9. ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

NO. OF PROBLEMS IN 40e OF CA INTER: CLASSROOM - 04, ASSIGNMENT - 04

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 06, ASSIGNMENT - 05

NO. OF PROBLEMS IN 42.5e OF CA INTER: CLASSROOM - 06, ASSIGNMENT - 05

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC & CA INTER

MODEL NO.	N -11	M -12	N -12	M -13	N -13	M -14	N -14	M -15	N -15	M -16	N -16	M -17	N -17	M - 18(O)	M - 18(N)	N - 18(O)	N- 18(N)
Accounting For Bonus issue and Right issue	08	-	08	-	-	04	-	-	-	-	-	-	-	-	04	04	-

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in NEW SM	Problem No. in OLD SM	Problem No. in OLD PM	RTP	MTP	Previous Exams	Remarks
CR -1	-	-	-	-	-	N18(O)	-
CR -2	PQ 1	-	-	-	-	-	-
CR- 3	ILL-2	-	-	-	M18(N&O)	-	-
CR -4	-	P.Q NO-2	P.NO-1	-	-	-	-
CR -5	ILL-4	ILL-4	-	M18 (N)	-	-	-
CR -6	-	-	-	-	-	-	-
ASG -1	ILL-1	-	-		-	-	-
ASG -2	P.Q.NO-2	-	P.NO-4	-	M18 (N)	-	-
ASG -3	P.Q.NO-3	-	-	M18 (O)	-	-	-
ASG- 4	-	P.Q NO-3	P.NO-3	-	-	-	-
ASG- 5	P.Q.NO-4	-		N18 (N)	-	-	-

PART I - BONUS ISSUE

INTRODUCTION:

Bonus shares are shares issued by the company to its members for no consideration. Net worth of the company is remain same even after Bonus issue 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.

A. MEANING OF CAPITALIZATION OF PROFITS: Capitalization of profits refer to the process of converting profits or reserves into paid up capital i.e. called issue of bonus shares as per Sec. 63 of Companies Act 2013. This process is otherwise called as Scrip issue or Capitalization issue.

B. HOW TO CAPITALIZE?

A company may capitalize its profits or reserves:

a) By issuing fully paid bonus shares to the existing members as per Sec. 63 of Companies act 2013 (or)

b) By paying up amounts unpaid on existing partly paid shares so as to make them fully paid up shares, (As per Table **F** under schedule **I** of Companies act 2013i.e AOA)

Note: If the subscribed and paid up capital exceeds the authorized share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorized 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.

C. PROVISIONS OF THE COMPANIES ACT, 2013:

1. Sources for Capitalization:

Case - I: In case of issue of fully paid bonus shares

According to Sec. 63 (1) a company may issue fully paid bonus shares to its members, in any manner whatsoever, out of:

a) Its free reserves (Surplus in Profit & Loss account, General Reserve and any other Reserve available for distribution as dividend) **(or)**

b) The Securities Premium account as per sec 52(2) (refer note (i)) **(or)**

c) The Capital Redemption Reserve account as per sec 55(4)

Note:

i) As per SEBI Regulations, such securities premium should be realised in cash, whereas under the Companies Act, 2013, there is no such requirement. In accordance with Sec.52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realised in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

ii) Revaluation Reserve created by revaluation of fixed assets should not be used for issue of bonus shares.

Case - II: In case of bonus by converting partly paid shares into fully paid shares

In such a case only Free Reserves can be used.

2. Conditions for issue of fully paid-up bonus shares [Sec 63(2)]:

a) It is authorized by its articles

b) On the recommendation of the Board, it has been authorized in the general meeting of the company

c) It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.

d) It has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus

e) The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up

3. As per Sec 63(3) bonus shares shall not be issued in lieu of dividend.

D. SEBI REGULATIONS:

1. Conditions for Bonus Issue - REG 92

a)

i) Bonus issue should be authorised by its articles;

ii) Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve;

b) It has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it and in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;

c) The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;

2. Restrictions for Bonus Issue - REG 93

No company shall, pending conversion of FCDs/PCDs, issue any by way of bonus unless similar benefits is extended to the holders of such FCDs /PCDs though reservation of shares in proportion to such convertible part of FCDs or PCDs.

The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made.

3. **Bonus Shares only against Reserves etc. if capitalised in cash - REG 94:**

   The bonus issue shall be made out of free reserves built out of the genuine profits or securities premium collected in cash only.

