**Solutions Manual**

to accompany

Applying International Financial Reporting Standards 3e

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**Chapter 2 – Shareholders’ equity: share capital and reserves**

###### **Discussion Questions**

**1. Discuss the nature of a reserve. How do reserves differ from the other main components of equity?**

 Under international accounting standards there are 2 forms of equity:

* contributed equity: inflows from equity contributors
* reserves

See paras 65-68 of the *Conceptual* *Framework.*

Reserves arise as a result of increases in equity other than from contributions from equity participants. They may arise from various actions:

* earnings of profits [retained earnings]
* increases in the fair value of assets [asset revaluation surplus]

 Unlike share capital, reserves are not created via cash flows into the entity.

 Dividends may be paid out of reserves, but not out of capital.

**2. A company announces a final dividend at the end of the financial year. Discuss whether a dividend payable should be recognised.**

 Note paras. 12 and 13 of IAS 10.

 Note also IFRIC 17 “Distributions of Non-cash Assets to Owners” (effective 1 July 2009):

*A dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.*

 If a dividend is not declared at end of reporting period, no liability is recognised.

 If a liability is declared after end of reporting period, a liability is recognised only if the dividends are appropriately authorised and no longer at the discretion of the entity. For example, if the payment of dividends requires the approval of shareholders at a forthcoming AGM, then they are still at the discretion of the entity and no liability is raised.

 The reason for this treatment is that no present obligation exists while an entity still has discretion in relation to payment.

**3. The telecommunications industry in a particular country has been a part of the public sector. As a part of its privatisation agenda, the government decided to establish a limited liability company called Telecom Plus, with the issue of 10 million $3 shares. These shares were to be offered to the citizens of the country. The terms of issue were such that investors had to pay $2 on application and the other $1 per share would be called at a later time. Discuss:**

* 1. **The nature of the limited liability company, and in particular the financial obligations of acquirers of shares in the company.**
	2. **The journal entries that would be required if applications were received for 11 million shares.**

 The answer to this question may depend on local jurisdictional arrangements.

 In general:

 The *nature* of a limited liability company is such that shareholders’ liability is limited to the issue price of a share. If the shares are issued at par value, the liability is limited to payment of that par value per share. If shares are issued at a given price, the limitation is to that price.

 The journal entries are – assuming that applications were received for 10 million shares:

 Cash Trust Dr 20 000 000

 Application Cr 20 000 000

 (Receipt of application money)

 Application Dr 20 000 000

 Share capital Cr 20 000 000

 (Issue of shares)

 Cash Dr 20 000 000

 Cash trust Cr 20 000 000

 (Transfer from cash trust on issue of shares)

**4. Why would a company wish to buy back its own shares? Discuss.**

 Companies may undertake a buy-back of shares:

* to increase the worth per share of the remaining shares.
* as a part of management of the capital structure in terms of gearing.
* most efficiently manage surplus funds, rather than pay a dividend.

**5. A company has a share capital consisting of 100 000 shares issued at $2 per share, and 50 000 shares issued at $3 per share. Discuss the effects on the accounts if:**

1. **The company buys back 20 000 shares at $4 per share**
2. **The company buys back 20 000 shares at $2.50 per share**

 At date of buyback, the company has issued 150 000 shares and has a total share capital of $350 000. Having issued the shares, the issue price is irrelevant.

(a) If the company buys back 20 000 shares at $4 per share, the company will record a cash receipt of $80 000. Which equity accounts it adjusts is the decision of management. There is no requirement that share capital be reduced.

(b) The answer is the same if the shares are bought back at $2.50 per share.

**6. A company has a share capital consisting of 100 000 shares having a par value of $1 per share and issued at a premium of $1 per share, and 50 000 shares issued at $2 par and $1 premium. Discuss the effects on the accounts if:**

1. **The company buys back 20 000 shares at $4 per share**
2. **The company buys back 20 000 shares at $2.50 share**

 The share capital consists of:

 100 000 $1 shares issued at a $1 premium $200 000

 50 000 $2 shares issued at a $1 premium $150 000

(a) The company would have to specify which shares it was buying back.

 If the $1 par shares were bought back, the relevant entry is:

 Cash Dr 80 000

 Share Capital Cr 20 000

 Share Premium Cr 20 000

 Reserves Cr 40 000

 If the $2 par shares were bought back, the entry is:

 Cash Dr 80 000

 Share Capital Cr 40 000

 Share Premium Cr 20 000

 Reserves Cr 20 000

(b) The company would have to specify which shares it was buying back.

 If the $1 par shares were bought back, the relevant entry is:

 Cash Dr 50 000

 Share Capital Cr 20 000

 Share Premium Cr 20 000

 Reserves Cr 10 000

 If the $2 par shares were bought back, the entry is:

 Cash Dr 50 000

 Reserve [Share Buy-Back Discount] Dr 10 000

 Share Capital Cr 40 000

 Share Premium Cr 20 000

**7. Discuss the nature of a rights issue, distinguishing between a renounceable and a non-renounceable issue.**

 A rights issue is an issue of shares with the terms of issue giving existing shareholders the right to an additional number of shares in proportion to their current shareholding, i.e. the shares are offered on a pro rata basis.

 For example, each shareholder may be entitled to one share for every two currently held.

 *Renounceable*: existing shareholders may

* accept the offer i.e. exercise the rights.
* sell all or part of their rights to the new shares to another party.
* do nothing i.e. reject the offer.

 *Non-renounceable*: existing shareholders may:

* do nothing i.e. reject the offer.
* accept the offer.

**8. What is a private placement of shares? What are the advantages and disadvantages of such a placement?**

 A private placement is where a company places the shares with specific investors rather than invite applications for the new issue of shares.

 Advantages [see text]:

* speed
* price
* direction
* prospectus

 Disadvantages;

* dilution of current shareholders’ interests.
* where shares are placed at a discount.

**9. Discuss whether it is necessary to distinguish between the different components of equity rather than just having a single number for shareholders’ equity.**

 The question is whether an investor would prefer to invest in Company A or Company B assuming the net assets of the company are the same:

 Company A Company B

 Share capital $100 000 $20 000

 General reserve 30 000 60 000

 Retained earnings 40 000 90 000

 170 000 170 000

 In general the composition of equity is irrelevant.

 Composition may be relevant where local laws place restrictions on what can be done with particular equity accounts e.g. if dividends may be paid only out of profits.

**10. For what reasons may a company make an appropriation of its retained earnings?**

 Appropriations from retained earnings are made for:

* dividends, cash or shares
* transfer to other reserves

 May also like to consider how increases in retained earnings occur:

* earning of profit
* transfers from reserves
* recognition of actuarial gains and losses under IFRS 4 [note here that in all other cases amounts recognised directly in equity are taken to reserve accounts rather than to retained earnings]

**Exercises**

**Exercise 2.1 RESERVES AND DIVIDENDS**

**Prepare journal entries to record the following unrelated transactions of a public company:**

**(a) payment of interim dividend of $30 000**

**(b) transfer of $52 000 from the asset revaluation surplus to the general reserve**

**(c) transfer of $34 000 from the general reserve to retained earnings**

**(d) payment of 240 000 bonus shares, fully paid, at $2 per share from the general reserve.**

(a) Dividend paid Dr 30 000

 Cash Cr 30 000

 (Payment of dividend)

(b) Asset revaluation reserve Dr 52 000

 General reserve Cr 52 000

 (Transfer between reserves)

(c) General reserve Dr 34 000

 Transfer to general reserve Cr 34 000

 (Transfer between reserves)

(d) General reserve Dr 480 000

 Share capital Cr 480 000

 (Bonus issue: 240 000 shares at $2 each)

**Exercise 2.2 DIVIDENDS**

**Determine how much each class of shares should receive under the following situations:**

**(a) the preference shares are non-cumulative and non-participating**

**(b) the preference shares are cumulative and non-participating**

**(c) 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.**

**INDIA LTD**

(a) Preference shares $20 000

 Ordinary shares $80 000

(b) Preference share $60 000

 Ordinary shares $40 000

(c) Preference shares\* $70 000

 Ordinary shares\*\* $30 000

 \* (3 x $20 000) + ½($100 000 - $20 000 - $60 000)

 \*\* $20 000 + ½ x $20 000

**Exercise 2.3 RIGHTS ISSUE**

**(a) If 80% of the rights were exercised by the due date, provide journal entries made by Laos Ltd in relation to the rights issue and the eventual share issue.**

**(b) If the rights issue was not underwritten and any unexercised rights lapsed, what would be the required journal entries?**

**LAOS LTD**

(a)

15/2 to

15/3 Cash Dr 800 000

 Application – rights issue Cr 800 000

 (Money received on applications for

 rights issue: 160 000 x $5)

15/3 Application – rights issue Dr 800 000

 Receivable from underwriter Dr 200 000

 Share capital Cr 1 000 000

 (Issue of shares)

 Share capital Dr 10 000

 Cash Cr 10 000

 (Costs of share issue)

Sometime later:

 Cash Dr 200 000

 Receivable from underwriter Cr 200 000

 (Money received from underwriter)

(b)

15/2 to

15/3 Cash Dr 800 000

 Application – rights issue Cr 800 000

 (Money received on applications for

 rights issue)

15/3 Application – rights issue Dr 800 000

 Share capital Cr 800 000

 (Issue of shares)

 Share capital Dr 10 000

 Cash Cr 10 000

 (Costs of share issue)

**Exercise 2.4 SHARE ISSUE, OPTIONS**

**Prepare the journal entries in the records of Jordan Ltd in relation to the equity transactions in 2014.**

**JORDAN LTD**

25/3 Cash trust – shares Dr 750 000

 Application – shares Cr 750 000

 (Applications for shares)

 Cash trust – options Dr 10 000

 Application – options Cr 10 000

 (Applications for options)

2/4 Cash Dr 610 000

 Cash trust – shares Cr 600 000

 Cash trust – options Cr 10 000

 (Transfer on issue of shares and options)

 Application – shares Dr 600 000

 Share capital Cr 600 000

 (Issue of shares)

 Application – shares Dr 150 000

 Cash trust Cr 150 000

 (Refund to unsuccessful applicants)

 Application – options Dr 10 000

 Options Cr 10 000

 (Issue of options)

31/12 Options Dr 9 000

 Cash Dr 63 000

 Share capital Cr 72 000

 (Issue of shares on issue of options)

 Options Dr 1 000

 Options lapsed reserve Cr 1 000

 (Transfer of lapsed options)

 *Note: the $1 000 amount for lapsed options could have been included in*

 *share capital.*

**Exercise 2.5 DIVIDENDS, CALLS ON SHARES AND BONUS ISSUE**

**(a) Prepare the journal entries to give effect to the above events.**

**(b) Prepare the equity section of the statement of financial position at 31 December 2015.**

**JAPAN LTD**

**General Journal**

**(a)**

2015

June

25 Dividend paid Dr 80 000

 Cash Cr 80 000

 (Interim dividend of 10c per share on

 600 000 fully paid shares and 5c per

 share on 400 000 partly paid shares)

July

10 Call Dr 200 000

 Share capital Cr 200 000

 (Final call on 400 000 shares at 50c)

31

 Cash Dr 200 000

 Call Cr 200 000

 (Cash received on call)

September

15 General reserve Dr 100 000

 Share capital Cr 100 000

 (1-10 bonus issue on 1 000 000

 shares from general reserve)

December

31 Plant maintenance reserve Dr 50 000

 General reserve Cr 50 000

 (Transfer between reserves)

 Profit and loss summary Dr 60 000

 Retained earnings Dr 20 000

 Dividend paid Cr 80 000

**(b)**

**JAPAN LTD**

**Statement of Financial Position [extract]**

**(as at 31 December 2015)**

Share capital: (1 100 000 shares fully paid) $1 100 000

General reserve 150 000

Retained earnings \_\_60 000

 $1 310 000

**Exercise 2.6 ISSUE OF ORDINARY AND PREFERENCE SHARES**

**Prepare journal entries and ledger accounts to record the following transactions for Kuwait Ltd:**

**KUWAIT LTD**

2015

01/4 NO ENTRY

10/4 Cash trust Dr 210 000

 Application – ordinary shares Cr 210 000

 (Applications for ordinary shares:

 140 000 x $1.50)

 Cash trust Dr 170 000

 Application – preference shares Cr 170 000

 (Applications for preference shares:

 85 000 x $2)

15/4 Application – ordinary shares Dr 150 000

 Share capital – ordinary Cr 150 000

 (Issue of 100 000 shares at $1.50 each)

 Application – preference shares Dr 170 000

 Receivable from underwriter Dr 30 000

 Share capital – preference Cr 200 000

 (Issue of 100 000 shares at $2 each)

 Cash Dr 320 000

 Cash trust Cr 320 000

 (Transfer on issue of shares)

 Application – ordinary shares Dr 60 000

 Cash trust – ordinary shares Cr 60 000

 (Refund to unsuccessful applicants:

 40 000 x $1.50)

20/4 Share capital – preference Dr 4 000

 Share capital – ordinary Dr 500

 Cash Dr 25 500

 Receivable from Underwriter Cr 30 000

 (Costs of underwriting and receipt of

 application monies due from underwriter)

Cash Trust

10/4/15 Application 380 000 15/4/15 Application 60 000

 \_\_\_\_\_\_ Cash 320 000

 380 000 380 000

Application – Ordinary Shares

15/04/15 Share capital 150 000 10/04/15 Cash trust 210 000

 Cash trust 60 000 \_\_\_\_\_\_

 210 000 210 000

Application – Preference Shares

15/04/15 Share Capital 170 000 10/04/15 Cash trust 170 000

Share Capital - Ordinary Shares

20/04/15 Share issue costs 500 15/04/15 Application – Ord 150 000

Share Capital - Preference Shares

20/04/15 Share issue costs 4 000 15/04/15 Application – Pref 200 000

Receivable - Underwriter

15/04/15 Share capital - pref 30 000 20/04/15 Cash/Share issue costs 30 000

Cash

15/04/15 Cash trust 320 000

20/04/15 Receivable – U’writer 25 500

**Exercise 2.7 RIGHTS ISSUE, PLACEMENT OF SHARES**

**Prepare the general journal entries to record the above transactions.**

**IRAQ LTD**

31/3 Cash Dr 200 000

 Application Cr 200 000

 (Applications for shares on rights issue)

 Application Dr 200 000

 Share capital Cr 200 000

 (Issue of shares)

 Share capital Dr 5 000

 Cash Cr 5 000

 (Share issue costs)

30/6 Cash Dr 20 000

 Share capital Cr 20 000

 (Placement of 10 000 shares at $2)

###### **Exercise 2.8 SHARE ISSUE, OPTIONS**

**(a) Prepare general journal entries to record the above transactions.**

**(a) If Brunei Ltd buys back 25 000 preference shares for $3.50 per share, what factors would its accountant have to consider in determining how best to record the transaction in the accounts?**

**BRUNEI LTD**

**(a) GENERAL JOURNAL ENTRIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | DETAILS |  |  |  |
| 25/07/13 | Call – preference Share capital - preference(50 000 shares x $1.00) | DrCr | 50 000 | 50 000 |
| 31/08/13 | Cash Call – preference(50 000 – 7 500 =42 500 shares x $1.00) | DrCr | 42 500 | 42 500 |
| 07/09/13 | Share capital – preference (7 500 x $3.00) Call – preference (7 500 x $1.00) Forfeited shares reserve (7 500 x $2.00) | DrCrCr | 22 500 | 7 50015 000 |
| 30/11/13 | Cash trust  Application(40 000 x $3.00) | DrCr | 120 000 | 120 000 |
| 01/12/13 | Application  Share capital – B ordinary(30 000 shares x $3.00) | DrCr | 90 000 | 90 000 |
|  | Application  Calls in advance(5 000 applications x $3.00) | DrCr | 30 000 | 30 000 |
|  | Cash Cash trust | DrCr | 120 000 | 120 000 |
| 5/12/13 | Share capital B Ordinary Cash(Share issue costs) | DrCr | 5 200 | 5 200 |
| 30/04/14 | Cash  Share capital – A ordinary(15 000 shares x $4.50) | DrCr | 67 500 | 67 500 |
| 30/04/14 | Options Share capital – A ordinary (15 000 x $0.56) Options reserve (5 000 x $0.56) | DrCrCr | 11 200 | 8 4002 800 |

**(b)** The accountant should consider whether there are tax or dividend distribution issues associated with particular equity accounts before determining which accounts are to be affected by the buy-back. If there are no such issues the buy-back can be written off against any equity account or across all equity accounts.

**Exercise 2.9 ISSUE OF OPTION AND SHARES, FORFEITURE OF SHARES**

**Prepare ledger accounts to record the following transactions for Nepal Ltd:**

###### **NEPAL LTD**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Cash Trust** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 21/7/15 | Application – ord | 240 000 | 31/7/15 | Application – ord | 40 000 |
| 21/7/15 | Application – pref | 70 000 | 31/7/15 | Cash | 270 000 |
|  |  | 310 000 |  |  | 310 000 |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Application – Ordinary** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 31/7/15 | Cash trust (refund) | 40 000 | 21/7/15 | Cash trust | 240 000 |
| 31/7/15 | Share capital – ord | 200 000 |  |  |  |
|  |  | 240 000 |  |  | 240 000 |
|  |  |  |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Application – Preference** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 31/7/15 | Share capital – pref | 100 000 | 21/7/15 | Cash Trust | 70 000 |
|  |  |  | 31/7/15 | Receivable from underwriter | 30 000 |
|  |  | 100 000 |  |  | 100 000 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Share Capital – Ordinary** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 14/08/15 | Share issue costs | 3 250 | 31/7/15 | Application – ord | 200 000 |
| 15/06/16 | Forfeited shares A/c | 15 000 | 1/6/16 | Cash | 108 000 |
| 30/6/16 | Balance c/d | 404 750 | 10/6/16 | Call | 100 000 |
|  |  |  | 25/6/16 | Cash | 15 000 |
|  |  | 423 000 |  |  | 423 000 |
|  |  |  | 1/07/16 | Balance b/d | 404 750 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Share Capital – Preference** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 14/8/15 | Share issue costs | 3 250 | 31/7/15 | Application – pref | 100 000 |
| 30/6/16 | Balance c/d | 96 750 |  |  |  |
|  |  | 100 000 |  |  | 100 000 |
|  |  |  | 1/07/16 | Balance b/d | 96 750 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Call – Share Capital Ordinary** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 10/6/16 | Share capital – Ord | 100 000 | 10/06/16 | Cash | 95 000 |
|  |  | 100 000 | 15/06/16 | Share capital –ord | 5 000100 000 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Forfeited Shares Account** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 25/6/16 | Share capital – ord | 1 000 | 15/06/16 | Share capital –Ord | 10 000 |
|  | CashCash | 5508 45010 000 |  |  |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  | **Cash (extract)** |  |  |  |
| **Date** |  **Item** | **$** | **Date** |  **Item** | **$** |
| 31/7/15 | Cash trust | 270 000 | 25/6/15 | Forfeited shares a/c | 550 |
| 14/8/15 | Receivable – underwriter | 23 500 | 25/6/15 | Forfeited shares a/c | 8 450 |
| 1/6/16 | Share capital – ord | 108 000 |  |  |  |
| 10/6/16 | Call – ord | 95 000 |  |  |  |
| 25/6/16 | Share capital – ord | 14 000 |  |  |  |

