

# Equity Transactions

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# Restricted Stock

Restricted stock represents shares of stock granted to executives that carry restrictions as to their disposal. Typically the holder is prohibited from selling the stock for a period of time (3-5 years). The accounting for restricted stock is straightforward.

Example: On 1/1/00 ABC Co. grants 100,000 shares. The shares have a fair market value of \$30 per share, par value of \$1 per share and are restricted for a minimum of 5 years:

Dr. Unearned Compensation	\$3,000,000	
Cr. Common Stock		\$100,000
Cr. Additional-Paid-In-Capital		\$2,900,000

At the end of each year, you would record:

Dr. Compensation Expense	\$600,000	
Cr. Unearned Compensation		\$600,000

Coca Cola provides an example of the use of restricted stock.

SUMMARY COMPENSATION TABLE

Stock		<u>Salary</u>	<u>Bonus</u>	<u>Awards</u>
M. Douglas Ivester	1999	\$1,354,167	\$ 0	\$ 0
Former Chairman of	1998	1,250,000	1,500,000	16,875,000
The Board and Chief	1997	856,250	2,000,000	8,840,625
Executive Officer				

SHARE-OWNERS' EQUITY

Common Stock, \$.25 par value			
Authorized: 5,600,000,000 shares			
Issued: 3,466,371,904 shares in 1999;			
3,460,083,686 shares in 1998		867	865
Capital surplus		2,584	2,195
Reinvested earnings		20,773	19,922
Accumulated other comprehensive income			
And unearned compensation on			
restricted stock		(1,551)	(1,434)
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		22,673	21,548
Less treasury stock, at cost			
(994,796,786 shares in 1999;			
994,566,196 shares in 1998)		13,160	13,145
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		9,513	8,403
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# Treasury Stock

From time to time firms will repurchase their own stock.

Example: Sears Roebuck

## SHARE REPURCHASES

During 1999, the Company repurchased 16.4 million shares of its common stock for \$570 million under its February 1998 share repurchase program related to employee stock-based incentive plans and its March 1999 \$1.5 billion repurchase plan. As of the end of 1999, the Company has the capacity to repurchase \$1.04 billion of shares under the March 1999 \$1.5 billion repurchase plan.

SHAREHOLDERS' EQUITY

Common shares (\$.75 par value per share, 1,000 shares authorized, 369.1 and 383.5 shares outstanding)	323	323
Capital in excess of par value	3,554	3,583
Retained earnings	5,952	4,848
Treasury stock-- at cost	(2,569)	(2,089)
Deferred ESOP expense	(134)	(175)
Accumulated other comprehensive income	(287)	(424)
TOTAL SHAREHOLDERS' EQUITY	<u>6,839</u>	<u>6,066</u>

Excerpt from Sears Roebuck Statement of Shareholders  
Equity - Dollars in millions, shares in thousands

	Common Shares <u>Outstanding</u>	Common Stock <u>Stock</u>	Capital In excess <u>Of Par</u>	Treasury <u>Stock</u>
Balance Beginning of year				
1997	391,394	\$323	\$3,618	\$(1,655)
Stock options exercised	2,936		(20)	123
Shares repurchased	(3,442)			(170)
Balance end of year	390,888	323	3,598	(1,702)
1998				
Stock options exercised	3,263		(15)	141
Shares repurchased	(10,643)			(528)
Balance end of year	383,508	323	3,583	(2,089)
1999				
Stock options exercised	2,041		(29)	90
Shares repurchased	(16,421)			(570)
Balance end of year	369,128	323	3,554	(2,569)

Recreate the entries for the stock option exercises and the shares repurchased.

1997 Share Repurchase

1997 Option Exercise

What is the average price Sears paid to repurchase their shares over this three year period?

What is the average exercise price of options exercised by employees in 1999?

# Journal Entries for Treasury Stock Transactions

Cost Method:

Acquisition

Dr. Treasury Stock

    Cr. Cash

Sale

Dr. Cash

Dr./Cr. APIC-TS

    Cr. Treasury Stock (at cost)

Note that the APIC -TS account cannot have a debit balance any remaining excess comes out of retained earnings.





Suggested Textbook Problems:

Restricted Stock

E18-11, E18-12

Employee Stock Options

E 18-14, E18-16

Treasury Stock

P19-2, P 19-3 (cost method only)