

ACCOUNTING in the headlines

How would Crocs recognize the preferred stock issued to Blackstone Group?

At the end of December 2013, Crocs Inc. announced that Blackstone Group is investing \$200 million into the footwear company in the form of a preferred stock purchase. In three years, the preferred stock shares owned by Blackstone Group will convert into common shares if the Crocs common stock market price rises to a certain level. Crocs' preferred stock has a par value of \$0.001 per share.

Assume that Blackstone Group purchases 4 million preferred shares with its \$200 million investment in the first quarter of 2014.

Questions

1. What price per share would Blackstone Group be paying per share of Crocs' preferred stock?
2. For the sake of this exercise, assume that all of the preferred shares are purchased by Blackstone Group on January 15, 2014. What journal entry would Crocs prepare to recognize this issuance of preferred stock?
3. What is the impact of this preferred stock issuance on Crocs' assets, liabilities, and stockholders' equity?