**Exercise 2.10 BUY-BACK OF SHARES**

**(a) Prepare the journal entries to account for the buy-back. Explain the reasons for the entries made.**

**(b) Assume that the buy-back price per share was equal to 70c per share. Prepare journal entries to record the buy-back, and explain your answer.**

**(c) Assume that, instead of the share capital shown above, Vietnam Ltd had issued 1 million shares at a par value of $1 and a share premium of $3 per share. Rework your answers to (a) and (b) under this new scenario.**

**VIETNAM LTD**

**General Journal**

(a). Any combination of equity accounts is correct. The following entry is purely illustrative. Unless there are taxation or legislative reasons, any equity account can be used.

 General reserve Dr 600 000

 Share buyback – retained earnings Dr 1 100 000

 Share capital Dr 543 500

 Cash Cr 2 243 500

 (Repurchase of 400 000 ordinary

 shares under a buy-back scheme plus costs)

(b) Share buyback - retained earnings Dr 50 000

 Share capital Dr 233 500

 Cash Cr 283 500

 (Repurchase of 400 000 ordinary

 shares under a buy-back scheme)

 As with (a) any combination of equity accounts is appropriate.

(c) *(a)*  General reserve Dr 163 500

 Share capital Dr 100 000

 Share premium reserve Dr 300 000

 Cash Cr 563 500

 (Repurchase of 100 000 ordinary

 shares under a buy-back scheme plus costs)

*Note: where a share buy-back premium arises, both the share capital and share premium accounts must be reduced in amounts relating to the par value and premium on each share. Any balance of premium is debited to equity consistent with the terms of the buy-back.*

(c) *(b)*  Share capital Dr 100 000

 General reserve Cr 26 500

 Cash Cr 73 500

 (Repurchase of 100 000 ordinary

 shares under a buy-back scheme plus costs)

*Note, the credit of $26 500 should be credited to equity consistent with the terms of the buy-back, and, in essence, any equity account other than share capital is possible.*

###### **Exercise 2.11 RIGHTS ISSUE, CALL ON SHARES, ISSUE OF OPTIONS**

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

**SYRIA LTD**

**General Journal**

2014

Nov 30 Cash Dr 18 000

 Share capital - B Ordinary Cr 18 000

 (Allotment of 8 000 B ordinary

 shares at a price of $2.25 under a 1

 for 5 rights issue)

2015

Jan 16 Call -A Ordinary Dr 90 000

 Share capital - A Ordinary Cr 90 000

 (Call of 75c per share on 120 000

 A Ordinary shares)

Jan 31 Cash Dr 82 500

 Call - A Ordinary Cr 82 500

 (Cash received on call: 110 000 x 75c)

Feb 5 Share Capital - A Ordinary Dr 15 000

 Call - A Ordinary Cr 7 500

 Forfeited shares reserve Cr 7 500

 (Forfeiture and cancellation of 10 000

 A ordinary shares, called to $1.50, paid to 75c)

Mar 17-31 Cash trust Dr 21 000

 Application – options Cr 21 000

 (Receipt of applications for options)

Mar 31 Cash Dr 21 000

 Cash trust Cr 21 000

 (Being transfer on allotment of options)

 Application – options Dr 21 000

 Share options Cr 21 000

 (Issue of 35 000 options

 exercisable on 31 December 2003)

Dec 31 Cash Dr 44 500

 Share options Dr 15 000

 Share capital - A Ordinary Cr 59 500

 (Allotment of 25 000 A ordinary shares at

 $1.78 on exercise of 25 000 options)

 Share Options Dr 6 000

 Lapsed options reserve \* Cr 6 000

 (Transferring amount received on lapsed

 options to a reserve: 10 000 x 60c)

*\* note: the issue price of lapsed options may be taken to any equity account, or left in an options “reserve” account. Legal and taxation implications must be considered.*

 Share Capital – A Ordinary Dr 2 000

 Cash Cr 2 000

 (Payment of share issue costs)

**Exercise 2.12 SHARE ISSUE, OPTIONS, STATEMENT OF CHANGES IN EQUITY**

**(a) Prepare general journal entries, including any closing entries required, to record the above transactions. (Narrations are not required, but show all workings.)**

**(b) Prepare a statement of changes in equity for the year ended 30 June 2014.**

**(c) Taiwan Ltd has recognised a ‘Forfeited shares reserve’ as part of equity. Explain how and why such a reserve would be created.**

