

CONCEPT: STOCK SPLITS

● A **stock split** causes each share of common stock to _____ into multiple shares based on the terms of the split

□ Stock splits have _____ on paid-in capital, retained earnings, or total stockholders' equity

□ Stock splits increase the number of common shares and decrease the par value per share

□ Terms of a split are written as "X-for-Y", most commonly 2-for-1 stock split

- In some cases, a tricky question may use something similar to a 5-for-2 stock split

$$X\text{-for-}Y \text{ "Split Ratio"} = \frac{X}{Y}$$

$$\text{New Shares Outstanding} = \text{Old Shares Outstanding} * \text{"Split Ratio"}$$

$$\text{New Par Value} = \frac{\text{Old Par Value}}{\text{"Split Ratio"}}$$

$$\text{New Market Price} = \frac{\text{Old Market Price}}{\text{"Split Ratio"}}$$

The Growing Company declared a 2-for-1 stock split on their \$0.20 par value common stock when 250,000 shares were outstanding. The market price per share at the time of the split was \$40.

Journal Entry:

New Shares Outstanding:

New Par Value:

New Market Price:

The Growing Company declared a 3-for-2 stock split on their \$0.60 par value common stock when 400,000 shares were outstanding. The market price per share at the time of the split was \$21.

Journal Entry:

New Shares Outstanding:

New Par Value:

New Market Price: