CHAPTER 11

ACCOUNTING FOR BONUS ISSUS ANDRIGHTISSUE

ISSUE OF BONUSSHARES

- A bonus share may be defined as issue of shares at **NO COST** to **Current shareholders** in a company, based upon the number of shares that the shareholder already owns.
- In other words, **No New Funds are raised with a bonus issue**. While the issue of bonus shares increases the total number of shares issued and owned.
- It does not increase the net worth of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.
- **Bonus issue is also known as 'capitalisation of profits'**. Capitalisation of profits refers to the process of converting profits or reserves into paid up capital.
- A company may capitalise its profits or reserves which otherwise are available for distribution as dividends among the members by issuing fully paid bonus shares to the members.
- **If the subscribed and paid-up capital exceeds the authorised share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorised capital.** A return of bonus issue along with a copy of resolution authorizing the issue of bonus shares is also required to be filed with the Registrar of Companies.

BONUS – PROVISIONS OF THE COMPANIES ACT, 2013

Section 63 of the Companies Act, 2013, deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

(i) its free reserves;
(ii) the securities premium account; or
(iii) the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the **revaluation of assets.**

As per Section 2(43) of the Companies Act, 2013, "free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend. Provided that—

- *any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or*
- *any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value,* ***shall not be*** *treated as free reserves.*

Sub-section (2) of Section 63 provides that no company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

- it is authorized by its articles;
- it has, on the recommendation of the Board, been authorized in the general meeting of the company;
- it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.

BONUS - SEBIREGULATIONS

A listed company, while issuing bonus shares to its members, has to comply with the following requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:

Regulation 294 - Restrictions on a bonus issue.

- An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.
- The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or war rants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.
- Bonus issue shall be made **only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits** or securities premium collected in cash and reserve screated by revaluation of fixed assets shall not be capitalised for this purpose.
- Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.
- If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of or dinary equity share salong with existing SR equity shares

Regulation 295 - Completion of a bonus issue.

- An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalisation of profits or reserves for making the bonus issue, **shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors**: Provided that where the issuer is required to seek shareholders' approval for capitalisation of profits or reserves for making the bonus issue, the bonus issue shall be implemented **within two months from the date of the meeting of its board of directors** wherein the decision to announce the bonus issue was taken subject to shareholders' approval.
- A bonus issue, once announced, shall not be withdrawn.

JOURNALENTRIES

Upon the sanction of an issue of bonus shares	Capital Redemption Reserve Account Dr. Securities Premium Account Dr. General Reserve Account Dr. Profit & Loss Account Dr. To Bonus to Shareholders Account
Upon issue of bonus shares	Bonus to Shareholders Account Dr. To Share Capital Account
Upon the sanction of bonus by converting partly paid shares into fully paid shares	General Reserve Account Dr. Profit & Loss Account Dr. To Bonus to Shareholders Account
On making the final call due	Share Final Call Account Dr. To Share Capital Account
On adjustment of final call	Bonus to Shareholders Account Dr. To Share Final Call Account

RIGHTISSUE

Relevant Section - 62(1) (a)

Whenever a company intends to issue new shares, the voting and governance rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital.

Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them.

The existing shareholders are given a right to subscribe these shares, if they like.

However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce).

Exceptions to the rights of existing equity shareholders

Section 62 recognises four situations under which the further shares are to be issued by a company, but they need not be offered to the existing shareholders.

The shares can be offered, without being offered to the existing shareholders, provided the company has passed a special resolution and shares are offered accordingly.

Situation 1

To employees under a scheme of **Employees' Stock Option** subject to certain specified conditions

Situation 2

To any persons, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a **registered valuer** subject to certain specified conditions.

Situation 3

Sometimes companies borrow money through **debentures / loans** and give their creditor an option to buy equity shares of a company. An option is a right, but not an obligation, to buy equity shares on a future date (expiry date) at a price agreed in advance (exercise price).

Situation 4

It is a **special situation** where the **loan** has been obtained from the **government**, and government in public interest, directs the debentures/loan to be converted into equity shares.

