

On May 10, Sarasota Corporation Issues 2,800 Shares Of \$10 Par Value Common Stock For Cash At \$20 Per

Introduction

Overview of the Transaction

On May 10, Sarasota Corporation issues 2,800 shares of its common stock with a par value of \$10 per share, selling them for cash at \$20 per share. This transaction represents a significant step for the company, involving the issuance of new shares to raise capital. Understanding the accounting implications of this issuance requires a detailed analysis of the transaction, including how it affects the company's financial statements, the calculation of additional paid-in capital, and the overall impact on shareholders' equity.

Details of the Stock Issuance

Stock Characteristics

- Number of Shares Issued: 2,800 shares
- Par Value per Share: \$10
- Issue Price per Share: \$20
- Total Cash Received: $2,800 \text{ shares} \times \$20 = \$56,000$

Significance of Par Value

Par value is a nominal value assigned to the stock, often representing the legal capital per share. It has little relation to the market value but serves as a baseline for accounting purposes. In this case, the par value is \$10, meaning the minimum legal capital per share is \$10.

Accounting for the Stock Issuance

Journal Entry at the Date of Issuance

The issuance of stock involves recording the cash received and adjusting the common stock and additional paid-in capital accounts accordingly. The journal entry typically looks like this:

Debit: Cash	\$56,000
Credit: Common Stock	\$28,000
Credit: Additional Paid-in Capital	\$28,000

Explanation of the Journal Entry

1. **Cash:** Debited for the total amount received from investors, which is $2,800 \text{ shares} \times \$20 = \$56,000$.
2. **Common Stock:** Credited for the total par value of the shares issued, which is $2,800 \times \$10 = \$28,000$.
3. **Additional Paid-in Capital:** Credited for the excess over par value, calculated as $(\text{Issue Price} - \text{Par Value}) \times \text{Number of Shares} = (20 - 10) \times 2,800 = \$28,000$.

Impact on Financial Statements

Balance Sheet Effects

Following the issuance, the company's balance sheet will reflect the increase in assets and shareholders' equity:

- **Assets:** Cash increases by \$56,000
- **Shareholders' Equity:**
 - Common Stock increases by \$28,000
 - Additional Paid-in Capital increases by \$28,000

Overall, the company's total assets and total shareholders' equity both increase by \$56,000, maintaining the balance sheet's integrity.

Shareholders' Equity Breakdown

The components of shareholders' equity after the issuance are:

1. Common Stock: Reflects the legal capital based on the par value of issued shares.
2. Additional Paid-in Capital: Represents the amount paid by investors above the par value.

Implications of the Transaction

Capital Structure and Funding

This issuance increases Sarasota Corporation's equity base, providing additional funds for operations, expansion, or debt repayment. Raising capital through issuing common stock is often preferable to debt, as it does not impose fixed repayment obligations or interest expenses.

Market Perception and Stock Price

Issuing shares at a premium (above par value) can signal confidence in the company's prospects. Investors may view this positively, especially if the market price reflects or exceeds the issue price. However, if the stock price is below the issue price, it could indicate market skepticism.

Dilution of Ownership

Issuing new shares dilutes existing shareholders' ownership percentage unless they participate proportionally. The impact on control and voting power depends on the total number of shares outstanding before and after the issuance.

Legal and Regulatory Considerations

Shareholder Approval

Many jurisdictions and corporate bylaws require shareholder approval for issuing new shares, especially if it affects voting rights or capital structure significantly. Sarasota Corporation must ensure compliance with relevant laws and internal governance policies.

Disclosure Requirements

Companies must disclose stock issuance details in their financial statements and filings, providing transparency to shareholders and regulators. This includes the number of shares issued, the issue price, and the accounting treatment.

Further Considerations

Potential Use of Raised Funds

The proceeds from the stock issuance can be allocated to various strategic initiatives:

- Research and development
- Expansion into new markets
- Debt reduction
- Capital expenditures

Future Stock Transactions

Understanding this issuance sets the groundwork for analyzing future transactions, such as stock splits, dividends, or additional offerings. Each of these impacts the company's capital structure and financial metrics differently.

Conclusion

Summary of the Key Points

On May 10, Sarasota Corporation's issuance of 2,800 shares of common stock at \$20 per share exemplifies a typical equity financing transaction. It increases assets and shareholders' equity, specifically through the common stock and additional paid-in capital accounts. Proper accounting ensures transparency and compliance with legal standards, while the strategic implications can influence the company's growth trajectory and market perception.

Importance for Stakeholders

Shareholders, potential investors, and management must understand the nuances of such transactions to assess the company's financial health and strategic direction accurately. Accurate recording and transparent disclosure are vital for maintaining trust and ensuring informed decision-making.

Frequently Asked Questions

What is the total cash received by Sarasota Corporation from the issuance of 2,800 shares at \$20 per share?

The total cash received is \$56,000 (2,800 shares x \$20 per share).

How does issuing common stock at a premium affect Sarasota Corporation's equity accounts?

It increases the common stock account by the par value (\$10 per share) and the additional paid-in capital account by the excess amount (\$10 per share).

What journal entry should Sarasota Corporation record for this stock issuance?

Debit Cash \$56,000; credit Common Stock \$28,000 (2,800 shares x \$10 par value); credit Additional Paid-in Capital \$28,000.

How does this stock issuance impact Sarasota Corporation's financial statements?

It increases cash and shareholders' equity, specifically increasing common stock and additional paid-in capital, strengthening the company's balance sheet.

Why might Sarasota Corporation choose to issue stock at \$20 per share instead of at par value?

Issuing at a premium (\$20 instead of \$10) allows the company to raise additional capital and reflects investor confidence in its value.

What are the potential strategic reasons behind Sarasota Corporation issuing new shares at a

premium?

Strategic reasons include raising capital without incurring debt, rewarding existing shareholders, or funding expansion projects with favorable market conditions.

Additional Resources

On May 10, Sarasota Corporation Issues 2,800 Shares Of \$10 Par Value Common Stock For Cash At \$20 Per – this transaction marks a significant event in the company's financial history, providing insights into its capital structure, investor confidence, and strategic capital raising efforts. In this detailed guide, we'll explore the implications of this issuance, the journal entries involved, and the broader context of issuing common stock at a premium. Whether you're a student, investor, or accounting professional, understanding such transactions is fundamental to grasping how corporations finance growth and manage their equity.

Understanding the Transaction

At its core, the transaction involves Sarasota Corporation issuing 2,800 shares of common stock with a par value of \$10 each, for cash at \$20 per share. This means:

- The company is selling shares at twice the par value.
- The total cash received from the issuance is $2,800 \text{ shares} \times \$20 = \$56,000$.
- The par value of issued shares totals $2,800 \text{ shares} \times \$10 = \$28,000$.
- The additional paid-in capital (also called share premium) is the excess over par value, which is $\$56,000 - \$28,000 = \$28,000$.

This transaction has several accounting and strategic implications, which we'll now unpack step-by-step.

Why Do Companies Issue Stock Above Par Value?

Par Value Concept

Par value is a nominal value assigned to each share of stock upon issuance, often set at a very low amount. Historically, par value served as a legal minimum price, but today, it mainly has accounting significance.

Premium on Issuance

Issuing stock above par value means the company receives more than the minimum legal amount per share. The excess amount, called additional paid-in capital or share premium, is recorded separately in the equity section.

Strategic Reasons for Issuing at a Premium

- Attracting Investors: Offering shares at a premium can signal confidence in the company's prospects.
- Raising Capital Efficiently: Higher proceeds increase the company's cash reserves.
- Legal and Regulatory Compliance: Some jurisdictions restrict issuing below par, so issuing at a premium avoids legal issues.

Accounting for the Issuance: Journal Entries

The core accounting process involves recording the cash received and updating equity accounts.

