

PRINCIPLES OF ACCOUNTING II
ACC 122

STOCK DIVIDENDS

General Information:

1. Rather than pay cash to shareholders, management may decide to issue additional shares of the company's own stock in the form of a dividend.
2. This may be done to keep the market price of the company's stock reasonable; provide evidence of management's confidence that the company is doing well; and conserve the company's cash.
3. The effect of the stock dividend on stockholder's equity is part of Retained Earnings is transferred to the contributed capital accounts.

Types of Stock Dividends:

Small Stock Dividend

-Equal to less than 25% of the previously outstanding shares.

-Recorded at market value of shares issued.

Large Stock Dividend

-Equal to 25% or more of the previously outstanding shares.

-Usually recorded at par or stated value of the newly issued shares.

Journal Entries:

Small Stock Dividend

Declared a 5% stock dividend (50,000 shares issued and outstanding, \$10 par value) on December 10, 19X1, payable to stockholders of record on December 23, 19X1 and distributed on January 26, 19X2. Stock was selling for \$14 per share in the market.

December 10, 19X1	Retained Earnings	35,000	
	Common Stock Dividend Distributable		25,000
	Contributed Capital in Excess of Par Value, Common Stock		10,000
		(50,000 shares x 5% = 2,500 shares x \$14 = \$35,000)	
December 23, 19X1	No entry required		
January 26, 19X2	Common Stock Dividend Distributable	25,000	
	Common Stock		25,000