

Stockholders' Equity

Stockholders' equity is the difference between the assets and the liabilities of the company.

Components of Stockholders' Equity

Owners' equity in a corporation is defined as stockholders' equity , or corporate capital. The following three categories normally appear as part of stockholders' equity :

1. Capital stock.

2. Additional paid-in capital : Is the total amount paid in on capital stock the amount provided by stockholders to the corporation for use in the business .

3. Retained earnings : Represents the earned capital of the company .

Issuance of Stock

We discuss the accounting problems involved in the issuance of stock under the following topics.

Par Value Stock

To show the required information for issuance of par value stock, corporations maintain accounts for each class of stock as follows :

1- Preferred Stock or Common Stock : Together, these two stock accounts reflect the par value of the corporation's issued shares. The company credits these accounts when it originally issues the shares .

2- Paid-in Capital in Excess of Par (also called Additional Paid-in Capital). The Paid-in Capital in Excess of Par account indicates any excess over par value paid in by stockholders in return for the shares issued to them. Once paid in, the excess over par becomes a part of the corporation's additional paid-in capital.

No-Par Stock

Many states permit the issuance of capital stock without par value, called no-par stock.

Common stock

Is the residual corporate interest that bears the ultimate risks of loss and receives the benefits of success. Common stockholders are not guaranteed dividends or assets upon dissolution. But common stockholders generally control the management of the corporation and tend to profit most if the company is successful .

Example 1 : Ahmed Corporation issued 600 shares of no-par common stock for \$8,200.

Prepare Ahmed journal entry if **(a)** the stock has no stated value, and **(b)** the stock has a stated value of \$2 per share

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a)	Cash	8200	
	Common Stock		8200

b)

Cash	8200	
Common Stock (600*2)		1200
Paid-in Capital in Excess of Stated Value-Common Stock	7000	

Preferred Stock

The following features are those most often associated with preferred stock issues :

1. Preference as to dividends.
2. Preference as to assets in the event of liquidation.
3. Convertible into common stock.
4. Callable at the option of the corporation.
5. Nonvoting.

Example 2 : Ahmed Corporation issued 500 shares of \$100 par value preferred stock for \$61,500. Prepare Ahmed journal entry.

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Cash	61,500	
preferred stock (500*100)		50,000
Paid-in Capital in Excess of Stated Value-preferred stock	11,500	

Example 3 : Assume that Nazar Co. issues 10,000 shares of \$10 par value preferred stock for \$12 cash per share . Prepare Nazar journal entry .

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Cash	120,000	
	preferred stock	100,000
	Paid-in Capital in Excess of Par-preferred stock	20,000

Presentation Of Stockholders' Equity

Indicate how to present stockholders' equity.

Example 4 : Wilco Corporation has the following account balances at December 31, 2017.

Common stock , \$5 par value	\$ 510,000
Treasury stock	90,000
Retained earnings	2,340,000
Paid-in capital in excess of par—common stock	1,320,000

Prepare Wilco's December 31, 2017, stockholders' equity section.

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Wilco Corporation Equity
December 31, 2015

Common stock , \$5 par value	\$ 510,000
Paid-in capital in excess of par—common stock	1,320,000
Retained earnings	2,340,000
Less: Treasury stock	90,000

Total stockholders' equity	\$ 4,080,000
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