Exercise 19-10

In order to encourage employee ownership of the company’s $1 par common shares, Washington Distribution permits any of its employees to buy shares directly from the company through payroll deduction. There are no brokerage fees and shares can be purchased at a 15% discount. During March, employees purchased 50,000 shares at a time when the market price of the shares on the NYSE was $12 per share.

Prepare the appropriate journal entry to record the March purchases of shares under the employee share purchase plan.

\[
\begin{align*}
\text{Cash } &\times \text{($12 \times 85\% \times 50,000)} &\quad 510,000 \\
\text{Compensation expense } &\times \text{($12 \times 15\% \times 50,000)} &\quad 90,000 \\
\text{Common stock } &\times (50,000 \times $1) &\quad 50,000 \\
\text{Paid in capital – excess of par } &\times (50,000 \times $11) &\quad 550,000
\end{align*}
\]