

Pharoah Company Had These Transactions During The Current Period June 12 Issued 82,500 Shares Of \$1 Par

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On June 12, Pharoah Company undertook a significant transaction by issuing 82,500 shares of its common stock with a par value of \$1 each. This transaction holds importance in understanding the company's equity structure, capital raising efforts, and potential impacts on financial statements. In this article, we will explore the details of this issuance, its accounting implications, and how it influences the company's financial position.

Understanding the Share Issuance Transaction

What Does Issuing Shares Mean?

Issuing shares refers to the process of a corporation offering its stock to investors. This process raises capital for the company, which can be utilized for various purposes such as expansion, paying off debt, or operational expenditures. When companies issue shares, they typically do so through a formal process that involves registering the issuance with relevant authorities and recording the transaction in their accounting records.

Details of Pharoah Company's Share Issuance

The key details of this specific transaction include:

- Number of Shares Issued: 82,500 shares
- Par Value per Share: \$1
- Total Par Value of Shares Issued: \$82,500
- Issue Price: Usually above par, but the specific price depends on the company's offering terms

The issuance of these shares increases the company's paid-in capital and overall equity, providing additional resources for growth and development.

Accounting for the Share Issuance

Journal Entries to Record the Transaction

The accounting treatment for issuing shares involves recording the cash received and updating the equity accounts. Assuming the shares are issued at a price above par value (which is common), the journal entries would be as follows:

Debit: Cash (Number of Shares x Issue Price)

Credit: Common Stock (Number of Shares x Par Value)

Credit: Additional Paid-In Capital (Difference between total cash received and par value)

For example, if the shares were issued at \$10 per share:

- Cash Debit: $82,500 \text{ shares} \times \$10 = \$825,000$
- Common Stock Credit: $82,500 \text{ shares} \times \$1 = \$82,500$
- Additional Paid-In Capital Credit: $\$825,000 - \$82,500 = \$742,500$

This entry reflects the increase in assets (cash) and equity (common stock and additional paid-in capital).

Impact on Financial Statements

The issuance affects several financial statement components:

- **Balance Sheet:** Increases in assets (cash) and shareholders' equity (common stock and additional paid-in capital).
- **Statement of Shareholders' Equity:** Shows the increase due to new share issuance, reflecting the company's capital raising activity.
- **Income Statement:** Usually unaffected directly, unless the issuance involves associated costs or commissions.

Implications of the Share Issuance

Impact on Ownership and Control

Issuing new shares dilutes the ownership percentage of existing shareholders unless they participate proportionally in the new issuance. This can influence voting rights and control within the company.

Financial Ratios and Metrics

The increase in equity can influence key financial ratios:

1. **Debt-to-Equity Ratio:** May decrease if the company utilizes the proceeds to pay down debt.
2. **Earnings Per Share (EPS):** Dilution may cause EPS to decrease if net income remains constant.
3. **Book Value per Share:** Typically increases as total equity rises.

Strategic Considerations

The decision to issue shares often aligns with strategic goals:

- Raising capital for expansion projects
- Strengthening the company's financial position
- Facilitating mergers or acquisitions
- Improving liquidity in the stock market

Legal and Regulatory Aspects

Regulatory Requirements

Companies must adhere to securities laws and regulations when issuing new shares. This includes filing appropriate documentation with securities regulators, providing disclosures to investors, and complying with stock exchange rules if listed.

Shareholder Approval

In many cases, especially for large issuances, approval from existing shareholders through a vote might be required. This ensures transparency and maintains shareholder rights.

Conclusion

The issuance of 82,500 shares at a \$1 par value by Pharaoh Company on June 12 signifies a crucial step in its capital management strategy. This transaction enhances the company's financial capacity, impacts its equity structure, and influences various financial ratios and metrics. Proper accounting treatment of this issuance ensures accurate financial reporting and provides insights into the company's growth trajectory. As companies continue to seek funding avenues, understanding the nuances of share issuance becomes vital for investors, management, and stakeholders alike.

By carefully analyzing the details and implications of this transaction, stakeholders can better assess Pharaoh Company's financial health and strategic direction, fostering informed decision-making in the dynamic landscape of corporate finance.

Frequently Asked Questions

What is the significance of Pharaoh Company issuing 82,500 shares on June 12?

This transaction increases the company's equity by issuing new shares to investors, raising capital for future growth or operations.

How does issuing shares at a \$1 par value affect Pharaoh Company's financial statements?

The issuance increases the common stock account by \$82,500 (82,500 shares × \$1 par), and any amount received over par is recorded as additional paid-in capital.

What journal entry would Pharaoh Company record for this share issuance?

Debit Cash for the total amount received, credit Common Stock for \$82,500, and credit Additional Paid-In Capital for the excess amount received over par.

Can Pharaoh Company issue shares at a price different from the par value?

Yes, shares can be issued at a price above or below par, but the accounting depends on whether the issue price is above or below the par value, affecting the additional paid-in capital.

How does issuing 82,500 shares impact Pharaoh Company's ownership structure?

It dilutes existing shareholders' ownership proportionally unless they participate in the new issuance, increasing total shares outstanding.

What are the potential uses of funds raised by issuing these shares?

Funds can be used for expanding operations, paying off debt, investing in new projects, or other corporate purposes.

What regulatory or compliance considerations are involved in issuing new shares?

The company must adhere to securities laws, file necessary disclosures, and ensure proper authorization from the board and shareholders.

How does this share issuance affect Pharaoh Company's earnings per share (EPS)?

Increased share count may dilute EPS, impacting profitability metrics on a per-share basis unless net income increases proportionally.

Additional Resources

Pharaoh Company: Analyzing the Impact of the June 12 Share Issuance on Its Financial Landscape

Introduction

In the dynamic realm of corporate finance, equity transactions such as issuing shares serve as pivotal events that can significantly influence a company's financial health, market perception, and strategic trajectory. Recently, Pharaoh Company undertook a notable equity issuance on June 12, when it issued 82,500 shares with a \$1 par value. This transaction, seemingly straightforward at first glance, carries multiple underlying implications—from alterations in the company's capital structure to potential shifts in investor confidence.

This article aims to delve deeply into the various facets of this transaction, exploring its accounting implications, strategic motivations, and broader impact on the company's financial statements. Whether you're an investor, a financial analyst, or an accounting student, understanding such transactions is essential for grasping how companies manage their equity and leverage capital markets to fuel growth.

Understanding the Transaction: The Basics of Share Issuance

What Does Issuing Shares Mean?

At its core, issuing shares involves a company offering new ownership interests to investors in exchange for capital. This process typically occurs through the sale of common stock, preferred stock, or other equity instruments. When Pharaoh Company issued 82,500 shares with a \$1 par

value, it effectively increased its total shares outstanding, thereby diluting existing ownership percentages but also bringing in additional funds.

Key Definitions

- Par Value: The nominal or face value of a share as specified in the corporate charter. For Pharoah, it's \$1.
- Shares Issued: The total number of shares sold to investors during this transaction.
- Authorized Shares: The maximum number of shares a company is permitted to issue, as specified in its articles of incorporation.
- Outstanding Shares: The number of shares currently held by shareholders, including those issued but excluding treasury shares.

The Transaction in Context

On June 12, Pharoah Company issued 82,500 shares at a par value of \$1 each. The specifics of the issue price per share—whether at par, above par (premium), or below par—are crucial in understanding the transaction's accounting treatment. Typically, companies issue shares above par, generating additional paid-in capital (also known as capital surplus), which is an equity account separate from common stock.

Accounting Implications of the Share Issuance

Recording the Transaction

The accounting entry depends on the issue price relative to the par value.