4. **Completion of Bonus Issue - REG 95:**

   A company which announces its bonus issue after the approval of the Board of directors must implement the proposal within a period of 15 days from the date of such approval (If shareholders' approval is not required) or 2 months (If shareholders' approval is required)

E. ACCOUNTING TREATMENT OF BONUS ISSUE:

S.No.	Particulars		Debit	Credit
1.	**On issue of fully paid Bonus shares:**			
	a) On declaration of such bonus:			
	Capital Redemption Reserve A/c	Dr.	XXX	
	Securities Premium A/c	Dr.	XXX	
	General Reserve A/c	Dr.	XXX	
	Profit & Loss A/c	Dr.	XXX	
	To Bonus to Shareholders A/c			XXX
	b) On issue of fully paid Bonus shares:			
	Bonus to Shareholders A/c	Dr.	XXX	
	To Share Capital A/c			XXX
2.	**On giving Bonus by converting partly paid shares into fully paid shares:**			
	a) On declaration of such Bonus:			
	General Reserve A/c	Dr.	XXX	
	Profit & Loss A/c	Dr.	XXX	
	To Bonus to Shareholders A/c			XXX
	b) On making the final call due:			
	Share Final Call A/c	Dr.	XXX	
	To Share Capital A/c			XXX
	c) On adjustment of Final Call:			
	Bonus to Shareholders A/c	Dr.	XXX	
	To Share Final Call A/c			XXX

Note 1: As per sec. 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 -

1. Any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
2. Any change in carrying amount of an asset or of a liability recognized 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.

Note 2: Development Rebate reserve & Investment allowance reserve should not be considered as a bonus issue of shares.

F. EFFECTS OF BONUS ISSUE:

a) Share capital gets increased according to the bonus issue ratio. But the net worth remains the same.

b) Liquidity in the stock increases.

c) Effective Earnings per share, Book value and other per share values stand reduced.

d) Markets take the action usually as a favorable act.

e) Market price gets adjusted on issue of bonus shares.

f) Accumulated profits get reduced.

PART II - RIGHT ISSUE

1. **INTRODUCTION:**

   a) A right issue is an invitation to existing shareholders to purchase additional new shares in the company in proportion to their existing holding.

   b) The objective of the right issue is to protect the voting and governance rights of the existing shareholders.

   c) The existing shareholders are given the right to subscribe these shares, if they like or they are even given the right to renounce it in favour of someone else.

   Example: Assume a company makes a right issue of 10,000 shares when its existing issued and subscribed capital is 100,000 shares. This enables any shareholder having 10 shares to subscribe to 1 new share. Hence X, an existing shareholder holding 1,000 shares, may subscribe to 100 shares as a matter of right. The existing share percentage of X was 1% (1,000 / 100,000). If X subscribes these shares, his percentage holding in the company will be maintained (1,100 / 110,000). However, if X does not mind his share % diluting (1,000 / 110,000), he may renounce the right in favour of anyone else, say Y. Hence, these 100 shares will be issued to Y, at the insistence of X. X may charge Y for this privilege, which is technically termed as the value of right.

2. **EXCEPTIONS TO THE RIGHTS OF EXISTING EQUITY SHAREHOLDERS:**

   As per Sec.62 of the Companies Act, 2013, the shares can be offered, without being offered to the existing shareholders, provided the company has passed a special resolution and the shares are offered to

   a) To employees under a scheme of ESOP subject to certain conditions

   b) 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.

   c) To convertible debenture holders or lenders by giving an option to buy equity shares of a company

   d) In case of any loan obtained from the government, and government in public interest, directs the debentures/loan to be converted into equity shares.

3. **SOME IMPORTANT TERMS:**

   a) **Book value of a share** = Net worth (as per books)/ No. of shares

   Example: If there are 10,000 shares with book value 1,25,000. The book value of one share is (Rs.1,25,000/10,000) = Rs.12.50 per share

   b) **Net worth** = (Paid-up share capital + Reserves created out of the profits and securities premium account) - (Accumulated losses + deferred expenditure + miscellaneous expenditure not written off)

   Reserves exclude reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

   c) **Market value of a share:** It represents the present value of future cash flows expected to be earned from the share in the form of dividends and capital gains from expected future share price appreciation.

   d) **Cum-right market price:** The market price, which exists before the rights issue

   e) **Theoretical ex-right price:** 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-right price = [Cum-right value of existing shares + (Rights shares X issue price)] / (Existing No. of shares + Rights No. of shares)

4. **RIGHT OF RENUNCIATION:**

   a) 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.

b) The shareholders who received right shares have three possibilities of their choice.

