

ACC 1701XA

Accounting for Decision Makers

LECTURE 10

Lecturer: Dr. Hanny Kusnadi

Accounting
The language of the business world



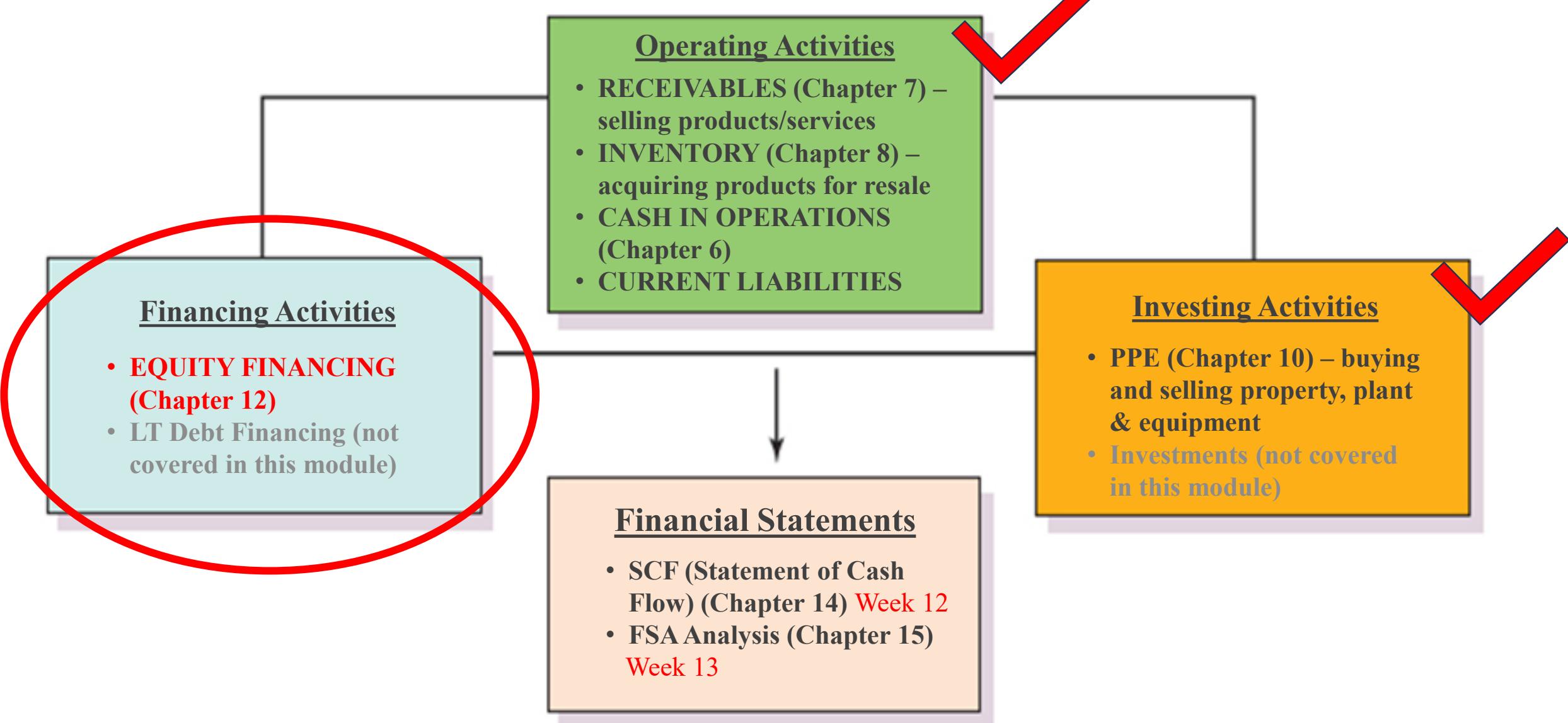
Prior Lecture 09 Refresher: PPE

- PPE (Property, Plant & Equipment)
 - Depreciation methods: Straight-line, Units-of-production, Declining-balance
 - Recording various PPE transactions:
 - Acquisition – what to include in acquisition costs?
 - how to allocate lump-sum purchase?
 - Changes in estimates – how to recalculate new depreciation moving forward?
 - Capital expenditures – which expenditures can be capitalized vs expensed?
 - Impairments – “write down” PPE when NBV > recoverable amount
 - Disposals/ Sales of PPE – record gain/(loss) on disposal
- Intangible Assets – definite life intangibles are amortized on a straight-line basis.
 - indefinite life intangibles are not amortized.
- FSA: Fixed Assets Turnover & Total Assets Turnover



Major Activities of a Business:

What is left for us to cover?





Chapter 12

EQUITY

Goals for Lecture 10

Equity

- Raising equity financing (LO1)
- Corporations (LO2)
 - Corporate structure
 - Types of shares
- Ownership of a corporation: Accounting for stock (LO3)
 - Ordinary shares (par value vs. no par value)
 - Preference shares
 - Treasury shares
- Retained Earnings (LO4)
 - Cash dividends & Stock dividends
- Other Equity Items: OCI & Reserves (LO5)

FSA

- EPS (Earnings per share)
- PE (Price Earnings) Ratio
- Dividend Payout Ratio & Dividend Yield

Capital Structure

Debt vs. Equity

- The acquisition of assets is financed from two sources:

1) Debt



Funds from creditors

2) Equity



Funds from owners

- Mixture of debt and equity that a company uses is called its “**capital structure**”

Q: Which type of financing do you think is more risky?

Financing Activity of a Business

- Difference between debt financing & equity financing:

Loan (Debt Financing)	Investment (Equity Financing)
Company is <u>obligated to repay</u> the principal amount, even during bad times.	Company is <u>not obligated</u> to repay the principal amount (investors can lose all of their investment).
Lender does not share in the success of the company. <i>(i.e. company will only repay the borrowed amount)</i>	Investor shares in the success of the company. <i>(i.e. investors get a share of the company's profit through dividends & enjoy capital gain from any rise in stock price)</i>

Q: Which type of financing would you go for if you are a startup?

RECAP: Types of Businesses

Recall from Lecture 01, you can typically set up a business as:

(1) Sole Proprietorship

- Owned by a single individual. Not a legally separate entity from its owner! (i.e. owner has unlimited liability!)
- Usually small in size, common in the service, retailing and farming industries.



(2) Partnership

- Owned by two or more individuals. Not a legally separate entity from its owners.



(3) Corporation

- A legal entity separate entity from its owners.
- At its simplest, a corporation is like an “artificial legal” person, created by a legal process. It has rights similar to that of a human being.
 - A corporation can own property, pay taxes, exist for an indefinite period, sue, and be sued.
- Ownership represented by shares of stock – can be privately or publicly owned (public company).



Corporations

Advantages & Disadvantages

Advantages:

- Separate legal entity
- Limited liability for the stockholders (i.e. they are not personally liable for the acts or obligations of the corporation, only liable up to their share of investment)
- Continuity of life (its own entity, and can “live on” for eternity)
- Ease in transferring ownership (easy to buy and sell stock on the stock exchange)
- Opportunities to raise large amounts of money by selling shares to a large number of people.