Financial effects of a further issue

The financial position of a business is contained in the balance sheet. Further issue of shares increase the amount of equity (net worth) as well as the liquid resources (Bank).*The amount of equity is the product of further number of shares issued multiplied by issue price.* The issue price may be higher than the face value (issue at a premium). Companies Act does not allow issue of shares at a discount, except issue of sweat equity shares under Section53.

Book Value of a share

Book value of a share = Net worth (as per books)/ Number of shares

Class Example: if there are 10,000 shares with book value 1,25,000. The book value of one share is (` 125,000 / 10,000 shares) ` 12.50 per share.
As per Section 2(57) of Companies Act 2013, "net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Impact of Right Issue on Shareholders Wealth:

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share. If the company decides to issue further shares, it may affect the market value of the share. 'Theoretically', the value of a company's shares after a rights issue must equal the sum of market capitalisation immediate prior to rights issue and the cash inflows generated from the rights issue.

Normally, the further public issue to the existing shareholders is offered at a discounted price from the market value, to evoke positive response as well as to reward the existing shareholders.

Assume 1,000 shares are issued (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of ` 14 per share. The existing worth of tangible assets held by the business shall become 264,000 (Existing net worth ` 250,000 + Fresh Issue ` 14,000). Equity shares shall correspondingly command a valuation of` 264,000.

The market price of the shares after further issue of shares (right issue) is termed as Ex-right Market Price of the shares. Theoretical Ex-Rights Price is a deemed value, which is attributed to a company's share immediately after a rights issue transaction occurs. This price is going to prevail after the further issue of shares is executed.

Class Example:

Mr. Narain has 100 shares of Prosperous Company before rights issue.
Current worth of holding= No. of shares X Cum-right Market Price= 100 X 25= ` 2,500

- If Narain exercises his right, he will pay ` 14X10 shares = `140.

His total investment in the company in cluding right is` 2,640(` 2,500+` 140).
On a per share basis, it is ` 2,640 /110 shares = ` 24, which is the Ex right Market value of the share.

- If Narain does not exercises his right to further issue, his holding's worth will decline to ` 24 X 100 shares = `2400. The law allows him to compensate for this dilution of shareholding by renouncing this right in favour of, say, Mr. Murthy
- Narain can charge Murthy, in well-functioning capital markets, this dilution of ` 100 by renouncing his right to acquire 10 shares. Hence Murthy will be charged ` 10 per share (` 100 / 10 shares), in return for a confirmed allotment of 10 shares at ` 14each.
  For every share to be offered to Murthy, Narain must have ten shares at the back. Hence his holding of 10 shares fetches him right money of ` 10 or ` 1 per share held. This is exactly equal to the difference between Cum-right and Ex-right value of the share. It is termed as the Value of Right.

In a well-functioning capital market, this mechanism works in a fair manner to all the participants.

- ➢ Murthy's total investment will be ` 140 (payable to Company) + ` 100 (payable to Narain, by way of value of right), or ` 240. He will end upholding ten shares at an average cost of ` 24, which is the Ex-right Market Price of the share.
- ➢ Narain will have a final holding of ten shares worth ` 2400 + ` 100 by way of value of right received from Murthy. It matches with his cum-right holding valuation.

Right of Renunciation

Right of renunciation refers to the right of the shareholder **to surrender his right** to buy the securities and **transfer such right to any other person**. Shareholders that have received right shares have three choices of what to do with the rights.

(a) They can act on the rights and buy more shares as per the particulars of the rights issue;
(b) They can sell them in the market; or
(c) They can pass on taking advantage of their rights (i.e., reject the right offer).

The renunciation of the right is valuable and can be monetized by the existing shareholders in well-functioning capital market. The monetised value available to the existing shareholders due to right issue is known as 'value of right'. If a shareholder decides to renounce all or any of the right shares in favour of his nominee, the value of right is restricted to the sale price of the renouncement of a right in favour of the nominee. In case the right issue offer is availedby an existing shareholder, the value of right is determined as given below:

Value of right = Cum-right value of share – Ex-right value of share

Ex-right value of the shares = [Cum-right value of the existing shares + (Rights shares X Issue Price)] / (Existing Number of shares + Number of right shares)

In our previous example, Ex-right value of share = [` 250,000 + (` 14 X 1,000 shares)]
10,000 + 1,000 shares = ` 24
Value of right = ` 25 – ` 24 = `1 per share.
The Ex-right value of the share is also known as the average price.

ACCOUNTING FOR RIGHTISSUE

The accounting treatment of rights share is the same as that of issue of ordinary shares

and the following journal entry will be made:

Bank A/c Dr.
To Equity shares capital A/c

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account.

Bank A/c Dr.
To Equity Share Capital A/c
To Securities Premium A/c

IMPORTANT QUESTIONS

QUESTION - 1. (ICAI MODULE)

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March,20X1:

Particulars	*Amount*
40,000 Equity shares of ` 10 each	*4,00,000*
Capital Redemption Reserve	*55,000*
Securities Premium (collected in cash)	*30,000*
General Reserve	*1,05,000*
Surplus i.e. credit balance of Profit and Loss Account	*50,000*

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

SOLUTION:

Journal Entries in the books of Bharat Ltd.

		Dr.	Cr.
Capital Redemption Reserve A/c ....Dr. Securities Premium A/c...................................Dr. General Reserve A/c (b.f.)...............................DR. To Bonus to Shareholders A/c (Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)	.	`55,000 30,000 15,000	` 1,00,000
Bonus to Shareholders A/c To Equity Share Capital A/c (Capitalisation of profit)	Dr.	1,00,000	 1,00,000

QUESTION - 2. (ICAI MODULE)

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 20X1:

Authorised capital :	
10,000 12% Preference shares of ` 10each	*1,00,000*
1,00,000 Equity shares of ` 10 each	*10,00,000*

Issued and Subscribed capital:	11,00,000
8,000 12% Preference shares of ` 10 each fully paid	80,000
90,000 Equity shares of ` 10 each, ` 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ` 100 each	5,00,000

On 1st April, 20X1 the Company has made final call @ ` 2 each on 90,000 equity shares. The call money was received by 20th April, 20X1. Thereafter the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held. Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the company has passed necessary resolution at its general body meeting for increasing the authorized capital.

SOLUTION:

Solid Ltd.
Journal Entries

Date	Particulars	Debit	Credit
20X1 April 1	Equity Share Final Call A/c.............Dr. To Equity Share Capital A/c (Final call of ` 2 per share on 90,000 equity shares due as per Board's Resolution dated)	`1,80,000	` 1,80,000
April 20	Bank A/c To Equity Share Final Call A/c (Final Call money on 90,000 equity shares received)	1,80,000	1,80,000
	Securities Premium A/c................Dr. General Reserve A/c......................Dr. Profit and Loss A/c (b.f.).............Dr. To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)	20,000 1,60,000 45,000	 2,25,000
April 20	Bonus to Shareholders A/c..........Dr. To Equity Share Capital A/c (Capitalisation of profit)	2,25,000	 2,25,000

Balance Sheet (Extract) as on 30th April, 20X1 (after bonus issue)

		Particulars	Notes	Amount (`)
		Equity and Liabilities		
1		**Shareholders' funds**		

	a	Share capital	1	12,05,000
	b	Reserves and Surplus	2	1,95,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	5,00,000
		Total		**19,00,000**

Notes to Accounts

1	**Share Capital** Equity share capital Authorised share capital		
	1,12,500 Equity shares of ` 10 each		11,25,000
	Issued, subscribed and fully paid share capital		
	1,12,500 Equity shares of ` 10 each, fully paid (Out of above, 22,500 equity shares @ ` 10 each were issued by way of bonus)(A)		11,25,000
	Preference share capital		
	Authorised share capital		
	10,000 12% Preference shares of ` 10 each		1,00,000
	Issued, subscribed and fully paid share capital		
	8,000 12% Preference shares of ` 10 each (B)		80,000
	Total (A + B)		**12,05,000**
2	**Reserves and Surplus**		
	Revaluation Reserve		35,000
	Securities Premium	20,000	
	Less: Utilised for bonus issue	(20,000)	Nil
	General reserve	1,60,000	
	Less: Utilised for bonus issue	(1,60,000)	Nil
	Profit & Loss Account	2,05,000	
	Less: Utilised for bonus issue	(45,000)	1,60,000
		Total	**1,95,000**
3	**Long-term borrowings**		
	Secured		
	12% Debentures @ ` 100 each		5,00,000

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

Note: It has to be ensured that the authorized capital after bonus issue should not be less than the issued share capital (including bonus issue) in all the practical problems. The authorized capital may either be increased by the amount of bonus issue or the value of additional shares [bonus issue less unused authorized capital (excess of authorized capital in comparison to the issued shares before bonus issue)].