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

c) The renunciation of the right is valuable and can be monetized by the existing shareholders. The monetized value available to the existing shareholders due to right issue is known as 'value of right'.

d) Value of right = Cum-right value of share - Ex-right value of share

Example: 1,000 Right shares are issued by Prosperous Ltd. (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of Rs 14 per share. The existing worth of tangible assets held by the business shall become 264,000 (Existing net worth Rs 250,000 + Fresh Issue Rs.14,000). Equity shares shall correspondingly command a valuation of Rs 264,000. If Mr. Narain has 100 shares of Prosperous Ltd. before rights issue then

Total No. of shares = 1000 X 10 = 10000 shares

Cum-right market price = Rs.2,50,000/10,000 = Rs.25

a) His current worth of holding = No. of shares X Cum-right market price = 100 X 25

= Rs.2,500

b) If, Narain exercises his right, he will pay Rs.14 X 10 = Rs.140

His total investment including right = Rs.2500 + Rs.140 = Rs.2,640

Total No. of shares held by Narain after right issue = 100+10 = 110

Ex-right price of share = Rs.2,640/110 = Rs.24

c) Value of right = Cum-right value - Ex-right value = Rs.25 - Rs.24 = Rs.1 per share

d) If Narain does not exercise his right, his holding's worth will decline to Rs 24 X 100 shares = Rs 2400. Narain can charge from the buyer, this dilution of Rs.100 by renouncing his right to acquire 10 shares. Hence Buyer will be charged Rs 10 per share (Rs.100 / 10 shares), in return for a confirmed allotment of 10 shares at Rs 14 each.

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

5. ACCOUNTING FOR RIGHT ISSUE: 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. The accounting entry is usual and is

Bank A/c Dr.

To Equity Share Capital A/c

To Securities Premium A/c

Example: A company having 100,000 shares of Rs 10 each as its issued share capital, and having a market value of Rs 46, issues rights shares in the ratio of 1:10 at an issue price of Rs 31. The entry at the time of subscription of right shares by the existing shareholders will be

Bank A/c Dr.	3,10,000	
To Equity Share Capital A/c		1,00,000
To Securities Premium A/c		2,10,000

6. **ADVANTAGES OF RIGHT ISSUE:**

a) Enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights.

b) It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.

c) The right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.

d) Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.

e) Right issue has an image enhancement effect, as public and shareholders view it positively.

f) The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

7. **DISADVANTAGES OF RIGHT ISSUE:**

a) The right issue invariably leads to dilution in the market value of the share of the company.

b) The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: Pass Journal Entries in the following circumstances:

i) A Limited company with subscribed capital of Rs. 5,00,000 consisting of 50,000 Equity shares of Rs. 10 each; called up capital Rs. 7.50 per share. A bonus of Rs. 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.

ii) A Limited company having fully paid up capital of Rs. 50,00,000 consisting of Equity shares of Rs. 10 each, had General Reserve of Rs. 9,00,000. It was resolved to capitalize Rs. 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of Rs. 10 each, each shareholder to get one such share for every ten shares held by him in the company. *(A) (N18 (O) - 4M)*

Note:____

PROBLEM 2: **(PRINTED SOLUTION AVAILABLE):** Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2011:

Particulars	Amount (Rs.)
4,500 Equity Shares of Rs 100 each	4,50,000
Securities Premium(collected in cash)	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

(B) (NEW SM) (SOLVE PROBLEM NO. 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 3: Capitalization of profits for issuing fully paid up bonus shares: Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2015:

Particulars	Rs.
Authorised capital	
10,000 12% Preference shares of Rs.10 each	1,00,000
1,00,000 Equity shares of Rs.10 each	10,00,000
	11,00,000
Issued and subscribed capital:	
8,000 12% Preference shares of Rs.10 each fully paid	80,000
90,000 Equity shares of Rs.10 each Rs.8 paid up	7,20,000
Reserves and Surplus:	
(a) General Reserve	1,60,000
(b) Revaluation reserve	35,000
(c) Securities Premium (collected in cash)	20,000
(d) Profit and Loss Account	2,05,000
Secured loan:	
12% Debentures @ Rs.100 each	5,00,000

On 1st April, 2015 the Company has made final call @ Rs. 2 each on 90,000 equity shares. The call money was received by 20th April, 2015. 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 authorised capital. ***(A) (NEW SM, RTP M18 (N), SIMILAR: MTP1 M18 (N), MTP2 M18(O))***

(ANS.: SHARE CAPITAL AFTER BONUS ISSUE: RS.12,05,000)

(SOLVE PROBLEM NO 2, 3, 4 OF ASSIGNMENT PROBLEM AS REWORK)