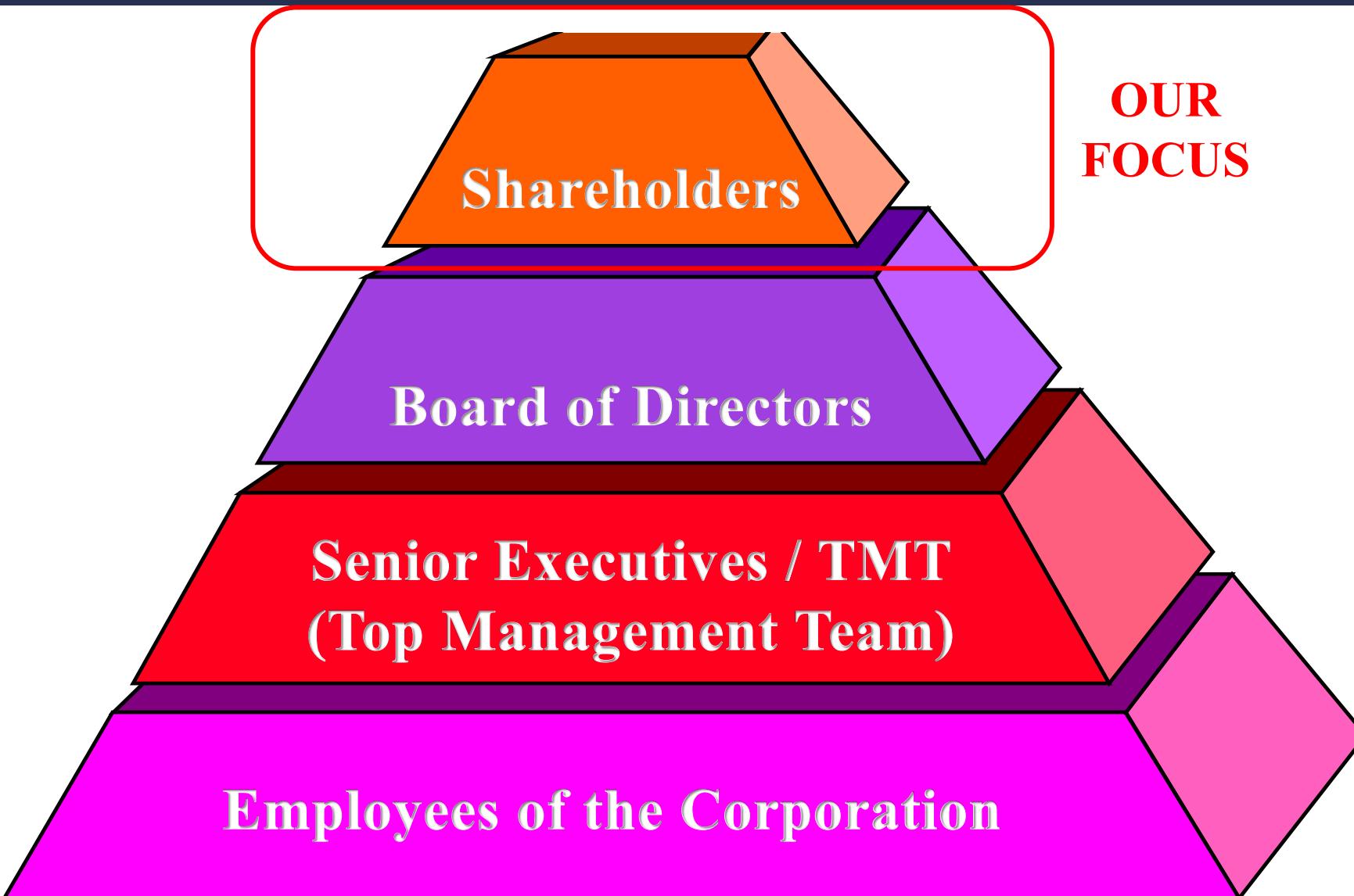


Disadvantage:

- Government regulation
- Double taxation (i.e. income is taxed “twice”: once when it is earned at the corporate level, and again when it is distributed to stockholders as dividends).
 - Note that certain countries, like Singapore and Hong Kong, have a one-tier tax system, i.e. they do not tax dividends! This makes them an attractive place for companies to do business.



Corporate Structure



Shareholders' Rights

Shareholders/stockholders: people who invest in a corporation.

(1) Vote at shareholders' meetings (voting rights)

- To elect board of directors and approve business matters (either in person or by proxy at the stockholders' meeting)

(2) Purchase additional shares / Sell shares

- Capital gain: when stock prices rise, shareholders can sell ownership for a profit

(3) Receive dividends (dividends rights)

- Proportionate share on the distributions of profits

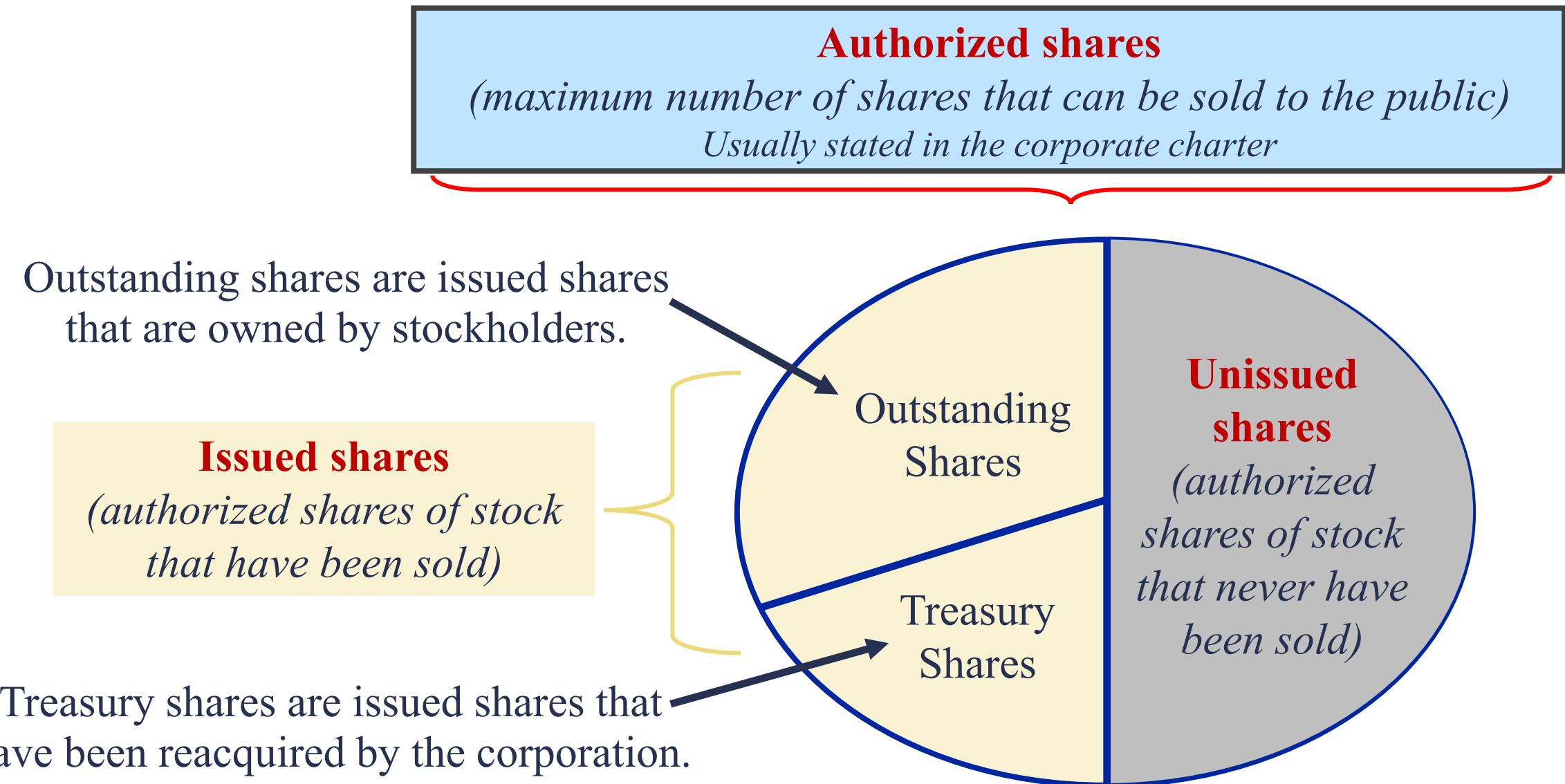
(4) Residual Claim (corporate assets rights)

- Proportionate share on the distributions of remaining assets upon liquidation of the company. (Creditors are paid before shareholders in the event of liquidation or bankruptcy)



Ownership of a Corporation

Authorized, Unissued, Issued, Outstanding & Treasury Shares



Ownership of a Corporation

Par Value vs. No Par Value

Par Value

- An arbitrary (nominal) amount assigned to each share when it is authorized.
- When par-value stock sells for above par, it is said to sell at a premium.
 - The premium is recorded into a Share Premium (also known as Additional Capital / Additional Paid-in Capital in excess of par) account.
- NOT related in any manner to market value which is the selling price of a share of stock!

No Par Value

- No arbitrary amount is assigned to each share of stock.

In Singapore, we use NO PAR value shares, and there is also no authorized share capital in Singapore.

Ownership of a Corporation

Major Types of Shares – Ordinary

(1) Ordinary Shares (Common Stock)

- Basic voting stock issued by a corporation – usually one share one vote
- Entitled to receive dividends declared
- Rank behind Preference Shares in dividends and (usually) liquidation
- Can have different voting rights – e.g. dual class shares
- Can have preemptive rights: permits existing stockholders to purchase additional shares to maintain the same percentage of ownership



Ownership of a Corporation

Major Types of Shares – Preference

(2) Preference Shares (Preferred Stock)

- Often has no voting rights
- Often has specific payment terms that takes priority over ordinary shares – e.g. fixed rate dividends (needs to be paid before ordinary shares receive dividends)
- (Usually) rank before ordinary shares in dividends and liquidation
- Classification of preference shares (some examples):
 - ***Convertible / non-convertible*** – convertible to ordinary shares
 - ***Redeemable / non-redeemable*** – option for company to “buyback” the shares
 - ***Cumulative / non-cumulative*** – cumulative shares require all dividends in arrears (outstanding unpaid dividends from past years) to be fully paid before ordinary dividends can be paid out.
 - ***Participating / non-participating*** – participating shares may receive additional dividend based on predetermined condition.

Issue of Ordinary Shares (with par value)

(1) Issuance for cash at premium:

- StartMeUp Company issues 1,000 ordinary shares of \$1 par-value for \$5 per share. The issue is fully paid and received in cash.

Cash (1,000 x \$5)	\$5,000
Share Capital – Ordinary shares (1,000 x \$1)	\$1,000
Share Premium – Ordinary shares	\$4,000

(2) Issuance for Acquisition of Asset (based on market value of shares)

- StartMeUp issues 5,000 ordinary shares of \$1 par-value to a shareholder in exchange for land. Fair market value of the land cannot be determined. Market value of the share on date of transaction is \$7 per share.

Land (5,000 x \$7)	\$35,000
Share Capital – Ordinary shares (5,000 x \$1)	\$ 5,000
Share Premium – Ordinary shares	\$30,000



Issue of Ordinary Shares (No par)

(1) Issuance for Cash:

- StartMeUp Company issues 10,000 no par value ordinary shares. The issue is fully paid and the proceeds are \$20,000.

