

Forms of Business Organizations

- Sole Proprietorship-natural person merchant
- General Partnership
- Limited Partnership and Limited Partnership Divided into Shares
- Limited Liability Corporation
- Corporation

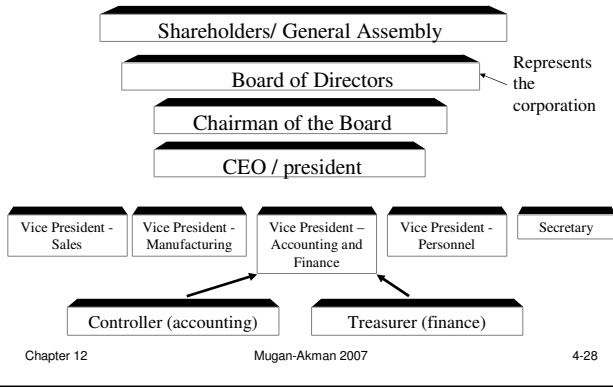
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Corporations

- separate legal and accounting entity
- perform same activities as natural entities
 - limited liability of shareholders
 - ownership transferred easily
- private and publicly traded
- to be traded publicly they should get permission from Capital Markets Board
 - transition from a privately held corporation to a publicly traded one is called going public, and this first sale of stock to the public is called an initial public offering, or IPO

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Authority Structure



Terms Related with Capital of Corporations

- Share Capital (Registered Capital)
- Unpaid Capital (Capital Commitments)
- Paid-in Capital
- Authorized Capital
- Issued Capital
- Outstanding Capital
- Additional Paid-In Capital (share premium)
- Treasury Stock

Components of Shareholders' Equity

IAS specifies that the following items should be disclosed in the balance sheet [IAS 1.76]:

- numbers of shares authorized, issued and paid, and issued and unpaid
- par value of shares
- reconciliation of shares outstanding at the beginning and the end of the period
- description of rights, preferences, and restrictions of each type of share
- treasury shares, including shares held by subsidiaries and associates
- shares reserved for issuance under options and contracts
- a description of the nature and purpose of each reserve within owners' equity

Partial Balance Sheet

| ZAM Corporation Partial Balance Sheet 31 December 2003-TL | | |
|---|---------|----------------|
| Shareholders' Equity | | |
| Paid-in Capital 200.000 | | |
| Share Capital | 200.000 | |
| Unpaid Capital | - | |
| Capital Reserves 350.088 | | |
| Additional Paid-in Capital | 350.088 | |
| Profit Reserves 34.289 | | |
| Legal Reserves | 3.340 | |
| Other Reserves | 30.949 | |
| Retained Earnings | 60.000 | 60.000 |
| Shareholders' Equity | | 644.377 |

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Share Capital

- Common Stock
- Preferred Stock

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Stock Transactions

Initial entry:
Ilk A.S. decides to issue 10.000 shares of TL 10 par value on 1 January 2004

| Date | Account Title and Description | Debit | Credit |
|----------|---|---------|---------|
| 1-Jan-04 | Unpaid Capital | 100.000 | |
| | Share Capital | | 100.000 |
| | To record the issuance of Share Capital at the inception. | | |

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Stock Transactions-2

- assume the TL 10 par value shares of Ilk A.S. are issued and sold for TL 11

| Date | Account Title and Description | Debit | Credit |
|-----------|------------------------------------|---------|---------|
| 31-Jan-04 | Cash | 110.000 | |
| | Additional Paid-in Capital | | 10.000 |
| | Unpaid Capital | | 100.000 |
| | To record the sale of shares above | | |

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Share Capital Increases

- Share Capital increase in cash
 - Preemptive rights
- Share Capital increase by issuing free shares

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Accounting for Share Capital Increases

- XYZ Corporation decided to increase its capital by issuing new shares that are still within the authorized limit. TL100.000 worth of stocks (10.000 shares), each with a par value of TL 10, was issued on 1 April 2004

| Date | Account Title and Description | Debit | Credit |
|----------|---|---------|---------|
| 1-Apr-04 | Unpaid Capital | 100.000 | |
| | Share Capital | | 100.000 |
| | To record the issuance of Share Capital as share increase | | |

