# CH. 13 CHEAT CARD — WHAT A CORPORATION IS

## 1 ONE SENTENCE — an entity SEPARATE and DISTINCT from its owners

### IT IS A LEGAL PERSON

**owns property · signs contracts**

**sues and is sued · pays its own taxes**

it acts in its OWN name, never in yours

### THE FIVE CHARACTERISTICS

**1 separate existence 2 limited liability**

**3 transferable shares 4 raises capital**

**5 continuous life — owners go, it stays**

## 2 WHAT IT COSTS — and who is actually in the building

### THE THREE DISADVANTAGES

**ownership is NOT management → AGENCY**

**double taxation — profit, then dividend**

government regulation · 10-Q and 10-K

### THE CHAIN, AND THE FOUR RIGHTS

**stockholders elect the BOARD, board picks OFFICERS**

**treasurer holds funds · controller holds records**

vote · dividend · preemptive · residual (LAST)

## 3 THE VOCABULARY THAT PAYS — and what par really is

### THE SHARE COUNTS

AUTHORIZED, the charter maximum

less TREASURY, bought back

**ISSUED − TREASURY = OUTSTANDING**

### PAR VALUE

legal capital per share, never price

no relationship to market value

**no-par? the board sets a STATED value**

### FORMING IT

charter · articles · by-laws · license

organization costs EXPENSED at once

**authorizing shares needs NO entry**

**THE EXAM TRAPS: dividends are paid on OUTSTANDING, never on issued · par is not price · organization costs are never an asset**

# CH. 13 CHEAT CARD — ISSUING SHARES

## 1 THE CASH FAMILY — one skeleton, the par line moves

### ABOVE PAR
Dr Cash (shares issued × price)
 Cr Common Stock (shares × par)
 Cr PIC in Excess of Par (plug)

plug = shares issued × (price − par)

### AT PAR
Dr Cash (shares issued × par)
 Cr Common Stock (the same)

excess is zero — never write a zero row

### NO-PAR, STATED VALUE
Dr Cash (shares issued × price)
 Cr Common Stock (shares × stated)
 Cr PIC — Excess of Stated (plug)

stated value does par's exact job

### NO-PAR, NOTHING
Dr Cash (shares issued × price)
 Cr Common Stock (ALL of it)

no line to split the proceeds

## 2 NOT CASH? VALUE IT FIRST — then the same skeleton

### SERVICES — NOT TRADED
Dr Organization Expense (the bill)
 Cr Common Stock (shares × par)
 Cr PIC in Excess of Par (plug)

no market price → use the value RECEIVED

### SERVICES — TRADED
Dr Org. Expense (shares × market)
 Cr Common Stock (shares × par)
 Cr PIC in Excess of Par (plug)

actively traded → use the value GIVEN UP

### FOR A NONCASH ASSET
Dr Land (shares × market, or appraisal)
 Cr Common Stock (shares × par)
 Cr PIC in Excess of Par (plug)

clearest fair value wins — par plays no part

### PREFERRED STOCK
Dr Cash (shares issued × price)
 Cr Preferred Stock (shares × par)
 Cr PIC — Preferred (plug)

same skeleton — its OWN par and excess

## 3 THE ISSUE COSTS — AND THE THREE NUMBERS EVERY SHARE CARRIES

### THE ISSUE COSTS
Dr Paid-in Capital (the fees)
 Cr Cash (underwriting + legal)

not an expense — they shrink paid-in capital

### PAR VALUE
**printed on the certificate**

legal capital = par × shares issued

Apple's par: $0.00001 a share

### STATED VALUE
**the board assigns it**

legal capital = stated × shares issued

par's job, different author

### MARKET PRICE
**buyers and sellers set it**

moves daily — TradingView

never touches the par line

**THE EXAM TRAPS:** par is never a factor in valuing a noncash asset · no stated value means NO excess account · stock issue costs are not an expense

## 1 WHAT IT IS — its OWN stock, issued, reacquired, NOT retired

### THE ONE SENTENCE

**contra equity — a DEBIT balance, subtracted**

**never an asset · no gain or loss, ever**

outstanding = shares issued − treasury shares

### WHY COMPANIES BUY BACK

**bonus plans · signal underpriced**

**buy other companies with the shares**

fewer shares outstanding → higher EPS

## 2 THE THREE ENTRIES — in at cost, out at that same cost

### 1 · BUY THE SHARES BACK

| | Dr. | Cr. |
|---|---|---|
| **Treasury Stock** | **shs × cost** | |
| Cash | | **shs × cost** |

the COST method — market price that day

### 2 · RESELL ABOVE COST

| | Dr. | Cr. |
|---|---|---|
| **Cash** | **shs × price** | |
| Treasury Stock | | **shs × COST** |
| PIC from Treasury Stock | | **the plug** |