**TAIWAN LTD**

 **(a) – General Journal Entries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | DETAILS |  |  |  |
| 20/09/13 | Dividend declared Dividend payable | DrCr | 7 200 | 7 200 |
| 27/09/13 | Dividend payable Cash(120 000 x 6c = $7 200) | DrCr | 7 200 | 7 200 |
| 31/10/13 | Cash trust Application(50 000 x $2.00) | DrCr | 100 000 | 100 000 |
| 05/11/13 | Application  Share capital(40 000 x $2.00) | DrCr | 80 000 |  80 000 |
|  | Application  Calls in advance(10 000 x $2) | DrCr | 20 000 | 20 000 |
|  | Cash Cash trust | DrCr | 100 000 | 100 000 |
| 15/11/13 | Share capital Cash(Share issue costs) | DrCr | 2 500 | 2500 |
| 31/12/13 | Dividend declared Dividend payable([120 000 + 40 000] x 3c) | DrCr | 4 800 | 4 800 |
| 01/02/14 | Dividend payable Cash | DrCr | 4 800 | 4 800 |
| 28/04/14 | Cash Share capital(80 000 x $2.90) | DrCr | 232 000 | 232 000 |
| 02/06/14 | Application Share capital(65 000 x $3.00) | DrCr | 195 000 | 195 000 |
| 02/06/14 | Options Share capital (65 000 x 0.50) Options reserve (15 000 x 0.50) | DrCr | 40 000 | 32 5007 500 |
| 21/06/14 | Cash Application | DrCr | 195 000 | 195 000 |
| 30/06/14 | Transfer to general reserve General reserve | DrCr | 30 000 | 30 000 |
| 30/06/14 | Profit and loss summary Dividend declared Transfer to general reserve Retained earnings(Closing entry) | DrCrCrCr | 69 420 | 12 00030 00027 420 |

 **(b)**

**Taiwan Ltd**

**Statement of Changes in Equity**

**for the year ended 30 June 2014**

Comprehensive income for the period $69 420

Movements of changes in equity during the period ending 30 June 2014 were:

**Share capital**

 Balance at 1 July 2013 $300 000

 Issue of 40 000 ordinary shares, paid to $2.00 80 000

 Share issue costs (2 500)

 Issue of 80 000 ordinary shares @ $2.90 232 000

 Issue of 65 000 ordinary shares @ $3.00 on exercise

 of options worth 50c 227 500

 Calls in advance 20 000

 Balance at 30 June 2014 $857 000

**Options**

 Balance at 1 July 2013 $40 000

 Transfer to share capital on exercise (32 500)

 Transfer to reserve on lapse (7 500)

 Balance at 30 June 2014 $ 0

**General reserve**

 Balance at 1 July 2013 $30 000

 Transfer from retained earnings 30 000

 Balance at 30 June 2014 $60 000

**Forfeited shares reserve**

 Balance at 1 July 2013 $2 000

 Balance at 30 June 2014 $2 000

 4 000

**Options reserve**

 Balance at 1 July 2013 $0

 Transfer of lapsed options 7 500

 Balance at 30 June 2014 $7 500

**Retained earnings**

 Balance at 1 July 2013 $75 000

 Dividends declared and paid (12 000)

 Transfer to general reserve (30 000)

 Profit for the period 69 420

 Balance at 30 June 2014 $102 420

**(c)**

**Taiwan Ltd has recognised a “Forfeited Shares Reserve” as part of equity. Explain how and why such a reserve would be created.**

The forfeited shares reserve can only have arisen if shareholders failed to pay a call made on their shares by the company. Corporate legislation or the company’s own rules must then allow the directors to forfeit those shares for non-payment of the call and to retain any monies already paid. Forfeiture will result in the cancellation of the shares, the elimination of the calls in arrears balance and the transfer of any monies by the shareholders to the reserve account titled ‘forfeited shares reserve’.

**Exercise 2.13 SHARES, OPTIONS, DIVIDENDS AND RESERVE TRANSFERS**

**(a) Prepare general journal entries to record the above transactions.**

**(b) Prepare the equity section of the statement of financial position as at 30 June 2015.**

**MALDIVES LTD**

**(a)**

2014

15/9 Preference dividend payable Dr 4 500

 Cash Cr 4 500

 (Payment of preference dividend)

 ‘A’ Ordinary dividend payable Dr 64 000

 Cash Cr 64 000

 (Payment of dividend of 16c per

 share on 400 000 shares)

 ‘B’ Ordinary dividend payable Dr 28 800

 Cash Cr 28 800

 (Payment of dividend of 60% x 16c

 per share on 300 000 shares)

30/11 Cash Dr 121 600

 Receivable – underwriter Dr 30 400

 Share capital – Ordinary A Cr 152 000

 (Issue of 80 000 shares at $1.90 each)

 Share capital – Ordinary A Dr 3 000

 Receivable – underwriter Cr 3 000

 (Underwriting costs)

10/12 Cash Dr 27 400

 Receivable – underwriter Cr 27 400

 (Payment from underwriter net of costs)

**2015**

 Transfer to general reserve Dr 35 000

 General reserve Cr 35 000

 (Transfer between reserves)

28/2 Cash Dr 126 000

 Options \* Dr 24 000

 Options reserve Cr 3 000

 Share capital – Ordinary C Cr 147 000

 (Issue of 70 000 ordinary C shares)

*\* note: the issue price of lapsed options may be taken to any equity account, or left in an options “reserve” account. Legal and taxation implications must be considered.*

30/4 Call – Ordinary B Dr 240 000

 Share capital – Ordinary B Cr 240 000

 (Call of 80c per share on 300 000 shares)

31/5 Cash Dr 228 000

 Call – Ordinary B Cr 228 000

 (Receipt of 80c call on 285 000 shares)

18/6 Share capital – Ordinary B Dr 30 000

 Forfeited shares account Cr 18 000

 Call – Ordinary B Cr 12 000

 (Forfeiture of 15 000 shares)

26/6 Cash Dr 27 000

 Forfeited shares account Dr 3 000

 Share capital – Ordinary B Cr 30 000

 (Reissue of 15 000 Ordinary B shares)

27/6 Forfeited shares account Dr 15 000

 Cash Cr 15 000

 (Refund to holders of forfeited shares)

30/6 Dividend declared – ordinary A Dr 96 000

 Dividend declared – ordinary B Dr 60 000

 Dividend declared – ordinary C Dr 14 000

 Dividend payable – ordinary A Cr 96 000

 Dividend payable – ordinary B Cr 60 000

 Dividend payable – ordinary C Cr 14 000

 (Provision for 20 c per share dividend)

