

Study Unit 4

Share Transactions

Study Unit 4: Share Transaction

INTRODUCTION: SHARE CAPITAL

Share Capital Structures

- Governed by the Companies Act 71 of 2008
- Maximum number of shares (authorised):
 - MOI (Memorandum of Incorporation)
 - *Previously Memorandum and Articles*
- Authorised vs Issued
 - Company is not obliged to issue all its authorised shares (authorised share capital);
 - Issued share capital is what is shown in statement of financial position
 - Authorised is disclosed in notes only
- No more par / nominal value shares (old companies act)
 - Therefore no more share premium
 - All shares = no par value

UNISA example 1 – pg 21 SG

- Please turn to UNISA study guide page 21 and complete example 1 (ABC Ltd)
- Watch related video on Tabaldi Online Classroom once you have made your attempt.

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TYPES OF SHARES

Types of shares

1. Ordinary shares
2. Preference shares
 - Cumulative preference shares
 - Participating preference shares
 - Convertible preference shares
 - Redeemable preference shares

Ordinary Shares

- Do not have a fixed dividends
 - Only paid after Preference Shareholders have been paid their dividends
 - Dividends (sometimes called distributions) are paid out of available profits
 - If recommended by directors and approved by shareholders
 - No limits, but some restrictions in terms of regulation (Companies Act and Common Law)
 - Also consider the Framework concept of Capital Maintenance.

Preference Dividends

- Normal preference dividends bear a fixed %
 - For example, XYZ Ltd issues 100, R15 000 preference shares that bear dividend at 10% per annum
 - Issued preference share capital in the SoFP will be 100 shares x R15 000 = R1 500 000
 - Every year XYZ will pay preference dividend of 100 shares x R15 000 x 10% = R150 000
 - Preference dividend will be paid before any dividend paid to ordinary shareholders
- ***CUMULATIVE preference dividend***
 - Different to normal preference shares in that any preference dividends that are not paid annually will accumulate and the company is obliged to make payment of outstanding preference dividends before paying any ordinary dividend.

Redeemable preference shares

- Preference shares can be redeemable
 - This means that the company may have the choice or be required to buy the preference shares back (i.e. redeem).
 - The choice of redemption may be with the company itself, or the holder of the shares (the person who purchased the shares), this will depend on the individual preference shares and agreements.
 - Note that later on in your studies this choice will be very important as to the classification of the preference share as either equity or possibly a liability!

Participating preference shares

- Participating preference shares have two components for dividend:
 - a fixed % dividend (usually lower than a normal preference share)
 - A share of the ordinary dividends (called a participation in the ordinary dividend)

Convertible preference shares

- Convertible preference shares will (or may be) converted into ordinary shares:
 - Not always a compulsory conversion, sometimes it may be optional (either by issue or holder)
 - Needs a ratio of ordinary shares to preference shares for conversion, for example 3 preference shares will be converted into one ordinary share.

Combination of the above

- Preference shares may have a large number of variations – and most of the variations refer to the types of dividends linked to the preference share;
- All of the types of preference shares listed above may be combined
 - For example:
 - Cumulative, redeemable preference shares; or
 - Non cumulative, convertible participating preference shares

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ISSUE OF CAPITALISATION SHARES

Capitalisation shares

- No cash is paid out
- Shareholders receive shares
 - Usually done instead of dividends
- Also referred to as a Bonus Issue
- No real benefit if issued to all shareholders in proportion to current shares held
 - Just a book entry to convert reserves into share capital
- If shares not issued in proportion to current shareholding then there is economic substance

Changing the number of pieces in the pie?

Accounting entry?

	Debit	Credit
Dr Retained Earnings*	RXX	
Cr Issued Share Capital		RXX

* This may be any distributable reserves account not just Retained Earnings.

UNISA Example 1 – Page 23 SG

- Please refer to page 23 of the UNISA study guide and attempt example 1 (XYZ Ltd)
- Once you have worked through the example watch the relevant video on the Tabaldi Classroom

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RIGHTS ISSUES AND OPTIONS

What is a rights issue?

- Rights (or options) to new shares are offered to existing shareholders
- Usually issued below market price
 - Ensure rights are fully taken up
 - Where company needs to raise capital
- Shareholders can sell these rights to others
- Watch the free video on Investopedia at:

www.investopedia.com/video/play/stock-rights-issue/

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UNDERWRITING OF SHARE ISSUES

SELF STUDY

Refer to UNISA study guide, page 25, Section 4.7

Ensure that you can calculate the underwriters commission.

Not directly examinable theory.

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DIVIDENDS

Dividend Overview

- Dividends are paid out of profits to shareholders (owners)
- Preference dividends paid first before ordinary dividends
- Dividends are paid equally per share (proportionate)
 - can be paid via assets (in specie) or as capitalisation (bonus) share issue
- Process:
 - Directors recommend the amount of dividends to be paid
 - Companies Act requirement – liquid and solvent after dividend paid
 - Dividend approved and therefore declared at the Annual General Meeting (AGM)
 - At AGM shareholders can declare a dividend lower than that recommended by Directors
- May NOT be paid from Capital

Two Kinds of Dividends

- Interim Dividends
 - Declared before the end of the year
 - Declared by directors, but ratified at AGM by shareholders
 - CanNOT be declared until all outstanding dividends are paid in full
- Final (Annual) Dividends
 - Declared at year end
 - Recommended by directors, approved and declared by shareholders
 - Reduce available profit / reserves by any interim dividends declared during the year

Accounting Journals