

Aufgabe QR-11.1: Eigenkapitalausweis

(Exercise on disclosure of Equity)

HOEGI Ltd. is a production firm for instant coffee. It starts its fiscal year 20X6 as disclosed by the balance sheet below:

| HOEGI Ltd's | | | |
|---------------------------|---------------------|---------------------|----------------|
| A | B/S as at 1.01.20X6 | | C,L |
| Non-current Asset: | [EUR] | SH's capital | [EUR] |
| P,P,E | 150.000 | Issued capital | 25.000 |
| Int. assets | 20.000 | Other reserves | 57.000 |
| Financial assets | | R/E | 43.000 |
| Current Assets | | Liabilities | |
| Inventory | 40.000 | Int. bear. liab. | 90.000 |
| A/R | | A/P | 40.000 |
| Prepaid exp. | 1.000 | Provisions | |
| Cash | 50.000 | Def. income | |
| | | Tax liabilities | 6.000 |
| | <u>261.000</u> | | <u>261.000</u> |

Exhibit 1: Opening balance sheet

HOEGI made a profit before taxation 60,000.00 EUR. Consider income tax rate to be 30%. As fully appropriation of profit it is intended to split profit after taxes available to shareholders plus complete accumulated profit (see R/E account) in a ratio 40 : 60 - like dividend : earnings reserves. (Ignore §§ 58, 150 German AktG.)

HOEGI Ltd. is based on shares. At time of establishment of the business HOEGI Ltd. issued 5,000 shares 5.00 EUR each as par value issue. On 1.04.20X6 HOEGI issued 2,000 further ordinary shares at an issue price 8.00 EUR/p. The same day the company issued 35,000 5%-preference shares 1.00 EUR each. Issue price was 1.20 EUR/p and preference shares are non-redeemable. The preference dividend is to be paid in respect of time shares are outstanding, here from 1.04.20X6 on. On 1.10.20X6 HOEGI made a bonus issue. All ordinary shareholders got an extra share (ordinary share) for 5 shares hold. For that reason HOEGI dissolved earnings reserves accordingly.

Consider additionally that HOEGI Ltd. made bookkeeping entries for their non-current assets as an increase of P, P, E by 10,000.00 EUR. Depreciation for the accounting period is 18,000.00 EUR and has been considered already for computation of profit before taxes. You have to rise a provision for deferred taxation resulting from revaluation. The revaluation took place on 31.12.20X6.

Required: Show disclosure of equity section in the balance sheet as at 31.12.20X6 and determine EPS figure. For computation of EPS figure check with IAS 33.

Lösung (Solution)

Attention: You are not able to set up a full set of financial statements for HOEGI Ltd. At some stage the possibility to check your figures by double entry system is not available for you. So, compute all figures very carefully!

Furthermore you can't start this task by determination of appropriation of profit, because the amount of shareholders is not given just from the beginning. So start task by balance sheet items:

First share capital is to be computed:

(1) Share issue of 2,000 ordinary shares (1.04.20X6)

| | |
|---------------------------------------|----------------------|
| DR Bank | 16,000.00 EUR |
| CR Share capital | 10,000.00 EUR |
| CR Share premium account | 6,000.00 EUR |

(2) Share issue of 35,000 preference shares (1.04.20X6)

| | |
|--|----------------------|
| DR Bank | 42,000.00 EUR |
| CR Share capital, preference shares . | 35,000.00 EUR |
| CR Preference shares premium | 7,000.00 EUR |

(3) Bonus share issue is an issue not for value. A shareholder gets a particular amount of shares for free in relation to the amount of shares in her/his possession. Here the ratio is 1 : 5. At the moment of bonus issue HOEGI Ltd. has 7,000 ordinary shares outstanding. For that reason share issue is 1,400 shares and amounts to share capital 7,000.00 EUR. Along terms of issue preference shareholders are not entitled to receive bonus shares.

| | |
|-----------------------------------|---------------------|
| DR Earnings reserves | 7,000.00 EUR |
| CR Share capital | 7,000.00 EUR |

Now, share capital is determined. For disclosure of reserves you have to consider revaluation and appropriation of profit.

(4) Bookkeeping entries for revaluation. For bookkeeping entries the tasks does not give you a particular EUR amount as previous carrying amount for P, P, E. You can either use XXX or just take a fictional figure higher Zero. For this solution assumption is made that P, P, E is one item only.

| | |
|--------------------------------------|-----------------------|
| DR P, P, E at Valuation | 142,000.00 EUR |
| DR Acc Depr | 18,000.00 EUR |
| CR P, P, E at cost | 150,000.00 EUR |
| CR Revaluation reserves | 7,000.00 EUR |
| CR Provision | 3,000.00 EUR |

(5) Profit:

| | |
|---------------------------------|----------------------|
| DR P&L account | 60,000.00 EUR |
| CR Tax liabilities | 18,000.00 EUR |
| CR R/E | 42,000.00 EUR |

