www.wsj.com/articles/costco-shareholder-vote-signals-focus-on-supply-chain-emissions-11643194803>

<https://www.sec.gov/ix?doc=/Archives/edgar/data/0000909832/000119312522016856/d289189d8k.htm>

<https://www.reuters.com/business/toshibas-top-shareholder-vote-against-break-up-plan-2022-03-10/>

# Example - Stock (Equity)

- In the very beginning, a company usually receives the exact amount of the par value from initial shareholders
- Example
  - **Tom, Jane, and Sam** established a company in 2021. The par value of one stock was \$1. The total number of stock was 10,000 shares.
  - Tom, Jane, and Sam invested their money to the company as shareholders. They put their money of \$5000, \$3000, and \$2000, respectively.

2021.1.2. (example)

Cash	\$10,000	Capital Stock	\$10,000
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→ And then, **the net-income of the year 2021 was \$2,000**. There has been no dividend.

**John wants to be another shareholder with 1,000 shares.** How much money does he need to invest? \$1000? Or more?

# Example - Stock (Equity)

- At the end of 2021, the total equities were \$12,000. The total number of shares was 10,000.
- John thought that the future of this company would be very bright. He was eager to be the shareholder of this company.
  - The company offered to invest \$1,500 for 1,000 shares. John agreed with it.
- The company issued additional 1,000 shares and received \$1,500 from John on 2022.1.3.

2022.1.3.

Cash	\$1,500	Capital Stock	\$1,000
		Capital in excess of par value of stock	\$500

- \* “Capital in excess of par value of stock” is an equity type account.
- “Paid-in capital in excess of par” means the same account.

Any Questions?

# Dividend

- From the previous example, the net-income of the year 2022 was \$5,000. There has been no dividend.
- On 2023.2.5., the company decides to provide dividends \$0.3 per share.

2023.2.5.

Retained Earning

\$3,300

Cash

\$3,300

\*  $11,000 \text{ (the number of total shares)} \times \$0.3 = \$3,300$

- On 2023. 7. 25., the company decides to issue dividends 0.1 share per share (stock dividend).

2023.7.25.

Retained Earning

\$1,100

Capital Stock

\$1,100

\*  $11,000 \text{ (the number of total shares)} \times 0.1 = 1,100 \text{ (new shares)}$

\*\* The par value of this stock is 1\$. So, the Capital Stock for 1,100 shares is \$1,100.

# A statement of change in equity

- A statement of change in equity shows how the equities have been changed.
- Change of the common stock (capital stock)
- Change of “Capital in excess of par value of stock”
- Change of the retained earning
- Change of the OCI (Other Comprehensive Income)

<https://www.sec.gov/ix?doc=/Archives/edgar/data/0000909832/000090983221000014/cost-20210829.htm>

# Chapter Summary

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- The concept of equity
- Increase/Decrease of equity
- Stock
  - Par value of stock
  - Number of stock
  - Shareholder vote
- Dividend
- A statement of change in equity

# Equity (exercise)

- Self-Study Material

P 11-3

LO 4

## Dividend Calculations

Lowe Corporation had authorization for 80,000 shares of 8% preferred stock, par value \$20 per share, and 24,000 shares of common stock, par value \$120 per share, all of which are issued and outstanding. During the years beginning in 2016, Lowe Corporation maintained a policy of paying out 50% of net income in cash dividends. One-half the net income for the three years beginning in 2016 was \$50,000, \$280,000, and \$340,000. There are no dividends in arrears for years prior to 2016.

### Required:

Compute the amount of dividends paid to each class of stock for each year under the following separate cases:

1. Preferred stock is noncumulative.
2. Preferred stock is cumulative.
3. **Interpretive Question:** Why is it important that a common stockholder know about the dividend privileges of the preferred stock?



