

GRADE 11 STUDY GUIDE | 2025

Companies and Share Capital

Accounting

1. Types of Companies

- Private company (Pty Ltd): 1-50 shareholders; shares not publicly traded; limited liability
- Public company (Ltd): shares listed on stock exchange; unlimited shareholders; must publish financial statements
- SOC (State-Owned Company): majority owned by government (e.g. Eskom, Transnet)

2. Share Capital

Companies raise capital by issuing SHARES. Each share represents a part-ownership of the company.

- Ordinary shares: voting rights; dividend not guaranteed; residual claim in liquidation
- Preference shares: fixed dividend paid before ordinary; usually no voting rights; preferential claim on assets
- Par value: the nominal (face) value printed on the share certificate
- Issue price: price at which shares are sold; can differ from par value
- Share premium: excess of issue price over par value; separate entry in equity

$$\text{Retained Income} = \text{Opening retained income} + \text{Net profit} - \text{Dividends declared}$$

3. Financial Indicators and Ratios

- Gross profit %: $\text{Gross profit} / \text{Net sales} \times 100$
- Net profit % (after tax): $\text{Net profit after tax} / \text{Net sales} \times 100$
- Operating expenses %: $\text{Operating expenses} / \text{Net sales} \times 100$
- Return on equity (ROE): $\text{Net profit after tax} / \text{Average total equity} \times 100$
- Return on assets (ROA): $\text{Operating profit} / \text{Average total assets} \times 100$
- Earnings per share (EPS): $\text{Net profit after tax} / \text{Number of shares}$
- Dividend per share (DPS): $\text{Total dividends} / \text{Number of shares}$
- Current ratio: $\text{Current assets} : \text{Current liabilities}$ (ideal ~2:1)
- Acid test ratio: $(\text{Current assets} - \text{Inventory}) : \text{Current liabilities}$ (ideal ~1:1)
- Debt:equity ratio: $\text{Non-current liabilities} / \text{Total equity}$

4. Cash Flow Statement

Shows actual cash movements during the year. Three sections:

- Operating activities: cash generated by core business; reconcile operating profit to cash (add back depreciation, adjust working capital changes)

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Investing activities: purchase/sale of non-current assets (usually negative = growing business)

- Financing activities: loans raised/repaid; dividends paid; shares issued