(6) Appropriation of profit requires deduction of preference dividend. Dividend to preference shareholders is 5 % of the face value of preference shares in respect to the time shares were outstanding, here 9 month – April, May, ... December 20X6. So, preference dividend is $5\% \cdot 35,000 \cdot \frac{3}{4} = 1,312.50$ EUR. As dividend is paid after balance sheet date the bookkeeping entry for preference dividend is in the shareholders for dividend account, here: A/P. Ordinary dividend goes to all shareholders holding shares at 31.12.20X6. HOEGI Ltd. has 7,000.00 shareholders at that very moment. Total dividend declared is $40\% \cdot (43,000 + 42,000 - 1,312.50) = 33,475.00$ EUR. The other 60 % go to reserves.

| | |
|--------------------------------------|----------------------|
| DR R/E | 85,000.00 EUR |
| CR A/P (pref. dividend) | 1,312.50 EUR |
| CR A/P (ordn. dividend) | 33,475.00 EUR |
| CR Earnings reserves | 50,212.50 EUR |

See equity accounts for getting an overview of the equity situation first, because equity section on the face of B/S aggregates accounts. Non-equity accounts are greyed out and are not completed because revenue and expenses that led to profit are not considered in exhibit 2.

| | | | | | | | | | | |
|------|-----------|-----------|---------|----------|-----|----------|-----|-----------|-----|-----------|
| SCap | | | Sh prem | | | PrfCap | | | | |
| D | | C | D | | C | D | | C | | |
| | OV | 25.000,00 | c/d | 6.000,00 | (1) | 6.000,00 | c/d | 35.000,00 | (2) | 35.000,00 |
| | (1) | 10.000,00 | | | b/d | 6.000,00 | | | b/d | 35.000,00 |
| c/d | 42.000,00 | (3) | | | | | | | | |
| | | 7.000,00 | | | | | | | | |
| | 42.000,00 | 42.000,00 | | | | | | | | |
| | b/d | 42.000,00 | | | | | | | | |

| | | | | | | | | | | | |
|-----------|----------|-----|----------|-----|------------|------------|------------|-----|----------|-----|----------|
| Pref prem | | | Earn res | | | Rev res | | | | | |
| D | | C | D | | C | D | | C | | | |
| c/d | 7.000,00 | (7) | 7.000,00 | (3) | 7.000,00 | OV | 57.000,00 | c/d | 7.000,00 | (7) | 7.000,00 |
| | | b/d | 7.000,00 | c/d | 100.055,00 | (6) | 50.055,00 | | | b/d | 7.000,00 |
| | | | | | 107.055,00 | | 107.055,00 | | | | |
| | | | | | b/d | 100.055,00 | | | | | |

| | | | | | | | | | |
|-----|-----------|-----|-----------|-----|------------|-----|------------|-----|-----------|
| R/E | | | Bank | | | ACC | | | |
| D | | C | D | | C | D | | C | |
| (6) | 85.000,00 | OV | 43.000,00 | OV | 50.000,00 | c/d | 108.000,00 | OV | 40.000,00 |
| | | (5) | 42.000,00 | (1) | 16.000,00 | | | (6) | 1.575,00 |
| | 85.000,00 | | 85.000,00 | (2) | 42.000,00 | | | (6) | 33.370,00 |
| | | | | | 108.000,00 | | 108.000,00 | | 74.945,00 |
| | | | | | 108.000,00 | | | | 74.945,00 |
| | | | | b/d | 108.000,00 | | | b/d | 74.945,00 |

Exhibit 2: Accounts

On the face of balance sheet the following items are to be shown:

- (a) Share capital = $42,000 + 35,000 = 77,000.00$ EUR
- (b) Reserves = $6,000 + 7,000 + 100,212.50 + 7,000 = 120,212.50$ EUR
- (c) R/E = **0.00 EUR**

By disclosure like displayed above you have to show and explain the structure of equity in the notes.

Alternatively, equity can be shown in more detail on the face of balance sheet like below:

| | |
|---|--------------------------|
| Capital | |
| ISSUED CAPITAL | |
| Ordinary Share Capital | |
| - 8.400 Ordinary shares at 5,00 EUR each, in 20X5: 5.000 | 42.000,00 |
| Preference Share Capital | |
| - 35.000 5% Preference shares at 1,00 EUR each, in 20X5 Nil | 35.000,00 |
| RESERVES | |
| Capital Reserves | 13.000,00 |
| German Legal Reserves | 0,00 |
| Other Earnings Reserves | 100.212,50 |
| Revaluation Reserves | 7.000,00 |
| RETAINED EARNINGS | 0,00 |
| <i>Total of Shareholder's Equity</i> | <u><u>197.212,50</u></u> |

Exhibit 3: Equity disclosure

EPS figure (undiluted) is basic earnings (= profit available to shareholders) divided by weighted average of ordinary shares outstanding during accounting period. The not for value issue results in an increase in shares for the full accounting period.

$$\text{EPS} = (42,000 - 1,312.50) / (5,000 + (3/4) \cdot 2,000 + 1,400) = \mathbf{5.15 \text{ EUR}}$$