

- 3 On 1 January 2022 the directors of J Limited made a bonus issue of two ordinary shares for every three ordinary shares held. The following is an extract from the company's statement of financial position immediately **after** the bonus issue.

Equity	\$
Ordinary shares of \$0.50 each	1 000 000
Retained earnings	<u>120 000</u>
Total equity	<u>1 120 000</u>

The directors financed the issue 60% from the share premium account and the remainder from retained earnings.

REQUIRED

- (a) Prepare an extract from the statement of financial position immediately **before** the bonus issue, showing the equity section.

Equity	\$
Ordinary shares of \$0.50 each	
Share premium	
Retained earnings	
Total equity	

Workings:

Additional information

J Limited's financial year ends on 31 March. On 31 March 2021 the directors paid an annual ordinary share dividend of 20%. However, on 31 March 2022 the directors decided that the annual ordinary share dividend would amount to \$0.05 per share.

Hassan is a shareholder in the company. He owned 7200 shares before the bonus issue on 1 January 2022.

REQUIRED

- (b) Calculate the change in the amount of dividend received by Hassan, comparing the dividend at 31 March 2022 with the dividend at 31 March 2021.

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- (c) State **two** differences between capital reserves and revenue reserves.

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- (d) State **three** reasons why the directors of a company might reduce the total dividends payable.

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