

Stock dividends

- Affect only stockholders equity accounts i.e. RE and Common Stock
- Have no effect on total stockholders equity.

Stock dividends to be distributed to stockholders are proportionate to the number of shares they already own. Example. Suppose you own 300 shares of common stock. The company distributes a 10% stock dividend. You would now receive 30 additional shares and would now have 330 shares but you would be in the same position as before in terms of percentage ownership.

Stock dividends are issued

- To continue dividends but conserve on cash for investment purposes
- To reduce the market price of its stock so as to make it more attractive to investors.

Recording Stock Dividends

Small stock dividends i.e. less than 20% - 25%

Dr Retained Earnings (with the MV of shares)

Cr Common Stock (Par value)

Cr Paid-in Capital in Excess of Par

Note that a stock dividend merely rearranges the Stockholders equity section of the BS and therefore has no effect on total stockholders equity.

• **Liquidating Dividend**

A liquidating dividend occurs when a corporation pays a dividend that exceeds the balance on the retained earnings account. Shareholders therefore get part of paid-in capital as well. Liquidating dividends are usually paid when a corporation is going out of existence or making a permanent reduction in the size of its operations. Where this is the case, shareholders would be notified by the corporation.

• **Stock Split**

A stock split is different from a stock dividend. A stock split increases the number of authorized, issued and outstanding shares of stock. A stock split is coupled with a proportionate reduction in the stocks par value. In the case of a stock dividend the par value of the stock remains unchanged. The intention of a stock split is to make the shares of the company more affordable.

Example

Common stock, \$1.00 par, 500,000 shares authorized, 100,000 issued \$100,000

After 2 for 1 stock split

Common stock, \$0.50 par, 1,000,000 shares authorized, 200,000 shares issued \$100,000

Stockholders equity does not change and no accounts would be affected. A stock split is recorded in a memorandum entry in the financial statements.