QUESTION - 3. (ICAI MODULE)
A company offers new shares of ` 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ` 150. Calculate the value of a right. What should be the ex-right market price of a share?

SOLUTION:

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + Rights Number of shares)

= (150 X 4 Shares + 125 X 1 Share) / (4 + 1) Shares
= 725 / 5 shares = 145 per share.
Value of right= Cum-right value of the share – Ex-right value of the share
= 150 – 145 = 5 per share.
Hence, any one desirous of having a confirmed allotment of one share from the company at 125 will have to pay 20 (4 shares X 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

QUESTION - 4. (ICAI MODULE)
A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ` 240 and the company is offering one share of ` 120 each. Calculate the value of a right. What should be the ex-right market price of a share?

SOLUTION:
Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares+ Rights Number of shares)
= (240 x 2 Shares + 120 x 1 Share) / (2 + 1) Shares
= 600 / 3 shares = 200 per share.
Value of Right= Cum-right value of the share –Ex-right value of the share.
=240-200=40 pre share.
Hence, any one desirous of having a confirmed allotment of one share from the company at 120 will have to pay 80 (2 shares x 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

QUESTION – 5. (ICAI MODULE)
The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.2014:

Liabilities	***Amount***	***Assets***	***Amount***
Share Capital (A)		*Fixed Assets*	
Authorised		*Gross Block*	*3,00,000*
10,000 10% Redeemable Preference		*Less : Depreciation*	*1,00,000*
Shares of ` 10 each	*1,00,000*		*2,00,000*
90,000 Equity Shares of `10 each	*9,00,000*	*Investments*	*1,00,000*
	10,00,000	*Current Assets and Loans and Advances*	
Issued, Subscribed and Paid-up Capital			
10,000 10% Redeemable Preference		*Inventory*	*45,000*
Shares of ` 10 each	*1,00,000*	*Trade receivables*	*25,000*
10,000 Equity Shares of ` 10 each	*1,00,000*	*Cash and Bank Balances*	*50,000*
(A)	*2,00,000*		
Reserves and Surplus (B)			
General reserve	*120000*		
Securities Premium	*70000*		
Profit and Loss A/c	*18,500*		
(B)	*2,08,500*		

Current Liabilities and Provision(C)	*11,500*		
Total (A + B + C)	***4,20,000***	***Total***	***4,20,000***

For the year ended 31.3. 2015, the company made a net profit of ` 35,000 after providing 20,000 depreciation.

The following additional information is available with regard to company's operation :

1. ***The preference dividend for the year ended 31.3. 2015 was paid.***
2. ***Except cash and bank balances other current assets and current liabilities as on 31.3.2015, was the same as on31.3.2014.***
3. ***The company redeemed the preference shares at a premium of10%.***
4. ***The company issued bonus shares in the ratio of one share for every equity share held as on 31.3.2015.***
5. ***To meet the cash requirements of redemption, the company sold investments.***
6. ***Investments were sold at 90% of cost on31.3.2015.***

You are required to prepare necessary journal entries to recorder demption and issue of bonus shares.

SOLUTION:

Journal Entries in the Books of Trinity Ltd.

Particulars	Debit	Credit
Securities Premium A/c Dr. To Premium on Redemption of Preference shares (Being amount of premium payable on redemption of preference shares)	10,000	 10,000
10% Redeemable Preference Capital Dr. Premium on redemption of Preference Shares Dr. To Preference Shareholders (Being the amount payable to preference shareholders on redemption)	1,00,000 10,000	 1,10,000
General Reserve A/c Dr. To Capital Redemption Reserve (Being transfer to the latter account on redemption of shares)	1,00,000	 1,00,000
Bank A/c Dr. Profit and Loss A/c Dr. To Investments (Being amount realised on sale of Investments and loss thereon adjusted)	90,000 10,000	 1,00,000
Preference shareholders A/c Dr. To Bank A/c (Being payment made to preference shareholders)	1,10,000	 1,10,000
Capital Redemption Reserve A/c Dr. To Bonus to Shareholders A/c (Amount adjusted for issuing bonus share in the ratio of 1 : 1)	1,00,000	 1,00,000
Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Balance on former account transferred to latter)	1,00,000	 1,00,000

QUESTION - 6.