Step 1: Record Cash Received

Debit Cash for the total amount received:

- Cash: \$56,000

Step 2: Record Common Stock at Par

Credit Common Stock for the total par value:

- Common Stock: \$28,000

Step 3: Record Additional Paid-in Capital

Credit Additional Paid-in Capital (PIC) for the excess over par:

- Additional Paid-in Capital: \$28,000

Complete Journal Entry:

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Debit: Cash \$56,000

Credit: Common Stock (2,800 shares x \$10) \$28,000

Credit: Additional Paid-in Capital \$28,000

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This journal entry reflects the increase in assets (cash) and equity components.

Impact on Financial Statements

Balance Sheet

- Assets: Increase in cash by \$56,000.
- Equity: Increase in common stock by \$28,000 and PIC by \$28,000, totaling \$56,000.

Shareholders' Equity Breakdown

- Common Stock (at par): Reflects the nominal value of issued shares.
- Additional Paid-in Capital: Shows the excess investors paid over par value.

No Impact on Income Statement

Stock issuance affects the balance sheet but does not directly impact the

income statement unless associated costs are involved (which is rare in straightforward stock issuance).

Broader Implications of the Transaction

1. Capital Structure Enhancement

Issuing stock increases the company's equity base, providing more capital for expansion, acquisitions, or paying down debt.

2. Signaling Confidence

A premium issuance suggests that investors are willing to pay more than par value, indicating confidence in Sarasota Corporation's prospects.

3. Dilution and Shareholder Value

While raising capital, issuing new shares can dilute existing ownership percentages, potentially affecting earnings per share (EPS) and voting rights.

4. Regulatory and Legal Considerations

In some jurisdictions, issuing shares below par can lead to legal penalties or require additional disclosures, making issuance above par more straightforward from a compliance perspective.

Additional Considerations

Par Value and No-Par Stock

Some companies issue no-par stock, which simplifies accounting. However, in this scenario, the presence of a par value requires the separate recording of common stock and PIC.

Stock Premium and Future Transactions

The additional paid-in capital account remains part of shareholders' equity and can be used for future purposes like stock dividends, stock splits, or issuance of additional shares.

Impact on Earnings and Ratios

While the issuance does not directly affect net income, it can influence key ratios:

- EPS: Dilution effect if the number of shares outstanding increases.
- Return on Equity (ROE): Can improve due to increased capital.
- Market Capitalization: May increase if the stock price reflects the company's growth prospects.

Strategic Perspective for Sarasota Corporation

Goals of the Capital Raise

- Funding Growth Initiatives: Whether expanding operations, investing in R&D, or entering new markets.
- Strengthening Balance Sheet: Improving leverage ratios and creditworthiness.
- Enhancing Market Perception: Demonstrating confidence through a premium offering.

Timing and Market Conditions

Issuing stock at a premium is often advantageous when the company's stock price is strong, market sentiment is positive, or the company has compelling growth stories.

Future Actions

- Potential for Stock Buybacks: If the company's stock performs well, it might buy back shares, affecting the capital structure.
- Dividend Policy: Additional capital might influence dividend distribution strategies.

Summary and Key Takeaways

- On May 10, Sarasota Corporation issues 2,800 shares of \$10 par value common stock for cash at \$20 per share, raising \$56,000 in total.
- The transaction increases both cash assets and shareholders' equity, with the excess over par (\$28,000) recorded as additional paid-in capital.
- Issuing stock above par value is a strategic move that signals investor confidence and boosts capital resources.
- Proper accounting ensures transparent financial reporting, with straightforward journal entries reflecting the transaction.
- The broader implications include impacts on company valuation, shareholder dilution, and future strategic options.

Final Thoughts

Understanding the mechanics and strategic importance of stock issuance transactions like the one Sarasota Corporation undertook on May 10 provides valuable insight into corporate finance and accounting principles. Whether raising capital for growth, signaling stability, or managing shareholder equity, such transactions are fundamental tools for corporate management and investor relations. Properly recording and analyzing these events ensures transparency and supports sound decision-making for all stakeholders involved.

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