

Exercises

STAR RATING ★ BASIC ★★ MODERATE ★★★ DIFFICULT

Exercise 2.10

DIVIDENDS

- ★ India Ltd's share capital currently consists of 40 000 ordinary shares issued with a par value of \$5 per share, and 20 000 10% preference shares issued at \$10 each. In relation to the preference shares, dividends have not been paid for the 2 years prior to the current year. The company plans to pay out \$100 000 in dividends in the current period, meeting all past obligations (where applicable) to shareholders.
- Determine how much each class of shares should receive under the following situations:
- the preference shares are non-cumulative and non-participating
 - the preference shares are cumulative and non-participating
 - the preference shares are cumulative and participating. Assume that the participation agreement requires that the ordinary shareholders receive the same percentage of dividend as the preference shareholders, and that any balance of dividends to be paid is shared in proportion to the issued share capital of each class.

Exercise 2.11

DIVIDENDS, CALLS ON SHARES AND BONUS ISSUE

- ★ The equity of Japan Ltd at 1 January 2015 was as follows:

Share capital		
600 000 shares fully paid	\$600 000	
400 000 shares issued for \$1 and paid to 50c	<u>200 000</u>	\$ 800 000
General reserve		200 000
Plant maintenance reserve		50 000
Retained earnings		<u>80 000</u>
Total owners' equity		<u>\$1 130 000</u>

The following events occurred during the year:

June 25	Interim dividend of 10c per share paid, with partly paid shares receiving a proportionate dividend.
July 10	Call of 50c per share on the partly paid shares.
July 31	Collection of call money.
Sept. 16	Bonus share issue of one share for each 10 shares held, at \$1 per share, allocated from general reserve.
Dec. 31	Directors announce that a dividend of 20c per share will be paid in September 2016, subject to approval at the February annual general meeting. The company earned a profit of \$60 000.

Required

- Prepare the journal entries to give effect to the above events.
- Prepare the equity section of the statement of financial position at 31 December 2015.

Exercise 2.12

RIGHTS ISSUE, PLACEMENT OF SHARES

- ★★ The shareholders' equity of Iraq Ltd on 1 January 2014 was:

Share capital — 200 000 shares fully paid	\$400 000
General reserve	200 000
Retained earnings	100 000

The following transactions occurred during the year ended 31 December 2014:

- On 1 February 2014, a tradable one-for-two rights issue was made to existing shareholders. The issue price was \$2 per share, payable in full on application. The issue was underwritten for a commission of \$5000. The issue closed fully subscribed on 31 March, with holders of 40 000 shares having transferred their rights. The underwriting commission was paid on 5 March.
- On 30 June 2014, 10 000 shares were privately placed with Asian Investments Ltd at \$2 per share.

Required

Prepare the general journal entries to record the above transactions.

Exercise 2.13**ISSUE OF OPTION AND SHARES, FORFEITURE OF SHARES**

★★ Pass the necessary entries to record the following transactions for Nepal Ltd:

2015 July 1	A prospectus was issued inviting applications for 100 000 ordinary shares at an issue price of \$3, with \$2 payable on application and the balance payable on 10 June 2016. The prospectus also offered 50 000 10% preference shares at \$2, fully payable on application. The issue was underwritten at a commission of \$6500, allocated equally between the classes of shares.
July 21	Applications closed with the ordinary share issue oversubscribed by 20 000 and the preference shares undersubscribed by 15 000.
July 31	All shares were allotted, and application money refunded to unsuccessful applicants for ordinary shares.
Aug. 14	The underwriter paid amounts owing less commission.
Dec. 1	The directors resolved to give each ordinary shareholder, free of charge, one option for every two shares held. The options are exercisable prior to 1 June 2016 and allow each holder to acquire one ordinary share at an exercise price of \$2.70. Options not exercised prior to that date lapse.
2016 June 1	The holders of 40 000 options elected to exercise those options and 40 000 shares were issued.
June 10	The balance payable on the ordinary shares was received from holders of 95 000 ordinary shares.
June 15	The shares on which call money was not received were cancelled.

Exercise 2.14**RIGHTS ISSUE, CALL ON SHARES, ISSUE OF OPTIONS**

★★ The share capital of Syria Ltd on 30 June 2014 was:

120 000 'A' ordinary shares issued at \$1.50, paid to 75c	\$ 90 000
50 000 'B' ordinary shares issued at \$2.00, fully paid	100 000
100 000 9% preference shares issued at \$1, paid to 80c	80 000
	\$270 000

The following transactions occurred during 2014 and 2015:

2014 Nov. 1	The company makes a one-for-five rights offer to its 'B' ordinary shareholders. The rights are tradable, and allow holders to obtain 'B' ordinary shares for \$2.25 per share, payable in full on application.
Nov. 30	The holders of 40 000 'B' ordinary shares accept the rights offer by the expiry date. The shares are duly allotted.
2015 Jan. 16	A call of 75c per share is made on all 'A' ordinary shares. All call money except that owed by the holder of 10 000 shares is received by 31 January.
Feb. 5	Shares on which calls are unpaid are cancelled.
Mar. 17	To assist with cash flow difficulties, the company issued a prospectus inviting offers for 50 000 options to acquire 'A' ordinary shares at an issue price of 60c per option, payable in full on application. Each option, exercisable prior to 31 December 2015, allows the holder to acquire one 'A' ordinary share for \$1.78.
Mar. 31	Offers had been received for 35 000 options and these were duly allotted.
Dec. 31	The holders of 25 000 options had exercised their options, with money paid on exercise, and 25 000 'A' ordinary shares were issued. The remaining options lapsed. Costs of issuing the shares amounted to \$2000.

