

# On June 1, B. Penelope Company Issues 5,000 Shares Of \$5 Par Value Common Stock For \$210,000. Use The

On June 1, B. Penelope Company Issues 5,000 Shares Of \$5 Par Value Common Stock For \$210,000. Use The event as a fundamental example to understand the intricacies of stock issuance, par value, and the accounting treatments involved. This article delves into the details of this transaction, exploring key concepts such as stock issuance, par value, premium on stock, journal entries, and the impact on financial statements. Whether you are a student of accounting, a business owner, or an investor looking to enhance your understanding of corporate finance, this comprehensive guide will clarify how companies handle stock issuance and report it accurately.

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## Introduction to Stock Issuance and Par Value

When a company seeks to raise capital, one of the most common methods is issuing shares of stock to investors. The process involves several important terms and concepts, notably par value, stock premium, and issuance price.

Par value is a nominal value assigned to a share of stock by the company at the time of incorporation. It is a legal minimum per-share amount that the company must maintain in its capital account. In many cases, par value is set at a very low amount, such as \$0.01 or \$1, to minimize legal liabilities.

Stock issuance price or issue price refers to the actual price at which shares are sold to investors. This price can be equal to, less than, or above the par value, leading to different accounting treatments, such as recording stock premium when shares are issued above par value.

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## Details of the June 1 Transaction

Let's analyze the specific transaction:

- Date: June 1
- Company: B. Penelope Company
- Number of Shares Issued: 5,000
- Par Value per Share: \$5
- Total Amount Received: \$210,000
- Issue Price per Share: Calculated based on total amount received and number of shares

Calculating the Issue Price Per Share

To understand the transaction fully, determine the price at which each share was issued:

$$\begin{aligned} \text{Issue Price per Share} &= \frac{\text{Total Cash Received}}{\text{Number of Shares}} = \\ \frac{\$210,000}{5,000} &= \$42 \end{aligned}$$

This indicates that each share was sold at \$42, which is above the par value of \$5, leading to a stock premium.

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# Accounting for the Stock Issuance

Proper accounting treatment ensures that the company's financial statements reflect this transaction accurately. The key components include:

- 1. Recording the Par Value of Shares
- 2. Recognizing the Additional Paid-in Capital (Stock Premium)
- 3. Recording Cash Received

## Journal Entry for the Transaction

The journal entry on June 1 would be:

| Account                     | Debit     | Credit    |
|-----------------------------|-----------|-----------|
|                             |           |           |
| Cash                        | \$210,000 |           |
| Common Stock, \$5 Par Value |           | \$25,000  |
| Additional Paid-in Capital  |           | \$185,000 |

## Explanation:

- The Cash account increases by \$210,000, reflecting the cash inflow.
- The Common Stock account increases by the total par value of issued shares:  
 $( 5,000 \times \$5 = \$25,000 )$
- The excess amount over the par value, i.e.,  
 $( \$210,000 - \$25,000 = \$185,000 )$ , is recorded as Additional Paid-in Capital (also called Share Premium).

## Breakdown

- Common Stock (at par): Reflects the legal capital associated with the shares issued.

- Additional Paid-in Capital: Represents the amount paid by investors above the par value, indicating investor confidence and company valuation.

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## Impact on Financial Statements

The issuance affects multiple financial statement components:

### Balance Sheet

- Assets: Cash increases by \$210,000
- Shareholders' Equity:
- Common Stock: Increases by \$25,000
- Additional Paid-in Capital: Increases by \$185,000

### Income Statement

- No immediate impact; the transaction affects the equity section directly.

### Statement of Cash Flows

- Cash inflow from financing activities: \$210,000

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## Why Par Value Matters in Stock Transactions

Although par value is a nominal figure, it has legal and accounting significance:

- Legal Capital: Represents the minimum amount of equity that must be retained in the company.
- Accounting Treatment: Ensures clarity in recording stock transactions and distinguishing between par value and premium.

Key Points:

- Issuing stock above par value results in additional paid-in capital.
- Issuing stock at or below par value can have legal implications, and some jurisdictions restrict or disallow issuance below par value.
- Par value is largely a historical artifact in modern corporate finance; many companies issue no-par stock.

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## **Alternative Scenarios and Their Accounting Treatments**

While the above example involves issuance above par value, other scenarios include:

### **1. Issuing Stock at Par Value**

- Example: 5,000 shares at \$5 par, issued for exactly \$25,000.
- Journal Entry:
  - Debit Cash \$25,000
  - Credit Common Stock \$25,000
- No additional paid-in capital involved

### **2. Issuing Stock Below Par Value**

- Generally prohibited or illegal in many jurisdictions.
- If it occurs, it might require legal or accounting adjustments.

