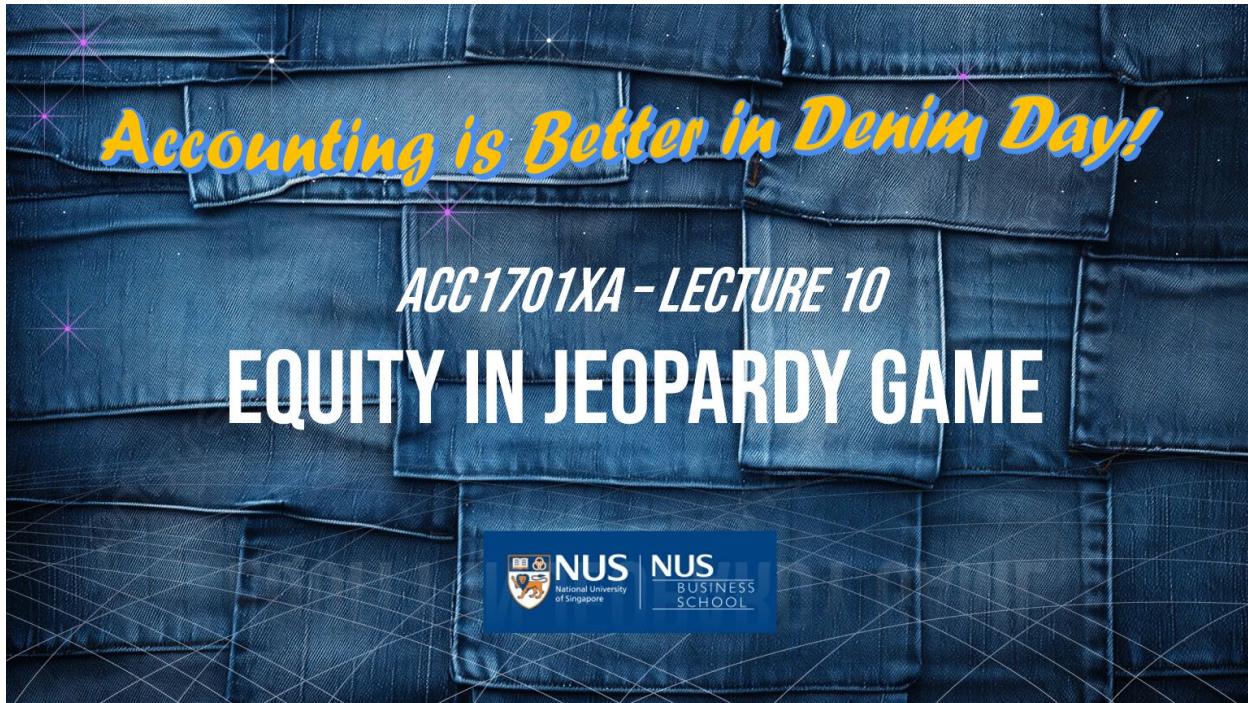


ACC1701XA (AY2526 Sem1)
POST LECTURE SUPPLEMENT

LECTURE 10

Equity in Jeopardy Game



For Lecture 10, we reinforced the chapter on equity through the “Equity in Jeopardy” Game in class. Below you will find all the questions and answers that were in the game, including the ones that were not selected by any groups during the game. The questions are listed according to the different categories and levels.

I KNOW MY EQUITY

- 1) True or False: Debt financing is considered riskier than equity finance. **TRUE**
- 2) Give me 3 advantages of being a corporation (as opposed to sole proprietorship/partnerships)?
 - Separate legal entity
 - Limited liability
 - Continuity of life
 - Ease of ownership transfer
 - Raise \$ by selling shares

- 3) Gabriella Company had a beginning balance in retained earnings of \$130,000. It had a net loss of \$15,000 and declared dividends of \$10,000 in the current period, of which \$5,000 was paid out in cash. It also repurchased some of its shares for \$15,000. What is the ending retained earnings balance?

Beg Bal \$130k – net loss \$15k – dividend declared \$10k = \$105k

- 4) Lara Inc. is a newly incorporated company, and had the following transactions during its first year:
- Issued 100,000 ordinary no par value shares at \$7 per share
 - Repurchased 25,000 treasury shares at \$5 per share
 - Reported net profit of \$110,000 during the year
 - Re-issued 15,000 of the treasury shares for \$97,500

What is Lara's equity balance at the end of the first year?

Share Capital (100k x \$7)	700,000
Treasury Shares: Repurchase (25k x \$5)	(125,000)
Treasury Shares: Reissued (15k x \$5)	75,000
Share Premium – Share Repurchase (97.5k – 75k)	22,500
Retained Earnings	<u>110,000</u>
Total Equity	<u>782,500</u>

- 5) As of 31st Dec 2024, Gnarly Inc. reported the following items:

Dividends payable	\$20,000
Treasury shares	600,000
Share Premium - share repurchase	20,000
Share Capital	4,000,000
Retained earnings	3,000,000

During 2025, Mali did the following:

- Reissued half of the treasury shares for \$200,000.
- Declared cash dividends of \$1,000,000
- Declared stock dividends of \$500,000
- Reported net profit of \$350,000

What is Gnarly Inc.'s equity @ 31st Dec 2025?

