

Stockholder's Equity Handout – Solution

1. Blake Drives, Inc. reported the following in its owner's equity section of the balance sheet as of December 31, 2014:

Common Stock (\$1 par, 30,000 shares issued and outstanding)	\$30,000
Additional Paid-in Capital	\$300,000
Retained Earnings	<u>\$1,250,000</u>
Total Owner's Equity	<u>\$1,580,000</u>

On April 21, 2015, Blake bought 2,000 of its shares back for \$12 per share. Prepare the owner's equity section of the balance sheet for April 30, 2015.

Solution

Common Stock (\$1 par, 30,000 shares issued, 28,000 shares outstanding)	\$30,000
Additional Paid-in Capital	\$300,000
Retained Earnings	\$1,250,000
Less: Treasury Stock	<u>\$(24,000)</u>
Total Owner's Equity	<u>\$1,556,000</u>

2. Collins, Inc. reported the following in its owner's equity section of the balance sheet as of December 31, 2014:

Common Stock (\$1 par, 120,000 shares issued, 110,000 shares outstanding)	\$120,000
Additional Paid-in Capital	\$450,000
Retained Earnings	\$360,000
Treasury Stock (10,000 shares)	<u>(\$80,000)</u>
Total Owner's Equity	<u>\$850,000</u>

How much did the common shares sell for (assume all sold at the same price)? How much is contributed capital at the balance sheet date? How much is book value per share at the balance sheet date?

Solution

Note: shares outstanding = shares issued – shares bought back

Sales price of common stock:	$(\$120,000 + \$450,000)/120,000 = \$4.75/\text{share}$
Contributed capital:	$\$120,000 + \$450,000 = \$570,000$
Book value per share:	$\$850,000/110,000 = \$7.73/\text{share}$

3. Wesley Corporation's owner's equity as of June 1, 2014 is as follows:

Common Stock (\$5 par, 20,000 shares outstanding)	\$100,000
Additional Paid-in Capital	\$280,000
Retained Earnings	<u>\$750,000</u>
Total Owner's Equity	<u>\$1,130,000</u>

The market price of Wesley's common stock is \$25. If Wesley declares a 15% stock dividend as of June 2nd, how is it accounted for on the balance sheet? What if it is a 30% dividend instead?

Solution

15% stock dividend		
	<u>before</u>	<u>after</u>
Common Stock	\$100,000	\$115,000
Additional Paid-in Capital	\$280,000	\$340,000
Retained Earnings	<u>\$750,000</u>	<u>\$675,000</u>
Total Owner's Equity	<u>\$1,130,000</u>	<u>\$1,130,000</u>

30% stock dividend		
	<u>before</u>	<u>after</u>
Common Stock	\$100,000	\$130,000
Additional Paid-in Capital	\$280,000	\$280,000
Retained Earnings	<u>\$750,000</u>	<u>\$720,000</u>
Total Owner's Equity	<u>\$1,130,000</u>	<u>\$1,130,000</u>

4. Griffin Corporation's Owner's Equity has the following balances as of March 15, 2014:

Common Stock (\$2 par, 10,000 shares outstanding)	\$20,000
Additional Paid-in Capital	\$120,000
Retained Earnings	<u>\$550,000</u>
Total Owner's Equity	<u>\$690,000</u>

The market price of Griffin's common stock is \$40. If Griffin declares a 2-1 split on March 16th, how is it accounted for on the balance sheet?

Solution

The par value is halved and the number of shares outstanding doubles. The new par value is \$1 per share and 20,000 shares are now outstanding.

Note: Stock Splits vs Large Stock Dividends

- When does one account for a large stock dividend vs. accounting for a stock split?
 - If par value of the stock is reduced during the transaction and state law does not require treatment as a stock dividend, you can account for it as a stock split
 - If state law requires the stock dividend to be capitalized to the amount of the par value of the stock issued, then it is treated as a large dividend