### 3 · RESELL BELOW COST

| | Dr. | Cr. |
|---|---|---|
| **Cash** | **shs × price** | |
| **PIC–Treasury, then RE** | **the gap** | |
| Treasury Stock | | **shs × COST** |

## 3 THE RULES THAT DECIDE EVERY MARK

### THE CREDIT SIDE NEVER MOVES

**Treasury Stock always leaves at COST**

the selling price decides only the plug

cost in, cost out — one number to carry

### NO INCOME STATEMENT, EVER

**no gain, no loss on your OWN stock**

above cost → PIC from Treasury Stock

below cost → PIC first, then Retained Earnings

**THE EXAM TRAPS: no gain is EVER recorded · shares ISSUED never change · empty PIC-Treasury BEFORE retained earnings**

# CH. 13 CHEAT CARD — THE STOCKHOLDERS' EQUITY SECTION

## 1 ONE SECTION, TWO PARTS — stockholders' = shareholders' = corporate capital

### PAID-IN (CONTRIBUTED) CAPITAL

**cash + assets paid in by owners, for stock**

**= capital stock + additional paid-in**

**many states: dividends may NOT come from it**

### RETAINED EARNINGS (EARNED)

**cumulative net income − dividends DECLARED**

**dividends come out of here — every state**

a debit balance = a DEFICIT, deducted

## 2 THE ENTRIES THAT FEED IT — formulas, never worked numbers

### 1 · ISSUE STOCK ABOVE PAR

| | Dr. | Cr. |
|---|---|---|
| **Cash** | **shs × price** | |
| Common Stock | | **shs × par** |
| PIC in Excess of Par | | **the plug** |

### 2 · RESELL TREASURY ABOVE COST

| | Dr. | Cr. |
|---|---|---|
| **Cash** | **shs × price** | |
| Treasury Stock | | **shs × COST** |
| PIC from Treasury Stock | | **the plug** |

### 3 · CLOSE THE YEAR'S INCOME

| | Dr. | Cr. |
|---|---|---|
| **Income Summary** | **net income** | |
| Retained Earnings | | **net income** |

a loss closes the other way — a DEFICIT

## 3 THE SECTION ITSELF — in the order it is printed

### CAPITAL STOCK — PREFERRED FIRST

Preferred stock, then Common stock

par · authorized · issued · outstanding

**= Total capital stock = LEGAL CAPITAL**

### ADDITIONAL PAID-IN CAPITAL

in excess of par / stated value

+ PIC from treasury stock

**= TOTAL PAID-IN CAPITAL**

### AND THE FOOT

+ Retained earnings

− Treasury stock (shs held × cost)

**= TOTAL STOCKHOLDERS' EQUITY**

**THE EXAM TRAPS: treasury stock is DEDUCTED, never an asset · preferred is listed FIRST · legal capital is capital stock only**

# CHAPTER 13 — CORPORATIONS & STOCKHOLDERS' EQUITY, THE WHOLE CHAPTER

## 1 THE CORPORATION — pros, cons, and the four share words

### THE FORM — PROS & CONS

**+ separate legal existence · LIMITED LIABILITY**

+ transferable shares · easier capital · continuous life

**− TAXED TWICE · government regulation**

− owners do not manage · costly to form

owners → elect BOARD → officers manage daily

### THE SHARE WORDS

**AUTHORIZED ⊇ ISSUED ⊇ OUTSTANDING**

**outstanding = issued − treasury**

dividends are paid on OUTSTANDING only

PAR ≠ PRICE — par is legal capital · stated value = same job

treasurer holds the cash · controller holds the records

## 2 MONEY IN — issuing common and preferred

### THE ISSUE ENTRY

**Dr Cash (shares × price)**

**Cr stock account — PAR × shares issued**

Cr Paid-in Capital in Excess of Par — the plug

same shape for preferred — its own accounts

### THE EDGE RULES

**NONCASH: record at FAIR VALUE, more clearly evident**

par is NEVER a factor in the asset's value

**issue costs DEBIT the premium — never an expense**

preferred: paid first · liquidation priority · no vote

## 3 SHARES BACK — treasury stock, the three entries

### 1 · BUY BACK

**Dr Treasury Stock — at COST**

**Cr Cash**

contra equity — NEVER an asset

in at cost · out at cost, always

### 2 · SELL ABOVE COST

**Dr Cash · Cr TS at cost**

**Cr PIC–TS for the excess**

NEVER a gain — never income

the excess builds the cushion

### 3 · SELL BELOW COST

**Dr Cash · Cr TS at cost**

**Dr PIC–TS — never below zero**

**Dr RE for what PIC cannot absorb**

cushion first · RE is last resort

**EXAM TRAPS: treasury stock is NEVER an asset and NEVER income · PIC from Treasury Stock can NEVER go negative**
**par ≠ market price · issue costs reduce paid-in capital · outstanding = issued − treasury**