Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Chapter 12 Notes**

**Acquiring Additional Capital for a Corporation**

**12.1: Capital Stock Transactions**

* As a corporation grows, it may require additional capital to finance its expansion. A corporation can acquire additional capital by selling stock to investors or borrowing money.

*Example – Issuing Preferred Stock at Par Value:*

March 1. Received cash from Brenda Henson for 800 shares of $100.00 par value preferred stock at $100.00 per share, $80,000.00. Receipt No. 117.

*Example – Issuing Preferred Stock for More than Par Value:*

April 6. Received cash from Adam Kellogg for 300 shares of $100.00 par value preferred stock at $120.00 per share, $36,000.00. Receipt No. 127.

* **D\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on C\_\_\_\_\_\_\_\_\_\_\_\_\_ S\_\_\_\_\_\_\_\_\_\_\_** *- an amount less than par or stated value at which capital stock is sold*

*Example – Issuing Preferred Stock for Less than Par Value:*

August 9. Received cash from Hazel Deloach for 500 shares of $100.00 par value preferred stock at $90.00 per share, $45,000.00. Receipt No. 173.

*Example – Issuing Preferred Stock for Assets Other than Cash:*

October 7. Received office equipment from Steven McBee at an agreed value of $12,000.00 for 100 shares of $100.00 par value preferred stock. Memorandum No. 246.

 No. of Shares x Value per Share = Value

 Total Received 100 x $120.00 = $12,000.00

 Par Value 100 x 100.00 = 10,000.00

 Amount received in excess of par value $2,000.00

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*Example – Issuing Common Stock with No Par Value:*

July 8. Received cash from Elizabeth Griffin for 1,000 shares of no-par value common stock at $14.00 per share, $14,000. Receipt No. 148.

*Example – Issuing Common Stock with a Stated Value:*

October 10. Received cash from Alice Blake for 100 shares of $10.00 stated value common stock at $12.00 per share, $1,200.00. Receipt No. 181.

**12.2: Treasury Stock Transactions**

* **T\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ S\_\_\_\_\_\_\_\_\_\_\_\_\_\_** - *a corporation’s own stock that has been issued and reacquired*
	+ When a corporation buys treasury stock, it reduces the number of shares outstanding. However, treasury stock is still considered to be issued stock.
	+ A corporation usually intents to use the treasury stock for a specific purpose, like giving it to employees as bonus payments.
	+ Treasury stock is not an asset of a corporation.
	+ Once treasury stock is given or sold to a stockholder, it ceases to be treasury stock and is again capital stock outstanding.
	+ Treasury stock is recorded at the price paid regardless of the stock’s par or stated value.

*Example – Buying Treasury Stock:*

October 24. Paid cash to Francis Burns for 500 shares of $10.00 stated value common stock at $12.00 per share, $6,000.00. Check No. 502.

*Example – Selling Treasury Stock for Original Cost:*

November 21. Received cash from Lisa Vance for 100 shares of treasury stock at $12.00 per share, $1,200.00. Treasury stock was originally bought by LampLight on October 24 at $12.00 per share. Receipt No. 205.

*Example – Selling Treasury Stock for More than Original Cost:*

November 25. Received cash from Mary Long for 200 shares of treasury stock at $15.00 per share, $3,000.00. Treasury stock was bought on October 24 at $12.00 per share. Receipt No. 216.

*Example – Selling Treasury Stock for Less than Original Cost:*

December 22. Received cash from Frank Demetz for 50 shares of treasury stock at $10.00 per share, $500.00. Treasury stock was orignally bought October 24 at $12.00 per share. Receipt No. 229.

**12.3: Bonds Payable Transactions**

* For a growing business, the capital needed to expand may come from three sources:
1. Using \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ earnings.
2. Selling additional \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ stock.
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the funds.
* Retained Earnings:
	+ Capital needed for expansion could be accumulated from retained net income during the next 5 to 10 years. However, the business may need the additional capital within the next year.
* Selling Stock:
	+ Advantages:
		- additional capital becomes part of a corporation’s permanent capital
		- permanent capital does not have to be returned to stockholders as long as the business continues to operate
		- dividends do not have to be paid to stockholders unless earnings are sufficient enough to warrant
	+ Disadvantage:
		- ownership is spread over more shares and more owners
* Borrowing Funds:
	+ Advantage:
		- equity is not spread over additional shares of stock
	+ Disadvantage:
		- interest must be paid on the loan, which decreases net income and the amount available for dividends
		- the amount borrowed must be repaid in the future
		- large loans can be difficult to obtain for short periods or from one bank or individual
	+ **B\_\_\_\_\_\_\_\_\_\_** - *printed, long-term promise to pay a specified amount on a specified date and to pay interest at stated intervals*
		- generally run for long period of time (5, 10, or 20 years)
		- **B\_\_\_\_\_\_\_\_\_\_\_\_ I\_\_\_\_\_\_\_\_\_\_\_\_** - *all bonds representing the total amount of a loan*
			* A corporation usually sells an entire bond issue to a securities dealer who sells individual bonds to the public.

*Example – Issuing Bonds:*

July 1, 20X0. Received cash for the face value of a five-year, 12%, $1,000.00 par value bond issue, $250,000.00. Receipt No. 246.

* A year’s interest is paid to each bondholder on July 1 of each year until the bond’s maturity date.
* **\_\_\_\_\_\_\_\_\_\_\_\_\_\_** - *a person or institution, usually a bank, given legal authorization to administer property for the benefit of property owners*

*Example – Paying Interest on Bonds:*

July 1, 20X1. Paid cash to bond trustee for annual interest on bond issue, $30,000.00. Check No. 526.

* **B\_\_\_\_\_\_\_\_\_\_ S\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ F\_\_\_\_\_\_\_\_** - *an amount set aside to pay a bond issue when due*
	+ used to assure bondholders that the bond issue will be paid at maturity

*Example – Depositing Cash in a Bond Sinking Fund:*

July 1, 20X1. Paid cash to bond trustee for annual deposit to bond sinking fund, $50,000.00. Check No. 563.

*Example – Depositing Cash to Sinking Fund and Recording Income Earned:*

July 1, 20X2. Paid cash to bond trustee for annual deposit to bond sinking fund, $48,000.00, and recorded interest earned on bond sinking fund, $2,000.00. Check No. 610.

* **R\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ a B\_\_\_\_\_\_\_\_\_ I\_\_\_\_\_\_\_\_\_\_\_\_** - *paying the amounts owed to bondholders for a bond issue*
* **T\_\_\_\_\_\_\_\_\_\_\_ B\_\_\_\_\_\_\_\_\_\_** - *bonds that all mature on the same date*
* **S\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ B\_\_\_\_\_\_\_\_\_\_\_** - *portions of a bond issue that mature on different dates*

*Example – Retiring a Bond Issue:*

**July 1, 20X4. Received notice from bond trustee that bond issue was retired using bond sinking fund, $250,000.00. Memorandum No. 600.