Cihan University- Sulaimaniya

College of Administrative & financial sciences

Accounting Department
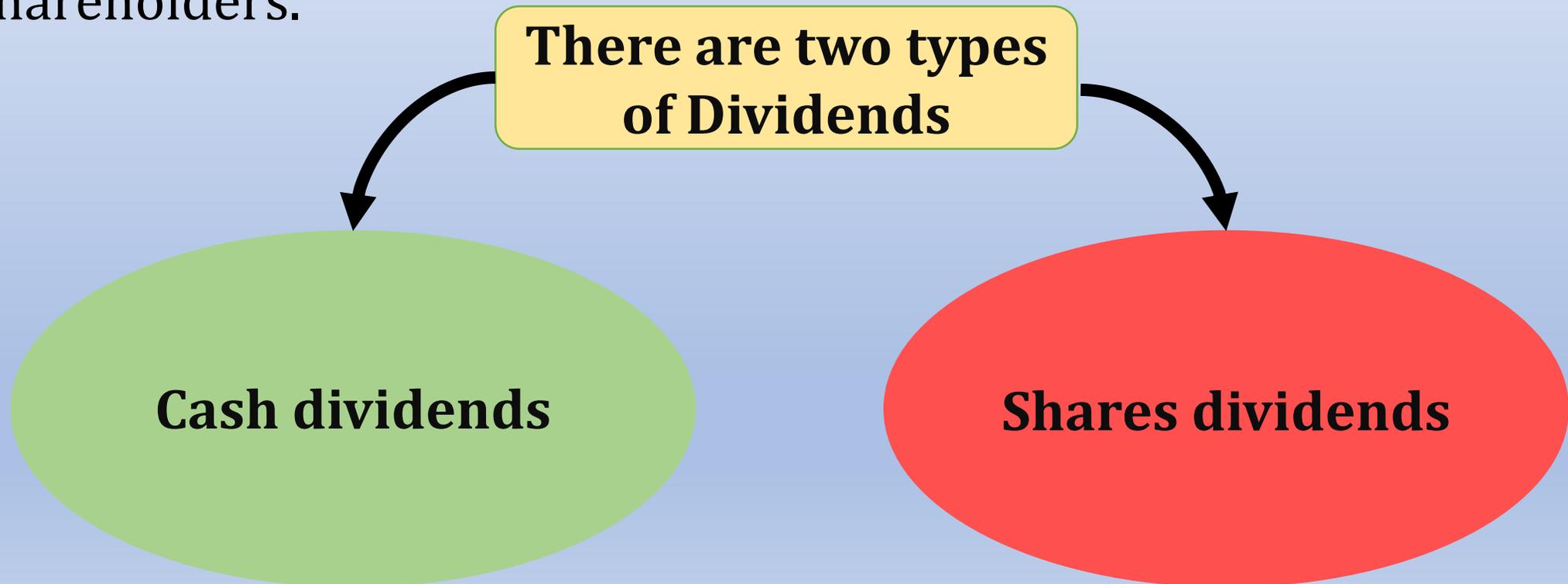
Subject :Accounting for Corporation

Second semester

Stage : 3rd

Dividends

Dr. Munadhil Abdu AL Jabbar Al Salem

Definition:

Dividends: it is a corporation distribution of cash or shares to its shareholders.

There are two types of Dividends

Cash dividends

Shares dividends

Types of Dividends

- **First: Cash dividends**

This case includes three times:

- **Declaration date:**

After declaring cash dividends, we must record the following entry:

From: Cash dividends a/c xxx

   To: Dividends payable   a/c xxx

Types of Dividends

- **Recording date:**

This date is without entry; just determine the payment date.

- **Payment date:**

When the corporation pays the Cash dividends to shareholders, the following entry must be recorded:

From: Dividends payable a/c xxx

   To: cash   a/c xxx

Example:

:: Assume on Dec 1ˢᵗ , the director of AAR. Corporation declares to cash dividends of 500,000, for the following times:

- Declaration date : 1ˢᵗ Dec 2012.

- Record date :   23ʳᵈ Dec 2012.

- Payment date :   12ᵗʰ   Jan 2013.

Required:

Record the necessary accounting entries.

Answer

- 1st Dec 2012:   From: Cash dividends a/c 500000

                          To : Dividends payable   a/c 500000

- 23rd Dec 2012: Without entry; just determine payment date in 12th Jan 2013.

- 12th Jan 2013: From Dividends payable a/c 500000

                        To: Cash   a/c500000

Types of Dividends

- **Second: Shares dividends**

In this case, we must record two entries and prepare effects of shares dividends as follows:

After declaring shares dividends, we must record the following entries:

From: shares dividends a/c xxx

    To: Ordinary shares dividends distribution a/c xxx

        Shares premium   a/c xxx

Types of Dividends

From: Ordinary shares dividends distribution a/c xxx
       To: capital shares- ordinary   a/c xxx

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Determine the effect of shares dividends:

Equity	Before	After
Capital shares- ordinary		
Shares premium		
Retained earning		
Total		

Number of shares after dividends=

Example:

Midland Corporation has a balance 300,000 in retained earnings; it declared %10 shares dividends on its 50,000 shares of 10 par value ordinary share. The current value of its share 15 per share, the number of shares to be issued 5000 (50,000 x %10) therefore the total amount to be debited to shares dividends (decrease retained earnings 75,000 (5000 x 15).

- Required:

1- Record the accounting entries.

2- Determine the effect of shares dividends.

Answer

- 50,000 x 10% = 5000   (number of dividends shares).

Issue price: 5000 x 15 = 75,000 (**amount must be paid of retained earning**)

Par value: 5000 x 10 = (50,000)
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Shares premium   25,000

Answer

<u>Record accounting entries:</u>

1- From: shares dividends a/c 75,000

    To: Ordinary shares dividends distribution a/c 50,000

      Shares premium   a/c 25,000

2- From: Ordinary shares dividends distribution a/c 50,000

    To: Capital shares – Ordinary   a/c 50,000

Answer

Determine the effect of shares dividends:

Equity	Before	After
Capital shares ordinary	500,000	550,000
Shares premium	--	25,000
Retained earning	300,000	225,000
Total	800,000	800,000

Number of shares after dividends= 55,000 shares