

Bonus Issue & Right Issue

BONUS ISSUE

Means issue of free additional shares to existing shareholders.

Issuing Fully paid Bonus shares
[Sec 63]

Existing capital: 300000 equity shares of 10 each

Bonus scheme: 1 for every 3 held

Bonus shares = $300000 \times \frac{1}{3} = 100000$ shares

Amount = $100000 \times 10 = 1000000$

Converting Partly paid into
Fully paid shares
[Reg. 39 ; Table F]

Existing capital: 300000 equity shares of 10 each, 8 paid up.

Bonus scheme: Convert partly paid shares into fully paid

Paid up capital = $3L \times 8 = 2400000$

Bonus Amount $\Rightarrow 3L \times 2 = 600000$
(Final call Due)

SOURCES

Fully paid Bonus shares

Capital Redemption Reserve (CRR)

Securities Premium*

Free Reserves

Converting partly paid into
Fully paid

Free Reserves

Free Reserves Sec 2(43)

* For Listed companies as per SEBI Reg. 94, Securities Premium collected in cash can be utilised.

* Which are available for declaration of dividend

* Does not include unrealised gain, notional gain, revaluation gain, etc.

Note: Revaluation Reserve cannot be utilised for issue of bonus shares.

RESERVE & SURPLUS

Issuing Fully paid
Bonus Shares

Converting Partly paid
into Fully paid

1. CRR (Capital Redemption Reserve)	✓	✗
2. Securities Premium		
a) In Cash	✓	✗
b) Without cash	✗	✗
3. Capital Reserve		
a) In cash	✓	✓
b) Without Cash	✗	✗
4. General Reserve / Revenue Reserve	✓	✓
5. Surplus / P/L A/c	✓	✓

ENTRIES

1. Issuing Fully Paid Bonus Shares

		Particulars
1	Capital Redemption Reserve A/c	Dr.
	Securities Premium A/c (in Cash)	Dr.
	Capital Reserve A/c (in Cash)	Dr.
	General Reserve A/c	Dr.
	Profit & Loss A/c	Dr.
		To Bonus to Shareholders A/c
2	Bonus to Shareholders A/c	Dr.
		To Equity Share Capital A/c

1. Converting Partly Paid into Fully Paid Shares

		Particulars
1	Equity share Final call A/c	Dr.
		To Equity share capital A/c
2	Capital Reserve A/c (in Cash)	Dr.
	General Reserve A/c	Dr.
	Profit & Loss A/c	
		To Bonus to Shareholders A/c
3	Bonus to Shareholders A/c	Dr.
		To Equity Share Final Call A/c

Question

Following is the extract of the Balance Sheet of X Ltd. as at 31st March, 2020

Authorized capital:	
50,000 12% Preference shares of Rs. 10 each	5,00,000
4,00,000 Equity shares of Rs. 10 each	<u>40,00,000</u>
	<u>45,00,000</u>
Issued and Subscribed capital:	
30,000 12% Preference shares of Rs. 10 each fully paid	3,00,000
3,60,000 Equity shares of Rs. 10 each, Rs. 8 paid up	28,80,000
Reserves and Surplus:	
Capital Redemption Reserve	2,40,000
General reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2020, the Company has made final call @ Rs. 2 each on 3,60,000 equity shares. The call money was received by 30th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Securities premium of Rs. 1,00,000 includes a premium of Rs. 20,000 for shares issued to vendor for purchase of special machinery.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2020 after bonus issue

Solution

Journal Entries in the books of X Ltd.

