

64.3 A drill to practise accounting for the issue of preference shares

GHI plc has the following balance sheet:

GHI plc Balance Sheet	
	£
Assets	685 000
Liabilities	(140 000)
Net Assets	<u>£545 000</u>
Issued Share Capital	
800 000 ordinary shares of 25p	200 000
Share Premium	45 000
Retained Earnings	<u>300 000</u>
	<u>£545 000</u>

The company issues 100 000 8% preference shares of £1 each nominal value for cash at £1.05 per share.

a) show the company's balance sheet after the issue of the preference shares

GHI plc Balance Sheet after preference share issue	
	£
Assets	790 000
Liabilities	(140 000)
Net Assets	<u>£650 000</u>
Issued Share Capital	
800 000 ordinary shares of 25p	200 000
8% Preference shares of £1 each	100 000
Share Premium	50 000
Retained Earnings	<u>300 000</u>
	<u>£650 000</u>

b) state what the company's earnings will be, if the profit for the year after the issue of the preference shares is £18 000

	£
profit	18 000
less preference dividend	(8 000)
8% x £100 000	
earnings	<u><u>£10 000</u></u>

If **profit** for the year after the issue of the preference shares is £18 000, **earnings** will be £10 000.