Cash	\$20,000
Share Capital – Ordinary shares	\$20,000

(2) Issuance for Acquisition of Asset (based on market value of asset)

- StartMeUp issues 5,000 no par value ordinary shares to purchase an equipment with a fair value of \$50,000. Share price on date of transaction is \$7 per share.

Equipment*	\$50,000
Share Capital – Ordinary shares	\$50,000

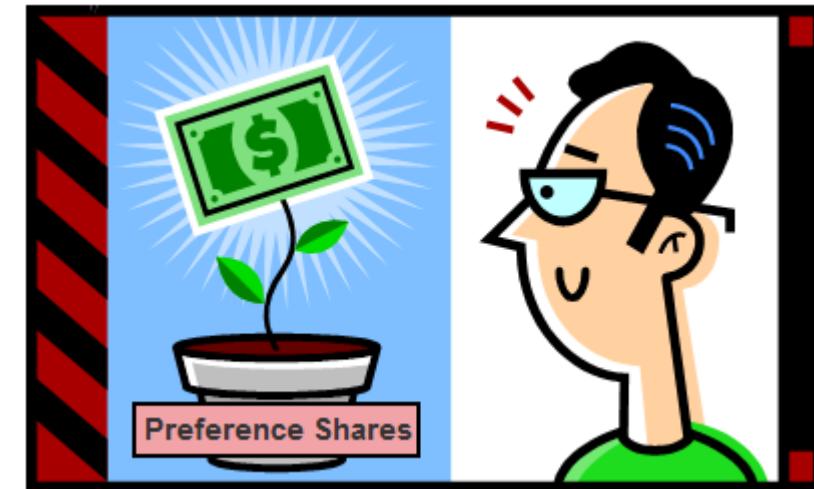
* If fair market value (FMV) of the asset can be determined, then the FMV is used as the basis for recording the transaction.



Preferred Shares

Reasons for Issuing Preference Shares

- To raise capital without sacrificing control
- To boost the return earned by ordinary shareholders through financial leverage
- To appeal to investors who may believe the ordinary shares are too risky or that the expected return on ordinary shares is too low
- Also known as “Preferred Stock”



Issue of Preference Shares

StartMeUp issued 3,000 class B* non-cumulative non-convertible preference shares.

No par preference shares: Total proceeds from the issue was \$330,000.

Cash	\$330,000
Share Capital – Preference Shares B	\$330,000

Par value preference shares: Par value is \$100, issued for cash at \$110 per share.

Cash	\$330,000
Share Capital – Preference Shares B	\$300,000
Share Premium – Preference shares	\$ 30,000

* *Different classes of shares have different shareholder rights. Companies may use alphabets (such as A, B, C etc..) to name and differentiate its different classes of shares.*



Real FS

United Airlines (par value shares)

UNITED AIRLINES HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(In millions, except shares)

	At December 31,	
	2024	2023
Stockholders' equity:		
Preferred stock	—	—
Common stock at par, \$0.01 par value; authorized 1,000,000,000 shares; outstanding 327,899,771 and 328,018,739 shares at December 31, 2024 and 2023, respectively	4	4
Additional capital invested	8,980	8,992
Stock held in treasury, at cost	(3,377)	(3,441)
Retained earnings	6,880	3,831
Accumulated other comprehensive income (loss)	188	(62)
Total stockholders' equity	<u>12,675</u>	<u>9,324</u>



- United Airlines' FS is prepared under GAAP. The U.S. uses par value system.
- Types of shares:
 - Preferred (none in 2024 and 2023)
 - Common stock (ordinary shares)
 - Authorized shares = 1,000,000,000 with \$0.01 par value
 - Issued and outstanding = 328,899,771 shares as at 31 Dec 2024
 - Issued and in treasury \$3,377m in 2024

Source: United Airlines 2024 Annual Report (Form 10-K)

Real FS

Cathay Pacific (no par value shares)

SFP:

	Note	2024 HK\$M	2023 HK\$M
CAPITAL AND RESERVES			
Share capital	19	28,841	28,828
Reserves	21	23,659	31,198
Funds attributable to the shareholders of the Cathay Group		52,500	60,026
Non-controlling interests	7	7	7
Total equity		52,507	60,033

19. SHARE CAPITAL

	2024		2023	
	Number of shares	HK\$M	Number of shares	HK\$M
Issued and fully paid				
Ordinary shares				
At 1st January	6,437,900,319	28,828	6,437,200,203	28,822
Conversion of bonds (notes 11(a) and 19(b))	1,508,931	13	700,116	6
At 31st December	6,439,409,250	28,841	6,437,900,319	28,828
Preference shares				
At 1st January (note 19(a))	–	–	195,000,000	19,500
Reduction	–	–	(97,500,000)	(9,750)
Redemption (note 19(a))	–	–	(97,500,000)	(9,750)
At 31st December	–	–	–	–

- No par value shares
- Share Capital consists of:
 - Ordinary shares
 - Preference shares (issued in 2020)

Source: Cathay Pacific 2024 Annual Report



Real FS Singapore Airlines (no par value shares)

		The Group 31 March	
	Notes	2024	2023
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	13	7,180.4	7,180.2
Mandatory convertible bonds	14	1,547.5	6,195.1
Treasury shares	15	(37.5)	(73.8)
Other reserves	16	7,647.5	6,556.8
		16,337.9	19,858.3

- No par value shares
- Types of shares: Ordinary, Mandatory convertible bonds, Treasury

Source: Singapore Airlines 2024 Annual Report



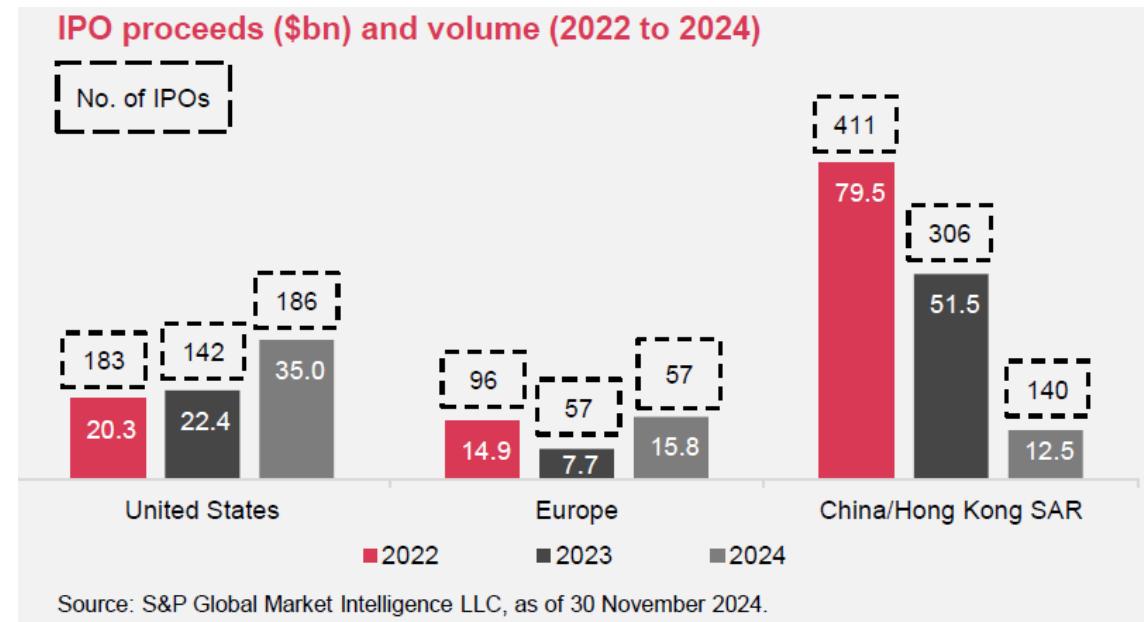
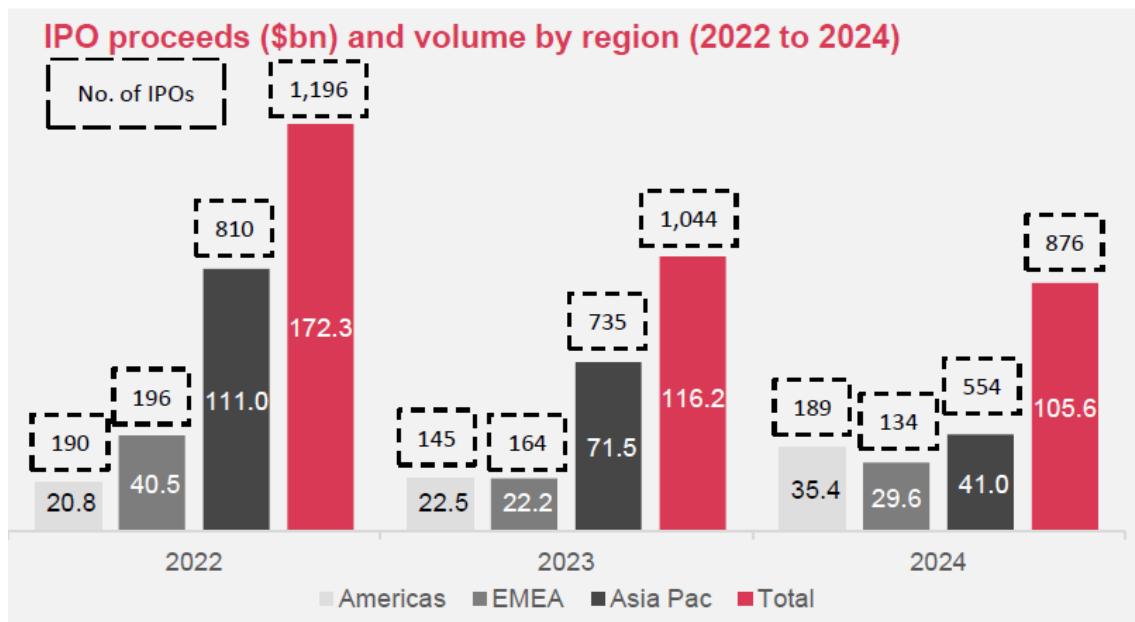
Share Issuance in Public Markets

