

1. **Dividends**

a. Three Dates

- i. Declaration – Payable (only when can be liability)
- ii. Record
- iii. Payment

Dividend Declared		Dividend Payable	
XX			BOY
		Dividend Paid	XX
		(Plug)	
			EOY

b. **Cash Dividend**

**Declared**

R/E

Dividend Payable

**Record**

No Entry

**Payment**

Dividend Payable

Cash

- c. **Liquidated** Dividend – Erode APIC (Value over R/E)
- d. **Scrip** Dividend – Wants to declare a dividend, but no cash (IOU)
  - i. Basically a note payable with **interest expense**

e. **Property Dividend**

**Declared**

Investment in securities

Gain on Appreciation (Step up property to FMV)

RE

Property Dividend Payable (FMV)

**Payment**

Property Dividend Payable

Investment Securities

f. **Stock Dividend**

- i. <25 % record at FMV, >25 % record at PAR

**Declared**

RE

(FMV)

CS Distributable (Equity account)

APIC

**Payment**

CS Distributable

CS (reverse PAR)

- g. **Stock Split** – No effect
- h. RE (Appropriated) - Set aside, not for dividends
  - i. Over appropriated turn unappropriated
- i. RE (Unappropriated) – Available to pay dividends

	A	=	L	+	E
	Cash	Property	Common stock	APIC	R/E
<b>Cash Dividend</b>	-				-
		Revalue <b>+</b>			Gain on Revalue <b>+</b>
<b>Property Dividend</b>		Fair Value <b>-</b>			Fair Value <b>-</b>
<b>Small Stock Dividend</b>			PAR <b>+</b>	Plug <b>+</b>	Fair Value <b>-</b>
<b>Large Stock Dividend</b>			PAR <b>+</b>		PAR <b>-</b>
<b>Stock Split</b>			No effect	No effect	No effect

**2. Stock Equivalents (FAS 123R)**

- a. Nonemployees
  - i. WSJ or FV of G/S
- b. Employee
  - i. FV, Market Price, Option Pricing Model, Intrinsic Value
  - ii. Compensation cost amortized straight-line over period employee provide service (vesting period) **EQUITY ACCOUNT**
  - iii. No compensation cost if employee forfeits shares because of **performance condition** is not met
  - iv. If shares expire and employee **performs services**, do not reverse previously recognize compensation cost.
- c. Puttable Shares – Liabilities if employee allowed to avoid risks/rewards
- d. Share based Payments Classified as **Liability**
  - i. Liability measured as change in fair value of instrument for each reporting period measured at settlement date
  - ii. Recognized compensation cost is equal to percentage of requisite service that is rendered
- e. **Option Pricing Model (Equity)**
  - i. Current price, exercise price
  - ii. Life of option, Volatility
  - iii. Dividend expected, RF interest rate



## When Paid Off

Cash

Stock Subscription Receivable

Common Stock Subscribed (reverse)

Common Stock (legit, par)

- f. Stock for **Services or Property** (Record at FMV if reliable **OR** record stock at fair value of services or property)
- g. Issuance with **Other Securities (Lump Sum Sale)**
  - i. Allocate with FMV of Stock/Total FMV of Both Securities

Cash

Discount on B/P

B/P

CS

APIC

(Plug)

- h. Issuance of **Convertible Preferred** (When preferred is converted, the book value method is used and no gain or loss is recorded, originally record as PS without recognition of convertible featured)

## Issuance

Cash

PS

APIC

## Conversion

PS (Reverse)

APIC (Reverse)

CS (PAR)

APIC (PLUG)

- i. Issuance of **Preferred with Detachable Warrants** (Separate FV Stock and FV Warrants)

Cash

APIC - Warrant

- j. Issuance of **Donated Assets**

Asset (FMV)

Revenue (FMV)

- k. Issuance of **Rights or Warrants** (sometimes issued with preemptive rights to maintain percentage)
  - i. No entry when rights are issued
  - ii. No entry if rights lapse
  - iii. Record entry if rights EXERCISED

Cash

(FV)

CS (PAR)

APIC (Plug)

#### 4. Treasury Stock Transaction

- a. Never an income statement gain, Contra Account
  - i. **DEBIT To R/E and CREDIT To Paid in Capital**
- b. **Cost Method**
  - i. Resell for more, create APIC – TS (No Gain)
  - ii. Resell for less, reduce APIC – TS to Zero, then Reduce RE (No Loss) **[GO STRAIGHT TO R/E if no APIC-TS]**
  - iii. Retire, TS comes off, reduce CS by par, reduce original APIC, reduce APIC-TS, then reduce R/E
  - iv. Disclose as contra equity at end of S/E on BS, reported on Statement of Owners Equity

#### Buy Back

TS

Cash

#### Resell for More

Cash

TS (cost)

