

Prof. Aida R. Lozada Rivera, CPA, MBA, Ph.D.

aida.lozada@upr.edu

**University of Puerto Rico
Río Piedras Campus
Business School**



CAPITAL / EQUITY

CAPITAL

This presentation contains information, in addition to the material prepared and provided by the professor, from:

1. Financial Accounting, David Spiceland, 6th Ed., McGraw-Hill
2. Intermediate Accounting, David Spiceland, 11th Ed., McGraw-Hill
3. Intermediate Accounting, Donald Kieso, 18th Ed., Wiley
4. Other: Official Websites

CAPITAL / EQUITY

- External capital (Shares)

- Internal Equity (Retained Earnings):
 - Add: Revenues and Gains
 - Deduct: Expenses and Loss
 - Deduct: Dividends

CAPITAL / EQUITY:

ELEMENTS

- Authorized Shares
- *Shares issued = sold
- Shares Outstanding = on the Market
- Treasury Shares = repurchased by the company
- Par Value (Nominal Value) \neq Market Value
- Legal Capital = (Issued x Par Value)
- Additional Paid in Capital in Excess of Par value: APIC (sale price above par value)
- Contributed Capital (All sale price) = (Par Value + APIC)

*shares in portfolio

CAPITAL / EQUITY

EXAMPLE:

➤ Basic Capital Structure

CAPITAL / EQUITY

STOCKHOLDERS'S EQUITY SECTION

Preferred Stock

(5%, Not Par Value/ Stated Value/ \$1 Par Value, cumulative, participating, authorized, issued outstanding)

APIC- Preferred Stock

Common Stock

(\$1 par value, authorized, issued in outstanding)

APIC- Common Stock

Other accumulated comprehensive income (OCI)

Retained Earning

Less: Treasury Stocks (cost)

CAPITAL / EQUITY

➤ Preferred Stock (# emitidas 1,000 X Valor Par \$1)

➤ APIC- Preferred Stock (Hint: 1 Excess of PV \$4)

➤ Common Stock (# emitidas 2,000 X Valor Par \$2)

➤ APIC- Common stock (\$8)

➤ Treasury Stock (100)

➤ Retained Earnings

TOTAL CAPITAL

Legal Capital = \$1,000

APIC = \$4,000

Contributed Capital = \$5,000

Selling Price (\$5,000/1,000= \$5)

Capital Legal = \$4,000

APIC = \$16,000

Contributed Capital = \$20,000

Selling Price (\$20,000/2,000= \$10)

(\$2,000)

Selling Price (\$700/100= \$20)

\$50,000

\$ 73,000

REAL WORLD EXAMPLES

CAPITAL / EQUITY



EQUITY

Preferred stock \$.005 par value; 100,000,000 shares authorized; no shares issued and outstanding.....	0	0
Common stock \$.005 par value; 900,000,000 shares authorized; 437,524,000 and 437,952,000 shares issued and outstanding	2	2
Additional paid-in capital.....	5,490	5,218
Accumulated other comprehensive loss	(1,099)	(1,121)
Retained earnings.....	7,686	6,518
Total Costco stockholders' equity.....	<u>12,079</u>	<u>10,617</u>
Noncontrolling interests	253	226
Total equity	<u>12,332</u>	<u>10,843</u>
TOTAL LIABILITIES AND EQUITY.....	<u><u>\$33,163</u></u>	<u><u>\$33,017</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

<https://www.costco.com/>

CAPITAL / EQUITY



The Coca-Cola Company Shareowners' Equity

Common stock, \$0.25 par value; authorized — 11,200 shares; issued — 7,040 shares	1,760	1,760
Capital surplus	18,116	17,601
Reinvested earnings	69,094	66,555
Accumulated other comprehensive income (loss)	(14,330)	(14,601)
Treasury stock, at cost — 2,715 and 2,738 shares, respectively	(51,641)	(52,016)
Equity Attributable to Shareowners of The Coca-Cola Company	22,999	19,299
Equity attributable to noncontrolling interests	1,861	1,985
Total Equity	24,860	21,284
Total Liabilities and Equity	\$ 94,354	\$ 87,296

Refer to Notes to Consolidated Financial Statements.