IPO & SEO

- Shares issuance to the public is made through:
 - (1) **Initial public offering (IPO)** - the first time a corporation sells shares to the public
 - (2) **Secondary/seasoned equity offering (SEO)** - subsequent sales of new shares to the public. (Also referred to as “follow on offerings”)
- Once the initial sale of shares (from the company to the investors) is done, investors can sell their shares to other investors in secondary markets. (e.g. New York Stock Exchange NYSE, Hong Kong Stock Exchange HKSE, Singapore Exchange SGX)
- Transactions between two investors in the secondary markets do **NOT** affect the corporation’s accounting records!



Top IPO Markets in the World (by IPO proceeds) 2022 - 2024



Source: S&P Global Market Intelligence LLC, as of 30 November 2024.

- China took over the United States as the country with top IPO proceeds for the first time 2022 and maintained the top spot in 2023. However, United States reclaimed it No. 1 spot in 2024.
- Even though China experienced a huge drop in IPO proceeds in 2024, Asia Pac remains the top region in terms of IPO proceeds due to strong IPO performance in India.
- Top 3 IPO proceeds by sectors in 2023: (1) IT, (2) Industrials, (3) Consumer Discretionary
- Top 3 IPO proceeds by sectors in 2024: (1) Consumer Discretionary, (2) Industrials, (3) Financials

Source: PWC Global IPO Watch 2024 Report

Global Stock Market

Total Market Cap of \$127 Trillion in 2024

Global Equity Market Share

Market	Market Cap	% of Total
U.S.	\$62.2T	49.1%
China	\$11.8T	9.3%
EU	\$11.1T	8.7%
Japan	\$6.3T	5.0%
India	\$5.1T	4.1%
Hong Kong	\$4.5T	3.6%
UK	\$4.4T	3.5%
Canada	\$3.4T	2.7%
Australia	\$1.7T	1.4%
Singapore	\$0.6T	0.5%
Other Developed Markets	\$10.8T	8.5%
Other Emerging Markets	\$4.7T	3.7%

Data as of 2024, released July 2025.

Source: visualacapitalist.com

Share Repurchase (Share Buyback): Treasury Shares

- Sometimes companies may want to buy back its shares from existing shareholders for various reasons.
 - To use their shares to acquire other companies
 - To purchase shares in order to avoid a hostile takeover
 - To reissue them to employees as compensation
 - To show management's confidence in the current price – stimulate trading
 - To give cash back to shareholders
 - To increase reported earnings per share (EPS) by reducing number of shares outstanding
- **Repurchased shares is called Treasury Shares (Treasury Stock)**
 - A corporation records treasury shares at cost.
 - Treasury shares has no voting or dividend rights.
 - Treasury shares is a ***contra-equity*** account.



Share Repurchase - Singapore Rules

- Companies listed on the Singapore Exchange (SGX) are subject to rules on share buybacks:
 - Need shareholders' approval
 - Should not do a share buyback when there are material developments or any unannounced material information
 - Should not create a “false market”:
 - Should avoid buying back near or at the close of the market
 - Should buy back at relatively low prices (no more than 105% of the average closing market prices over the last 5 consecutive active trading days)
 - Should not be excessive (more than 30% of daily volume of shares traded)



Repurchasing Treasury Shares

When a company repurchases its shares from investors, it records the transaction at cost.

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Deals

Buffett's Berkshire Hathaway speeds up stock buybacks

By Jonathan Stempel
March 20, 2023 2:23 AM GMT+8 · Updated 7 months ago


Warren Buffett, CEO of Berkshire Hathaway Inc., tours the exhibit hall at the company's annual meeting in Omaha, Nebraska, U.S., May 5, 2018. REUTERS/Rick Wilking Acquire Licensing Rights ↗

E.g. Berkshire Hathaway repurchased 20,000 shares at \$400,000 per share from its shareholders.

$$\text{Total cost} = 20,000 \text{ shares} \times \$400k = \$8 \text{ billion}$$

Treasury Shares*	\$8 billion
Cash	\$8 billion

**Treasury shares is a contra-equity account!*

BERKSHIRE HATHAWAY INC.

Real FS

Berkshire Hathaway Equity

- Berkshire Hathaway 2024 Annual Report : Equity section of the Balance Sheet

	December 31,	
	2024	2023
Shareholders' equity:		
Common stock	8	8
Capital in excess of par value	35,665	34,480
Accumulated other comprehensive income	(3,584)	(3,763)
Retained earnings	696,218	607,350
Treasury stock, at cost	(78,939)	(76,802)
Berkshire shareholders' equity	649,368	561,273
Noncontrolling interests	2,287	6,236
Total shareholders' equity	<u>651,655</u>	<u>567,509</u>

- Treasury Shares are shown as a *reduction* in total shareholders' equity on the Statement of Financial Position (Balance Sheet) as it is a contra-equity account.



BERKSHIRE HATHAWAY INC.

Reissue of Treasury Shares

Berkshire Hathaway Example

- A company can reissue (sell) its treasury shares back to investors.
- E.g. Berkshire Hathaway reissued its treasury shares:

(a) At cost:

Reissue 5,000 treasury shares at \$400,000 per share, same price as the repurchase:

Cash (5,000 x \$400k)	\$2 billion
Treasury shares	\$2 billion

(b) Higher than cost:

Reissue 10,000 treasury shares at \$450,000 per share, higher than the repurchase:

Cash	\$4.5 billion
Treasury shares	\$4 billion
Premium on Treasury shares	\$0.5 billion

Equity Account

BERKSHIRE HATHAWAY INC.

Reissue of Treasury Shares

Berkshire Hathaway Example (continued)

(c) Lower than cost: (sufficient balance in treasury share premium account)

Reissue 5,000 treasury shares at \$350,000 per share, lower than the repurchase:

Cash (5,000 x \$350k)	\$ 1.75 billion
Premium on Treasury shares (\$2b – \$1.75b)	\$ 0.25 billion
Treasury shares (5,000 x \$400k)	\$2 billion

(d) Lower than cost: (insufficient balance in treasury share premium account)

Reissue 5,000 treasury shares at \$300,000 per share, lower than the repurchase:

Cash (5,000 x \$300k)	\$1.5 billion
Premium on Treasury shares *	\$0.25 billion
Retained Earnings (\$2b – \$1.5b – \$0.25b)	\$0.25 billion
Treasury shares (\$5,000 x \$400k)	\$2 billion

* Note that the premium on treasury shares account only has a \$0.25 billion balance (\$0.5b from transaction (b) less \$0.25b “used” in transaction (c)). When the premium account does not have sufficient balance, then Retained Earnings will be reduced.

BERKSHIRE HATHAWAY INC.

Retained Earnings (RECAP)

Retained Earnings (RE):

- The portion of a corporation's equity that has been earned from profitable operations and not distributed to shareholders.
- RE Equation:

$$\text{Beg RE} + \text{NI} - \text{Dividends} +/- \text{other equity transactions*} = \text{End RE}$$

* Eg. some treasury stock transactions that affect RE

- Note that RE is NOT cash!



Distribution of Ordinary Dividends

- Companies distribute profits back to its shareholders through dividends.
- Dividends is not legally required, it is up to the company.
- Types of dividends:
 - Cash dividend – paid in cash to stockholders
 - Stock dividend – paid in stock to stockholders
- Regular cash dividends provides a return to shareholder.
- **To declare and pay dividends, the company will need to have:**
 - (1) Sufficient balance in retained earnings**
 - (2) Sufficient cash to pay the dividends (for cash dividends)**



Distribution of Cash Dividends

Important Dates

- Distribution of dividends involve three important dates:

(1) Declaration date - Board declares the dividends, company records a liability.

Dividends – Ordinary Shares	XX
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Dividends Payable	XX
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(2) Date of record - Stockholders holding shares on this date will receive the dividend.

(NO accounting entry)

(3) Date of payment - Company pays the dividends.

