

ACT2111 Tutorial-Ch12

ACT2111 Teaching Team

Content

1. Key points of Chapter 12

- Accounting for Ordinary Shares, Preference Shares, Treasury Shares
- Cash Dividends, Share Dividends, Share Splits

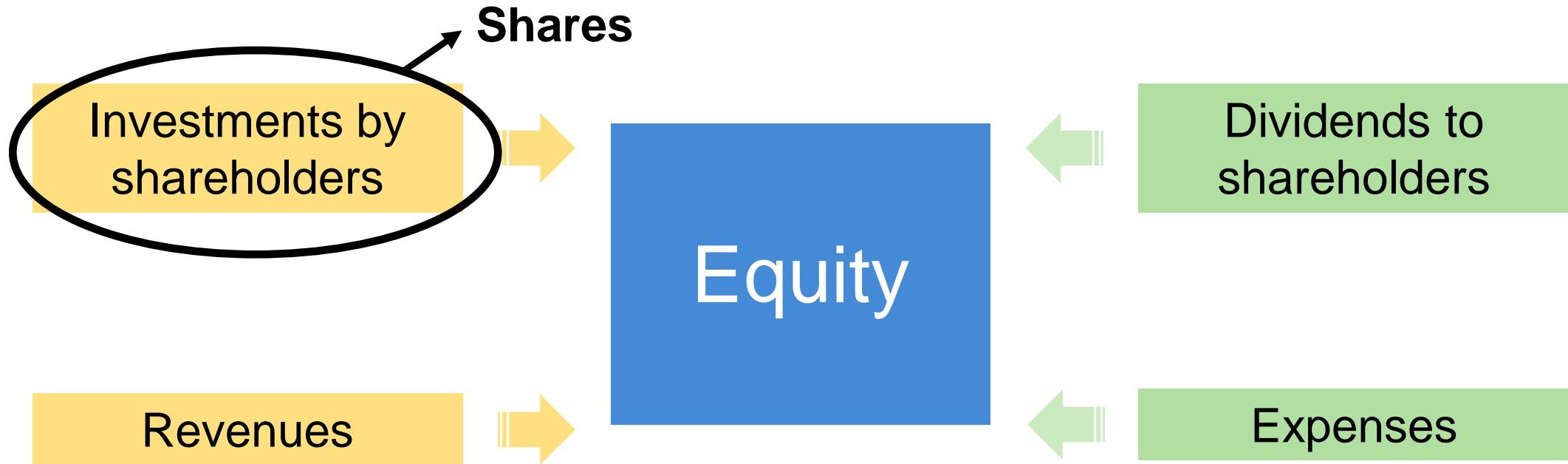
2. Difficulties in Tutorial Questions



Key Points of Ch12

What increase
equity

What decrease
equity



Ordinary Shares

Issuance of Ordinary Shares

Dr. Services / Assets (eg. Cash, Land, Building, Equipment, Organization Expense)	
Cr. Share Capital-Ordinary	amount: total par value (total stated value)
Cr. Share Premium-Ordinary	amount: Price – total par value (total stated value)

*When 1. price = par value, or
2. no-par share without stated value

Dr. Cash
Cr. Share Capital-Ordinary

Preference Shares

Preference shares have contractual provisions that give them some preference or priority over ordinary shares.

- *Priority on dividends or assets in the event of liquidation

- *Usually not have voting rights

Issuance of Preference Shares

Dr. Cash	
Cr. Share Capital-Preference	amount: total par value (total stated value)
Cr. Share Premium-Preference	amount: Price – total par value (total stated value)

Treasury Shares

Treasury shares are a corporation's own shares that it has reacquired from shareholders but not retired

Acquisition:

Dr. Treasury Shares		(amount: total price paid to reacquire shares)
Cr. Cash		

Contra equity

Disposal:

Sale > Cost

Dr. Cash	amount: total price
Cr. Treasury Shares	amount: # of shares * original purchase price
Cr. Share Premium-Treasury	amount: total price – treasury shares

Sale < Cost

Dr. Cash	amount: total price
Dr. Share Premium-Treasury	amount: treasury shares – total price
Cr. Treasury Shares	amount: # of shares * original purchase price

Dividends:

A dividend is a corporation's distribution of **cash or shares** to its shareholders on a pro rata basis

Increases

Decreases

Investments by
shareholders



Equity



Dividends to
shareholders

Revenues



Expenses



Cash Dividends

Three dates related to cash dividend.

