Stocks - Definitions and Journal Entries of Transactions

Authorized stock – The amount of stock the company is authorized to hand out. Another definition would be the ceiling on Stock that the company is able to sell.

Example: Company A is authorized to sell 100 shares. They cannot sell 101 without getting permission to purchase more authorized stock.

Par value stock – when the corporation wrote its charter it determined a par value for its common stock. This is the number used to determine how much the stock is worth on the balance sheet.

Example: Company B has sold 100 shares of common stock, par value $3.00. On Company B's balance sheet, common stock would be worth $300. (100 shares times $3 par)

No-Par value stock - when the corporation wrote its charter it did not determine a par value for its common stock. Usually, the board of directors will give these stocks a "stated value". This is the number used to determine the worth of the common stock on the balance sheet.

Example: Company C has sold 100 shares of common stock, no par. The stated value on these stocks is $3.00. On Company C's balance sheet, common stock would be worth $300 (100 shares times $3 stated value).

Paid-In Capital in excess of par - The amount over par that the shareholders paid for the stock when it was offered.

Example: Company D sold 100 shares of its common stock, par value $3.00 for $5.00. This means that on Company D's balance sheet, Paid In capital would have a balance of $200 (100 times $2.00). The 2 dollars were determined by subtracting the par value from the selling price i.e. $5-$3=$2.

Treasury Stock – a corporations buying back stock previously held by investors. Treasury stock is debited, since it works against Common Stock (Contra-equity).

Example: Company E decided to buy back 100 shares of its stock for $5.00 per stock. This means that on Company E's balance sheet, it would Debit Treasury stock for $500.00.

Preferred stock – Stockholders who are given preference to dividends and liquidation. They also will have par value, paid in capital, or stated value depending on the stock. They are usually paid dividends based on a percentage.

Example: Company F has sold 100 shares of 10% preferred stock, par value $100. This means whenever dividends are paid, they will receive $1,000 dollars in dividends before anyone else does. (10% times $100 par value = $10 per share. $10 per share times 100 shares = $1,000)

Cumulative preferred vs. non-cumulative preferred – If a preferred stock is cumulative, it will have to be paid for all the periods the company missed if they pay dividends again. If it is non-cumulative, they will only pay them for the current year.

Example: Cumulative preferred stocks should be paid $100 every time dividends are declared. The company doesn't declare dividends for 3 years. When dividends are paid the 4th year, they will be paid $400. (3*$100 for the previous years + $100 for the current year) Non-cumulative under the same scenario would only be paid $100, since the previous years do not matter.

Journal Entries with Stocks

Company A is authorized to sell 10,000,000 shares of common stock with a stated par value of $5.07.

Journal Entry required: NONE! No shares have been sold, this is just how many they CAN sell.

Mar. 1 Company B sells 100 shares of its $2.00 par value stock for $3.00.

Journal Entry required: Company B will receive $300 in cash (3.00 x 100 shares). Common stock will be credited for $200, (2.00 par x 100 shares) and paid in capital will be credited for $100 (100 shares x (3.00-2.00))

	Cash	300	
Mar. 1	Common stock		200
	Paid in Capital in excess of par		100

Mar. 1 Company C sells 100 shares of its 8% preferred stock, par value $400 for $600 dollars per share.

Journal entry required: The percent on the preferred stock will not come into play until dividends are paid, so this journal entry will work the same way that the Common stock sale worked. They will receive $60,000 in cash (600 x 100), and Preferred stock will be credited for $40,000 ($400 x 100 shares) and paid in capital, in excess of par would be credited for $20,000.

	Cash	60,000	
Mar. 1	Preferred Stock, 8%		40,000
	Paid in Capital in excess of par		20,000

Mar. 1 Company D Buys back 200 of its shares of Common Stock, Par Value $1.00, from shareholders for $40 per share.

Journal Entry Required: The par value of the Common Stock will NOT be used at all for this calculation. The journal entry will only require the outlay (spending) of Cash and the Treasury Stock that was purchased. They will pay $8,000 Cash ($40 x 200 shares) and receive $8,000 of Treasury Stock.

Mar. 1	Treasury Stock	8,000	
	Cash		8,000

REMINDER: TREASURY STOCK IS A CONTRA-EQUITY ACCOUNT, WHICH MEANS IT WILL BE DEBITED!!!

Mar. 1 Company D has 200 shares of 100 par value 10% Cumulative preferred stock. It has dividends in arrears for 4 years. It declares and pays $20,000 in dividends.

Journal Entry Required: Cumulative Preferred Stock Dividends will be $10,000, (200 shares * 100 Par value * 10% * 5 years). If this was noncumulative, it would only be $2,000 since we would only care about this year, not all 5. The common Stock will get the rest, which will also be $10,000 in this case. Cash will be credited for $20,000, since that was the amount of dividends that were declared.

Mar. 1	Dividends – Preferred	10,000	
	Dividends – common Stock	10,000	
	Cash		20,000