Required

Prepare journal entries to record the above transactions in the records of Syria Ltd.

Exercise 2.15**SHARE ISSUE, OPTIONS, STATEMENT OF CHANGES IN EQUITY**

★★★ On 30 June 2013, the equity accounts of Taiwan Ltd consisted of:

120 000 ordinary shares, issued at \$2.50 each, fully paid	\$300 000
Options reserve (80 000 at 50c each)*	40 000
General reserve	30 000
Capital redemption reserve	2 000
Retained earnings	75 000

* The options were exercisable between 1 May 2014 and 31 May 2014.
Each option allowed the holder to buy one ordinary share for \$3 each.

Additional information

The following transactions and events occurred during the year ended 30 June 2014:

- The final 6c per share dividend for the year ended 30 June 2013 was paid on 27 September 2013. Shareholder approval to pay the dividend had been obtained at the annual general meeting on 20 September.
- On 1 October, the directors issued a prospectus offering 40 000 ordinary shares at an issue price of \$2.80, payable \$2 on application and 80c as a future call. The closing date for application was 31 October 2013. The share issue was underwritten by Support Stockbrokers for a fee of \$2500, payable on 15 November 2013.
- By 31 October 2013, applications for 50 000 shares had been received.
- On 5 November 2013, the directors allotted the shares pro rata, with applicants receiving 80% of their requested shares. The company's constitution allows excess application monies to be retained (in the general reserve) and used to offset future calls payable.
- On 15 November 2013, the underwriting fee was paid.
- On 31 December 2013, the directors announced an interim dividend of 3c per share payable in cash on 1 February.
- To raise funds for expansion, the directors sold a parcel of 80 000 ordinary shares to a pension fund on 28 April 2014 at an issue price of \$2.90 per share.
- By 31 May 2014, the holders of 65 000 options had indicated that they wished to purchase shares. On 2 June 2014, 65 000 ordinary shares were issued with monies being payable by 21 June. Options not exercised duly lapsed.
- All outstanding monies were received with respect to shares issued to option holders.
- Profit for the year was \$69 420. On 30 June 2014, the directors decided to:
 - transfer \$30 000 to the general reserve
 - declare a final 5c per share dividend. Shareholder approval for this dividend will be sought at the annual general meeting in September 2014.

Required

- Prepare general journal entries, including any closing entries required, to record the above transactions. (Narrations are not required, but show all workings.)
- Prepare a statement of changes in equity for the year ended 30 June 2014.
- Taiwan Ltd has recognised a 'Forfeited shares reserve' as part of equity. Explain how and why such a reserve would be created.

Exercise 2.16**SHARE ISSUES, OPTIONS, RIGHTS ISSUES, DIVIDENDS, RESERVE TRANSFERS**

★★★ The equity of Yemen Ltd on 30 June 2013 (end of the reporting period) consisted of:

280 000 ordinary shares, issued at \$2.40 each	\$672 000
General reserve	290 000
Retained earnings	53 780

Additional information

The following transactions and events relating to share issues and options occurred during the year ended 30 June 2014:

- On 1 August 2013, a rights offer (offering 5% preference shares at an issue price of \$2.80 per share) was made to existing shareholders on the basis of one preference share for every two ordinary shares held. Shares were payable in full on allotment and rights were renounceable. The issue was underwritten for a fee of \$5000.

- The rights offer closed undersubscribed on 31 August 2013, and rights in respect of 40 000 ordinary shares were transferred to the underwriter. On 1 September 2013, the shares were allotted. The underwriter paid for its allotment of shares, net of its fee, on 10 September 2013. All other monies were received by 21 September 2013.
- On 1 March 2014, the directors offered for sale 100 000 options at 10c each. Each option gave the holder the right to purchase one ordinary share for \$2.80 each. Options were exercisable between 1 April 2015 and 30 June 2015. The option offer closed with 80 000 applications being received. Options were duly allotted on 2 April 2014.

The following transactions and events relating to dividends and reserve transfers occurred during the year ended 30 June 2014:

- On 29 September 2013, the final dividend of 10c per share for the year ended 30 June 2013 was paid. The dividend had been declared on 28 June 2013. Shareholder approval is not required for a declaration of dividends.
- On 2 January 2014, the directors declared and paid an ordinary interim share dividend of one ordinary share, valued at \$3, for every four ordinary shares held. The dividend was funded from the general reserve.
- On 30 June 2014, the directors transferred \$30 000 from the general reserve to retained earnings, declaring the 5% preference dividend as well as a final ordinary dividend of 8c per share. The loss for the year ended 30 June 2014 was \$36 000.