Note:____

PROBLEM 4: (PRINTED SOLUTION AVAILABLE) Split up shares, Redemption & sale of Investments: The following is the summarised Balance Sheet of Bumbum Limited as at 31st March, 2015:

Particulars	Rs.
Sources of funds	
Authorized capital:	
50,000 Equity shares of Rs.10 each	5,00,000
10,000 Preference shares of Rs.100 each	10,00,000
	15,00,000
Issued, subscribed and paid up	
30,000 Equity shares of Rs.10 each	3,00,000
5,000, 8%Redeemable Preference shares of Rs.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 Rs.100 each	2,50,000
Sundry Creditors	1,70,000
	25,10,000
Application of funds:	
Fixed Assets (Net)	7,80,000
Investments (Market value Rs.5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000
	25,10,000

In Annual General Meeting held on 20th June, 2015 the company passed the following Resolutions:

1. To split equity share of Rs.10 each into 5 equity shares of Rs. 2 each from 1st July, 2015.
2. To redeem 8% preference shares at a premium of 5%.
3. To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at Rs.10 per share or accept cash on redemption.
4. To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2015 investments were sold for Rs.5,55,000 and preference shares were Redeemed. 40% of Debenture holders exercised their option to accept cash and their claims were settled on 1st August, 2015.The Company fixed 5th September, 2015 as record date and bonus issue was concluded by 12th September, 2015.

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

(A) (OLD PM) (ANS.: BALANCE SHEET TOTAL RS.19,42,500)

Note:____

PROBLEM 5: A company offers new shares of Rs 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is Rs150. Calculate the value of a right. What should be the ex-right market price of a share? ***(hint: Assume that there are four existing shares only)***

(B) (NEW SM, SIMILAR: RTP M18(N)),

(ANS.: VALUE OF A RIGHT - RS.5 PER SHARE; EX-RIGHT MARKET PRICE OF SHARE - RS.145 PER SHARE)

(SOLVE PROBLEM NO. 5 OF ASSIGNMENT PROBLEM AS REWORK)

Note:____

PROBLEM 6: ABC Limited's shares are currently selling at Rs. 13 per share. There are 10,00,000 shares outstanding. The Company is planning to raise Rs. 20 Lakhs to finance a new project. Required:

What is the Ex-Right Price of Shares and the value of a right, if

a) The Firm offers one right share for every two Shares held.
b) The Firm offers one right share for every four Shares held.
c) How does the Shareholder's Wealth change from (a) to (b)? How does Right issue increase Shareholders' Wealth? ***(C) (ANS.: A) RS. 10, B) RS. 12, C) DOES NOT CHANGE IN SHARE HOLDERS WEALTH)***

Note:____

ASSIGNMENT PROBLEMS

PROBLEM 1: Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2011:

Particulars	Amount (Rs.)
40,000 Equity Shares of Rs 10 each	4,00,000
Securities Premium(collected in cash)	30,000
Capital Redemption Reserve	55,000
General Reserve	1,05,000
Surplus; Profit and Loss Account (Cr. Balance)	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. *(B) (NEW SM)*

PROBLEM 2: The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 20X1:

Particulars	Notes	Rs in Lakhs
Authorised Share Capital:	**(1)**	
20 crore shares of Rs.10 each		20,000
Issued and Subscribed :		
10 crore Equity Shares of Rs 10 each		10,000
2 crore 11% Cumulative Preference Shares of Rs 10 each		2,000
Total		**12,000**
Called and paid up:		
10 crore Equity Shares of Rs 10 each, Rs 8 per share called and paid up		8,000
2 crore 11% Cumulative Preference Shares of Rs 10 each, fully called and paid up		2,000
Total		**10,000**
Reserves and Surplus :	**(2)**	
Capital Redemption Reserve		1,485
Securities Premium(collected in cash)		2,000
General Reserve		1,040
Surplus i.e. credit balance of Profit & Loss Account		273
Total		**4,798**

On 2nd April 20X1, the company made the final call on equity shares @ Rs.2 per share. The entire money was received in the month of April, 20X1. On 1st June 20X1, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held. Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

(A) (NEW SM, MTP2 M18 (N))

PROBLEM 3: Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	Rs.
Authorised capital :	
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,00,000 Equity shares of Rs. 10 each	30,00,000
	33,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of Rs. 10 each fully paid	2,40,000
2,70,000 Equity shares of Rs. 10 each, Rs. 8 paid up	21,60,000
Reserves and surplus :	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ Rs 2 each on 2,70,000 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 journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 20X1 after bonus issue. *(B) (NEW SM, RTP M18 (O))*

PROBLEM 4: Redemption & Sale of Investments: The following is the summarized Balance Sheet of Trinity Ltd. as at 31.3.2014:

Name of the Company: Trinity Ltd.