- If issued at par value (\$1 per share):

```plaintext

Debit: Cash (82,500 shares × issue price)

Credit: Common Stock (82,500 shares × \$1 par)

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- If issued at a premium (above \$1):

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Debit: Cash (total amount received)

Credit: Common Stock (82,500 shares × \$1 par)

Credit: Additional Paid-in Capital (difference between total received and par value)

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Example Scenario: Suppose Pharoah issued the 82,500 shares at \$5 per share:

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Debit: Cash =  $82,500 \times \$5 = \$412,500$

Credit: Common Stock =  $82,500 \times \$1 = \$82,500$

Credit: Additional Paid-in Capital =  $\$412,500 - \$82,500 = \$330,000$

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This transaction increases the company's cash asset by \$412,500, raises its common stock account by \$82,500, and boosts additional paid-in capital by \$330,000.

Impact on Financial Statements

Balance Sheet

- Assets: Cash increases by the total proceeds from the issuance.
- Shareholders' Equity:
- Common Stock increases by the par value of the issued shares.
- Additional Paid-in Capital increases by the amount received above par value.

As a result, total shareholders' equity expands, strengthening the company's capital base.

Income Statement

This transaction does not directly affect the income statement. Instead, it influences the equity section and the company's capital structure.

Strategic Motivations for the Share Issuance

Understanding why Pharoah Company chose to issue additional shares is crucial. Common motivations include:

- Funding Expansion or Capital Projects: Raising capital to finance growth initiatives, such as entering new markets, launching products, or upgrading infrastructure.
- Debt Reduction: Using proceeds to pay off existing debt, thereby reducing interest expenses and improving leverage ratios.
- Strengthening Financial Position: Enhancing liquidity and solvency ratios to attract investors or improve credit ratings.
- Acquisition or Merger Activities: Facilitating mergers, acquisitions, or strategic alliances by providing shares as consideration.
- Employee Compensation Plans: Offering stock options or grants to attract and retain talent.

While the specific reasons for Pharoah's issuance are not detailed, these are typical strategic drivers behind such transactions.

Dilution and Shareholder Impact

Issuing new shares inevitably leads to dilution of existing shareholders' ownership percentage. This is especially significant if the issue is at a price below market value or if large quantities of shares are issued relative to existing shares outstanding.

Potential effects include:

- Diluted Earnings Per Share (EPS): More shares outstanding reduce EPS if net income remains unchanged.
- Market Perception: Investors may interpret the issuance as a need for capital, which could be positive (growth funding) or negative (financial distress).
- Voting Power: New shares can influence voting dynamics within the company.

It's essential for stakeholders to evaluate whether the capital raised is being deployed effectively to generate value that outweighs dilution concerns.

Additional Considerations and Related Transactions

While the primary transaction involves issuing 82,500 shares, other related activities might include:

- Prior Authorization: Confirming whether the company had sufficient authorized shares to issue this amount.
- Underwriting and Costs: Expenses associated with the issuance, such as underwriting fees, legal costs, and registration fees, which can affect net proceeds.
- Future Dilution: Potential for additional share issues or convertible securities that could further dilute ownership.

Broader Context: Market and Regulatory Environment

Issuance of shares also interacts with broader market conditions and regulatory frameworks:

- Market Conditions: Favorable stock markets can facilitate capital raising at attractive prices.
- Regulatory Compliance: Ensuring adherence to securities laws, disclosure requirements, and stock exchange regulations.
- Investor Relations: Transparent communication about the purpose and expected benefits of the share issue to maintain investor confidence.

Conclusion: Strategic Significance of the June 12 Issuance

The issuance of 82,500 shares at a \$1 par value by Pharoah Company on June 12 is a strategic move with multifaceted implications. It not only bolsters the company's financial position by increasing cash and equity but also signals to the market its growth ambitions or need for capital infusion.

For stakeholders, understanding the accounting nuances—such as whether shares were issued at par or premium—is vital for accurate financial analysis. Moreover, considering the broader strategic motivations helps contextualize this transaction within the company's long-term plans.

As companies like Pharoah navigate the complex landscape of capital markets, such transactions serve as vital tools for growth, restructuring, and competitive positioning. Evaluating their impact requires a comprehensive understanding of accounting principles, market dynamics, and strategic intent.

Final Thoughts

In summary, the June 12 issuance of 82,500 shares by Pharoah Company exemplifies a common yet impactful corporate action. It demonstrates how a simple equity transaction can ripple through a company's financial statements, influence investor perception, and support strategic growth initiatives. For analysts and investors alike, paying close attention to such transactions provides valuable insights into a company's capital management and future prospects.

Note: The specific details regarding the issue price per share beyond the par value are hypothetical in this analysis. Actual accounting treatment and impact depend on the actual issue price and company disclosures.

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