

Accounting for Corporation – Second semester 3rd stage

First Lecture – introduction of the corporation:

Corporation definition: An entity according to law that is separate from its owners.

Characteristics of Corporations:

- 1- Separate legal entity
- 2- Limited liability of shareholders
- 3 - Transferable ownership rights
- 4- Continuous life
- 5- Ease of capital accumulation

Advantages and Disadvantages of a Corporation

Disadvantages	Advantages
Corporation management-separation of ownership and management	Separate legal existence Limited liability of shareholders
Government regulations	Transferable ownership rights
Additional taxes	Ability to acquire capital
	Continuous life
	Corporation management – professional managers

Organization Costs

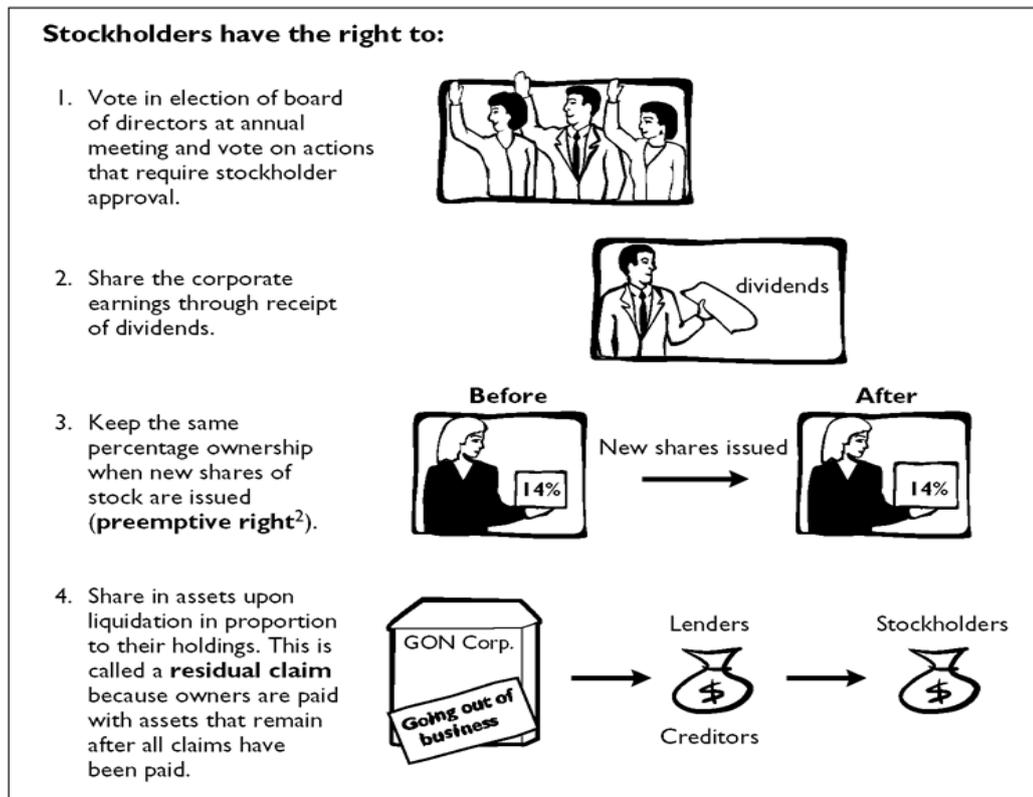
- 1- Costs incurred in forming a corporation
- 2- includes legal fees, state fees and promotional expenditures
- 3- Expensed as incurred since it is so difficult to determine the amount and timing of future benefits.

Ownership Rights of Shareholders

1. Vote in election of company board.
2. Share in corporate earnings through the receipt of dividends
3. **Preemptive right:** old shareholders are keeping the same percentage ownership when additional shares of ordinary

4. **Residual claim:** Share in assets upon liquidation

Ownership Rights of Shareholders



Shares capital can be classified as follows:

1-Authorized share Capital: is the maximum share capital that a company can issue

2-Issued share Capital: is a part of share capital that is issued for . subscription by the company. It cannot exceed company's authorized share capital

3-Subscribed share Capital: is a part of issued share capital, which is . applied for subscription.

Shares types:

1- Preferred shares: shares that has special rights that give it priority over ordinary shares in one or more areas

2- Ordinary shares: shares issued by the corporation and its owners has the right in vote, profit, liquidation share.

Par value share :

1-Capital share that has been assigned a value per share in the corporate contract.

2-Represents the legal capital per share.

No-par share:

Capital share that has not been assigned a value in the corporate contract.

Relationship of Par And No-Par Value Share to Legal Capital

Stock	Legal Capital per Share
Par value	→ Par value
No-par value with stated value	→ Stated value
No-par value without stated value	→ Entire proceeds

Corporation Capital:

Calculate and recording the corporation capital:

- **Par value:**
payment by sum.
Payment by parts.

with premium

- **No par value:** without premium

- Par value :

1- Payment by Sum:

Calculate Corporation Capital:

Collection in cash xxx

Capital shares – ordinary (xxx)

Shares premium – ordinary xxx

Recording Accounting Entry:

From: Cash xxx

To: Capital shares – ordinary xxx

 Shares Premium – ordinary xxx

2-Payment by parts:

Calculate corporation capital

 Total Amount xxx

 Capital shares – ordinary (xxx)

 Shares Premium – ordinary xxx

Recording accounting entry:

From: Subscription Receivable xxx

To: Capital shares – ordinary Sub. xxx

 Shares Premium – ordinary xxx

First payment:

From: Cash xxx

To: Subscription Receivable xxx

Second payment:

From: Cash xxx

To: Subscription Receivable xxx

Convert entry:

From: Capital shares – ordinary Sub. xxx

To: Capital shares – ordinary xxx

- **No par value :**

From: Cash xxx

To: Capital shares – ordinary xxx

Q1: Record the Accounting entries for the following cases:

- A- Ordinary shares issued, par value\$ 5 per each on 100000 shares, the sale price \$15 collection cash.
- B- Ordinary shares issued, par value\$ 10 per each on 50000 shares, the sale price \$15 collection cash.
- C- Blue Diamond Corporation issued 300 shares of \$10 par value Ordinary shares for \$4,500.

Q2: Record the Accounting entries for the following cases:

- A- Ordinary shares issued 50000 shares; par value \$10 each, issuance price is \$ 15 each collected in subscription basis, first payment 60%, and second payment 40% .
- B- Video Electronics Corporation is organized with 10,000 shares authorized without par value. If Video Electronics issues 500 shares for cash at \$10 per share.

Q3: Record the Accounting entries for the following cases:

- A- Preferred shares issued, par value \$100 per each on 20000 shares, issuance price\$ 110 collection cash.
- B- Ordinary shares issued 100000 shares; par value\$ 5 each, issuance price is \$ 15 each collected in subscription basis, first payment 60%, and second payment 40%.