Dividends Payable	XX
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Cash	XX
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- Recall that “Dividends” is a temporary account, so it needs to be closed out to Retained Earnings during the closing process:

Retained Earnings	XX
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Dividends	XX
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Real FS

Singapore Airlines Dividends

- SQ 2024 Statement of Changes in Equity:

The Group	Notes	Attributable to owners of the Company										Non-controlling interests	Total equity
		Share capital	Mandatory convertible bonds	Treasury shares	Capital reserve	Foreign currency translation reserve	Share-based compensation reserve	Fair value reserve	General reserve	Total			
Balance at 1 April 2023		7,180.2	6,195.1	(73.8)	(116.0)	(32.4)	24.3	506.9	6,174.0	19,858.3	391.5	20,249.8	
<u>Comprehensive income</u>													
Currency translation differences	16(b)	–	–	–	–	9.0	–	–	–	9.0	2.4	11.4	
Net fair value changes on cash flow hedges	16(d)	–	–	–	–	–	–	(54.3)	–	(54.3)	–	(54.3)	
Actuarial gain on revaluation of defined benefit plans		–	–	–	–	–	–	–	1.3	1.3	–	1.3	
Share of other comprehensive income of associated and joint venture companies		–	–	–	33.6	1.0	–	(3.9)	–	30.7	(1.2)	29.5	
Other comprehensive income for the financial year, net of tax		–	–	–	33.6	10.0	–	(58.2)	1.3	(13.3)	1.2	(12.1)	
Profit for the financial year		–	–	–	–	–	–	–	2,674.8	2,674.8	20.3	2,695.1	
Total comprehensive income for the financial year		–	–	–	33.6	10.0	–	(58.2)	2,676.1	2,661.5	21.5	2,683.0	
<u>Transactions with owners, recorded directly in equity</u>													
<u>Contributions by and distributions to owners</u>													
Redemption of mandatory convertible bonds	14	–	(4,647.6)	–	–	–	–	–	(416.6)	(5,064.2)	–	(5,064.2)	
Purchase of treasury shares		–	–	(3.2)	–	–	–	–	–	(3.2)	–	(3.2)	
Conversion of convertible bonds		0.2	–	–	–	–	–	–	–	0.2	–	0.2	
Changes in ownership interest without loss of control		–	–	–	–	–	(5.0)	–	(0.4)	(5.4)	1.7	(3.7)	
Share of other changes in equity of an associated company		–	–	–	(2.8)	–	–	–	2.8	–	–	–	
Share-based compensation expense	5	–	–	–	–	–	31.4	–	–	31.4	–	31.4	
Treasury shares reissued pursuant to equity compensation plans	15	–	–	39.5	(20.5)	–	(18.5)	–	–	0.5	–	0.5	
Acquisition of a subsidiary company with non-controlling interests		–	–	–	–	–	–	–	–	–	5.6	5.6	
Dividends	12	–	–	–	–	–	–	–	(1,130.2)	(1,130.2)	(20.7)	(1,150.9)	
Total contributions by and distributions to owners		0.2	(4,647.6)	36.3	(23.3)	–	7.9	–	(1,544.4)	(6,170.9)	(13.4)	(6,184.3)	
<u>Changes in ownership interests in subsidiary companies</u>													
Acquisition of non-controlling interests without change in control		–	–	–	(11.0)	–	–	–	–	(11.0)	6.5	(4.5)	
Disposal of a subsidiary company with non-controlling interests		–	–	–	–	–	–	–	–	–	0.6	0.6	
Total changes in ownership interests in subsidiary companies		–	–	–	(11.0)	–	–	–	–	(11.0)	7.1	(3.9)	
Total transactions with owners		0.2	(4,647.6)	36.3	(34.3)	–	7.9	–	(1,544.4)	(6,181.9)	(6.3)	(6,188.2)	
Balance at 31 March 2024		7,180.4	1,547.5	(37.5)	(116.7)	(22.4)	32.2	448.7	7,305.7	16,337.9	406.7	16,744.6	

Real FS

Singapore Airlines Dividend

12 Dividends Paid and Proposed (in \$ million)

	The Group and the Company	FY2023/24	FY2022/23
The following tax exempt (one-tier) dividends were declared and paid by the Group and Company to the owners of the Company:			
Final dividend of 28.0 cents per share in respect of FY2022/23	832.8	–	–
Interim dividend of 10.0 cents per share in respect of FY2023/24 (FY2022/23: 10.0 cents per share in respect of FY2022/23)	297.4	297.1	297.1
	1,130.2	297.1	297.1

Proposed, not yet declared.

The Directors propose that a final tax exempt (one-tier) dividend of 38.0 cents amounting to \$1,130.1 million be paid for the financial year ended 31 March 2024.

Q. What entry should SQ record when it declare dividends in FY2023/24?

Dr Dividends \$1,130.2*

Cr Dividends Payable \$1,130.2

**Note that the total dividends declared in FY2023/2024 are for final dividends related to FY2022/23 (\$832.8) and for interim dividends related to FY 2023/24.*

Real FS

Singapore Airlines Dividend – Cash outflow

Statement of Cash Flow		Notes	The Group	
			FY2023/24	FY2022/23
CASH FLOW FROM FINANCING ACTIVITIES				
Dividends paid		12	(1,130.2)	(297.1)
Dividends paid by subsidiary companies to non-controlling interests		12	(20.7)	(1.6)
Interest paid			(285.3)	(332.6)
Redemption of mandatory convertible bonds			(5,064.2)	(3,860.0)
Proceeds from borrowings			417.8	6.2
Repayment of borrowings			(1,267.1)	(988.0)
Repayment of lease liabilities			(739.4)	(740.3)
Repayment of bonds			(1,350.0)	—
Proceeds from issuance of bonds			670.1	—
Payment of transaction costs from issuance of bonds			(1.4)	—
Payment of transaction costs related to borrowings			(1.0)	—
Purchase of treasury shares			(3.2)	—
Acquisition of non-controlling interests without a change in control			(4.5)	—
NET CASH USED IN FINANCING ACTIVITIES			(8,779.1)	(6,213.4)

- What entry should SQ record when it paid dividends to its shareholders?

Dr Dividends Payable \$1,130.2

Cr Cash \$1,130.2

Distribution of Preference Dividends

Preference shares has a dividend percentage associated with it - preference dividends is paid according to the percentage.

Current-Dividend Preference

- Preference shareholder has a right to receive current dividends before ordinary shareholders receive dividends.

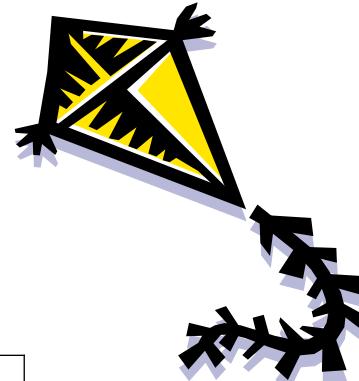
Cumulative-Dividend Preference

- It requires that preference shareholders be paid dividend in arrears and current dividends before ordinary shareholders receive any dividends.
- Dividends in Arrears = unpaid dividends from past years
- Dividends in arrears do not represent actual liabilities and thus are not recorded in the accounts. Instead, they are reported in the notes to the financial statements.

Preference & Ordinary Dividends

An example

- Kites, Inc. declared \$50,000 dividends this year. It has the following shares outstanding:
 - Ordinary shares: 100,000 shares no par value
 - Preference shares: 3%, \$100 liquidation preference, *cumulative*, 5,000 shares
 - Preference shares: 6%, \$50 liquidation preference, *noncumulative*, 3,000 shares
- Dividends were not paid last year. How much will each class of shares receive?



Total Dividends Declared	\$ 50,000
Preference Shares (cumulative)	
Dividend in arrears (last year unpaid balance) [3% x 5000 x \$100]	\$ 15,000
Current year dividend [3% x 5000 x \$100]	\$ 15,000 \$ 30,000
Remainder	\$ 20,000
Preference Shares (noncumulative)	
Current year dividend [6% x 3,000 x \$50]	\$ 9,000
Remainder	\$ 11,000
Ordinary shares	
Current year dividend	\$ 11,000
Current year dividend per share [\$11,000 / 100,000 shares]	\$ 0.11

Distribution of Stock Dividends

- Stock dividends – a form of dividends that requires a company to issue new shares to its shareholders.
- Small stock dividends: assigning the **fair value**.
- Large stock dividends: assigning the **par value**.
- The line between small and large stock dividends is often set at 20-25% of the company's issued shares.



Small Stock Dividends

- Macadamia & Co declares a 10% stock dividend (10,000 new shares). Its ordinary share has a par value of \$1 and market value of **\$7**. → small stock dividends, recorded at **fair value**.

@ Declaration date:

Stock Dividends (10,000 x \$7)	\$70,000	Equity Account
Stock Dividends Distributable	\$10,000	
Share Premium	\$60,000	

@ Distribution date:

Stock Dividends Distributable	\$10,000
Share Capital – Ordinary shares	\$10,000

@ Closing:

Retained Earnings	\$70,000
Stock Dividends	\$70,000



Large Stock Dividends

- Macadamia & Co declares a 40% stock dividend (40,000 new shares). Its ordinary share has a par value of **\$1** and market value of \$7. → large stock dividends, recorded at **par value**.