 Retained earnings Dr 205 000

 Dividend declared – Ordinary A Cr 96 000

 Dividend declared– Ordinary B Cr 60 000

 Dividend declared – Ordinary C Cr 14 000

 Transfer to general reserve Cr 35 000

**(b)**

**MALDIVES LTD**

**Shareholders’ Equity**

 Share capital:

 Ordinary A shares: 480 000 shares fully paid $949 000

 Ordinary B shares: 300 000 fully paid 600 000

 Ordinary C shares: 70 000 fully paid 147 000

 Preference shares: 50 000 fully paid 75 000

 1 771 000

 General reserve 35 000

 Options reserve 3 000

 Retained earnings 113 000

 Total shareholders’ equity $1 922 000

**Exercise 2.14** **DIVIDENDS, SHARE ISSUES, SHARE BUY-BACK, OPTIONS AND MOVEMENTS IN RESERVES**

**(a) Prepare the general journal entries to record the above transactions.**

**(b) Prepare the statement of changes in equity for Singapore Ltd for the year ended 31 December 2015.**

**SINGAPORE LTD**

2015

15/2 Dividend payable Dr 25 000

 Cash Cr 25 000

 (Payment of dividend)

May- Cash trust Dr 550 000

June Application Cr 550 000

 (Application monies received during

 May-June 2008: 10 000 x $55)

20/6 Cash Dr 550 000

 Cash trust Cr 550 000

 (Transfer on issue of shares)

 Application Dr 550 000

 Share capital Cr 550 000

 (Issue of shares: 10 000 x $55)

 Cash Dr 825 000

 Share capital Cr 825 000

 (Placement of shares: 15 000 x $55)

 Share capital Dr 137 500

 Cash Cr 137 500

 (Share issue costs: 10%[$550 000 + $825 000]

25/6 Dividend paid Dr 20 000

 Cash Cr 20 000

 (Interim dividend paid)

30/6 Land Dr 30 000

 Deferred tax liability Cr 9 000

 Asset revaluation reserve Cr 21 000

 (Revaluation of land)

1/7 Early adoption adjustment Dr 55 000

 Provision for insurance Cr 55 000

 (Adjustment on early adoption of IAS X)

22/7 Share capital Dr 140 000

 Repurchase of shares Dr 140 000

 Cash Cr 280 000

 (Repurchase of 5 000 shares at $56 per share)

16/11 General reserve Dr 240 000

 Share capital Cr 240 000

 (Bonus issue of 13 000 shares:

 No. of shares = 10%[95 000 + 5 000 + 10 000 + 25 000 – 5 000])

 Share capital Dr 24 000

 Cash Cr 24 000

 (Share issue costs: 10% x $240 000)

1/12 Cash Dr 20 000

 Options Cr 20 000

 (Issue of options: 100 000 x 20c)

31/12 Dividend declared Dr 30 000

 Dividend payable Cr 30 000

 (Final dividend)

 Transfer to general reserve Dr 40 000

 General reserve Cr 40 000

 (Transfer between reserves)

 Asset revaluation reserve Dr 30 000

 Transfer from asset revaluation

 reserve Cr 30 000

 (Transfer between reserves)

 Profit and Loss Summary Dr 150 000

 Transfer from ARR Dr 30 000

 Retained earnings Dr 105 000

 Dividend paid Cr 20 000

 Early adoption adjustment Cr 55 000

 Repurchase of shares Cr 140 000

 Dividend declared Cr 30 000

 Transfer to general reserve Cr 40 000

 (Closing entry)

**Statement of Changes in Equity**

**for year ended 31 December 2015**

 Comprehensive income for the period $171 000

 Share capital:

 Balance at 1 January 2015 – 110 000 shares $3 590 000

 Share issues: 25 000 shares 1 237 500

 Repurchase of shares: 5 000 shares (140 000)

 Bonus issue: 13 000 shares 216 000

 Balance at 31 December 2015 – 143 000 shares $4 903 500

 Retained earnings:

 Balance at 1 January 2015 $750 000

 Profit for the period 150 000

 Transfer from asset revaluation surplus 30 000

 Dividends paid and provided (50 000)

 Early adoption of IAS 9X (55 000)

 Repurchase of shares (140 000)

 Transfer to general reserve (40 000)

 Balance at 31 December 2015 $645 000

 Asset revaluation reserve

 Balance at 1 January 2015 $180 000

 Increase – revaluation of land 21 000

 Transfer to retained earnings 30 000

 Balance at 31 December 2015 $171 000

 General reserve:

 Balance at 1 January 2015 $240 000

 Bonus issue of shares (240 000

 Transfer from retained earnings 40 000

 Balance at 31 December 2015 $40 000

 Options:

 Balance at 1 January 2015 $0

 Options issued 20 000

 Balance at 31 December 20015 $20 000

**Statement of Financial Position (extract)**

 **2015 2014**

 Share capital $4 903 500 $3 590 000

 Options 20 000 0

 General reserve 40 000 240 000

 Asset revaluation reserve 170 000 180 000

 Retained earnings 645 000 750 000

 $5 778 500 $4 760 000

**Exercise 2.15 SHARE ISSUES, OPTIONS, RIGHTS ISSUES, DIVIDENDS, RESERVE TRANSFERS**

**(a) Prepare general journal entries to record the transactions relating to share issues and options for the year ending 30 June 2014.**

**(b) 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.**

**(c) 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.**

**YEMEN LTD**

 **(a) GENERAL JOURNAL ENTRIES**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** |  |  |  |
|  |  |  |  |  |
| 15/07/13 | Share capital (24 000 x $2.40) Call (24 000 x $0.80) Forfeited shares liability (24 000 x $1.60) | DrCrCr | 57 600 | 19 20038 400 |
| 26/07/13 | Forfeited shares liability Cash | DrCr | 38 400 | 38 400 |
| 01/09/13 | Application – preference sharesReceivable from underwriter Share capital - preference( 280 000 – 24 000 = 256 000/2 = 128 000 x $2.80) | DrDrCr | 302 40056 000 | 358 400 |
| 10/09/13 | Share capitalCash Receivable from underwriter(40 000/2 = 20 000 shares x $2.80 - $5 000 share issue costs) | DrDrCr | 5 00051 000 | 56 000 |
| 21/09/13 | Cash  Application – preference  | DrCr | 302 400 | 302 400 |
| 02/04/13 | Cash Options (80 000 x $0.10) | DrCr | 8 000 | 8 000 |

