

64.4 A drill to practise understanding the limited company balance sheet

Three companies have balance sheets as shown below. The directors now decide to wind up each company. Assuming that the balance sheets show fair values for assets and liabilities, state for each company how much will be received by preference shareholders and how much by ordinary shareholders.

A.

A : Balance Sheet	
	£
Assets	680 000
Liabilities	<u>(230 000)</u>
Net Assets	<u>£450 000</u>
Issued Share Capital	
ordinary shares of 10p	250 000
7% preference shares	100 000
Share Premium	40 000
Retained Earnings	<u>60 000</u>
	<u>£450 000</u>

If this company is wound up, after payment of the creditors:

- preference shareholders will get £100 000, and
- ordinary shareholders will get £350 000

B.**B : Balance Sheet**

	£
Assets	310 000
Liabilities	<u>(120 000)</u>
Net Assets	<u>£190 000</u>

Issued Share Capital	
ordinary shares of 25p	200 000
8% preference shares	100 000
Share Premium	50 000
Retained Loss	<u>(160 000)</u>
	<u>£190 000</u>

If this company is wound up, after payment of the creditors:

- preference shareholders will get £100 000, but
- ordinary shareholders will get only £90 000

C.**C: Balance Sheet**

	£
Assets	135 000
Liabilities	<u>(45 000)</u>
Net Assets	<u>£90 000</u>

Issued Share Capital	
ordinary shares of 25p	150 000
6% preference shares	100 000
Share Premium	30 000
Retained Loss	<u>(190 000)</u>
	<u>£90 000</u>

If this company is wound up, after payment of the creditors:

- preference shareholders will get only £90 000, while
- ordinary shareholders will get nothing