@ Declaration date:

Stock Dividends (40,000 x \$1)	\$40,000
Stock Dividends Distributable	\$40,000

@ Distribution date:

Stock Dividends Distributable	\$40,000
Share Capital – Ordinary shares	\$40,000

@ Closing:

Retained Earnings	\$40,000
Stock Dividends	\$40,000



Stock Split vs. Stock Dividend

- Increasing number of shares outstanding in the same proportion that par or stated value per share decreases such that equity remains unchanged.
- E.g. 2-for-1 stock split: 1,000 shares of \$1 par → 2,000 shares of \$0.5 par
- During a stock split, the market value per share will also be reduced proportionately.
- Comparing stock split with stock dividend:

Items to be Affected	Stock Split	Stock Dividends
Number of shares outstanding	Increase	Increase
Total equity	No change	No change
Retained earnings	No change	Decrease
Common stock	No change	Increase
Paid-in capital in excess of par, common stock	No change	Increase (if any)
Par value per share	Decrease	No change

Other Comprehensive Income (OCI) & Reserves

OCI shows other items of income and expense that are not recognized in the profit or loss statement, such as:

- Exchange/currency differences in translating foreign operations
- Fair value revaluations
 - Equity investments designated at fair value
- Gain/loss not recognized in profit or loss statements:
 - Hedging instruments
 - Changes in revaluation surplus



OCI items not recognized in the profit & loss statement are accumulated in an equity account called “**Reserves**” or as Other Equity.

Real FS

Singapore Airlines: OCI

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 31 March 2024 (in \$ Million)

	The Group	
	FY2023/24	FY2022/23
PROFIT FOR THE FINANCIAL YEAR	2,695.1	2,163.3
OTHER COMPREHENSIVE INCOME:		
Items that are or may be reclassified subsequently to profit or loss:		
Currency translation differences	11.4	(15.7)
Net fair value changes on cash flow hedges	(54.3)	(573.1)
Share of other comprehensive income of associated and joint venture companies	29.5	7.7
Items that will not be reclassified subsequently to profit or loss:		
Actuarial gain on revaluation of defined benefit plans	1.3	5.2
OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR, NET OF TAX	(12.1)	(575.9)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	2,683.0	1,587.4
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
OWNERS OF THE COMPANY	2,661.5	1,583.9
NON-CONTROLLING INTERESTS	21.5	3.5
	2,683.0	1,587.4

Real FS

Singapore Airlines Reserves

- SQ 2024 Statement of Changes in Equity:

The Group	Notes	Share capital	Mandatory convertible bonds	Treasury shares	Attributable to owners of the Company					General reserve	Total	Non-controlling interests	Total equity
					Capital reserve	Foreign currency translation reserve	Share-based compensation reserve	Fair value reserve					
Balance at 1 April 2023		7,180.2	6,195.1	(73.8)	(116.0)	(32.4)	24.3	506.9	6,174.0	19,858.3	391.5	20,249.8	
Comprehensive income													
Currency translation differences	16(b)	–	–	–	–	9.0	–	–	–	9.0	2.4	11.4	
Net fair value changes on cash flow hedges	16(d)	–	–	–	–	–	–	(54.3)	–	(54.3)	–	(54.3)	
Actuarial gain on revaluation of defined benefit plans		–	–	–	–	–	–	–	1.3	1.3	–	1.3	
Share of other comprehensive income of associated and joint venture companies		–	–	–	33.6	1.0	–	(3.9)	–	30.7	(1.2)	29.5	
Other comprehensive income for the financial year, net of tax		–	–	–	33.6	10.0	–	(58.2)	1.3	(13.3)	1.2	(12.1)	
Profit for the financial year		–	–	–	–	–	–	–	2,674.8	2,674.8	20.3	2,695.1	
Total comprehensive income for the financial year		–	–	–	33.6	10.0	–	(58.2)	2,676.1	2,661.5	21.5	2,683.0	
Transactions with owners, recorded directly in equity													
Contributions by and distributions to owners													
Redemption of mandatory convertible bonds	14	–	(4,647.6)	–	–	–	–	–	(416.6)	(5,064.2)	–	(5,064.2)	
Purchase of treasury shares		–	–	(3.2)	–	–	–	–	–	(3.2)	–	(3.2)	
Conversion of convertible bonds		0.2	–	–	–	–	–	–	–	0.2	–	0.2	
Changes in ownership interest without loss of control		–	–	–	–	–	(5.0)	–	(0.4)	(5.4)	1.7	(3.7)	
Share of other changes in equity of an associated company		–	–	–	(2.8)	–	–	–	2.8	–	–	–	
Share-based compensation expense	5	–	–	–	–	–	31.4	–	–	31.4	–	31.4	
Treasury shares reissued pursuant to equity compensation plans	15	–	–	39.5	(20.5)	–	(18.5)	–	–	0.5	–	0.5	
Acquisition of a subsidiary company with non-controlling interests		–	–	–	–	–	–	–	–	–	5.6	5.6	
Dividends	12	–	–	–	–	–	–	–	(1,130.2)	(1,130.2)	(20.7)	(1,150.9)	
Total contributions by and distributions to owners		0.2	(4,647.6)	36.3	(23.3)	–	7.9	–	(1,544.4)	(6,170.9)	(13.4)	(6,184.3)	
Changes in ownership interests in subsidiary companies													
Acquisition of non-controlling interests without change in control		–	–	–	(11.0)	–	–	–	–	(11.0)	6.5	(4.5)	
Disposal of a subsidiary company with non-controlling interests		–	–	–	–	–	–	–	–	–	0.6	0.6	
Total changes in ownership interests in subsidiary companies		–	–	–	(11.0)	–	–	–	–	(11.0)	7.1	(3.9)	
Total transactions with owners	0.2	(4,647.6)	36.3	(34.3)	–	7.9	–	(1,544.4)	(6,181.9)	(6.3)	(6,188.2)		
Balance at 31 March 2024		7,180.4	1,547.5	(37.5)	(116.7)	(22.4)	32.2	448.7	7,305.7	16,337.9	406.7	16,744.6	

FSA

FSA

- EPS (Earnings per share)
- PE (Price Earnings) Ratio
- Dividend Payout Ratio & Dividend Yield

Assessing Profitability

Earnings Per Share (EPS)

EPS:

$$\text{Basic Earnings Per Share} = \frac{\text{Net Profit} - \text{Preferred Dividends}}{\text{Weighted-average Ordinary Shares Outstanding}}$$

- Measures the profitability of a company: its ability to produce income for each ordinary share outstanding.
- EPS is probably the single most widely watched financial ratio, as per share basis number is easier to compare among companies.
- **Required disclosure on the Income Statement!**
- Companies must also disclose **diluted EPS** which assumed all convertible securities are converted into ordinary shares.

Note: You will not be required to know how to calculate EPS in this course!

Real FS – SQ

EPS Notes Disclosure

11 Earnings Per Share

	The Group		FY2022/23	
	FY2023/24 Basic	Diluted	Basic	Diluted
Profit attributable to owners of the Company (in \$ million)	2,674.8	2,674.8	2,156.8	2,156.8
Adjustment for interest expense on convertible bonds, net of tax (in \$ million)	–	25.4	–	24.8
Adjustment for the potential dilution from share-based incentive plans of a subsidiary company (in \$ million)	–	(0.3)	–	(0.2)
Adjusted net profit attributable to owners of the Company (in \$ million)	2,674.8	2,699.9	2,156.8	2,181.4
Weighted average number of ordinary shares in issue (in million)	4,228.4	4,228.4	6,053.7	6,053.7
Adjustment for dilutive potential ordinary shares (in million)	–	166.1	–	158.6
Weighted average number of ordinary shares in issue used for computing earnings per share (in million)	4,228.4	4,394.5	6,053.7	6,212.3
Earnings per share (cents)	63.3	61.4	35.6	35.1

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year, and assuming the conversion of all MCBs.



Real FS – Cathay

EPS Notes Disclosure

6. EARNINGS PER ORDINARY SHARE

	2024			2023		
	Profit ^(a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents	Profit ^(a) HK\$M	Weighted average number of ordinary shares	Per share amount HK cents
Basic earnings per ordinary share	9,607	6,438,120,562	149.2	9,067	6,437,462,747	140.8
Effect of dilutive potential ordinary shares ^(b)						
– Deemed issue of ordinary shares from the exercise of warrants	–	135,936,979		–	171,574,435	
– Convertible bonds and its after tax effect of effective interest	231	810,201,493		235	786,201,867	
Diluted earnings per ordinary share	9,838	7,384,259,034	133.2	9,302	7,395,239,049	125.8

- (a) The amounts represent the profit attributable to the ordinary shareholders of the Cathay Group, which is the profit for the period after non-controlling interests and dividends attributable to the holder of the cumulative preference shares classified as equity.
- (b) The Company's warrants and convertible bonds as at 31st December 2024 have a dilutive effect to the earnings per ordinary share. The dilutive impact for the year ended 31st December 2024 is presented above. Please refer to notes 19(a) and 19(b) for the background and details of warrants and convertible bonds.