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Accounting for Share Capital Increases-2

- The new 10.000 shares of XYZ Corporation were sold at TL15 each.

| Date | Account Title and Description | Debit | Credit |
|-----------|--------------------------------------|---------|---------|
| 10-Apr-04 | Cash | 150.000 | |
| | Additional Paid-in Capital | | 50.000 |
| | Unpaid Capital | | 100.000 |
| | ▲ To record the sale of shares above | | |

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Convertible Bonds

- debt securities that may be converted under preset conditions to common stock of the issuer at the option of the bearer (investor)
- conversion methods:
 - *Market price of the stock at the time of conversion (market value approach)*
 - *Book value of the bond being converted (book value approach)*

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Conversion Example

Timur Company has TL 100.000 nominal value convertible bonds which are all converted into common stock at the interest date of 30 June 2007. The bonds could be converted into common stock as: each TL 1.000 bonds could be converted into 100 stocks each with a par value of TL 10. The unamortized premium at the time of conversion is TL 4.000, and the market value of the stock is TL 12 per share

Recording at the market value of stock:

Conversion = $\frac{\text{TL 1.000}}{100 \text{ shares}} \times \frac{\text{TL 100.000}}{\text{TL 1.000}} = 10.000 \text{ shares of common stock}$

| Date | Account Title and Description | Debit | Credit |
|-----------|---|---------|---------|
| 30-Jun-07 | Convertible Bonds Payable | 100.000 | |
| | Unamortized Premium on Bonds | 4.000 | |
| | Loss on Redemption-Con. Bonds | 16.000 | |
| | Share Capital | | 100.000 |
| | Additional Paid in Capital | | 20.000 |
| | ▲ To record conversion of bonds into common stock | | |

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Conversion Example-2

Recording at the book value of the bonds:

In this case no gain or loss is recognized on the conversion.
 TL Amount for the stock issued = BV of Bonds = TL 104,000

| Date | Account Title and Description | Debit | Credit |
|-----------|---|---------|---------|
| 30-Jun-07 | Convertible Bonds Payable | 100.000 | |
| | Unamortized Premium on Bonds | 4.000 | |
| | Share Capital | | 100.000 |
| | Additional Paid in Capital | | 4.000 |
| | To record conversion of bonds into common stock | | |

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In Kind Capital

- When Dolunay A.Ş. was formed, one of the shareholders invested a building as his capital contribution.
- At the date of the inception (27 June 2007) of the entity, the value of the building was determined as TL150.000.
- The total capital of the company was TL500.000 that was paid in cash by the other shareholders.

| Date | Account Title and Description | Debit | Credit |
|-----------|--------------------------------------|---------|---------|
| 27-Jun-07 | Cash | 350.000 | |
| | Buildings | 150.000 | |
| | Share Capital | | 500.000 |
| | To record the participation in share | | |

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Treasury Stocks

- Why?
 - to improve the market price of the stock
 - to have available stock to be used in the stock option plans of the employees
 - to have available stocks of planned mergers and acquisitions
 - to prevent a takeover
 - to improve Earnings per Share
- do not have voting, or dividend rights
- do not have a right in the liquidation of the company

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Treasury Stock Example

- On 21 October 2008, Kayalar Corporation purchased 10,000 shares of its stock for TL 24 per share at the market value.
- Par value of each share is TL10.

| Date | Account Title and Description | Debit | Credit |
|-----------|---|---------|---------|
| 21-Oct-08 | Treasury Stock | 240.000 | |
| | Cash | | 240.000 |
| | To record the purchase of 10,000 treasury stocks at TL 24 | | |

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Treasury Stock –example 2

30 October 2004, 5,000 shares of the treasury stock were sold at TL30.

| Date | Account Title and Description | Debit | Credit |
|-----------|---|---------|---------|
| 30-Oct-08 | Cash | 150.000 | |
| | Treasury Stock | | 120.000 |
| | Additional Paid-in Capital- Treasury Stock | | 30.000 |
| | To record sales of 5,000 shares of treasury stock at TL30 | | |

