22 Lecture - MGT401

Important Subjective

1. **What is share capital, and how is it different from reserves?**
   Answer: Share capital refers to the amount of money that a company receives by issuing its shares to the public. Reserves, on the other hand, are the profits that the company has earned but not distributed as dividends. The key difference between the two is that share capital represents the amount of money that the company has raised through the sale of its shares, whereas reserves represent the company's retained earnings.

2. **How are share premiums treated in the balance sheet?**
   Answer: Share premiums are treated as a part of share capital in the balance sheet. Share premiums are the amount of money that a company receives from investors in excess of the par value of its shares. This amount is considered to be a part of the share capital and is reflected accordingly in the balance sheet.

3. **What is the purpose of the share capital in a company?**
   Answer: The share capital represents the funds that a company has raised by issuing shares to the public. This capital can be used by the company to finance its operations, investments, and growth. The share capital is also an important indicator of a company's financial strength and is closely monitored by investors and analysts.

4. **What are reserves, and how are they classified in the balance sheet?**
   Answer: Reserves are the accumulated profits that a company has earned but not distributed as dividends. These profits are kept in reserve to be used for future investments or to cover any unexpected losses. Reserves are classified in the balance sheet as either distributable reserves or non-distributable reserves, depending on whether they can be distributed as dividends to shareholders or not.

5. **How are dividends treated in the balance sheet?**
   Answer: Dividends are not recorded as liabilities in the balance sheet since they represent the distribution of profits to the shareholders. Dividends are recorded as a reduction in the retained earnings or distributable reserves of the company.

6. **What is the difference between authorized capital and issued capital?**
   Answer: Authorized capital is the maximum amount of share capital that a company can issue as per its Memorandum of Association. Issued capital, on the other hand, is the actual amount of share capital that has been issued by the company and is available for trading in the stock market.

7. **What is the impact of issuing bonus shares on the balance sheet?**
   Answer: Issuing bonus shares does not impact the total share capital of the company but increases the number of shares outstanding. This results in a reduction in the earnings per share but does not impact the overall financial position of the company.

8. **How are share buybacks reflected in the balance sheet?**
   Answer: Share buybacks are reflected as a reduction in the share capital of the company and

increase in the reserves. This is because the company is effectively buying back its own shares, reducing the number of shares outstanding, and increasing the ownership percentage of the remaining shareholders.

9. **What is the significance of reserves for a company?**
   Answer: Reserves represent the retained earnings of a company, which can be used for future investments or to cover any unexpected losses. The amount of reserves that a company has accumulated over time is an important indicator of its financial strength and ability to withstand any adverse market conditions.

10. **What is the impact of a share split on the balance sheet?**
    Answer: A share split results in an increase in the number of shares outstanding but does not impact the total share capital of the company. The par value of the shares is also reduced proportionately, resulting in a decrease in the share price.