**(b)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| 29/09/13 | Dividend payable Cash(280 000 x 10c) | DrCr | 28 000 | 28 000 |
| 02/01/13 | General reserve Share capital – ordinary(256 000/4 = 64 000 x $3.00) | DrCr | 192 000 | 192 000 |
| 30/06/13 | General reserve Transfer from general reserve | DrCr | 30 000 | 30 000 |
|  | Dividend declared Dividends payable(Ordinary 256 000 + 64 000 x 8c = $25 600Preference $358 400 x 5% = $17 920) | DrCr | 43 520 | 43 520 |
|  | Transfer from general reserveRetained earnings Dividend declared Profit and loss summary | DrDrCrCr | 30 00049 520 | 43 52036 000 |

**(c)** IAS 10 mandates that no liability can be raised for dividend declared prior to end of reporting period if shareholder approval is required. As a consequence, no recognition of the dividend would have occurred in the prior period. When the approval is obtained the dividends can be paid. The entry to record the payment would change to:

 Dividend declared Dr 28 000

 Cash Cr 28 000

This is necessary to remove the profits being distributed from retained earnings and to record the cash payment to shareholders. No liability is recognised as the reduction in equity takes place simultaneously with the cash payment.

**Exercise 2.16 OPTIONS, SHARES, DIVIDENDS, RESERVES**

**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.***

**PHILIPPINES LTD**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **DATE** | **DETAILS** |  | **Dr** | **Cr** |
| (i) | Cash Share capital(50 000 x $3.00) | DrCr | 150 000 | 150 000 |
|  | Options Share capital (50 000 x 0.40) Options reserve (10 000 x 0.40) | DrCrCr | 24 000 | 20 0004 000 |
| (ii) | Cash trust Application([80 000 x $2.90] + $20 000) | DrCr | 252 000 | 252 000 |
|  | Application  Share capital(80 000 x $2.90) | DrCr | 232 000 |  232 000 |
|  | Application  Calls in advance | DrCr | 20 000 | 20 000 |
|  | Cash Cash trust | DrCr | 252 000 | 252 000 |
|  | Share capital Cash(Share issue costs) | DrCr | 2 500 | 2500 |
|  |  |  |  |  |
| (iii) | Dividend declared Dividend payable | DrCr | 8 000 | 8 000 |
|  | Dividend paid Cash | DrCr | 4 000 | 4 000 |
|  |  |  |  |  |
|  (iv) | Transfer to general reserve General reserve | DrCr | 30 000 | 30 000 |
|  | General reserve Share capital | DrCr | 80 000 | 80 000 |

**Exercise 2.17 DIVIDENDS, SHARE-ISSUES, OPTIONS, RESERVE TRANSFERS**

**(a) Prepare general journal entries and closing entries to record the above transactions and events.**

**(b) Prepare the following general ledger accounts (T format) for the period 30 June 2012 to 30 June 2015:**

 **• Share capital (Ordinary A)**

 **• Share capital (Ordinary B)**

 **• Share capital (Preference).**

**MONGOLIA LTD**

**1. JOURNAL ENTRIES**

2012

30/09 Final dividend payable Dr 28 750

 Cash Cr 28 750

 ([Ord A: 120 000 x 10c = 12 000] +

 [Ord B: 150 000 x 10c x 105/180 = 8 750] +

 [Pref: 100 000 x 8% = 8 000])

31/10 NO ENTRY

30/11 Cash Trust Dr 40 000

 Application - Options Cr 40 000

 (Applications for 50 000 options at 50 cents each)

 Application - Options Dr 40 000

 Options Cr 40 000

 (50 000 Ord A options allotted @ 80c/option)

 Cash Dr 40 000

 Cash Trust Cr 40 000

 (Transfer on issue of options)

2013

15/01 Call (Ordinary B) Dr 75 000

 Share cap (Ordinary B) Cr 75 000

 (Ord B call: 150 000 x 50c)

 Calls in advance Dr 15 000

 Call (Ordinary B) Cr 15 000

 (Transfer of calls in advance)

15/02 Cash Dr 60 000

 Call (Ordinary B) Cr 60 000

 (Call monies received:

 75 000 – 15 000)

20/04 Share capital (Preference) Dr 50 000

 Share buyback Dr 5 000

 Cash Cr 55 000

 (Buyback of 50 000 pref shares @ $1.10/share)

30/06 Final dividend declared Dr 31 000

 Final dividend payable Cr 31 000

 ([Ord A: 120 000 x 10c = 12 000] +

 [Ord B: 150 000 x 10c = 15 000] +

 [Pref: 50 000 x 8% = 4 000])

 General reserve Dr 20 000

 Transfer from general reserve Cr 20 000

 (Transfer from general reserve)

P&L summary Dr 44 000

 Transfer from general reserve Dr 20 000

 Share buyback Cr 5 000

 Final dividend declared Cr 31 000

 Retained earnings Cr 28 000

 (Closing entry)

30/09 Final dividend payable Dr 31 000

 Cash Cr 31 000

 (Payment of final dividend)

15/12 Interim dividend Dr 13 500

 Cash Cr 13 500

 ([Ord A: 120 000 x 5c = 6 000]

 [Ord B: 150 000 x 5c = 7 500])

2014

31/1 NO ENTRY

28/02 Allotment (Ordinary B) Dr 36 000

 Share capital (Ordinary B) Cr 36 000

 (120 000/5 = 24 000 Ord B shares issued

 - rights issue at $1.50 per share)

15/03 Cash Dr 36 000

 Allotment (Ord B) Cr 36 000

 (Receipt of monies under rights issue)

30/06 P&L summary Dr 56,000

 Interim dividend Cr 13 500

 Retained earnings Cr 42 500

 (Closing entry)

 General reserve Dr 47 990

 Share capital (Ordinary A) Cr 14 400

 Share capital (Ordinary B) Cr 27 840

 Share capital (Preference) Cr 5 750

 (1-for-10 bonus issue:

 [Ord A: 120 000/10 x $1.20 = 14 400]

 [Ord B: {150 000+24 000}/10 x $1.60 = 27 840]