The following is the summarised Balance Sheet of Bumbum Limited as at 31stMarch, 2015:

Particulars	***Amount`***
Sources of funds	
Authorized capital	
50,000 Equity shares of ` 10 each	*5,00,000*
10,000 Preference shares of ` 100 each (8% redeemable)	*10,00,000*
	15,00,000
Issued, subscribed and paid up	
30,000 Equity shares of ` 10 each	*3,00,000*
5,000, 8%Redeemable Preference shares of ` 100 each	*5,00,000*
Reserves & Surplus	
Securities Premium	*6,00,000*
General Reserve	*6,50,000*
Profit & Loss A/c	*40,000*
2,500, 9% Debentures of ` 100 each	*2,50,000*
Trade payables	*1,70,000*
	25,10,000
Application of funds	
Fixed Assets (net)	*7,80,000*
Investments (market value ` 5,80,000)	*4,90,000*
Deferred Tax Assets	*3,40,000*
Trade receivables	*6,20,000*
Cash & Bank balance	*2,80,000*
	25,10,000

In Annual General Meeting held on 20thJune, 2015 the company passed the following resolutions:

- ***To split equity share of ` 10 each into 5 equity shares of ` 2 each from 1stJuly, 2015.***
- ***To redeem 8% preference shares at a premium of 5%.***
- ***To redeem 9% Debentures by making offer to debenture holders to convert their holdings intoequitysharesat`10pershareoracceptcashonredemption.***
- ***To issue fully paid bonus shares in the ratio of one equity share for every 3shares held on record date.***

On 10thJuly, 2015 investments were sold for ` 5,55,000 and preference shares were redeemed.

40% of Debenture holders exercised their option to accept cash and their claims were settled on 1stAugust, 2015.

The company fixed 5thSeptember, 2015 as record date and bonus issue was concluded by 12thSeptember,2015

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30thSeptember, 2015. All working notes should form part of your answer.

SOLUTION:

Journal entries in the books of Bumbum Ltd

2015	Particulars	Dr. (`)	Cr. (`)
July 1	Equity Share Capital A/c (10 each) Dr.	3,00,000	

	To Equity share capital A/c (2 each) (Being equity share of 10 each splitted into 5 equity shares of 2 each) {1,50,000 X 2}		3,00,000
July 10	Cash & Bank balance A/c Dr. To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	4,90,000 65,000
July 10	8% Redeemable preference share capital A/c ....Dr. Premium on redemption of preference share A/c. Dr. To Preference shareholders A/c (Being amount payable to preference shareholders on redemption)	5,00,000 25,000	5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	5,25,000
July 10	General reserve A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	5,00,000
Aug 1.	9% Debentures A/c Dr. Interest on debentures A/c Dr. To Debenture holders A/c (Being amount payable to debenture holders along with interest payable)	250000 7500	257500
Aug. 1	Debenture holders A/c Dr. To Cash & bank A/c (1,00,000 + 7,500) To Equity share capital A/c{15,000 X 2} To Securities premium A/c (Being claims of debenture holders satisfied)	2,57,500	1,07,500 30,000 1,20,000
Sept. 5	Capital Redemption Reserve A/c Dr. To Bonus to shareholders A/c (Being balance in capital redemption reserve capitalized to issue bonus shares)	1,10,000	1,10,000
Sept. 12	Bonus to shareholders A/c Dr. To Equity share capital A/c (Being 55,000 fully paid equity shares of ` 2 each issued as bonus in ratio of 1 share for every 3 shares held)	1,10,000	1,10,000
Sept. 30	Securities Premium A/c Dr. To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from securities premium account)	25,000	25,000
Sept. 30	Profit & Loss A/c Dr. To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	7,500	7,500

Balance Sheet as at 30th September, 2015

Particulars	Notes	Amount
Equity and Liabilities		

1 Shareholders' funds		
a) Share capital	**1**	440000
b) Reserves and Surplus	**2**	1332500
2 Current liabilities		
a) Trade Payables		170000
Total		**1942500**
Assets		
1 Non-current assets		
a) Fixed assets		
Tangible assets		780000
Deferred tax asset		340000
2 Current assets		
Trade receivables		620000
Cash and cash equivalents		202500
Total		**1942500**