	Share Capital	Retained Earnings	Treasury Shares	Share Premium (share repurchase)	(Dr) Cr Total
Dec 31, 2024	\$4,000,000	\$3,000,000	\$(600,000)	\$20,000	\$6,420,000
Sale of treasury shares		(80,000)	300,000	(20,000)	200,000

Net profit		350,000			350,000
Cash dividends		(1,000,000)			(1,000,000)
Stock dividends	500,000	(500,000)			
Dec 31, 2025	\$4,500,000	\$1,770,000	\$(300,000)	\$0	\$5,970,000

ISSUING TIME

- 1) True or False: Par value per share is the price at which a share is bought or sold. **FALSE**
- 2) SIS Company issued 100 no-par value ordinary shares for \$100,000 cash. How much should SIS Company record into its Share Capital from the issuance? **\$100,000**
- 3) Megan Corp issued 50,000 ordinary shares with a par value of \$1 in exchange for an equipment with a known cash price of \$310,000. Megan's share price at the time of the transaction is \$6.40 per share. Show the journal entry to record this transaction.

Journal Entry:

Dr Equipment	\$310,000
Cr Ordinary shares (at par)	\$50,000
Cr Share Premium (Paid in Capital)	\$260,000

- 4) The following data were reported by BBT Corporation:

Authorized shares.....	20,000
Issued shares.....	15,000
Treasury shares.....	3,000

What is the number of outstanding shares?

Issued Shares 15k – Treasury Shares 3k = Outstanding Shares 12k

- 5) iTouch Company issued 100,000 shares of \$1 par value preferred shares to Kitty Accounting firm as compensation for 3,000 hours of accounting services performed. Kitty charges \$310 per hour for its accounting service. iTouch also issued 50,000 shares of \$0.50 par value to Kitty for \$500,000. What entry should iTouch record?
 - Accounting expense = $\$310 \times 3,000 \text{ hours} = \$930,000$

Journal entry:

Dr. Accounting Expense	930,000
Dr. Cash	\$500,000
Cr. Share Capital - Preferred	100,000

Cr. Share Premium - Preferred	830,000
Cr. Share Capital – Ordinary	25,000
Cr. Share Premium – Ordinary	475,000

LET'S REPURCHASE

- 1) True or False: Repurchasing shares will never increase Retained Earnings or Net Profit. **TRUE.**
- 2) True or False: Investors should be wary of share buybacks during downtimes because it can be used to mask a slowdown in earnings growth. Explain your answer. **TRUE. Because share buyback reduces outstanding shares, and thus increases EPS.**
- 3) Dani Corporation's equity section shows the following on Dec 31, 2024:

Share Capital – Preferred (2,500 shares)	\$50,000
Share Capital – Ordinary (15,000 shares)	\$150,000
Retained Earnings	\$100,000

On Feb 2025, Dani repurchased 750 ordinary shares at \$7 per share. What is the journal entry?

Dr Treasury Shares	5,250
Cr Cash	5,250

- 4) Gameboy Inc. initially issued 200,000 of \$1 par ordinary shares for \$1,000,000 in 2023. In 2024, the company repurchased 20,000 shares for \$400,000. In 2025, 10,000 of the repurchased shares were reissued for \$220,000. In its statement of financial position dated December 31, 2025, Gameboy's treasury shares account shows a balance of:

• 2024:	Dr Treasury Shares (20k shares)	400k
	Cr Cash	400k
• 2025:	Dr Cash	220k
	Cr Treasury Shares (10k shares)	200k
	Cr Premium on Treasury Shares	20k

→ Balance on Treasury Shares @ 31st Dec 2025 = 400k – 200k = 200k

- 5) In 2021, iKon Tech issued 20 million \$1 par value ordinary shares at \$20 per share. In 2022, it repurchased 2 million shares for the first time at \$18 per share. In 2023, it reissued 2 million treasury shares for \$38 million. In 2024, it repurchased another 5 million shares for \$21 per share. In 2025, it reissued 3 million treasury shares for \$20. By how much would Retained Earnings decrease/increase in 2025 because of the share reissuance?

• In 2021:	Dr Cash	400 million
	Cr Ordinary Shares (par)	20 million
	Cr Share Premium – Ordinary Shares (\$19/share)	380 million

- In 2022:

Dr Treasury Shares (\$18 x 2m)	36 million
Cr Cash	36 million
• In 2023:	
Dr Cash	38 million
Cr Treasury Shares	36 million
Cr Premium on Treasury Shares	2 million
• In 2024:	
Dr Treasury Shares (\$21 x 5m)	105 million
Cr Cash	105 million
• In 2025:	
Dr Cash	60 million
Dr Premium on Treasury Shares	2 million
Dr Retained Earnings	1 million
Cr Treasury Shares (\$21 x 3m)	63 million

➔ Decrease in RE by \$1m.

EVERYONE LOVES DIVIDEND

- 1) True or False: Dividends in arrears on cumulative preference shares are not recorded as liabilities. **TRUE**
- 2) Refer to the press release below on Meta's first ever dividends. Assuming Meta has 2,561 million shares outstanding, how much quarterly cash dividend did Meta declare and when will the cash be paid?

