



Extend Your Knowledge 15-1: Par Value Shares

The *Canada Business Corporations Act* and its more recently passed provincial counterparts require that all shares be of no par or nominal value. These acts also require that the total consideration received by the corporation for each share issued must be added to the stated capital account maintained for the shares of that class or series. Some provinces still permit the issuance of par value shares. Par value is an arbitrary value a corporation places on each of the corporation's shares.

Explain and account for par value shares.

When a corporation issues par value shares, the par is printed on each certificate and is used in accounting for the shares. If the shares are issued at par, the entry to record the issue is the same as if the shares were no par value. If the shares are issued at a price above the share's par value, the shares are said to be issued at a premium. For example, if a corporation sells and issues its \$10 par value common shares at \$12 each, the shares are sold at a \$2 per share premium. Although a premium is an amount in excess of par, it is not considered a profit to the issuing corporation. Rather, a premium is a part of the investment of shareholders who pay more than the par value for the shares and is therefore an addition to shareholders' equity, specifically, contributed capital. Several alternative titles can be used to describe the premium. The premium can be called Premium on Common Shares, Additional Contributed Capital, Additional Paid-In Capital, Contributed Capital in Excess of Par, or Contributed Surplus. Contributed Surplus, however, is an old term that should no longer be used.

In accounting for shares sold at a premium, the premium is recorded separately from the par value of the shares to which it applies. For example, if on November 1 a corporation sells and issues 10,000 of its \$10 par value common shares at \$12 per share, the sale is recorded as follows.

Nov. 1	Cash.....	120,000	
	Common Shares		100,000
	Additional Contributed Capital.....		20,000
	<i>Sold and issued 10,000 of \$10 par value common shares at \$12 per share.</i>		

If 10,000 shares of \$2 cumulative, \$10 par value preferred shares are issued for \$13 per share, the credit to Additional Contributed Capital is for: (a) \$20,000; (b) \$30,000; or (c) \$130,000.

Answer—b



Quick Study

QS PVS15-1

Issuance of par value shares

LO⁷

Zcom Corp. is authorized to issue an unlimited number of \$5 par value common shares. Present the General Journal entries for the issuance of 20,000 shares for cash of:

- a. \$5 per share
- b. \$6.50 per share

Exercise

Exercise PVS15-1

Par value shares

LO⁷

Fallingwood Tree Services Inc. was authorized to issue an unlimited number of common shares with a par value of \$15, and 50,000, \$2.50 non-cumulative, no-par value preferred shares. It showed the following share transactions during 2005, its first year:

- a. Issued for cash 20,000 shares of common at \$15 each.
- b. 5,000 preferred shares were issued for cash of \$20 each.
- c. Issued an additional 50,000 common shares at \$16.50 each.
- d. Declared dividends; the common shareholders were to receive \$1 per share.
- e. Closed the income summary account which had a credit balance of \$92,000. Also closed the dividend accounts.

Check figure:

Total shareholders' equity = \$1,234,500

Required

Journalize the above events and prepare the shareholders' equity section at December 31, 2005.