Notes to Accounts

SR.NO	Particulars	Amount	Amount
1.	**Share Capital**		
	Authorized share capital		
	2,50,000 Equity shares of ` 2 each	5,00,000	
	10,000 Preference shares of `100 each	10,00,000	15,00,000
	Issued, subscribed and paid up		
	2,20,000 Equity shares of `2 each		4,40,000
2.	**Reserves and Surplus**		
	Securities Premium A/c Balance as per balance sheet	6,00,000	
	Add: Premium on equity shares issued on conversion of debentures (15,000 x 8	1,20,000	
	Total	**7,20,000**	
	Less: Adjustment for premium on preference Shares	(25,000)	
	Balance		**6,95,000**
	Capital Redemption Reserve5,00,000-1,10,000)		3,90,000
	General Reserve (6,50,000 – 5,00,000)		1,50,000
	Profit & Loss A/c	40,000	
	Add: Profit on sale of investment	65,000	
	Less: Interest on debentures	(7,500)	97,500
	Total		**13,32,500**

Working Notes:

Particulars	Amount
1. Redemption of preference share:	
5,000 Preference shares of `100 each	5,00,000
Premium on redemption @ 5%	25,000
Amount Payable	**5,25,000**
2. Redemption of Debentures	
2,500 Debentures of `100 each	2,50,000
Less: Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	**1,50,000**
Equity shares issued on conversion = 150000/10=15000 share	
3. Issue of Bonus Shares	
Existing equity shares after split (30,000 x 5)	1,50,000
Equity shares issued on conversion	15,000 shares

Equity shares entitled for bonus	1,65,000 shares
Bonus shares (1 share for every 3 shares held) to be issued	**55,000 shares**
4. Cash and Bank Balance	
Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	5,55,000
Total	**8,35,000**
Less: Paid to preference share holders Paid to Debenture holders (7,500 + 1,00,000)	(5,25,000) (1,07,500)
Balance	**2,02,500**
5. Interest of `7,500 paid to debenture holders have been debited to Profit & Loss Account.	

QUESTION - 7. (Old Syllabus - PM)

The following is the Trial Balance of Subhash Limited as on 31.3.2015:

Particulars	*Amount*	*Particulars*	*Amount*
Debit		*Credit*	
Land at cost	*110*	*Equity Capital (Shares of ` 10 each)*	*150*
Plant & Machinery at cost	*385*	*10% Debentures*	*100*
Trade receivables	*48*	*General Reserve*	*65*
Inventory (31.3.2012)	*43*	*Profit & Loss A/c*	*36*
Bank	*10*	*Securities Premium*	*20*
Adjusted Purchases	*160*	*Sales*	*350*
Factory Expenses	*30*	*Trade payables*	*26*
Administration Expenses	*15*	*Provision for Depreciation*	*86*
Selling Expenses	*15*	*Suspense Account*	*2*
Debenture Interest	*10*		
Interim Dividend Paid	*9*		
	835		*835*

Additional Information:

- ***On 31.3.2015, the company issued bonus shares to the shareholders on 1: 3 basis. No entry relating to this has yet been made.***
- ***The authorised share capital of the company is 25,000 shares of ` 10 each.***
- ***The company on the advice of independent valuer wish to revalue the land at `1,80,000.***
- ***Declared final dividend10%.***
- ***Suspense account of ` 2,000 represent cash received for the sale of some of the machinery on 1.4.2014. The cost of the machinery was ` 5,000 and the accumulated depreciation thereon being ` 4,000.***
- ***Depreciation is to be provided on plant and machinery at 10% on cost.***

You are required to prepare Subhash Limited's Statement of Profit & Loss for the year ended31.3.2015and a balance sheet on that date.

Your answer to include detailed notes only for the following:

(1) ***Share Capital***

(2) ***Reserves &Surplus***

(3) ***Fixed Assets***

Ignore previous years' figures & taxation.

(Hints: Total of Balance Sheet 541; Net profit before dividend 83)

Student Notes:-

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