ACCOUNTING FOR CORPORATIONS PART II

Companies may purchase their own stock in the open market. Called Treasury Stock, it is purchased to maintain a favorable market price, to keep earnings per share at a high level, and to provide stocks for stock option plans. If a company feels the market price of its stock is too high causing the stock's liquidity in the market place to be restricted, it may apply to the Security and Exchange Commission for a stock split. If approved, the split would increase the number of outstanding shares and lower proportionately the stock's Par or stated value and market price. Dividends of stocks may replace cash dividends when money is tight. The result is an increase in Contributed Capital and a decrease in Retained Earnings. While both a stock split and stock dividend increase the number of shares outstanding, the former lowers Par value while the latter lowers Retained Earnings.

Mistakes discovered after the closing process has been completed are corrected with prior period adjustments. When a prior period's income is affected, the beginning balance of the next period's Retained Earnings is changed. The use of Retained Earnings may be restricted by appropriating it for specific use. This may be done because some states limit the purchase of Treasury Stock to available legal capital, the buyers of a bond issue may require that Retained Earnings be restricted, or the Board of Directors may wish to restrict the use of Retained Earnings for a number of reasons.

I. STOCK SPLIT

On August 15, 2000, the Board of Directors approved a 2 for 1 Common stock split.
August 15 Memorandum: Issued an additional 8,000 shares in a 2 for 1 stock split, Par value reduced to $5 per share.

II. STOCK DIVIDEND

On September 15 of 2000, the Board of Directors declared the annual 8% Preferred Stock dividend. They also decided the cash requirements for such a rapidly expanding business would result in no cash dividend being paid to Common stockholders. Instead, a 10% stock dividend was declared to owners of 16,000 shares of Common Stock. The date of record for both dividends was November 10. The date of payment for Common was December 15, and for Preferred it was January 15. Because the stock had split, the market price of Common Stock was $12 on September 15.

Date	Account	DR.	CR.
Sept. 15	Retained Earnings	8,000	
	Preferred Stock Dividend Payable (1,000)($100)(.08)		8,000
	Declared Annual Preferred Stock Dividend.		
Sept. 15	Retained Earnings (16,000)(.1)($12)	19,200	
	Common Stock Dividend to be distributed. (1,600)($5)		8,000
	Contributed Capital in Excess of Par, Common Stock		11,200
	Declared a 1,600 share Common Stock Dividend.		
Dec. 15	Common Stock Dividend to be Distributed	8,000	
	Common Stock		8,000
	Distributed Common Stock Dividend.		

Note: For Stock dividends of ≤ 25% of the outstanding shares, the current market value of Common Stock is used to determine the decrease in Contributed Capital. For large stock dividends, > 25%, Retained Earnings is charged the lowest amount allowed by state law, usually Par value.

III. PURCHASING TREASURY STOCK

On October 15, 2000, 500 shares of Future Horizon's Common Stock were purchased by Darin Jones for the Treasury at $10 per share. Sold 250 shares of Treasury Stock on July 15 at $12 per share.

Date	Account	DR.	CR.
April 15	Treasury Stock (500)($10)	5,000	
	Cash		5,000
	Bought 500 shares of $5 Par Common Stock for the Treasury at $10/share.		
July 15	Cash (250)($12)	3,000	
	Treasury Stock (250)($10)		2,500
	Contributed Capital, Treasury Stock		500
	Sold 250 shares of Treasury Stock at $12/share.		

Note: Treasury Stock is recorded at Cost.

IV. PRIOR PERIOD ADJUSTMENTS

In December of 2000, it was discovered that a math error had caused depreciation taken on a building to be overstated by $2,000 for 1999. The prior period adjustment required to increase the book value of the building and increase stockholders' equity would have been as follows: Assume corporate taxes of 30%.

Date	Account	DR.	CR.
Dec. 31	Accumulated Depreciation	2,000	
	Retained Earnings		1,400
	Income Taxes Payable		600
	To correct for error in recording depreciation, 1999.		