

Magic Blade's stock has risen rapidly to \$50 per share. The increase is due to excitement about its new knife that uses a light beam to slice fruits and vegetables. This process enhances the final appearance and quality of salads and fruit trays.

The board of directors is considering strategies to divide the corporate ownership into more shares of stock, and bring about some reduction in the price per share. They are considering a stock split, small stock dividend, or large stock dividend. The board is unsure of the accounting effects of such transactions, and has requested information about how stockholders' equity would be impacted.

Prior to the contemplated stock transaction, equity consisted of:

Stockholders' Equity

Common stock, \$2 par value, 2,000,000 shares authorized, 500,000 shares issued and outstanding	\$1,000,000
Paid-in capital in excess of par	2,000,000
Retained earnings	<u>6,000,000</u>
Total stockholders' equity	<u><u>\$9,000,000</u></u>



SPREADSHEET TOOL:

*Holding a
cell reference
constant*

- (a) Assuming the board were to declare a 2 for 1 split, how would the revised stockholders' equity appear?
- (b) Assuming the board were to declare a 15% stock dividend, how would the revised stockholders' equity appear?
- (c) Assuming the board were to declare a 50% stock dividend, how would the revised stockholders' equity appear?
- (d) Prepare journal entries that would be needed (if necessary) to record the proposed transactions from part (a), (b), and (c).