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
1/4/20	Equity share Final call A/c Dr.		7,20,000	
	To Equity share capital A/c			7,20,000
	(Being final call due)			
30/4/20	Bank A/c Dr.		7,20,000	
	To Equity share Final call A/c			7,20,000
	(Being final call received)			
	Capital Redemption Reserve A/c Dr.		2,40,000	
	Securities Premium A/c Dr.		80,000	
	General Reserve A/c Dr.		3,60,000	
	Profit & Loss A/c		2,20,000	
	To Bonus to Shareholders A/c			9,00,000
	(Being issue of bonus shares by utilization of various Reserves, as per resolution dated ...)			
-	Bonus to Shareholders A/c Dr.		9,00,000	
	To Equity Share Capital A/c			9,00,000
	(Being capitalization of Profit)			

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

	Note	Amount
A. Equity and Liabilities		
1. Shareholders' Fund		
Share Capital	1	48,00,000
Reserves & Surplus	2	4,00,000

Notes to Accounts

	Amount
1. Share Capital	
Authorised Capital	
50,000 12% Preference shares of Rs.10 each	5,00,000
4,50,000 Equity shares of Rs.10 each, fully paid	<u>45,00,000</u>
Issued & Subscribed Capital	
30,000 12% Preference shares of Rs.10 each, fully paid	3,00,000
4,50,000 Equity shares of Rs.10 each, fully paid	<u>45,00,000</u>
(Out of above, 90,000 equity shares were issued by way of bonus)	
Total	<u>48,00,000</u>
2. Reserves and Surplus	
Securities Premium	20,000
Profit and Loss Account	<u>3,80,000</u>
Total	4,00,000

Assumptions:

- 1) It is also assumed that necessary resolutions have been passed and requisite legal requirements related to the issue of bonus shares have been complied with before issue of bonus shares.
- 2) It is assumed that all legal formalities for increasing of authorized share capital have already been complied with before issue of bonus shares.

Regulation 93- Restriction on bonus issue

- No issuer shall make a bonus issue of equity shares unless 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.
- They shall be issued at the time of conversion of such instruments on the same terms or proportion at which the bonus shares were issued

Regulation 94- Bonus shares only against reserves, etc. if capitalised in cash

- The bonus issue shall be made out of free reserves built out of the genuine profits or securities premium collected in cash only and reserves created by revaluation of fixed assets shall not be capitalised for the purpose of issuing bonus shares.
- The bonus share shall not be issued in lieu of dividend.

RIGHT ISSUE

It is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period.

- ❖ In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price.
- ❖ Rights are often transferable, allowing the holder to sell them in the open market.
- ❖ The difference between the cum-right and ex-right value of the share is the value of the right.

$$\text{Value of Right} = \text{Cum Right value of share} - \text{Ex Right value of share}$$

$\left[\begin{array}{c} \text{Market Price of share} \\ \text{before Right Issue} \end{array} \right] \quad \left[\begin{array}{c} \text{Market Price of share} \\ \text{after Right Issue} \end{array} \right]$

$$\text{Ex-Right value of share} = \frac{\left[\begin{array}{c} \text{No. of shares} \\ \text{before Right} \end{array} \times \begin{array}{c} \text{Cum Right} \\ \text{Price} \end{array} \right] + \left[\begin{array}{c} \text{Right} \\ \text{Shares} \end{array} \times \begin{array}{c} \text{Right} \\ \text{Price} \end{array} \right]}{\text{No. of shares before Right} + \text{Right shares}}$$

Question

Ravi Ltd. offers new shares of Rs. 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is Rs. 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

Solution

$$\begin{aligned} \text{Ex-right value of the shares} &= \frac{(\text{Cum-right value of the existing shares} + \text{Rights shares} \times \text{Issue Price})}{(\text{Existing Number of shares} + \text{Rights Number of shares})} \\ &= \frac{(\text{Rs. } 200 \times 5 \text{ Shares} + \text{Rs. } 125 \times 1 \text{ Share})}{(5 + 1) \text{ Shares}} \\ &= \text{Rs. } 1,125 / 6 \text{ shares} \\ &= \text{Rs. } 187.50 \text{ per share.} \end{aligned}$$

$$\begin{aligned} \text{Value of right} &= \text{Cum-right value of the share} - \text{Ex-right value of the share} \\ &= \text{Rs. } 200 - \text{Rs. } 187.50 = \text{Rs. } 12.50 \text{ per share.} \end{aligned}$$