CH. 14 CHEAT CARD — CASH DIVIDENDS

1 WHAT IT IS — and the three conditions before it can be paid

A DISTRIBUTION, PER SHARE, OUT OF EARNINGS

- **four kinds: cash · stock · property · scrip**
- **LIQUIDATING = a return OF capital, not of earnings**

→ so it debits Paid-in Capital — never Retained Earnings

IT NEEDS ALL THREE

- **1 retained earnings**
- **2 adequate cash**
- **3 a declaration by the board**
- **dividends NEVER accrue — no vote, no liability**

2 THE ENTRIES — and Nov 26, the RECORD date: NO ENTRY

1 · DECLARE — NOV 4

	Dr.	Cr.
Cash Dividends	**shs out × rate**	
Dividends Payable		**shs out × rate**

contra R/E — never an expense

2 · PAY — DEC 12

	Dr.	Cr.
Dividends Payable	**shs out × rate**	
Cash		**shs out × rate**

EX-DIVIDEND date decides who is paid

3 · CLOSE — DEC 31

	Dr.	Cr.
Retained Earnings	**year's total**	
Cash Dividends		**year's total**

NEVER to Income Summary

3 THE QUEUE — split any declaration, in order

THE PREFERRED CLAIM

rate per share = % × par

annual claim = pref shs × rate

a queue position, not a promise

ARREARS — IF CUMULATIVE

arrears = years passed × annual

NOT a liability — no vote, no debt

disclosed in the notes instead

THE SPLIT

preferred = arrears + current year

common = declared − preferred

non-cumulative? the arrears vanish

THE EXAM TRAPS: a dividend never accrues · arrears are disclosed, never recorded · Cash Dividends never closes to Income Summary

CH. 14 CHEAT CARD — STOCK DIVIDENDS AND SPLITS

1 THE STOCK DIVIDEND — its OWN shares, pro rata, and NO cash

1 · DECLARE — SMALL, UNDER 20-25%

	Dr.	Cr.
Stock Dividends	shs out × 10% × MARKET	
CS Dividends Distributable		new shs × PAR
Paid-in Cap. in Excess of Par		the plug

2 · ISSUE THE SHARES

	Dr.	Cr.
CS Dividends Distributable	new shs × PAR	
Common Stock		new shs × PAR

par only — the excess never moves again

2 THE SPLITS — re-cut the pie, and NO journal entry

THE SPLIT — A MEMO ONLY

shares × the factor · par ÷ the factor

no balance changes → NO entry, ever

the memo notes the new count and new par

THE REVERSE SPLIT

shares ÷ the factor · par × the factor

price per share rises — listing minimums

AUTHORIZED shares and your % untouched

3 THE PAR RULE AND THE DIFFERENCES — where the marks are

LARGE DIVIDEND — OVER 20-25%

	Dr.	Cr.
Stock Dividends	new shs × PAR, not MKT	
CS Dividends Distributable		new shs × PAR

market price is ignored completely

THE DIFFERENCES TABLE

DIVIDEND: paid-in ↑ · retained ↓ · total par ↑

SPLIT: par per share ↓ — and nothing else

BOTH: shares out ↑ · total equity NO CHANGE

THE EXAM TRAPS: Distributable is EQUITY, never a liability · total stockholders' equity never moves · a split gets a MEMO, never an entry

CH. 14 CHEAT CARD — RETAINED EARNINGS

1 ONE SENTENCE — a CLAIM ON TOTAL ASSETS, never a pile of cash

WHAT THE BALANCE IS

net income the corporation has KEPT

part of the claim on TOTAL assets

never a claim on cash, or on any one asset

THE TWO SIDES OF THE ACCOUNT

DOWN net loss · overstatement · both dividends

UP net income · understatement adjustment

a debit balance is a DEFICIT — shown as a deduction

2 THE ENTRIES — the two we wrote, and the one nobody writes

1 · CLOSE THE YEAR'S INCOME

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

a net LOSS closes reversed — debit Retained Earnings

2 · PRIOR PERIOD ADJUSTMENT

	Dr.	Cr.
Retained Earnings	**dep. missed**	
Accumulated Depreciation		**same amount**

prior-year depreciation UNDERSTATED → profit too HIGH

3 · A RESTRICTION — NO ENTRY

legal · contractual · voluntary

disclosed in the NOTES only

the ledger balance never moves

less room to declare, same books

3 THE STATEMENT — its print order, and no numbers needed

THE PRINT ORDER

Balance, January 1, as reported

− correction of prior period error

= **Balance, January 1, as adjusted**

\+ net income − dividends (inner column)

= **Balance, December 31 — DOUBLE RULE**

READ THE FORM

INNER column — the detail being added

OUTER column — the totals that carry down

rule the column you just added · double rule = FINAL

THE EXAM TRAPS: the balance is never cash · a loss is never charged to paid-in capital · a prior period error never hits this year

CHAPTER 14 — DIVIDENDS AND RETAINED EARNINGS, THE WHOLE CHAPTER

1 CASH DIVIDENDS — the only one that moves money

THE THREE CONDITIONS — all three, or no dividend

- **RETAINED EARNINGS — a credit balance big enough to charge**
- **CASH — enough of it; earnings are a claim, not a bank balance**
- **A DECLARATION — the board must formally vote it**

no declaration → no liability. Dividends do NOT accrue.

amount = shares OUTSTANDING (issued − treasury) × dividend per share

THE FOUR DATES — only two take an entry

- **DECLARATION — board votes it. ENTRY: Dr Cash Dividends Cr Dividends Payable**
- **EX-DIVIDEND — buy on or after it and the dividend is NOT yours. No entry.**
- **RECORD — the register is photographed. NO ENTRY — nothing changed.**
- **PAYMENT — the cash goes out. ENTRY: Dr Dividends Payable Cr Cash**

ex-dividend sits ONE BUSINESS DAY BEFORE the record date

2 STOCK DIVIDENDS AND SPLITS — no cash moves at all

THE TWO ENTRIES — SMALL (< 20–25% of shares out) is valued at MARKET

① **DECLARATION Dr Stock Dividends (shares to be issued × MARKET price)**

Cr Common Stock Dividends Distributable (shares to be issued × PAR)

Cr Paid-in Capital in Excess of Par (shares × [MARKET − PAR])

② **ISSUANCE Dr Common Stock Dividends Distributable (shares × PAR)**

Cr Common Stock (shares × PAR)

Distributable (CSDD) is a STOCKHOLDERS' EQUITY account, never a liability — it is settled in SHARES

THE SPLIT

- **NO JOURNAL ENTRY — a memo**
- **shares ↑, par per share ↓**
- in the SAME ratio, so that
- old shares × old par

  = new shares × new par

reverse split: shares ↓, par ↑

3 RETAINED EARNINGS — where all three end up

WHAT IT IS

net income KEPT in the business,

not paid out as dividends

a CLAIM on assets — NOT cash

debit balance = a DEFICIT, in ( )

THE RETAINED EARNINGS T

Dr − DECREASES	Cr + INCREASES
net loss	net income
cash dividends	PPA — income UNDERstated
stock dividends	income and loss both arrive
PPA — income OVERstated	**through INCOME SUMMARY**

THE STATEMENT

opening, as reported

± prior period adj → as ADJUSTED

+ net income − BOTH dividends

= closing balance, double-ruled

EXAM TRAPS: a stock dividend changes COMPOSITION, never SIZE · a split takes NO entry at all
dividends do not accrue · retained earnings is a claim, not cash · a prior period adjustment never touches this year's income