

Accounting for Corporation – Second semester 3rd stage

Second Lecture –: Retained Earnings – Treasury Shares Dividends preferences – Shareholders presentation

1- Retained Earnings

Retained earnings are net income that is retained in the corporation. Net income is recorded in Retained Earnings by a closing entry in which Income Summary is debited and Retained Earnings is credited.

For example, if net income for Delta Robotics is \$130,000 in its first year of operations, the closing entry is:

Account Titles and Explanation	Debit	Credit
Income Summary	130,000	
Retained Earnings (To close income summary and transfer net income to retained earnings)		130,000

Retained Earnings statement:

RRE Corporation Retained earnings Statement For the year ended Dec. 31 20xx

Balance in jan . 1	XXX
Correction for under statement or over statement of income (inventory or depreciation)	+ - XXX
<hr/>	
Balance jan. 1 (as adjusted)	XXX
Add: Net income	XXX
Less: Dividends: Cash xxx	
Shares xxx	(xxx)
Balance at 31 Dec. 20xx	XXX

Q:4: KKR Corporation has retained earnings 5,130,000 on Jan 1 ,2011. During the year KKR net income 2,000,000, it decided and paid 250000 Cash and 150,000 shares dividends, KKR recorded and adjustment 180000 understatement (from mathematical error) of 2010 depreciation expense.

Prepare Retained earnings statement for 2011.

Q:5: Kurdistan Corporation has retained earnings 6,200,000 on Jan 1 ,2010. During the year Kurdistan net income 2,500,000, it decided and paid 300000 cash and 120000 shares dividends, Kurdistan recorded and adjustment 150000 overstatement (from mathematical error) of 2009 inventory error.

Prepare Retained earnings statement for 2010.

2- Treasury shares:

Corporation's shares that has been issued, fully paid for, and reacquired but not retired. (The corporation buys itself) Why?

1 -To re-issue the shares.

2- To increase trading by support of market value

3- To reduce the number of shares to increase earnings per share.

Purchase of Treasury Shares

When purchase the shares Under the cost method, Treasury Shares is debited account cash is credited .

Q6: If Mead, Inc. has 100,000 shares of \$5 par value ordinary shares outstanding (all issued at par value) and it decides to acquire 4,000 shares of its share at \$8 per share, the entry is:

$$\underline{4000 \times 8 = 32,000}$$

From : Treasury Shares	32,000
To : Cash	32,000

Sale of Treasury Shares

The corporation after purchase shares it decided to sale the same shares there are two methods:

1- Sale of Treasury shares above Cost

Assume that 1,000 shares of treasury share of Mead, Inc., previously acquired at \$8 per share, are sold at \$10 per share on July 1. The entry is:

From : Cash	10,000	
To : Treasury Shares		8000
<u>Share premium – Treasury</u>		<u>2000</u>

2- Sale of Treasury Shares below Cost

Assume instead that Mead, Inc. sells an additional 800 shares of treasury shares on October 1 at \$7 per share, the entry is:

From : Cash		5,600
Share premium – Treasury	800	
<u>To : Treasury Shares</u>		<u>6,400</u>

Q7:

Purchase of Treasury shares

A: If KAA corporation has 300,000 shares of \$8 par value ordinary shares outstanding (all issued at par value) and it decides to acquire 10,000 shares of its shares at \$12 per share, the entry is:

Sale of Treasury shares

B: Assume that 8,000 shares of treasury shares of KAA, corporation., previously acquired at \$12 per share, are sold at \$15 per share on July 1. The entry is:

C: Assume instead that KAA, corporation. sells an additional 6000 shares of treasury shares on October 1 at \$10 per share, the entry is:

3- Dividend Preferences:

Cumulative dividend:

- Preferred shareholders must be paid both current and prior year dividends before ordinary shareholders receive any dividends

Dividends in arrears:

- Preferred dividends not declared in a given period

Q8 - In 2012, MAS Company is to distribute \$50,000 as cash dividends, its outstanding ordinary shares have a par value of \$400,000, and its 6 percent preferred shares have a par value of \$100,000. If the preferred shares are **non-cumulative**.

	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
6% of \$100,000	\$6,000		\$ 6,000
The remainder to common		\$44,000	44,000
Totals	<u>\$6,000</u>	<u>\$44,000</u>	<u>\$50,000</u>

Q9 - In 2012, MAS Company is to distribute \$50,000 as cash dividends, its outstanding ordinary shares has a par value of \$400,000, and its 6 percent preferred shares has a par value of \$100,000. If the preferred shares is **cumulative** and MAS Company did not pay dividends on the preferred shares in the preceding two years:

	<u>Preferred</u>	<u>Common</u>	<u>Total</u>
Dividends in arrears, 6% of \$100,000 for 2 years	\$12,000		\$12,000
Current year's dividend, 6% of \$100,000	6,000		6,000
The remainder to common		\$32,000	32,000
Totals	<u>\$18,000</u>	<u>\$32,000</u>	<u>\$50,000</u>

4- Shareholder Equity Presentation and Analysis:

1- Presentation:

RRT Company
Shareholders Equity Statement
For the year ended 31 Dec. 20xx

Capital Shares:

Preferred Shares (par value)	XXX	
Ordinary Shares (par value) or Stated value	XXX	
<u>Ordinary shares dividend distribution (xxx) shares</u>	<u>XXX</u>	
Total Capital shares		XXX
Add: shares – premium – preferred	XXX	
shares – premium – ordinary	XXX	
<u>shares – premium - Treasury</u>	<u>XXX</u>	<u>XXX</u>
paid in Capital		XXX
Add: <u>Retained Earning</u>		<u>XXX</u>
Total paid in capital and retained earning		XXX
Less: <u>Cost of treasury shares</u>		<u>(XXX)</u>
Balance of Shareholders equity at 31Dec. 20xx		XXXX

Q10: The following are the information from MCC. Company:

- 1 -Preferred shares \$100 par value of 40,000 shares issued and outstanding
- 2 -Ordinary shares no par. stated value10 per shares, 500,000 shares.
- 3 -Ordinary shares dividends distribution 30,000 shares.
- 4 -Shares premium - Preferred 250,000.
- 5 -Shares premium - Ordinary 940,000.
- 6 -Retained earnings 5,360,000.
- 7-Cost of treasury shares 290,000.

1- Prepare shareholders equity presentation.

2- Compute book value per share (ordinary).

2- Analysis:

by the following equations:

$$\text{Rate of return on ordinary shareholder equity} = \frac{\text{Net income} - \text{preferred Dividends}}{\text{Average of ordinary shareholders equity}} \times 100$$

$$\text{Average of ordinary shareholders equity} = \frac{\text{ordinary shares equity at beginning} - \text{ordinary shares equity at ended}}{2}$$

$$\text{Pay - out Ratio} = \frac{\text{Cash dividends}}{\text{Net income} - \text{Preferred Dividends}} \times 100$$

$$\text{Book value per ordinary share} = \frac{\text{Total ordinary shareholders equity}}{\text{number of ordinary shares}}$$

Q11: On January 1st, 2011 **RRW**. Corporation purchased 1000 treasury shares, other information regarding **RRW** Corporation is provided below.

explanation	2011	2012
Net income	230000	260000
Dividends in preference shares	50000	50000
ordinary shares equity beginning of year	740000	730000
ordinary shares equity end year	700000	870000
Cash dividends	110000	120000

1- Calculate rate of return on ordinary shares equity for two years.

2- Compute pay-out ratio for two years.