# Equity (exercise)

- Self-Study Material

P 11-8

LO 3

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## Equity, Dividends, and Treasury Stock

The equity section of Nielsen Corporation's December 31, 2017, balance sheet is as follows:

Equity	
Preferred stock (10%, \$50 par, 10,000 shares authorized, 1,000 shares issued and outstanding) .....	\$ 50,000
Common stock (\$15 par, 100,000 shares authorized, 5,000 shares issued and outstanding) .....	75,000
Paid-in capital in excess of par, preferred stock .....	2,000
Paid-in capital in excess of par, common stock .....	25,000
Total contributed capital .....	\$152,000
Retained earnings .....	102,000
Total equity .....	<u>\$254,000</u>

During 2018, Nielsen Corporation had the following transactions affecting equity:

- Jan. 20 Paid a cash dividend of \$2 per share on common stock. The dividend was declared on December 15, 2017.
- Aug. 15 Reacquired 1,000 shares of common stock at \$20 per share.
- Sept. 30 Reissued 500 shares of treasury stock at \$21 per share.
- Oct. 15 Declared and paid cash dividends of \$3 per share on the common stock.
- Nov. 1 Reissued 200 shares of treasury stock at \$18 per share.
- Dec. 15 Declared and paid the 10% preferred cash dividend.
- 31 Closed net income of \$40,000 to Retained Earnings. (Revenues were \$260,000; expenses were \$220,000.) Also closed the dividends accounts to Retained Earnings.

### Required:

- Journalize the transactions.
- Prepare the equity section of Nielsen Corporation's December 31, 2018, balance sheet.
- Interpretive Question:** What is the effect on earnings per share when a company purchases treasury stock?

Any Questions?



# Statement of Cash Flows

## - Accounting Principles

2022. 5.

Yangin Yoon

# Agenda

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- Recap the previous class
- Business Cycle and Cash
- Three Activities of Cash Flow
- Direct Method
- Indirect Method

# Recap the previous class

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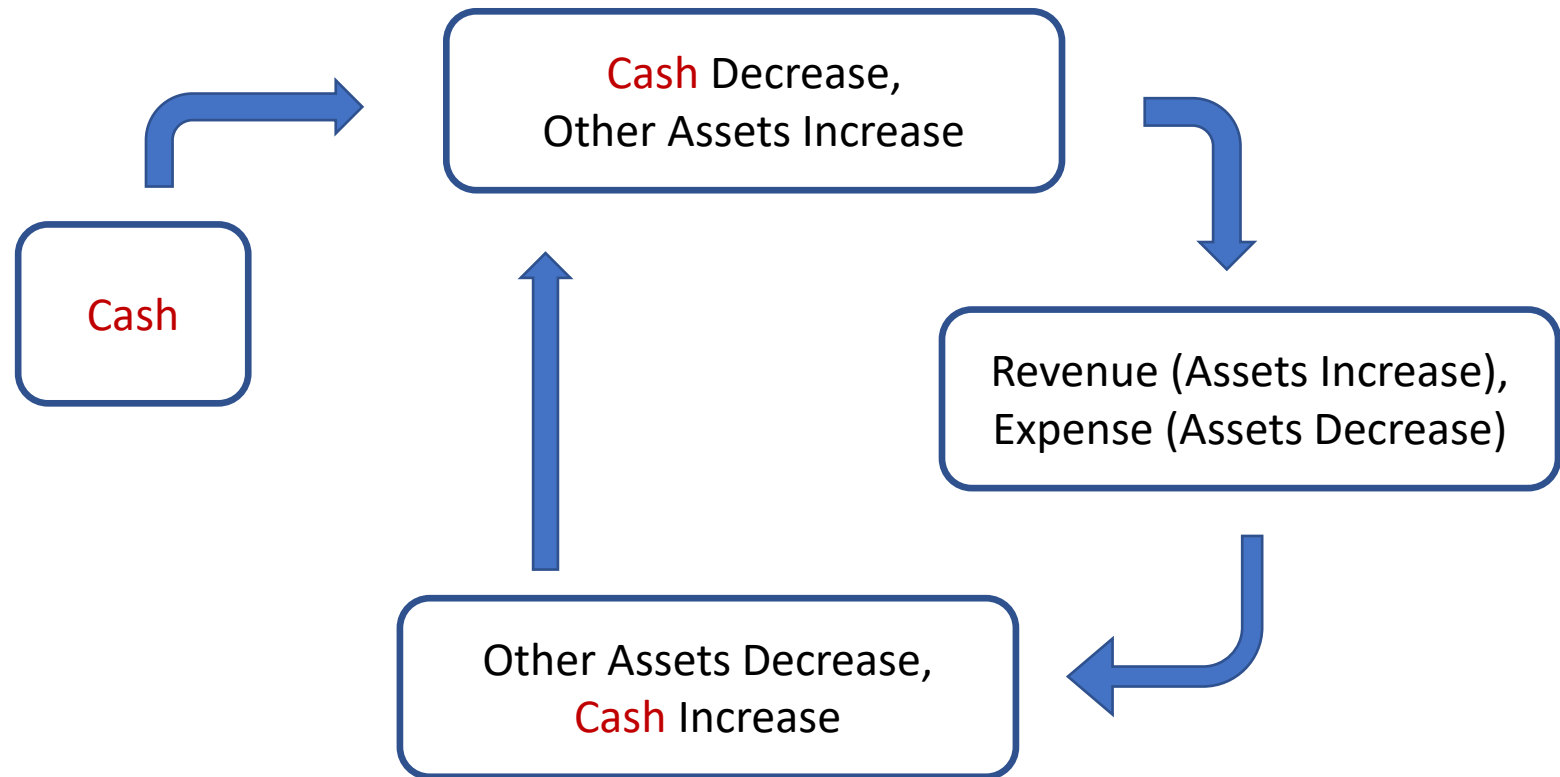
- Financial Statements
  - Statement of Financial Position
  - Income Statement
  - Statement of Change in Equity
  - Statement of Cash Flow