Assessing Market Expectations

Price-Earnings Ratio (PE Ratio)



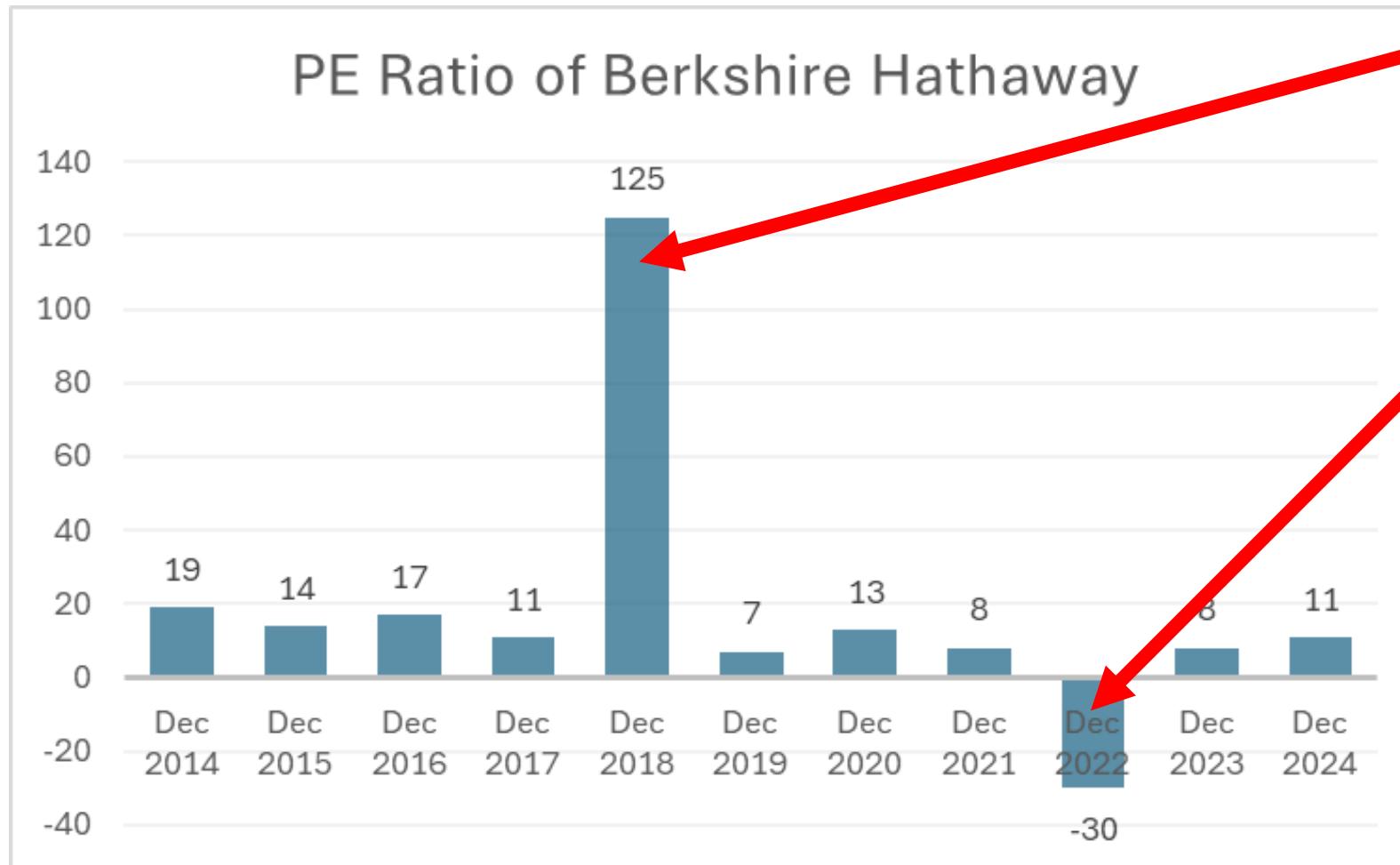
$$\text{Price-} \frac{\text{Earnings}}{\text{Ratio}} = \frac{\text{Market value (price) per share}}{\text{EPS}}$$

- Measures what the market is willing to pay for the company's current earnings stream
- Extremely high PE ratio typically indicates a company is overpriced.

PE Ratios

Berkshire Hathaway

- Berkshire Hathaway – well established blue chip company: more stable PE ratios



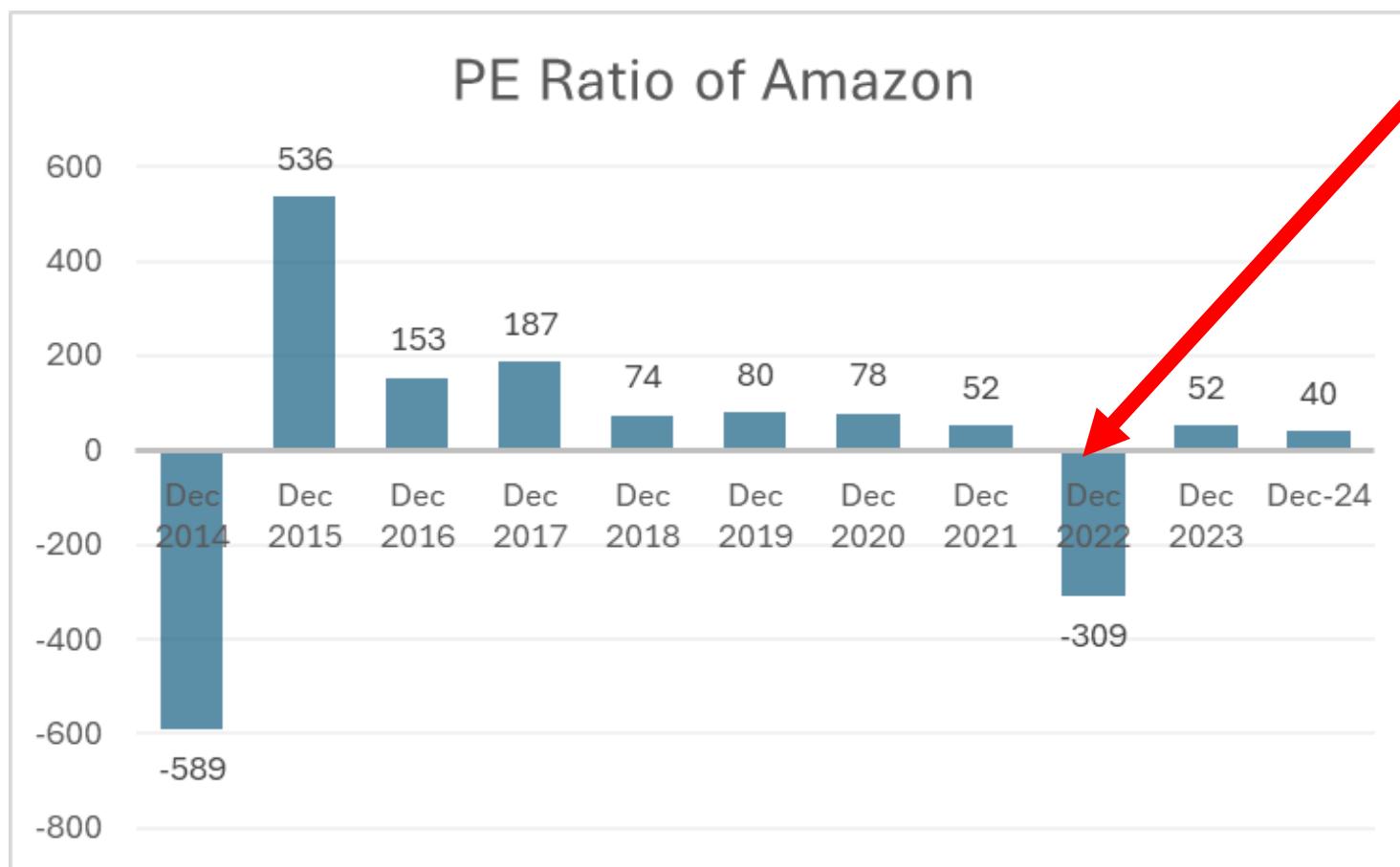
- In 2018, reported a huge unrealized gain from its investments due to changes in the accounting rules for fair value measurement of investments.
- In 2022, reported \$53 billion of unrealized loss due to changes in the fair value of its investments.
- Stock price as of Oct 15, 2025 is US\$740,768 / share!



PE Ratios

Amazon

- Amazon – In the last 7 years, PE ratios were around 40-80x (with the exception of year 2022). Its peak was in 2012 when it reached 3,732x!