<div>○ Declaration date</div> <div>declare the cash dividend to be paid</div>	Dec. 1	Cash Dividends Dividends Payable (To record declaration of cash dividend)	50,000	50,000
<div>○ Record date</div> <div>Determine who will receive dividend</div>	Dec. 22	No entry		
<div>○ Payment date</div> <div>date of actual cash distribution</div>	Jan. 20	Dividends Payable Cash (To record payment of cash dividend)	50,000	50,000
<div>○ Closing entry (Year-end)</div>		Retained Earnings Cash Dividends (To close Cash Dividends to Retained Earnings)	50,000	50,000

Allocating Cash Dividends

- Preference shareholders have the right to receive dividends before ordinary shareholders
- Holders of cumulative preference shares must be paid any unpaid prior-year dividends (dividend in arrears) and their current year's dividend before ordinary shareholders receive dividends

example:

Total dividend		€50,000
Allocated to preference shares		
Dividends in arrears, 2019 (1,000 × €2)	€2,000	
2020 dividend (1,000 × €8)	8,000	10,000
Remainder allocated to ordinary shares	<div>Dividends in arrears</div>	<u>€40,000</u>

Share Dividends

- A share dividend is a pro rata (proportional to ownership) distribution to shareholders of the corporation's own shares
- Issue shares to pay dividend

example: ☐ Danshui Ltd. declares a 10% share dividend on its 50,000 shares of NT\$100 par value ordinary shares. The current fair market value of its shares is NT\$150 per share

○ Declaration date	<p>Share Dividends</p> <p>Ordinary Share Dividends Distributable</p> <p>Share Premium—Ordinary</p> <p>(To record declaration of 10% shares dividend)</p>	<p>750,000</p>	<p>nbr of shares*market value*Ratio</p> <p>500,000</p> <p>250,000</p>
○ Payment date	<p>Ordinary Share Dividends Distributable</p> <p>Share Capital—Ordinary</p> <p>(To record issuance of 5,000 shares in a share dividend)</p>	<p>500,000</p>	<p>nbr of shares*par value*Ratio</p> <p>500,000</p>
○ Closing entry (Year-end)	<p>Retained Earnings</p> <p>Share Dividends</p> <p>(To close Share Dividends to Retained Earnings)</p>	<p>750,000</p>	<p>750,000</p>

Share Splits

- A share split does not have any effect on share capital, share premium, retained earnings, or total equity
- Par value per share is reduced

example:

	<u>Before Share Split</u>	<u>Change</u>	<u>After Share Split</u>
Equity			
Share capital—ordinary	NT\$5,000,000	NT\$ –0–	NT\$5,000,000
Share premium—ordinary	–0–	–0–	–0–
Retained earnings	3,000,000	–0–	3,000,000
Total equity	NT\$8,000,000	NT\$ –0–	NT\$8,000,000
Outstanding shares	50,000	+50,000	100,000
Par value per share	NT\$100.00	–NT\$50.00	NT\$50.00

Effects of Share Dividends and Share Split

<u>Item</u>	<u>Share Dividend</u>	<u>Share Split</u>
Total retained earnings	Decrease	No change
Total par value (ordinary shares)	Increase	No change
Par value per share	No change	Decrease
Outstanding shares	Increase	Increase
Total equity	No change	No change

Tutorial Questions

E12.4 (LO 2) Luis SLU issued 1,000 ordinary shares.

Instructions

Prepare the entry for the issuance under the following assumptions.

a. The shares had a par value of €5 per share and were issued for a total of €48,000.

(a)	Cash	48,000		
	Share Capital—Ordinary (1,000 X €5).....		5,000	5*1,000 = 5,000
	Share Premium—Ordinary		43,000	48,000 – 5,000 = 43,000

b. The shares had a stated value of €5 per share and were issued for a total of €48,000.

(b)	Cash	48,000	
	Share Capital—Ordinary (1,000 X €5).....		5,000
	Share Premium—Ordinary		43,000

c. The shares had no par or stated value and were issued for a total of €48,000.

(c)	Cash	48,000	
	Share Capital—Ordinary		48,000

E12.4 (LO 2) Luis SLU issued 1,000 ordinary shares.

Instructions

Prepare the entry for the issuance under the following assumptions.

d. The shares had a par value of €5 per share and were issued to attorneys for services during incorporation valued at € 48,000.

(d)	Organization Expense	48,000	
	Share Capital—Ordinary (1,000 X €5).....		5,000
	Share Premium—Ordinary		43,000

e. The shares had a par value of €5 per share and were issued for land worth €48,000.

(e)	Land	48,000	
	Share Capital—Ordinary (1,000 X €5).....		5,000
	Share Premium—Ordinary		43,000

E12.5 (LO 2) Nanjing Ltd. purchased from its shareholders 5,000 shares of its own previously issued shares for ¥ 250,000. It later resold 1,300 shares for ¥ 54 per share, then 2,000 more shares for ¥ 49 per share, and finally 1,700 shares for ¥ 40 per share.

Instructions

Prepare journal entries for the purchase of the treasury shares and the three sales of treasury shares.

Treasury Shares.....	250,000			
Cash	250,000			
Cash (1,300 X ¥54)	70,200			
Treasury Shares (1,300 X ¥50)		65,000	←	¥250,000 / 5,000 = ¥50
Share Premium—Treasury		5,200		¥50 * 1,300 = 65,000
Cash (2,000 X ¥49)	98,000			
Share Premium—Treasury	2,000		←	¥50 * 2,000 = 100,000
Treasury Shares (2,000 X ¥50)		100,000		49<50, dr. share premium
Cash (1,700 X ¥40)	68,000			
Share Premium—Treasury				
(¥5,200 – ¥2,000)	3,200		←	
Retained Earnings	13,800			
Treasury Shares (1,700 X ¥50)		85,000		13,800=85,000-68,000-3,200

Share premium - treasury	
2000	5200
	3200

E12.10 (LO 3, 4) On January 1, Chevron Enterprises had 95,000 no-par ordinary shares issued and outstanding. The shares have a stated value of €5 per share. During the year, the following occurred.

