

Stockholders' Equity Accounts for a Corporation

A corporation's ownership is divided into units. Each unit of ownership in a corporation is known as a share of stock. An owner of one or more shares of stock is known as a stockholder. Each stockholder is an owner of a corporation.

Owners' equity accounts for a corporation normally are listed under a major chart of accounts division titled "Stockholders' Equity".

Most corporations have many stockholders. It is not practical to have a separate owner's equity account for each stockholder. Instead, a single owners' equity account, titled "Capital Stock", is used for the investment of all owners.

STOCKHOLDERS' EQUITY (3000)

- 3110 Capital Stock
- 3120 Retained Earnings
- 3130 Dividends
- 3140 Income Summary

A second stockholders' equity account is used to record a corporation's earnings. Net income increases a corporation's total stockholders' equity. Some income may be retained by a corporation for business expansion. An amount earned by a corporation and not yet distributed to stockholders is called retained earnings. "Retained Earnings" is the title of the account used to record a corporation's earnings.

Some income may be given to stockholders as a return on their investments. A third stockholders' equity account is used to record the distribution of a corporation's earnings to stockholders. Earnings distributed to stockholders are called dividends. A corporation's dividend account is a temporary account, similar to a sole proprietorship's drawing account. Each time a dividend is declared, an account titled "Dividends" is debited. At the end of each fiscal period, the balance in the dividends account is closed to Retained Earnings.

Declaring a Dividend

A group of persons elected by the stockholders to manage a corporation is called a board of directors. Dividends can be distributed to stockholders only by formal action of a corporation's board of directors. Action by a board of directors to distribute corporate earnings to stockholders is called declaring a dividend. Dividends normally are declared on one date and paid on a later date. If a board of directors declares a dividend, the corporation is then obligated to pay the dividend. The dividend is a liability that must be recorded in the corporation's accounts.

Example: On December 15, 2018, Hobby Shack's board of directors declared a quarterly dividend on \$2.00 per share; capital stock issued is 2,500 shares; total dividend, \$5,000.00. Date of payment will be January 15, 2019. Memorandum No. 79.

GENERAL JOURNAL

PAGE 1

Date	Account Title	Doc. No.	Post. Ref.	Debit					Credit					
December 15	Dividends	M79		5	0	0	0	00						
	Dividends Payable								5	0	0	0	00	

Paying a Dividend

Example: On January 15, 2019, paid cash for quarterly dividend declared on December 15, \$5,000.00. Check No. 379.

CASH PAYMENTS JOURNAL

PAGE 1

Date	Account Title	Ck. No.	Post Ref.	General								Accounts Payable DR	Purchases Discount CR	Cash CR				
				Debit				Credit										
January 15	Dividends Payable	379		5	0	0	0	00						5	0	0	0	00

PRACTICE PROBLEM 1: COASTAL AQUATICS

Coastal Aquatics completed the following transactions during December 2018 and January 2019.

December 15 The board of directors declared a dividend of \$3.00 per share; capital stock issued is 1,750 shares. M162.

January 15 Paid cash for dividend declared December 15. Check No. C687.

GENERAL JOURNAL

PAGE 1

Date		Account Title	Doc. No.	Post. Ref.	Debit				Credit			

CASH PAYMENTS JOURNAL

PAGE 1

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				Debit				Credit							

PRACTICE PROBLEM 2: SONOMA TREASURES

Sonoma Treasures completed the following transactions during March 2019 and April 2019.

March 15 The board of directors declared a dividend of \$1.00 per share; capital stock issued is 21,000 shares. M321.

April 15 Paid cash for dividend declared March 15. Check No. C721.

GENERAL JOURNAL

PAGE 1

Date		Account Title	Doc. No.	Post. Ref.	Debit				Credit			

CASH PAYMENTS JOURNAL

PAGE 1

Date	Account Title	Ck. No.	Post Ref.	General								Accounts Payable DR	Purchases Discount CR	Cash CR	
				Debit				Credit							

REVIEW QUESTIONS

- Under what major chart of accounts division are the owners' equity accounts for a corporation normally listed?
- How many accounts are kept for the investment of all owners of a corporation? What is it called?
- What account does a corporation use to record earnings not yet distributed to stockholders?
- What action is required before a corporation can distribute income to its stockholders?