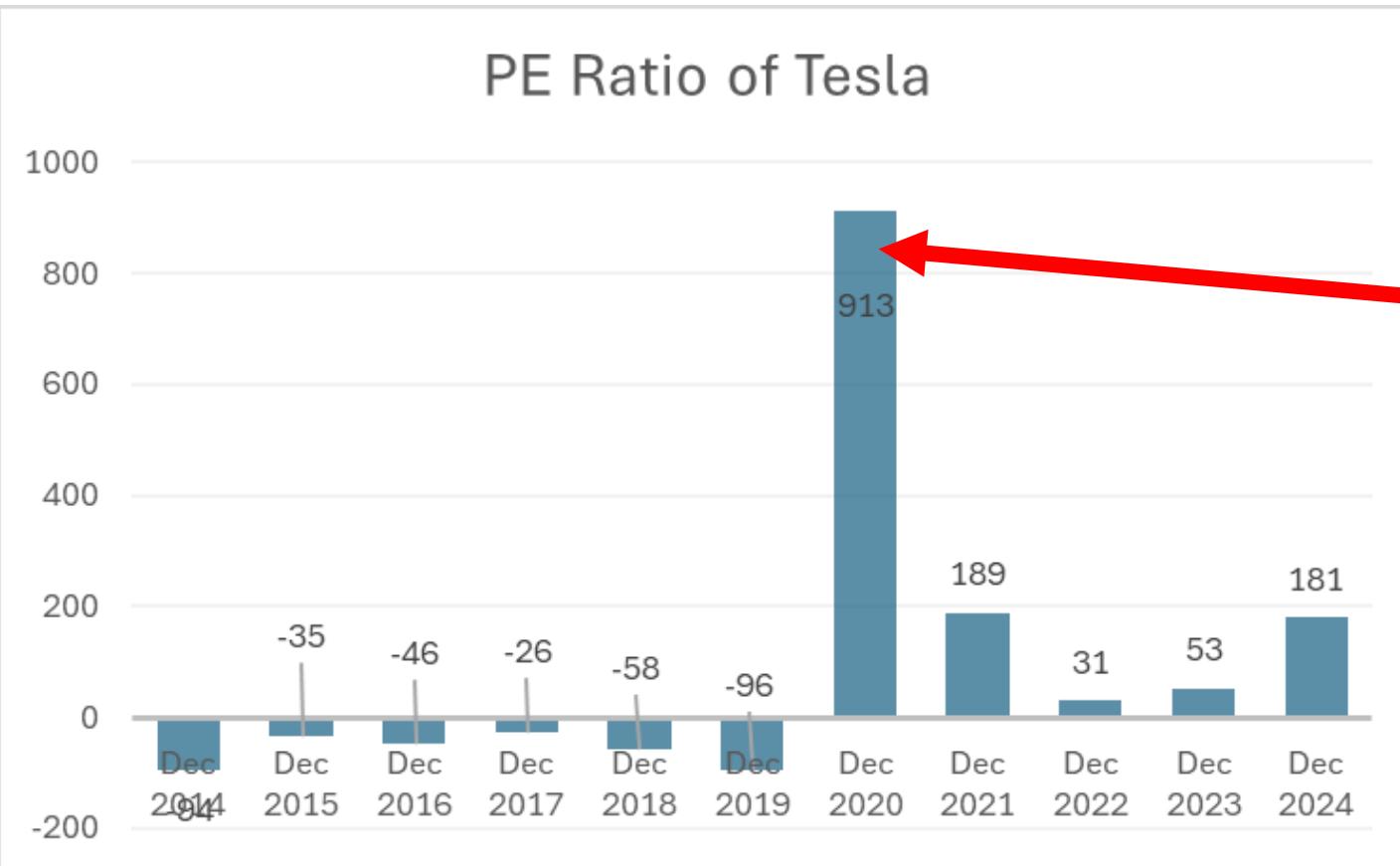


- Amazon reported a net loss of \$2.7 billion in 2022
- Amazon reported \$12.7B loss on its investment in Rivian (an electric vehicle startup) due changes in the fair value of the investment.



PE Ratios

Tesla



- Tesla went public in June 2010. Its IPO price was US\$17.
- For many years it was reporting losses.
- Tesla finally reported positive net income for the first time in 2020. Its PE ratio in 2020 was 913x!



Dividend Payout Ratio & Dividend Yield

Dividend Payout Ratio:

$$\text{Dividend Payout Ratio} = \frac{\text{Cash Dividends}}{\text{Net Income}}$$

- Measures the percentage of NI paid out during the year in the form of cash dividends.
- Shares that consistently pay large dividends are referred to as *income shares*.

Dividend Yield:

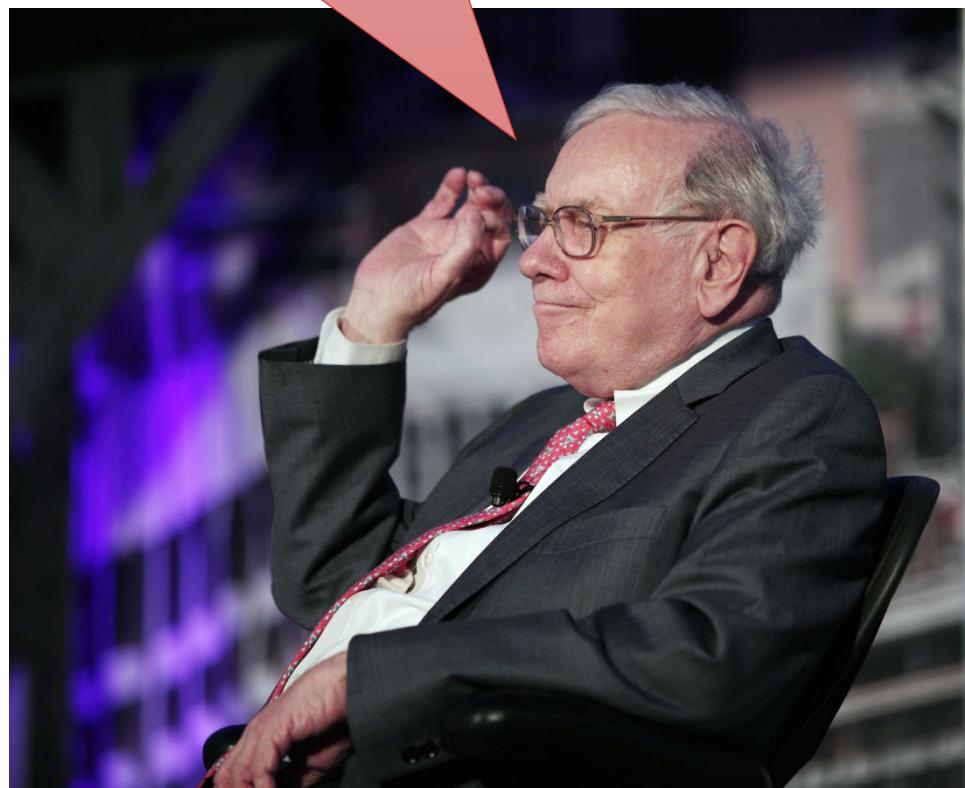
$$\text{Dividend Yield} = \frac{\text{Annual Dividends per share}}{\text{Price per share}}$$

- Measures the amount of dividends paid as compared to the share price of the stock.

Berkshire Hathaway's Dividend Payout Ratio: ZERO!

- Warren Buffet – one of the richest man in the world.
- His company Berkshire Hathaway, despite being a mature well-established company worth billions, has **NEVER** paid dividends!
- Warren Buffet does not believe in dividends, he believes that profits of the company should either be reinvested back into the company, used to acquire value companies or for stock repurchases.
- At the end of 2024, the company has cash and investments (T-bills, fixed securities & equity securities) of \$618 billion!!

Dividends you say?
No way!
**I HATE
DIVIDENDS!!!!**



BERKSHIRE HATHAWAY INC.

Take Away for Lecture 10

- Ownership of a Corporation
- Types of Shares and related transactions
 - Ordinary Shares – issuing par & no par
 - Preference Shares – issuing par & no par
 - Treasury Shares – repurchasing & reissuing
- Dividends – cash & stock dividends
- FSA:
 - EPS (Earnings per share)
 - PE (Price Earnings) Ratio
 - Dividend Payout Ratio & Dividend Yield

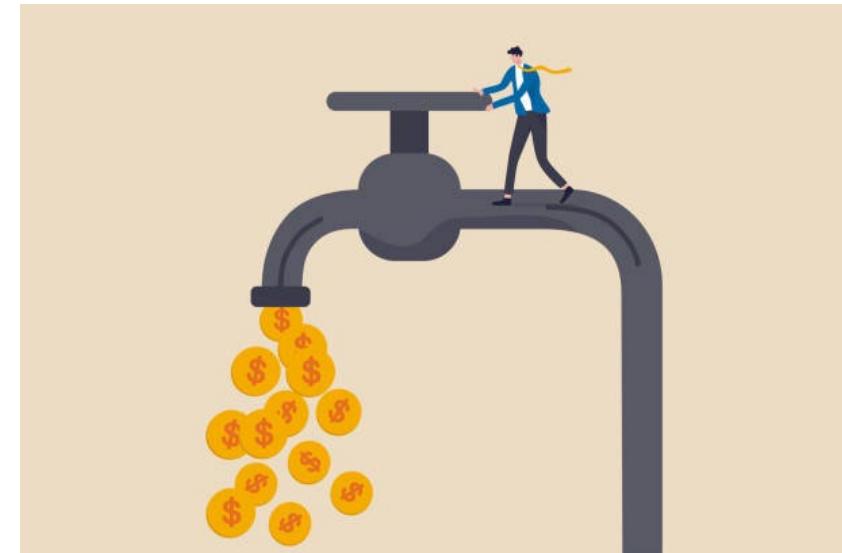


Week 12 - Lecture 11:

Statement of Cash Flows

- Importance of Cash Flow
- Statement of Cash Flows (SCF) (LO1 & 2)
- Preparing Statement of Cash Flows
 - Cash Flow from Operations (CFO) - **Indirect Method (LO4)**
 - Cash Flow from Investing (CFI) (LO5)
 - Cash Flow from Financing (CFF) (LO5)
- Using SCF for Decision Making (LO6)

Note: Direct Method of CFO (LO7) will NOT be covered in this course, and is not examinable.



Almost at the end of the tunnel... See you in Week 12!



Post your questions on Canvas discussion forum.

My email: hanny.kusnadi@nus.edu.sg