Instructions

a. Prepare the entries to record these transactions.

Apr. 1 Issued 25,000 additional ordinary shares for €17 per share.

Apr. 1	Cash	425,000 (25,000*€17)
	Share Capital-Ordinary	125,000 (25,000*€5)
	Share Premium-Ordinary	300,000 (425,000-125,000)

June 15 Declared a cash dividend of €1 per share to shareholders of record on June 30.

Declaration date

June 15	Cash Dividends	120,000 (120,000*€1)
	Dividends Payable	120,000

**120,000=95,000+25,000
shares**

July 10 Paid the €1 cash dividend.

June 30 Record date No entry

July 10	Dividends Payable	120,000
	Cash	120,000

E12.10 (LO 3, 4) On January 1, Chevron Enterprises had 95,000 no-par ordinary shares issued and outstanding. The shares have a stated value of €5 per share. During the year, the following occurred.

Instructions

a. Prepare the entries to record these transactions.


Dec. 1 Issued 2,000 additional ordinary shares for €19 per share.

15 Declared a cash dividend on outstanding shares of €1.20 per share to shareholders of record on December 31.

Dec. 1	Cash	38,000 (2,000*€19)	
	Share Capital-Ordinary	10,000 (2,000*€5)	
	Share Premium-Ordinary	28,000 (38,000-10,000)	
Dec. 15	Cash Dividends	146,400 (122,000*€1.2)	122,000=95,000+25,000+
	Dividends Payable	146,400	2,000 shares

E12.10 (LO 3, 4) On January 1, Chevron Enterprises had 95,000 no-par ordinary shares issued and outstanding. The shares have a stated value of €5 per share. During the year, the following occurred.

b. How are dividends and dividends payable reported in the financial statements prepared at December 31?

Apr. 1	Cash	425,000	
	Share Capital-Ordinary	125,000	
	Share Premium-Ordinary	300,000	
June 15	Cash Dividends	120,000	
	Dividends Payable	120,000	 Cancel out with each other
July 10	Dividends Payable	120,000	
	Cash	120,000	
Dec. 1	Cash	38,000	
	Share Capital-Ordinary	10,000	
	Share Premium-Ordinary	28,000	
Dec. 15	Cash Dividends	146,400	
	Dividends Payable	146,400	
			266,400=120,000+146,400

1. In the retained earnings statement, dividends of €266,400 will be deducted.
2. In the statement of financial position, Dividends Payable of €146,400 will be reported as a current liability.

E12.13 (LO 3) On October 31, the equity section of Lucerne AG consists of share capital—ordinary CHF500,000 and retained earnings CHF900,000. Lucerne is considering the following two courses of action: (1) declaring a 5% share dividend on the 50,000, CHF10 par value shares outstanding, or (2) effecting a 2-for-1 share split that will reduce par value to CHF5 per share. The current market price is CHF14 per share.

Instructions

Prepare a tabular summary of the effects of the alternative actions on the components of equity, outstanding shares, and par value per share. Use the following column headings: Before Action, After Share Dividend, and After Share Split.

(1) Declare share dividend
of current shares=500,000/10=50,000 shares

<div>Declaration date</div>	<div>Dr. Share dividend</div>	<div>35,000</div>	<div>(=50,000*5%*14)</div>	<div>Net effect:</div> <div>Dr. Retained earning 35,000</div> <div>Cr. Share premium 10,000</div> <div>Cr. Share capital 25,000</div>
	<div>Cr. Ordinary share dividends distributable</div>	<div>25,000</div>	<div>(=50,000*5%*10)</div>	
	<div>Cr. Share premium – ordinary</div>	<div>10,000</div>	<div>(=35,000-25,000)</div>	
<div>Payment date</div>	<div>Dr. Ordinary share dividends distributable</div>	<div>25,000</div>		
	<div>Cr. Share capital – ordinary</div>	<div>25,000</div>		
<div>Closing entry (Year-end)</div>	<div>Dr. Retained earnings</div>	<div>35,000</div>		
	<div>Cr. Share dividends</div>	<div>35,000</div>		

Net effect:

Dr. Retained earning 35,000

Cr. Share premium 10,000

Cr. Share capital 25,000

	Before Action	After Share Dividend	After Share Split
Equity			
Share capital-ordinary	CHF 500,000	CHF 525,000	CHF 500,000
Share premium-ordinary	0	10,000	0
Retained earnings	900,000	865,000	900,000
Total equity	<u>CHF1,400,000</u>	<u>CHF1,400,000</u>	<u>CHF1,400,000</u>
Outstanding shares	<u>50,000</u>	<u>52,500</u>	<u>100,000</u>
Par value per share	<u>CHF10</u>	<u>CHF10</u>	<u>CHF5</u>

Thanks for your listening!