Required

- Prepare general journal entries to record the transactions relating to share issues and options for the year ending 30 June 2014.
- Prepare general journal entries, including any closing entries required, to record the transactions relating to dividends and reserve transfers for the year ended 30 June 2014.
- If the company's constitution required all dividends to be approved by the shareholders at the annual general meeting before they could be paid, explain how and why your recording of the dividend payment on 29 September 2013 would change. Assume shareholder approval was granted on 20 September 2013.

Exercise 2.17

OPTIONS, SHARES, DIVIDENDS, RESERVES

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The statement of changes in equity for Philippines Ltd for the year ended 30 June 2015 is as follows:

PHILIPPINES LTD Statement of Changes in Equity for the year ended 30 June 2015	
Profit for the year	\$ 69 420
Other comprehensive income	0
Total comprehensive income for the year	\$ 69 420
Movements in equity during the year ended 30 June 2015 were:	
Share capital	
Balance at 1 July 2014	\$300 000
Issue of 40 000 ordinary shares @ \$2.00	80 000
Share issue costs: public issue	(2 500)
Issue of 80 000 ordinary shares @ \$2.90 to public	232 000
Issue of 50 000 ordinary shares @ \$3.00 on exercise of options costing 40c	170 000
Balance at 30 June 2015	\$759 500
Options	
Balance at 1 July 2014	\$ 24 000
Transfer to share capital on exercise	(20 000)
Transfer to general reserve on lapse	(4 000)
Balance at 30 June 2015	\$ 0
General reserve	
Balance at 1 July 2014	\$110 000
Bonus issue of shares	(80 000)
Transfer from options reserve	4 000
Transfer from retained earnings	30 000
Balance at 30 June 2015	\$ 64 000

Retained earnings

Balance at 1 July 2014	\$ 75 000
Dividends declared and approved	(8 000)
Interim dividends paid	(4 000)
Transfer to general reserve	(30 000)
Profit for the period	69 420
Balance at 30 June 2015	\$102 420

Required

Provide journal entries in relation to:

- (a) issue of shares on exercise of options, and related transfers to/from reserves
- (b) issue of shares to public
- (c) dividends
- (d) movements in general reserve.

Note: None of the entries should contain the account Retained Earnings.

Exercise 2.18**DIVIDENDS, SHARE ISSUES, FORFEITURE OF SHARES**

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On 30 June 2012 the equity of Malaysia Ltd was as follows:

50 000 5% cumulative preference shares, issued at \$1.20, fully paid	\$ 60 000
100 000 ordinary shares, issued at \$1.15, fully paid, less 2 610 issue cost	112 390
Options (15 000 @ 50c)	7 500
General reserve	123 100
Retained earnings	136 340

Each option entitles the holder to acquire 1 ordinary share at a price of \$1.10 per share, exercisable by 31 March 2013. Any options not exercised by this date will lapse. The books are balanced 6-monthly.

The following events occurred during the year ended 30 June 2013:

2012 Aug. 2 & 15	The final 8c per share ordinary dividend and the final preference dividend, both declared on 30 June 2012, were paid in cash. Shareholder approval is required for payment of dividends and was obtained at the annual general meeting of 2 August.
Oct. 1	A prospectus was issued offering 60 000 ordinary shares at an issue price of \$1.20 per share, payable 35c on application, 35c on allotment and 50c on a first and final call. The closing date for applications was 31 October 2012. The issue was underwritten at a commission of \$1500.
Oct. 31	Applications were received for 75 000 shares by this date.
Nov. 2	The directors allotted 4 shares for every 5 applied for, with allotment monies due by 30 November 2012. In accordance with the constitution, surplus application monies were kept as an advance on future calls and allotment monies, but subject to refund at applicants' discretion. The underwriting commission was paid.
Nov. 30	All allotment monies owing were received by this date.
2013 Jan. 5	An interim 5c per share ordinary dividend was paid in cash.
Jan. 31	The first and final call was made, with monies due by 28 February 2013.
Feb. 28	\$28 500 call monies were received by this date.
Mar. 20	The shares on which the call was unpaid were cancelled against capital redemption reserve. The company is entitled to keep any balance arising from forfeiture of shares.
Mar. 31	12 000 shares were allotted as a result of 12 000 options having been exercised, with allotment monies due by 30 April 2013.

April 30	All allotment monies were received by this date.
May 31	A 1-for-4 bonus issue was made from the general reserve, with the shares valued at \$1.20 each.
June 30	A 10c per share final dividend was declared, payable on 15 August 2013. Net profit for the year ended 30 June 2013 was \$29 460.

Required

- Prepare general journal entries and closing entries to record the above transactions.
- Prepare the statement of changes in equity for the period 30 June 2012 to 30 June 2013.