

63.2 A drill to practise the theoretical ex-rights value of a share

For each of the situations below, show the standard working for the theoretical ex-rights price of a share.

1.

Market value of a share in ABB Ltd before rights issue: 62p.

Rights issue: 2 for 5 at 50p.

Standard Working

	number of shares		price per share	=	value £
initial holding	5	x	£0.62	=	3.10
rights issue	2	x	£0.50	=	1.00
after rights issue	<u>7</u>	x	£0.59	=	<u>£4.10</u>
		<i>arithmetic:</i>	£0.59	=	$\frac{£4.10}{7}$

2.

Market value of a share in BCC Ltd before rights issue: £1.10.

Rights issue: 3 for 7 at 60p.

Standard Working

	number of shares		price per share	=	value £
initial holding	7	x	£1.10	=	7.70
rights issue	3	x	£0.60	=	1.80
after rights issue	<u>10</u>	x	£0.95	=	<u>£9.50</u>
		<i>arithmetic:</i>	£0.95	=	$\frac{£9.50}{10}$

3.

Market value of a share in CDD Ltd before rights issue: 81p.

Rights issue: 3 for 8 at 59p.

Standard Working

	number of shares		price per share		value £
initial holding	8	x	£0.81	=	6.48
rights issue	3	x	£0.59	=	1.77
after rights issue	<u>11</u>	x	£0.75	=	<u>£8.25</u>
		<i>arithmetic:</i>	£0.75	=	$\frac{£8.25}{11}$

4.

Market value of a share in DFF Ltd before rights issue: 55p.

Rights issue: 1 for 3 at 35p.

Standard Working

	number of shares		price per share		value £
initial holding	3	x	£0.55	=	1.65
rights issue	1	x	£0.35	=	0.35
after rights issue	<u>4</u>	x	£0.50	=	<u>£2.00</u>
		<i>arithmetic:</i>	£0.50	=	$\frac{£2.00}{4}$