APIC-TS

#### Resell for Less

Cash

APIC-TS (if exists)

R/E

TS (cost)

#### Retire

CS (PAR, Reverse)

APIC (Original, REVERSE)

APIC-TS (if exists)

R/E (If no APIC-TS or straight here)

TS (COST)

#### c. Par Method

- i. Record TS at PAR
- ii. Reduce APIC account for the amount of original issue
- iii. Excess debited to R/E
- iv. Disclose Net Common Stock Outstanding

#### Buy Back

TS (PAR)

APIC (original amount)

R/E (plug)

Cash

**[PIC – Treasury Stock Potential]**

#### Sell

Cash

TS (reverse)

APIC (plug)

Retire

CS (retire)

TS (reverse)

5. **Earnings per Share (SFAS 128)**

- a. Amount of Net Income Available to **COMMON SHAREHOLDERS**
- b. Diluted, all potential common shares that **could** be outstanding
  - i. Treasury Stock Method (Options, Rights, Warrants)
  - ii. If Converted Method (Convertible Preferred Stock/Bonds)
- c. **Stock Splits – Retrospective application**
- d. ASU
  - i. Redeemable Preferred Stock
    - 1. Temporary Equity (Not Debt or Equity)
  - ii. Redemption of Preferred Stock
    - 1. FV of consideration transferred and CV of Preferred Stock = Dividend to Preferred Shareholders (If FV > CV subtract from NI or else add)
- e. Disclosure
  - i. Income from continuing operations
  - ii. Net income
  - iii. Discontinued and extraordinary – either in FACE or in NOTES
  - iv. Cumulative Effect – in NOTES
  - v. Footnotes: Description, Reconciliation of Numerators/Denominators, Effects of Preferred Dividends, Potentially Dilutive Securities, Conversions Subsequent to Year End

	<b>Numerator</b>	<b>Denominator</b>
<b>Cumulative Preferred Dividends</b>	Deduct Always, C/Y	
<b>Noncumulative Preferred Dividends</b>	Deduct if Declared	
<b>Preferred Stock Issuance for Cash</b>		Never
<b>Stock Splits</b>		Prorate Time
<b>Stock Dividends</b>		BOY
<b>Elect Cash or Stock</b>		BOY
<b>Treasury Stock Method (Warrants, Rights, Options) If Converted Method</b>		Prorate Time
<b>Convertible Bonds</b>	Add Interest (net of tax)	Difference between Share Issued Upon Exercise and "Treasury Shares Acquired with proceeds"
<b>Convertible Preferred Stock *Basic to Diluted</b>	Add Preferred Dividends	

\*Antidilutive effect, positive only

## 6. Reorganization and Liquidation

### a. Quasi-Reorganization

CS (Close out)

APIC (Close out)

CS (new)

APIC (plug)

APIC (close out R/E)

R/E (Left to zero out)

- i. Negative R/E
- ii. Voted by shareholders
- iii. Eliminate deficit in R/E
- iv. Still a GOING CONCERN
- v. Treatment
  1. Restate asset to FV, restate liabilities to PV
  2. Net amount of adjustments added or deducted from deficit
  3. Balance in R/E closed to APIC

### b. Reorganization

Liability (total)

Cash

CS

Apic

Gain on Settlement of Debt

- i. Chapter 11, still going concern, restructure finances

### c. Bankruptcy Liquidation

- i. Chapter 7, No longer Going Concern
- ii. Voluntary or Involuntary, Trustee
- iii. Realization of assets and Liquidation of Liabilities
- iv. Treatment
  1. Statement of Affairs, Liquidation Values, Costs of Liquidation
  2. Similar treatment to REG distribution of Assets

Estate Equity

A/P

Estate Equity (loss)

Cash

Asset (sold asset)

## 7. MISC

### d. AOCI

- i. Unrealized G/L on AFS
- ii. Pension Liability if PBO > FV (net of tax)
- iii. Unrealized Currency Translation

- e. Quasi-reorganization – restructures its finances so it continues to operate (approved by shareholders)
- f. Stock Subscriptions – Contract to issue stock
- g. Warrant – Right for existing stockholders, opportunity to acquire unissued stock at a designated price
- h. **Ratios**
  - i.  $DPR = DPS/EPS$
  - ii.  $Common\ Stock\ Equity/ Common\ Shares\ Outstanding = \mathbf{Book\ Value\ of\ Common\ Stock}$ , what each share would receive in liquidation scenario (subtract out preferred stock)
  - iii.  $Return\ on\ Common\ Equity = Net\ Income\ to\ CS/Average\ Common\ Stock\ Equity$
  - iv.  $Debt\ to\ Equity = Debt\ to\ Stockholders'\ Equity$
  - v.  $Asset\ Turnover = Sales/Average\ Total\ Assets$