Home News Tech Finance Leadership Well Recommends Fortune 500

TECH • META

Meta's paying dividends for the first time ever, and it's meant a \$700 million pay raise for Mark Zuckerberg



By ELEANOR PRINGLE
February 2, 2024 at 7:37 PM (ET/PT)
PHOTO: ANDREW HETHERINGTON/GETTY IMAGES

Meta Initiates Quarterly Dividend

Today, Meta's board of directors declared a cash dividend of \$0.50 per share of our outstanding common stock (including both Class A common stock and Class B common stock), payable on March 26, 2024 to stockholders of record as of the close of business on February 22, 2024. We intend to pay a cash dividend on a quarterly basis going forward, subject to market conditions and approval by our board of directors.

2,561 million shares x \$0.50 per share = \$1,280,500,000 (\$1.28 billion)

Cash dividends will be paid on March 26, 2024.

- 3) "Lucky Strike" Question. The Denim Fairy has bestowed a Free Pass. 😊
- 4) On 1st January 2025, the Retained Earnings balance of Sophia Co. was \$890,500. Net income for 2025 was \$539,500. During 2024, Sophia Co. did a share repurchase for \$250,000. Retained Earnings had a credit balance of \$900,000 on 31st Dec 2025. How much dividends was declared during 2025?

Beg RE	\$890,500
+ NI	\$539,500
- End RE	<u>\$900,000</u>
= Dividends	<u>\$530,000</u>

- 5) D-Academy Corp was incorporated in 2023. Its equity consists of \$200m no par ordinary shares, and \$400m of 6% cumulative preferred shares. D-Academy paid cash dividends of \$20m in 2023 and 2024 each. In 2025, D-Academy declared cash dividends of \$50m. How much would its ordinary shareholders receive in 2025?
- In 2023, preferred shareholders receive \$20 million in dividends
→ Dividend in arrears: $(6\% \times \$400m) - \$20m = \$4m$
 - In 2024, preferred shareholders receive \$20m in dividends (\$4m is for dividend in arrears from 2023, so only \$16m is from 2024 preferred dividends)
→ Dividend in arrears: $(6\% \times \$400m) - \$16m = \$8m$
 - In 2025, preferred shareholders receive:
\$24m (current) + \$8m dividend in arrears = \$32m
→ Therefore, ordinary shareholders receive: $\$50m - \$32m = \$18m$

ODDS & PIECES

- 1) True or False: The basic right of preferred shareholders is the right to vote. **FALSE**
- 2) True or False: In a dual-class shares structure, Class A shares will always have twice the voting rights of Class B shares. **FALSE**
- 3) On 28th Oct 2025, LuvDenim Co. declared a 2-for-1 stock split on its 10 million, \$0.10 par value ordinary shares. Market price of LuvDenim was \$5.20 per share on this date. What is the journal entry to record this transaction?
How many outstanding shares will it have after the stock split?
 - No entry is recorded for a stock split.
 - Number of Shares doubled → 10 million shares becomes 20 million shares
 - Balance in the share capital account remains unchanged
 - Par value of the share will change from \$0.10 → \$0.05.
 - ⇒ So LuvDemin will have 20 million \$0.05 par value ordinary shares after the stock split.

- 4) SuperDebut Co had 50,000 ordinary shares issued and outstanding as of January 1, 2025. During 2025, it had the following transactions:

- June 1, 2025 : declared a 3-for-1 stock split when the fair value of the shares was at \$88 per share.
- August 1, 2025: issued 25,000 ordinary shares when the fair value of the shares was at \$44 per share.
- September 15, 2025: declared cash dividends of \$140,000.

What is the amount of dividends per share?

	Shares Outstanding
January 1: Shares issued and outstanding	50,000
June 1: 3-for-1 share split (50,000 x 3)	150,000
Aug 1: Issued 25,000 shares (150,000 + 25,000)	175,000

$$\text{Dividends per share} = \$140,000 / 175,000 \text{ shares} = \$0.80 \text{ per share.}$$

- 5) Manon Corporation issues 15,000 ordinary shares of \$1 par, and 10,000 preferred shares of \$1 par for a lump sum of \$100k. Fair value of the ordinary and preferred share is \$6 and \$3 per share respectively. How much should Manon record as the Share Premium on Ordinary shares and Share Premium on Preferred Shares?

	<i>(A)</i> No. of Shares	<i>(B)</i> FV/share	<i>(A)*(B)</i> Fair Value Amount	<i>(C)</i> % of Total Fair Value	<i>(D) = (C)*\$100k Allocated Amount</i>	<i>(F)</i> Par value	<i>(D) – (F)</i> Share Premium
Ordinary Shares	15,000	\$6	\$90,000	75%	\$75,000	\$15,000	\$60,000
Preferred Shares	10,000	\$3	\$30,000	25%	\$25,000	\$10,000	\$15,000
Total	25,000		\$120,000	100%	\$100,000	\$25,000	\$75,000

~ End of Equity in Jeopardy Game ~