<https://investors.coca-colacompany.com/filings-reports/annual-filings-10-k>

CAPITAL / EQUITY

ABC PARTNERSHIP	
CAPITAL SCHEDULE	
DECEMBER 31, YEAR 1	
Jane Doe, Capital	\$100,000
John Doe, Capital	\$75,000
TOTAL	\$175,000
Partners' Capital (per partner)	
Add: revenues from Income Statement	
Deduct: withdrawals	

CAPITAL / EQUITY

TRANSACTIONS

CAPITAL / EQUITY

ABC issue 10,000 Common Stoks \$5, Par value \$1, APIC, \$4.

Journal Entry

Dr. Cash	(1,000 x 5: 1 + 4)	50,000
Cr. Common Stock	(1,000 x 1)	10,000
Cr. *APIC	(1,000 x 4)	40,000

To record Common Stock issues for cash.

Treasury Stock: Company buy back their own stock

Reasons:

1. Consolidate ownership (barrier to an aggressive takeover)
2. The stock is undervalued
3. To create values (company/shareholders)
4. Returning capital to shareholders (dividends)
5. Signaling
6. *Better Financial Ratios: Increase earning per share

*falsely increase earnings per share.

$$\frac{\text{Net income} - \text{Dividends on preferred stock}}{\text{Average shares of common stock outstanding}}$$

CAPITAL / EQUITY

Issue 10,000 Common Stock 01/01 Year 1. Issue Price \$5, Par Value \$1. On 06/30 Year 1 the company repurchases 1,000 common shares at \$8. On 10/30 Year 1, sold 500 treasury shares at \$10.

01/01 Year 1

Dr. Cash (1,000 x 5)	50,000	
Cr. Common Stock (1,000 x 1)		10,000
Cr. APIC (1,000 x 4)		40,000

06/30 Year 1

Dr. Treasury Stock (1,000 x 8)	8,000	
Cr. Cash (1,000 x 8)		8,000

10/30 Year 1

Dr. Cash (500 x 10)	5,000	
Cr. Treasury Stock (500 x 8)		4,000
Cr. APIC- TS (500 x 2)		1,000

CAPITAL / EQUITY

DIVIDENDS

CAPITAL / EQUITY

DIVIDENDS:

Distributions by a corporation to its stockholders

Note:

- New or growth companies prefer to reinvest earnings rather than pay dividends.
- Shareholders prefer the company's share price to rise so they can then sell the shares for a profit.

Important dates:

- **Declaration date:** Date on which board of directors announces the next dividend to be paid.
- **Record date:** The date on which the company reviews its records to determine to whom the dividend corresponds.
- **Payment date:** The date of the actual distribution of dividends.

Types of Dividends:

- Cash Dividends
- Stock Dividends (small and large)

CAPITAL / EQUITY

DIVIDENDS: JOURNAL ENTRIES

CAPITAL / EQUITY

01/01 Year 1 ABC Co. declared : 3 types of dividends

Cash: \$1,000

Dr. Retained Earnings

1,000

Cr. Dividend Payable

1,000

40% stock dividend (large) (equivalent to 100 shares, Par Value \$2)

Dr. Retained Earnings

(100 x 2)

200

Cr. Common Stock Distributable (100 x 2)

200

10% (small) (equivalent to 1,000 shares Par Value \$1, Market Value \$5)

Dr. Retained Earnings

(1000 x 5)

5,000

Cr. Common Stock Distributable (1,000 x 1)

1,000

Cr. APIC (1,000 x 4)

4,000

CAPITAL / EQUITY

DIVIDENDS: AMOUNT DISTRIBUTED

CASH

CAPITAL / EQUITY

ABC issued 1,000 preferred stock, cummulatives (8% = .08) at \$30, stated value \$1.

Accumulated dividends are for past year (Year -1) and 2 years ago (Year -2)

Amount declared \$10,000 Year 1.