**COSTCO WHOLESALE CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(amounts in millions)

	52 Weeks Ended August 29, 2021	52 Weeks Ended August 30, 2020	52 Weeks Ended September 1, 2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income including noncontrolling interests	\$ 5,079	\$ 4,059	\$ 3,704
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	1,781	1,645	1,492
Non-cash lease expense	286	194	—
Stock-based compensation	665	619	595
Other non-cash operating activities, net	85	42	9
Deferred income taxes	59	104	147
Changes in operating assets and liabilities:			
Merchandise inventories	(1,892)	(791)	(536)
Accounts payable	1,838	2,261	322
Other operating assets and liabilities, net	1,057	728	623
Net cash provided by operating activities	8,958	8,861	6,356
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of short-term investments	(1,331)	(1,626)	(1,094)
Maturities and sales of short-term investments	1,446	1,678	1,231
Additions to property and equipment	(3,588)	(2,810)	(2,998)
Acquisitions	—	(1,163)	—
Other investing activities, net	(62)	30	(4)
Net cash used in investing activities	(3,535)	(3,891)	(2,865)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Change in bank payments outstanding	188	137	210
Proceeds from short-term borrowings	41	—	—
Proceeds from issuance of long-term debt	—	3,992	298
Repayments of long-term debt	(94)	(3,200)	(89)
Tax withholdings on stock-based awards	(312)	(330)	(272)
Repurchases of common stock	(496)	(196)	(247)
Cash dividend payments	(5,748)	(1,479)	(1,038)
Other financing activities, net	(67)	(71)	(9)
Net cash used in financing activities	(6,488)	(1,147)	(1,147)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	46	70	(15)
Net change in cash and cash equivalents	(1,019)	3,893	2,329
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>	<b>12,277</b>	<b>8,384</b>	<b>6,055</b>
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	<b>\$ 11,258</b>	<b>\$ 12,277</b>	<b>\$ 8,384</b>