### 3. No-Par Stock

- Companies may issue no-par stock, simplifying accounting.
- The entire proceeds are credited directly to the stock account.

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## Importance of Proper Stock Issuance Recording

Accurate recording of stock issuance is crucial for:

- Ensuring compliance with legal requirements
- Properly reflecting the company's equity structure
- Providing transparency to investors and stakeholders
- Calculating key financial ratios and metrics

Key Points to Remember:

- Always distinguish between par value, issue price, and premium.
- Record the cash inflow immediately.
- Allocate the proceeds appropriately between common stock (at par) and additional paid-in capital (above par).

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## Conclusion

The event on June 1 involving B. Penelope Company issuing 5,000 shares of \$5 par value common stock for \$210,000 is an exemplary case illustrating fundamental concepts in corporate finance and accounting. The transaction underscores the importance of understanding par value, how to record stock issuance, and the implications for a company's financial health.

Through proper journal entries and transparent reporting, companies can maintain accurate financial statements that reflect their true equity position. This process also highlights why investors and analysts pay close attention to stock issuance details, as they impact ownership, control, and valuation.

In summary, the issuance of stock at a premium signifies investor confidence and provides essential capital for the company's growth, while proper accounting ensures legal compliance and financial clarity. Mastery of these concepts is vital for anyone involved in corporate finance, accounting, or investment analysis.

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Keywords: stock issuance, par value, common stock, stock premium, accounting for stock issuance, B. Penelope Company, financial statements, equity, additional paid-in capital, journal entries, corporate finance

## Frequently Asked Questions

**What is the journal entry for B. Penelope Company issuing 5,000 shares of \$5 par value common stock for \$210,000 on June 1?**

Debit Cash \$210,000; Credit Common Stock \$25,000 (5,000 shares x \$5 par); Credit Additional Paid-

In Capital \$185,000.

## **How does the issuance of common stock at a price above par affect the company's financial statements?**

It increases cash and equity accounts, specifically increasing common stock at par value and additional paid-in capital, thereby boosting shareholders' equity.

## **What is the significance of the \$5 par value in this stock issuance?**

The \$5 par value sets a nominal legal value per share, used to determine the minimum amount recorded in common stock; any amount over par is recorded as additional paid-in capital.

## **Why might a company choose to issue stock at a premium, like in this case with \$210,000 for 5,000 shares?**

Issuing stock at a premium reflects investor confidence, provides additional capital beyond the par value, and can help fund growth or reduce debt.

## **How is the \$210,000 proceeds from stock issuance allocated in the company's accounts?**

It is allocated by debiting cash for \$210,000, crediting common stock at par value (\$25,000), and crediting additional paid-in capital for the remaining amount (\$185,000).

## **What impact does this stock issuance have on B. Penelope Company's earnings per share (EPS)?**

The issuance increases the total number of shares outstanding, which may dilute EPS unless the proceeds are used for profitable investments.



## **Are there any legal or accounting considerations when issuing stock at a price above par value?**

Yes, the company must properly record the common stock and additional paid-in capital, and ensure compliance with securities regulations and accounting standards.

## **How does this stock issuance affect the company's stockholders' equity section on the balance sheet?**

It increases total stockholders' equity through the addition of common stock at par and additional paid-in capital, reflecting increased investment from shareholders.

## **What are the potential reasons B. Penelope Company might choose to issue 5,000 shares for \$210,000?**

Reasons include raising capital for expansion, strengthening the balance sheet, funding new projects, or improving liquidity.

## **Additional Resources**

Understanding the Issuance of Common Stock: A Deep Dive into B. Penelope Company's June 1 Transaction

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### **Introduction**

When analyzing corporate financial activities, the issuance of common stock is a fundamental event that impacts a company's capital structure, equity base, and overall financial health. On June 1, B. Penelope Company issued 5,000 shares of \$5 par value common stock for \$210,000. This transaction

provides a rich case study to explore various accounting principles, journal entries, and implications for financial statements. In this comprehensive review, we will delve into the details of this issuance, examining its components, accounting treatment, and broader significance.

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## The Basics of Stock Issuance

### Common Stock and Par Value

Common stock represents ownership in a corporation, conferring voting rights and potential dividends. The par value is a nominal value assigned to each share, often set at a minimal amount (e.g., \$5). Par value has little relation to the stock's market value but serves legal and accounting purposes.

### Issue Price

The issue price is the actual price at which shares are sold to investors—in this case, \$210,000 for 5,000 shares. This price may be above, equal to, or below the total par value of the shares issued.