- Total Distributable dividend: **\$10,000**
- Dividends in arrears Year .1 and Year -2 (1000 x .08 x \$30= 2,400 x 2 years) \$4,800
- Current Dividend Year 1 (1,000 × 8% × \$30 x 1 yearr) \$2,400
- Total del dividend Preferred stockholders **\$7,200**
- Total del dividend Common stockholders (\$10,000 - \$7,200) \$2,800

CAPITAL / EQUITY

DIVIDENDS: AMOUNT DISTRIBUTED

SHARES

Small Dividend

Large Dividend (affect/reduce stock price)

TOTAL CAPITAL REMAINS THE SAME AFTER STOCK DIVIDEND

CAPITAL / EQUITY

DIVIDENDS: AMOUNT DISTRIBUTED

Investors own 1,000 shares	Investor will receive
AFTER	
10% stock dividend	100 additional shares
20% stock dividend	220 additional shares
100% stock dividend	2000 additional shares

CAPITAL / EQUITY

Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000.
Common Shares, \$10 par value; 1 million authorized; 2,000 issued and outstanding (2,000 x\$10)	20,000
Total APIC (common and preferred shares)	<u>40,000</u>
CONTRIBUTED CAPITAL	\$90,000
Retained Earnings	30,000
Treasury Stock	—0—
TOTAL CAPITAL	\$120,000

10% (SMALL) Common Stock Dividend = REDUCE RETAINED EARNINGS: BY THE MARKET VALUE: \$25

Market Value: \$25

Dr. Retained Earnings (2,000 x .10 = 200 new shares) (200 x \$25 valor mercado)	5,000
Cr. Common Stock (200 x \$10 par value)	2,000
Cr. APIC (200 x \$15)	3,000

10% (SMALL) Common Stock Dividend = REDUCE RETAINED EARNINGS: BY THE MARKET VALUE: \$25

Market Value: \$25

Dr. Retained Earnings (2,000 x .10 = 200 new shares) (200 x \$25 valor mercado)	5,000
Cr. Common Stock (200 x \$10 par value)	2,000
Cr. APIC (200 x \$15)	3,000

SMALL DIVIDEND: LESS THAN 25 %

BEFORE STOCK DIVIDEND		AFTER STOCK DIVIDEND	
Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000	Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000
Common Shares, \$10 par valuer; 1 million authorized; 2,000 issuerd and outstanding (2,000 x\$10)	20,000	Common Shares, \$10 par valuer; 1 million authorized; 2,200 issuerd and outstanding (2,200 x\$10)	22,000
APIC	40,000	APIC (40,000 + 3,000)	43,000
Retained Earnings	30,000	Retained Earnings (30,000 - 5,000)	30,000
Treasury Stocks	0	Treasury Stocks	0
TOTAL CAPITAL	\$120,000	TOTAL CAPITAL	\$120,000

CAPITAL / EQUITY

Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000.
Common Shares, \$10 par value; 1 million authorized; 2,000 issued and outstanding (2,000 x\$10)	20,000
Total APIC (common and preferred shares)	<u>40,000</u>
CONTRIBUTED CAPITAL	\$90,000
Retained Earnings	30,000
Treasury Stock	—0—
TOTAL CAPITAL	\$120,000

40% (LARGE) Common Stock Dividend = REDUCE RETAINED EARNINGS: BY THE PAR VALUE: \$10

Par Value: \$10

Dr. Retained Earnings (2,000 x .40 = 800 new shares) (800 x \$10 par value)	8,000
Cr. Common Stock (800 x \$10 par value)	8,000

CAPITAL / EQUITY

LARGE STOCK DIVIDEND

1. Increase Outstanding Shares
2. Decrease Par Value
3. Decrease the value (price) of the shares

	Value per Share	Total Value
1,000 shares	\$50	\$50,000
AFTER		
100% Stock Dividend: 2,000 shares		
Total company value will no change (the investor just has more shares)	\$25	\$50,000
	$\$50,000/2,000$	

40% (LARGE) Common Stock Dividend = REDUCE RETAINED EARNINGS: BY THE PAR VALUE: \$10

Par Value: \$10

Dr. Retained Earnings (2,000 x .40 = 800 new shares) (800 x \$10 par value) 8,000
 Cr. Common Stock (800 x \$10 par value) 8,000