# Statement of Cash Flow

- Business Cycle



# Statement of Cash Flow

- A Statement of Cash Flow shows the changes of cash during a period.
  - ✓ Beginning balance of cash + Net cash change = Ending balance of cash
- “Net cash change” can be divided into three activities:
  - 1) Operating Activities
    - : Main business activities
  - 2) Investing Activities
    - : Buying and selling property, plant, and equipment
    - Buying and selling financial assets
  - 3) Financing Activities
    - : Borrowing money from banks
    - Issuing bonds
    - Issuing stocks



# Statement of Cash Flow

Operating Activities	Investing Activities	Financing Activities
<p>Cash receipts from:</p> <ul style="list-style-type: none"> <li>Sale of goods or services</li> <li>Interest revenue</li> <li>Dividend revenue</li> <li>Sale of investments in FVTPL securities</li> </ul> <p>Cash payments to:</p> <ul style="list-style-type: none"> <li>Suppliers for inventory purchases</li> <li>Employees for services</li> <li>Governments for taxes</li> <li>Lenders for interest expense</li> <li>Brokers for purchase of FVTPL securities</li> <li>Others for other expenses (e.g., utilities, rent)</li> </ul>	<p>Cash receipts from:</p> <ul style="list-style-type: none"> <li>Sale of property, plant, and equipment</li> <li>Sale of a business segment</li> <li>Sale of investments in securities other than FVTPL securities</li> <li>Collection of principal on loans made to other entities</li> </ul> <p>Cash payments to:</p> <ul style="list-style-type: none"> <li>Purchase property, plant, and equipment</li> <li>Purchase debt or equity securities of other entities (other than FVTPL securities)</li> <li>Make loans to other entities</li> </ul>	<p>Cash receipts from:</p> <ul style="list-style-type: none"> <li>Issuance of own stock</li> <li>Borrowing (e.g., bonds, notes, mortgages)</li> </ul> <p>Cash payments to:</p> <ul style="list-style-type: none"> <li>Stockholders as dividends</li> <li>Repay principal amounts borrowed</li> <li>Repurchase an entity's own stock (treasury stock)</li> </ul>

# Example #1 (Cash Flow)

- ST Gas is a gasoline merchandise company. There are following events in 2021. Please prepare a statement of cash flow.
  - 1) ST Gas bought gasoline with \$6,000 of cash.
  - 2) It sold gasoline to customers and received \$9,000 cash.
  - 3) It sold gasoline of \$5,000 to customers on credit.
  - 4) It borrowed \$10,000 from a bank.
  - 5) It bought pumping machines by paying \$5,000 cash.
  - 6) It sold old machines and received \$1,000 cash.
  - 7) It paid \$300 cash as interest expense.
  - 8) It gave \$600 cash to its shareholders as dividend
  - 9) Salary expense was \$2,050, and all was paid by cash.
  - 10) Electricity expense was \$500. \$400 was paid by cash, and \$100 was not paid (it remained as a liability).

# Example #1 (Cash Flow- Direct method)

ST Gas		
Statement of Cash Flow		
Period from January 2021 to December 2021		
Operating Activities		
Gas sales	9,000	
Gas purchase	(6,000)	
Interest expense	(300)	
Salary expense	(2,050)	
Electricity Expense	(400)	
Net cash change		250
Investing Activities		
Machine purchase	(5,000)	
Disposal machine	1,000	
Net cash change		(4,000)
Financial activities		
Borrowing from banks	10,000	
Cash Dividends	(600)	
Net cash change		9,400
Net cash change		5,650
Cash beginning of the year		10,000
Cash end of the year		15,650

# Two Types of Statement of Cash Flow

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- Direct Method and Indirect Method
- Direct Method
  - List all the activities and their cash flow changes.
- Indirect Method
  - Start from the net-income
  - Modifying gain and loss of investing and financial activities
  - Modifying operating assets changes
  - Modifying operating liabilities changes

# Example #2 (Cash Flow)

- ST Gas is a gasoline merchandise company. There are following events in 2021. Please prepare a statement of cash flow **using indirect method**.
  - 1) ST Gas bought pumping machines by paying \$5,000.
  - 2) It sold old machines and received \$1,000.  
(The book value of the machine was \$800. So, the disposal gain was \$200.)