4 November 2004, the remaining 5,000 shares of treasury stock were sold at TL 15

| Date | Account Title and Description | Debit | Credit |
|----------|---|--------|---------|
| 4-Nov-08 | Cash | 75.000 | |
| | Additional paid in capital- Treasury Stock | 30.000 | |
| | Retained Earnings | 15.000 | |
| | Treasury Stock | | 120.000 |
| | To record sales of 5,000 shares of treasury stock at TL15 | | |

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Stock Dividends

- Distribution of stocks proportionately from retained earnings to the shareholders
- Satisfy the shareholders without cash outflows
- Increase the demand for the stocks in the market
- less than 25% of the capital are valued at the market value of the stock and are met from the retained earnings
- large* stock dividends are declared, for example 50% or more, the par value is used to record the transaction

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Statement of Changes in Equity

At the least the statement should present

- a) net profit / loss for the period;
- b) other gains and losses recognized directly in equity as IFRS require;
 - Examples of such gains and losses include
 - transactions with owners – share issues and redemptions and dividends and the purchase of treasury shares
 - fair value gains and losses on land and buildings and investments
 - fair value gains and losses on financial instruments recognized in equity and reclassified to income
 - foreign currency translation arising from translating statement of subsidiaries from another currency into home currency;
 - c) effect of changes in accounting policy and fundamental errors for each component of equity; usually retrospective adjustments are made to retained earnings;
- d) the balance of retained earnings at the beginning of the period and at the balance sheet date, and the changes during the period;
- e) detailed movements in each capital and reserve account, from the beginning of the period to the balance sheet date. Specifically, movements in the fair value reserve, hedging reserve, asset revaluation reserve and foreign currency translation reserve; and
- f) under hyperinflationary conditions, effect of inflation adjustment on equity should be disclosed

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Illustration of the Statement of Changes in Equity

- During 2004, available for sale instruments of the company had a fair value increase of TL 5.096, and realized TL 1.100 from sale of such instruments. The fair value of cash flow hedges of the corporation increased by TL 6.100 at the end of the accounting period. In April 2004, ZAM Corporation decided to increase the share capital from TL 200.000. The new 20.000 shares with a par value of TL10 were sold at TL 18,75 each.

| ZAM Corporation Partial Balance Sheet 31 December | | |
|---|--------------|------------|
| | 2008 | 2007 |
| Shareholders' Equity | | |
| Paid-in Capital | TL 400.000 | TL 200.000 |
| Share Capital | 400.000 | 200.000 |
| Unpaid Capital | - | - |
| Additional Paid-in Capital | 525.088 | 350.088 |
| Legal Reserves | 12.733 | 3.340 |
| Other Reserves | 41.045 | 30.949 |
| Retained Earnings | 102.400 | 60.000 |
| Shareholders' Equity | TL 1.081.266 | TL 644.377 |

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ZAM Corporation Statement of Changes in Equity - For The Year 2008 -TL

| | Paid-in Capital | Addl Paid in Capital | Legal Reserves | Other Reserves | Retained Earnings | Total SH Equity |
|---|--------------------|-------------------------|-------------------|-------------------|----------------------|--------------------|
| Balance 31 December 2007 | 200.000 | 350.088 | 3.340 | 30.949 | 60.000 | 644.377 |
| Inc in Paid in Capital | 200.000 | | | | | 200.000 |
| Inc.in Addl Paid in Capital | | 175.000 | | | | 175.000 |
| Available For Sale Securities: | | | | | | |
| Valuation Gains taken to Equity | | | | 5.096 | | 5.096 |
| Transferred to Profit/loss on sale | | | | -1.100 | | -1.100 |
| Cash Flow Hedges: | | | | | | |
| Gains taken to Equity | | | | 6.100 | | 6.100 |
| Appropriation of income to Legal Reserves | | | 9.393 | | -9.393 | |
| Period Income | | | | | 54.600 | 54.600 |
| Dividends | | | | | -2.807 | -2.807 |
| Balance 31 December 2008 | 400.000 | 525.088 | 12.733 | 41.045 | 102.400 | 1.081.266 |

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