

# Statement of Changes in Stockholders Equity

## Accounting 422/522

$$\text{Beg CS} + \text{new CS issued} - \text{repurchased CS} = \text{End CS}$$

$$\text{Beg RE} + \text{NI} - \text{DIV} = \text{End RE}$$

$$\text{Beg OCI} \pm \text{yearly changes} = \text{End OCI}$$

The *Statement of Changes in Stockholders Equity (SHE statement)* includes a disclosure of yearly change for each item in the stockholders equity section of the balance sheet. For example, if the SHE section of the balance sheet were to contain five items—common stock, retained earnings, accumulated other items of comprehensive income (OCI), deferred compensation and treasury stock—then each item’s yearly change equation would be presented on the SHE statement.

The basic format for presenting the changes in each SHE amount is the beginning of the year balance, plus increases and less decreases to get the end of the year balance. Because it deals with yearly change, it must contain information for the most recent three fiscal years, just like the income statement and statement of cash flows.

It is permissible under GAAP for the information included on this statement to be presented in the notes to the financial statements instead of a separate statement. However, most companies present the SHE statement as a fourth financial statement to complement the others (balance sheet, income statement and statement of cash flows).

Microsoft is an example of a company that usually aggregates several items into each line it presents on the balance sheet. It only has two items in the SHE section of the balance sheet—common stock (including other items of contributed capital) and retained earnings (including accumulated other items of comprehensive income).

<i>Stockholders' equity (In millions):</i>		
Common stock and paid-in capital - shares authorized 24,000;	<b>2006</b>	<b>2005</b>
outstanding 10,062 and 10,710	59,005	60,413
Retained earnings (deficit), including accumulated other comprehensive		
income of \$1,119 and \$1,426	<u>(18,901)</u>	<u>(12,298)</u>
Total stockholders' equity	<u>40,104</u>	<u>48,115</u>
Total liabilities and stockholders' equity	<u>\$69,597</u>	<u>\$70,815</u>

Therefore, Microsoft’s SHE statement shows changes for these two items. Having only two SHE items allows Microsoft to choose a very common sense approach to showing changes over each of three years.

**STOCKHOLDERS' EQUITY STATEMENTS**  
(In millions)

Year Ended June 30	2006	2005	2004
<b>Common stock and paid-in capital</b>			
Balance, beginning of period	\$60,413	\$56,396	\$49,234
Common stock issued	1,939	3,223	2,815
Common stock repurchased	(4,447)	(1,737)	(416)
Stock-based compensation expense	1,715	2,448	5,734
Stock option income tax benefits/(deficiencies)	(617)	89	(989)
Other, net	<u>2</u>	<u>(6)</u>	<u>18</u>
Balance, end of period	59,005	60,413	56,396
<b>Retained earnings (deficit)</b>			
Balance, beginning of period	(12,298)	18,429	15,678
Net income	12,599	12,254	8,168
<b>Other comprehensive income:</b>			
Net gains/(losses) on derivative instruments	76	(58)	101
Net unrealized investments gains/(losses)	(282)	371	(873)
Translation adjustments and other	<u>9</u>	<u>(6)</u>	<u>51</u>
Comprehensive income	12,402	12,561	7,447
Common stock cash dividends	(3,594)	(36,968)	(1,729)
Common stock repurchased	<u>(15,411)</u>	<u>(6,320)</u>	<u>(2,967)</u>
Balance, end of period	<u>(18,901)</u>	<u>(12,298)</u>	<u>18,429</u>
Total stockholders' equity	<u>\$40,104</u>	<u>\$48,115</u>	<u>\$74,825</u>

On the other hand, most other companies use an approach that is not common sense nor is the approach easy to read. Big Lots, in its annual report for fiscal 2005, shows the following items in its stockholders equity section of the balance sheet:

<b>Shareholders' equity:</b>		
Preferred shares — authorized 2,000 shares; \$0.01 par value; none issued .....	—	—
Common shares — authorized 298,000 shares; \$0.01 par value; issued 117,495 shares; outstanding 113,932 shares and 112,780 shares, respectively .....	1,175	1,175
Treasury shares — 3,563 shares and 4,715 shares, respectively, at cost ..	(48,294)	(64,029)
Unearned compensation .....	(2,114)	(1,814)
Additional paid-in capital .....	470,677	472,790
Retained earnings .....	<u>657,280</u>	<u>667,368</u>
Total shareholders' equity .....	<u>1,078,724</u>	<u>1,075,490</u>
Total liabilities and shareholders' equity .....	<u>\$1,625,497</u>	<u>\$1,733,584</u>

Its statement of stockholders equity (shown on the next page) does not show the yearly data for each item on a side-by-side basis. Rather, all of the stockholders equity components are shown side-by-side in their own column.

**BIG LOTS, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Shareholders' Equity**  
(In thousands)

	Common		Treasury		Unearned Compensation	Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance — February 1, 2003	115,844	\$1,162	321	\$ (2,502)	\$ —	\$458,043	\$563,385	\$1,020,088
Net income	—	—	—	—	—	—	80,220	80,220
Exercise of stock options and related tax effects	327	3	—	—	—	4,136	—	4,139
Common shares used for matching contributions to savings plan	435	4	—	—	—	4,561	—	4,565
Treasury shares acquired for deferred compensation plan	(12)	—	12	(233)	—	—	—	(233)
Balance — January 31, 2004	116,594	1,169	333	(2,735)	—	466,740	643,605	1,108,779
Net income	—	—	—	—	—	—	23,763	23,763
Exercise of stock options and related tax effects	252	3	—	—	—	1,797	—	1,800
Common shares used for matching contributions to savings plan	316	3	—	—	—	4,764	—	4,767
Treasury shares used for deferred compensation plan	74	—	(74)	216	—	—	—	216
Purchases of common shares	(5,427)	—	5,427	(75,000)	—	—	—	(75,000)
Treasury share issuances for stock options	799	—	(799)	11,113	—	—	—	11,113
Restricted shares awarded	172	—	(172)	2,377	(1,866)	(511)	—	—
Stock-based employee compensation expense	—	—	—	—	52	—	—	52
Balance — January 29, 2005	112,780	1,175	4,715	(64,029)	(1,814)	472,790	667,368	1,075,490
Net loss	—	—	—	—	—	—	(10,088)	(10,088)
Exercise of stock options and related tax effects	600	—	(600)	8,292	—	(1,006)	—	7,286
Treasury shares used for matching contributions to savings plan	447	—	(447)	6,173	—	(1,001)	—	5,172
Treasury shares used for deferred compensation plan	15	—	(15)	26	—	(41)	—	(15)
Restricted shares awarded, net of forfeitures	90	—	(90)	1,244	(1,017)	(227)	—	—
Stock-based employee compensation expense	—	—	—	—	717	162	—	879
Balance — January 28, 2006	<u>113,932</u>	<u>\$1,175</u>	<u>3,563</u>	<u>\$(48,294)</u>	<u>\$(2,114)</u>	<u>\$470,677</u>	<u>\$657,280</u>	<u>\$1,078,724</u>