There is no other transaction.

# Example #2 (Cash Flow-Indirect method)

ST Gas Income Statement	
Gain on PPE disposal	200
Net-Income	200

ST Gas Statement of Cash Flow Period from January 2021 to December 2021		
Operating Activities		
Net Income	200	
Gains of investing activities	(200)	
Net cash change		-
Investing Activities		
Disposal machine	1,000	
Net cash change		1,000
Financial activities		
Net cash change		-
Net cash change		1,000
Cash beginning of the year		10,000
Cash end of the year		11,000

# Example #3 (Cash Flow)

- ST Gas is a gasoline merchandise company. There are following events in 2021. Please prepare the statement of cash flow.
  - 1) ST Gas bought pumping machines by paying \$5,000.
  - 2) It sold old machines and received \$1,000.  
(The book value of the machine was \$800. So, the disposal gain was \$200.)
  - 3) **It sold gasoline of \$5,000 to customers on credit.**  
(The cost of goods was \$2,000. It sold the gas which ST Gas had bought in the previous period (2020).)

There is no other transaction.

# Example #3 (Cash Flow-indirect method)

ST Gas Income Statement	
Revenue	5,000
Cost of goods	(2,000)
Gain on PPE disposal	200
Net-Income	3,200

ST Gas Statement of Cash Flow Period from January 2021 to December 2021		
Operating Activities		
Net Income	3,200	
Account Receivables increase (assets increase)	(5,000)	
Inventory decrease (assets decrease)	2,000	
Gains of investing activities	(200)	
Net cash change		-
Investing Activities		
Disposal machine	1,000	
Net cash change		1,000
Financial activities		
Net cash change		-
Net cash change		1,000
Cash beginning of the year		10,000
Cash end of the year		11,000



# Example #4 (Cash Flow)

- ST Gas is a gasoline merchandise company. There are following events in 2021. Please prepare a statement of cash flow.
  - 1) ST Gas bought pumping machines by paying \$5,000.
  - 2) It sold old machines and received \$1,000.  
(The book value of the machine was \$800. So, the disposal gain was \$200.)
  - 3) It sold gasoline of \$5,000 to customers on credit.  
(The cost of goods was \$2,000. It sold the gas which ST Gas had bought in the previous period (2020).)
  - 4) **ST Gas collected \$3,300 of cash from customers.**  
(Some of accounts receivable were collected.)

There is no other transaction.

# Example #4 (Cash Flow-indirect method)

ST Gas Income Statement	
Revenue	5,000
Cost of goods	(2,000)
Gain on PPE disposal	200
Net-Income	3,200

ST Gas Statement of Cash Flow Period from January 2021 to December 2021	
Operating Activities	
Net Income	3,200
Account Receivables increase (assets increase)	(1,700)
Inventory decrease (assets decrease)	2,000
Gains of investing activities	(200)
Net cash change	3,300
Investing Activities	
Disposal machine	1,000
Net cash change	1,000
Financial activities	
Net cash change	-
Net cash change	4,300
Cash beginning of the year	10,000
Cash end of the year	14,300

→ Operating activities' cash flow was \$3,300.

Any Questions?

# Example #5 (Cash Flow)

- ST Gas is a gasoline merchandise company. There are following events in 2021. Please prepare a statement of cash flow.
  - 1) ST Gas bought gasoline with \$6,000 of cash.
  - 2) It sold gasoline to customers and received \$9,000 cash. (Cost was \$5,000.)
  - 3) It sold gasoline of \$5,000 to customers on credit. (Cost was \$3,000.)
  - 4) It borrowed \$10,000 from a bank.
  - 5) It bought pumping machines by paying \$5,000.
  - 6) It sold old machines and received \$1,000. (Gain was \$200.)
  - 7) It paid \$300 cash as interest expense.
  - 8) It gave \$600 to its shareholders as dividend
  - 9) Salary expense was \$2,050, and all was paid cash.
  - 10) Electricity expense was \$500. \$400 was paid by cash, and \$100 was not paid (it remained as a liability).

# Example #5 (Cash Flow-indirect method)

ST Gas Income Statement	
Revenue	14,000
Cost of goods	(8,000)
Salary Expense	(2,050)
Electricity Expense	(500)
Interest Expense	(300)
Gain on PPE disposal	200
Net-Income	3,350

ST Gas Statement of Cash Flow Period from January 2021 to December 2021		
Operating Activities		
Net Income	3,350	
Account Receivables increase (assets increase)	(5,000)	
Inventory decrease (assets decrease)	2,000	
Electricity payable (liability increase)	100	
Gains of investing activities	(200)	
Net cash change		250
Investing Activities		
Machine purchase	(5,000)	
Disposal machine	1,000	
Net cash change		(4,000)
Financial activities		
Borrowing from banks	10,000	
Cash Dividends	(600)	
Net cash change		9,400
Net cash change		5,650
Cash beginning of the year		10,000
Cash end of the year		15,650

→ Compare this with Example #1.

Any Questions?

# Chapter Summary

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- Cash Flow Statement
- Three components
  - Operating, investing, and financing
- Direct method
- Indirect method

Any Questions?



# Cash Flow (exercise)

- Self-Study Material

E 13-13

LO 4  
LO 5

## Statement of Cash Flows (Indirect Method)

Western Company provides the following financial information. Prepare a statement of cash flows for 2018, using the indirect method to report cash flows from operating activities.

Western Company Comparative Balance Sheets December 31, 2018 and 2017		
	2018	2017
<b>Assets</b>		
Cash and cash equivalents.....	\$ 9,000	\$ 18,000
Accounts receivable (net).....	66,000	72,000
Inventory.....	150,000	120,000
Plant and equipment (net).....	525,000	450,000
Total assets.....	<u>\$750,000</u>	<u>\$660,000</u>
<b>Liabilities and Equity</b>		
Accounts payable.....	\$120,000	\$108,000
Capital stock.....	450,000	435,000
Retained earnings.....	180,000	117,000
Total liabilities and equity.....	<u>\$750,000</u>	<u>\$660,000</u>

Western Company Statement of Comprehensive Income For the Year Ended December 31, 2018	
Sales.....	\$825,000
Cost of goods sold.....	450,000
Gross margin.....	<u>\$375,000</u>
Operating expenses.....	270,000
Net income.....	<u>\$105,000</u>

Note: Dividends of \$42,000 were declared and paid during 2018. Depreciation expense for the year was \$45,000. There is no other comprehensive income.

# Cash Flow (exercise)

- Self-Study Material

P 13-3

LO 4

## Cash Flows from Operations (Indirect Method)

Gordon Enterprises reported a net loss of \$80,000 for the year just ended. Relevant data for the company follow. Assume that there is no income tax incurred. If the item has alternative classification, do not classify it as operating cash flows.

	Beginning of Year	End of Year
Cash and cash equivalents.....	\$100,000	\$ 40,000
Accounts receivable (net).....	160,000	130,000
Inventory .....	246,000	260,000
Prepaid expenses .....	15,000	9,000
Accounts payable .....	110,000	120,000
Accrued liabilities .....	20,000	8,000
Dividends payable .....	50,000	70,000
Depreciation for the year, \$86,000		
Dividends declared, \$70,000		

### Required:

- Using the indirect method, determine the net cash flows provided by (used in) operating activities for Gordon Enterprises.
- Interpretive Question:** Explain how Gordon Enterprises can pay cash dividends during a year when it reports a net loss.

Any Questions?