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## Breakdown of the Transaction

Number of Shares Issued: 5,000

Par Value per Share: \$5

Total Par Value of Shares Issued:

$$[ 5,000 \text{ shares} \times \$5 = \$25,000 ]$$

Total Cash Received: \$210,000

Difference (Paid-in Capital in Excess of Par):

$$\$210,000 - \$25,000 = \$185,000$$

This difference is often recorded as Paid-in Capital in Excess of Par or Additional Paid-in Capital.

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## Accounting Treatment

### Step 1: Recognize Cash Received

The company receives \$210,000 in cash, which increases its assets.

### Step 2: Record the Common Stock at Par Value

The common stock account increases by the total par value of the shares issued, i.e., \$25,000.

### Step 3: Record Additional Paid-in Capital

The excess over par (\$185,000) is credited to Paid-in Capital in Excess of Par, reflecting amounts paid by investors above the nominal par value.

Journal Entry:

| Debit                                      | Credit    |
|--------------------------------------------|-----------|
| -----                                      | -----     |
| Cash                                       | \$210,000 |
| Common Stock, \$5 par (5,000 shares × \$5) | \$25,000  |
| Paid-in Capital in Excess of Par           | \$185,000 |

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## Implications for Financial Statements

### Balance Sheet

- Assets:
  - Cash increases by \$210,000.
- Equity:
  - Common Stock increases by \$25,000 (par value).
  - Paid-in Capital in Excess of Par increases by \$185,000.

This enhances the company's equity base without affecting liabilities.

### Income Statement

- No immediate impact. The transaction increases assets and equity but doesn't affect net income.

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### Significance of the Transaction

#### 1. Capital Structure and Financial Flexibility

Issuing stock provides B. Penelope Company with necessary capital for expansion, paying off debt, or other operational needs. It also affects leverage ratios and overall financial stability.

#### 2. Shareholder Equity Composition

This issuance increases the common equity, which can influence investor perception, creditworthiness, and stock valuation.

### 3. Market Perception and Investor Confidence

A successful issuance at a significant premium (i.e., total proceeds of \$210,000 for 5,000 shares with a par value of only \$25,000) indicates investor confidence and potentially a strong market reputation.

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### Additional Considerations

#### 1. Market Conditions and Pricing

- The issuance price of \$210,000 suggests the shares were sold at a premium over the total par value, implying strong demand or positive company prospects.

#### 2. Legal and Regulatory Aspects

- Proper authorization by the board of directors is essential before issuing new shares.
- Compliance with securities laws and filings may be required.

#### 3. Impact on Earnings and Dilution

- Although issuing stock doesn't directly impact earnings, increased equity can dilute existing shareholders' ownership percentage if not proportionally offset.

#### 4. Future Stock Transactions

- The company may consider stock splits, dividends, or buybacks later, which can influence the per-share metrics and investor perception.

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## Broader Context: Comparing Stock Issuance to Other Financing Methods

### Debt Financing

- Borrowing funds incurs interest and principal repayment obligations but doesn't dilute ownership.

### Equity Financing (Stock Issuance)

- Does not require repayment but dilutes ownership and voting rights.

### Hybrid Instruments

- Convertible bonds or preferred stock offer features of both debt and equity.

In B. Penelope's case, issuing common stock provides a non-debt means of raising capital, suitable for companies seeking to avoid debt burdens.

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## Potential Challenges and Risks

### 1. Dilution of Ownership

Existing shareholders may experience dilution of control or earnings per share if new shares are issued in large quantities.

### 2. Market Perception

If the stock is issued at a price significantly above book value, it could signal confidence but may also raise questions about valuation.

### 3. Future Shareholder Expectations

New shareholders might expect dividends or influence, impacting corporate governance.

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#### Strategic Use of the Funds

The company must plan how to utilize the proceeds effectively. Common uses include:

- Expanding operations.
- Investing in research and development.
- Paying off existing debt.
- Acquiring other businesses.

Effective deployment of capital can lead to increased profitability and shareholder value.

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#### Concluding Thoughts

The June 1 issuance of 5,000 shares of \$5 par value common stock at \$210,000 by B. Penelope Company exemplifies a strategic move to bolster its financial standing through equity financing. This transaction, when properly accounted for, reflects a significant inflow of cash, an increase in common equity, and a substantial premium over par value.

For investors, analysts, and stakeholders, understanding this process is vital for assessing the company's financial health, growth strategy, and future prospects. It underscores the importance of clear accounting practices, strategic capital allocation, and transparency in corporate financing activities.

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## Final Remarks

As with any issuance of stock, B. Penelope Company must communicate effectively with its shareholders and the market to ensure transparency and maintain trust. Proper recording and reporting of this transaction not only comply with accounting standards but also provide a foundation for sound financial analysis and decision-making.

This detailed examination highlights the multifaceted nature of stock issuance transactions, emphasizing their significance in corporate finance and strategic growth.

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