### Practice exercise 1

Al Jazira company's shareholders' equity portion of the balance sheet for the first two years of operations is given below:

|                            | 2003    | 2004    |
|----------------------------|---------|---------|
| Common shares              | 50,000  | 50,000  |
| Retained earnings          | 75,000  | 85,000  |
|                            |         |         |
| Total Shareholders' equity | 125,000 | 135,000 |

The company made a net income of AED 120,000 during the year 2003. *How much did the company pay as dividends in 2003?* 

The company made a net income of AED 140,000 in 2004. How much dividends did the company pay as dividends in 2004?

#### Practice exercise 2

Al Mumtaz Company began operating in 2001. In their first year, the company earned a net income of AED 100,000 and paid a dividend of AED 20,000. In 2002, the company earned a net income of AED 160,000 and paid 25% of their net income as dividend. In 2003, the company had a net loss of AED 70,000 and paid no dividends.

#### Required:

Calculate the retained earnings at the end of each year. Prepare a Statement of Retained Earnings for 2002 only.

## **Practice Question 3 - (a challenge!)**

At the beginning of 2004, total assets were Dh 1,500,000. During the year, net income of Dh 780,000 had been earned. Dividends declared and paid during the year were 300,000. Also, the shareholders invested Dh 100,000 cash by buying more shares of the corporation.

At the end of 2004, total assets were Dh 2,000,000 and liabilities were Dh 1,250,000.

# **Required:**

- a) Calculate equity at the end of 2004
- b) Calculate equity at the beginning of 2004
- c) Calculate liabilities at the beginning of 2004