LARGE DIVIDEND: MORE THAN 25 %			
BEFORE STOCK DIVIDEND		AFTER STOCK DIVIDEND	
Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000	Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000
Common Shares, \$10 par valuer; 1 million authorized; 2,000 issuerd and outstanding (2,000 x\$10)	20,000	Common Shares, \$10 par valuer; 1 million authorized; 2,800 issued and outstanding (2,800 x\$10)	28,000
APIC	40,000	APIC (40,000)	40,000
Retained Earnings	30,000	Retained Earnings (30,000 - 8,000)	30,000
Treasury Stocks	0	Treasury Stocks	0
TOTAL CAPITAL	\$120,000	TOTAL CAPITAL	\$120,000

CAPITAL / EQUITY

STOCK SPLIT

1. Increase Outstanding Shares
2. Decrease Par Value
3. Decrease the value (price) of the shares

	BEFORE STOCK SPLIT		2;1		AFTER STOCK SPLIT				
Increase outstanding shares	2,000	x	<u>2</u>	=	4,000				
			1						
Decrease par value	\$10	÷	<u>2</u>	=	\$10	x	<u>1</u>	=	\$5.00
			1				2		
	BEFORE STOCK SPLIT		3;2		AFTER STOCK SPLIT				
Increase outstanding shares	2,000	x	<u>3</u>	=	3,000				
			2						
Decrease par value	\$10	÷	<u>3</u>	=	\$10	x	<u>2</u>	=	\$6.67
			2				3		

CAPITAL / EQUITY

STOCK SPLIT

1. Increase Outstanding Shares
2. Decrease Par Value
3. Decrease the value (price) of the shares

	Value per Share	Total Value
1,000 shares	\$50	\$50,000
AFTER		
2:1 Stock Split: $1,000 \times 2/1 = 2,000$	\$25	\$50,000
Total company value will no change (no new shares are used. The shares of the company multiply)	$\$50,000/2,000$	

STOCK SPLIT

STOK SPLIT 3:2			
BEFORE STOCK SPLIT		AFTER STOCK SPLIT	
Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x\$30)	\$30,000	Preferred Shares, \$30 stated value; 100,000 authorized; 1,000 issued and outstanding (1,000 x \$30)	\$30,000
Common Shares, \$10 par valuer; 1 million authorized; 2,000 issuerd and outstanding (2,000 x\$10)	20,000	Common Shares, \$6.67 par valuer; 1 million authorized; 3,000 issuerd and outstanding (3,000 x \$6.67)	20,000
APIC	40,000	APIC	40,000
Retained Earnings	30,000	Retained Earnings	30,000
Treasury Stocks	0	Treasury Stocks	0
TOTAL CAPITAL	\$120,000	TOTAL CAPITAL	\$120,000

Inrease outsanding shares	2,000	x	<u>3</u>	=	3,000				
			2						
Decrease par value	\$10	÷	<u>3</u>	=	\$10	x	<u>2</u>	=	\$6.67
			2				3		

CAPITAL / EQUITY

100% STOCK DIVIDEND = STOCK SPLIT

1. Increase Outstanding Shares
2. Decrease Par Value
3. Decrease the value (price) of the shares

	Value per Share	Total Value
1,000 shares	\$50	\$50,000
AFTER		
100% Stock Dividend: 2,000 shares		
Total company value will no change (the investor just has more shares)	\$25	\$50,000
	\$50,000/2,000	
	Value per Share	Total Value
1,000 shares	\$50	\$50,000
AFTER		
2:1 Stock Split: $1,000 \times 2/1 = 2,000$	\$25	\$50,000
Total company value will no change (no new shares are used. The shares of the company multiply)	\$50,000/2,000	

CAPITAL / EQUITY

1. ALL Dividend decreases Retained Earnings.
2. Stock Dividend does NOT change the Total Capital.
3. Cash dividend decreases Total Capital.
4. Stock Split does NOT change the Total Capital.

CAPITAL / EQUITY

	<u>STOCK SPLIT</u>	<u>STOCK DIVIDEND</u>	<u>CASH DIVIDEND</u>
• Total Capital	N/A	N/A	Decrease
• Common Stock	N/A	Increase	N/A
• Retained Earnings	N/A	Decrease	Decrease
• Par Value	Decrease	N/A	N/A