 [Pref: 50 000/10 x $1.15 = 5 750])

30/11 Options Dr 40 000

 Share capital (Ordinary A) Cr 32 000

 Options reserve Cr 8 000

 (Transfer of options balance:

 Share capital: 40 000 x 80c

 Options reserve: 10 000 x 80c)

Application (Ordinary A) Dr 28 000

 Share capital (Ord A) Cr 28 000

 (40 000 ord A shares allotted under option issue

 at 70c per share)

20/12 Cash Dr 28 000

 Application (Ordinary A) Cr 28 000

 (Receipt of monies under option issue)

2015

10/01 Interim dividend Dr 18 170

 Cash Cr 18 170

 ([Ord A: {120 000 + 12 000 + 40 000} x 5c = 8 600]

 [Ord B: {150 + 24 + 17 400} x 5c = 9 570])

30/06 Final dividend declared Dr 40 800

 Final dividend payable Cr 40 800

 ([Ord A: 172 000 x 10c = 17 200]

 [Ord B: 191 400 x 10c = 19 140]

 [Pref: {50 000 + 5 750} x 8% = 4 460])

 P&L summary Dr 48 000

 Retained earnings Dr 10 970

 Interim dividend Cr 18 170

 Final dividend declared Cr 40 800

 (Closing entry)

**2. Ledger Accounts**

SHARE CAPITAL (ORDINARY A)

|  |  |
| --- | --- |
|  | 30/06/12 Bal b/d 132 000 |
| 30/06/14 Bal c/d 146 400 | 30/06/14 General reserve 14 400 |
|  146 400 |  146 400 |
|  | 30/06/14 Bal b/d 146 400 |
|  | 30/11/14 Options 32 000 |
| 31/12/14 Bal c/d 206 400 |  Application 28 000 |
|  206 400 |  206 400 |
|  | 31/12/14 Bal b/d 206 400 |
|  |  |

SHARE CAPITAL (ORDINARY B)

|  |  |
| --- | --- |
|  | 30/06/12 Bal b/d 105 000 |
| 30/06/13 Bal c/d 180 000 | 15/01/13 Call 75 000 |
|  180 000 |  180 000 |
|  | 30/06/13 Bal b/d 180 000 |
|  | 28/02/14 Application 36 000  |
| 30/06/14 Bal c/d 243 840 | 30/06/14 General Reserve 27 840 |
|  243 840 |  243 840 |
|  | 30/06/14 Bal b/d 243 840 |
|  |  |

SHARE CAPITAL (PREFERENCE)

|  |  |
| --- | --- |
| 20/04/13 Cash 50 000 | 30/06/12 Bal b/d 100 000 |
| 30/06/13 Bal c/d 50 000 |  \_\_\_\_\_\_\_ |
|  100 000 |  100 000 |
|  | 30/06/13 Bal b/d 50 000 |
| 30/06/14 Bal c/d 55 750 | 30/06/14 General Reserve 5 750 |
|  55 750 |  55 750 |
|   | 30/06/14 Bal b/d 55 750 |

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

**(a) Prepare general journal entries and closing entries to record the above transactions.**

**(b) Prepare the Options and Retained Earnings ledger accounts for the period 30 June 2012 to 30 June 2013.**

**MALAYSIA LTD**

**1. JOURNAL ENTRIES**

02/08/11 Final dividend declared Dr 11 000

 Final dividend payable Cr 11 000

15/08/11 Final dividend payable Dr 11 000

 Cash Cr 11 000

01/10/11 NO ENTRY

31/10/11 Cash trust Dr 26 250

 Application - Ordinary Cr 26 250

 (75 000 x 35c)

02/11/11 Application – Ordinary Dr 21 000

 Allotment – Ordinary Dr 21 000

 Share capital – Ordinary Cr 42 000

 (60 000 shares issued at 70c per share

 Application Dr 5 250

 Allotment Cr 5 250

 (Surplus application money transferred to allotment)

 Cash Dr 26 250

 Cash trust Cr 26 250

 Share capital Dr 1 500

 Cash Cr 1 500

 (Share issue costs)

30/11/11 Cash Dr 15 750

 Allotment – Ordinary Cr 15 750

05/01/12 Interim dividend paid Dr 6 750

 Cash Cr 6 750

 ([100 000 x 5c = 5 000] +

 [60 000 x 5c x 70/120 = 1 750])

31/01/12 Call – Ordinary Dr 30 000

 Share capital – Ordinary Cr 30 000

 (60 000 x 50c)

28/02/12 Cash Dr 28 500

 Call – Ordinary Cr 28 500

20/03/12 Share capital – Ordinary Dr 3 600

 Call – Ordinary Cr 1 500

 Forfeited share reserve Cr 2 100

 (Call: 3 000 x 50c

 FSR: 3 000 x 70c)

31/03/12 Allotment – Ordinary Dr 13 200

 Share capital – Ord Cr 13 200

 (12 000 x $1.10)

 Options Dr 7 500

 Share capital – Ordinary Cr 6 000

 Options reserve Cr 1 500

 (Options: 15 000 x 50c

 Capital: 12 000 x 50c

 Options reserve: 3 000 x 50c)

30/04/12 Cash Dr 13 200

 Allotment – Ordinary Cr 13 200

31/05/12 General reserve Dr 65 700

 Share capital – Ordinary Cr 50 700

 Share capital – Preference Cr 15 000

 (Ord: [100 000 + 60 000 – 3 000 + 12 000]/4 x $1.20

 Pref: 50 000/4 x $1.20)

30/06/12 P&L summary Dr 29 460

 Final dividend declared Cr 11 000

 Interim dividend paid Cr 6 750

 Retained earnings Cr 11 710

**2. Ledger Accounts**

OPTIONS

|  |  |
| --- | --- |
| 31/03/12 Share cap/OR GJ 7 500 | 30/06/11 Bal b/d 7 500 |
|  |  |

RETAINED EARNINGS

|  |  |
| --- | --- |
|  | 30/06/11 Bal b/d 136 340 |
| 30/06/12 Bal c/d 148 050 | 30/06/12 P&L GJ ..11 710 |
|  148 050 |  148 050 |
|  | 30/06/12 Bal b/d 148 050 |
|  |  |