Balance Sheet as on: 31st March, 2014

			Particulars	Notes No.	Rs.
			1	2	3
			EQUITY AND LIABILITIES:		
1			**Shareholder's funds**		
	A		Share capital	1	2,00,000
	B		Reserves and Surplus	2	2,08,500
			Current liabilities		
2	A		Other current liabilities	3	11,500
			TOTAL		**4,20,000**
			ASSETS:		
			Non-current assets		
1	A		Fixed assets		
		(i)	Tangible assets	4	2,00,000
		(ii)	Non-current investments		1,00,000
			Current Asset		
	A		Stock in Trade		25,000
	B		Trade receivables (debtors)		25,000
2	C		Cash and cash equivalents (Cash and Bank Balances)		50,000
	D		Other current assets (Misc. Expenditure to the extent not written off)		20,000
			TOTAL		**4,20,000**

Note to Accounts:

Particulars	Rs.
1. Share capital	
Authorised	
10% Redeemable Preference Shares of Rs.10 each	1,00,000
90,000 Equity Shares of Rs.10 each	9,00,000
	10,00,000
Issued, Subscribed and Paid-up Capital	
10,000 10% Redeemable Preference Shares of Rs.10 each	1,00,000
10,000 Equity Shares of Rs.10 each	1,00,000
	2,00,000
2. Reserves and Surplus	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	18,500
TOTAL	2,08,500
3. Other current liabilities	
Current Liabilities and Provisions	11,500
4. Tangible Assets	
Gross Block	3,00,000
Less: Depreciation	1,00,000
Net Block	2,00,000

For the year ended 31.3.2015, the company made a net profit of Rs.35,000 after providing Rs.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 on 31.3.2014.
3. The company redeemed the preference shares at a premium of 10%.
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 on 31.3.2015.

You are required to prepare necessary journal entries to record redemption and issue of bonus shares. ***(A)***

PROBLEM 5: 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 Rs. 240 and the company is offering one share of Rs. 120 each. Calculate the value of a right. What should be the ex-right market price of a share? ***(hint: Assume that there are two existing shares only)*** ***(A) (NEW SM, SIMILAR: RTP N18(N))***

(ANS.: VALUE OF A RIGHT: RS.40 PER SHARE; EX-RIGHT MARKET PRICE OF SHARE - RS.200 PER SHARE)

PRINTED SOLUTIONS FOR SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 2, 4

PROBLEM NO: 2

Journal Entries in the Books of Saral Ltd.

	Capital Redemption Reserve A/c Dr.	70,000	
	Securities Premium A/c Dr.	40,000	
	General Reserve A/c (b.f.) Dr.	40,000	
	To Bonus to Shareholders		1,50,000
	(Being issue of bonus shares by utilisation of various Reserves, as per resolution dated ...)		
	Bonus to Shareholders A/c Dr.	1,50,000	
	To Equity Share Capital		1,50,000
	(Being capitalisation of Profit)		

PROBLEM NO: 4

Bumbum Limited – Journal Entries

Date	Particulars	Debit	Credit
July 1	Equity Share Capital A/c (Rs.10 each) Dr.	3,00,000	
	To Equity share capital A/c (Rs.2 each)		3,00,000
	(Being equity share of Rs.10 each spited into 5 equity shares of Rs.2 each)		
July 10	Cash & Bank Balance A/c Dr.	5,55,000	
	To Investment A/c		4,90,000
	To Profit & Loss A/c		65,000
	(Being investment sold out and profit on sale credited to Profit & Loss)		
July 10	8% Redeemable preference share capital A/c Dr.	5,00,000	
	Premium on redemption of preference share A/c Dr.	25,000	
	To Preference shareholders A/c		5,25,000
	(Being amount payable to preference share holders on redemption)		
July 10	Preference shareholders A/c Dr.	5,25,000	
	To Cash & Bank A/c		5,25,000

	(Being amount paid to preference shareholders on redemption)		
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)	2,50,000 7.500	 2,57,000
Aug 1	Debenture holders A/c Dr. To Cash and bank A/c(1,00,000 + 7500) To Equity share capital A/c To Securities premium A/c (Being claims of debenture holder satisfied)	2,57,000	 1,07,500 30,000 1,20,000
Sept. 5	General Reserve A/c Dr. To Bonus to shareholders A/c (Being securities premium 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 Rs.2 each issued as bonus in ratio of 1 share for every 3 shares held)	1,10,000	 1,10,000
Sept. 30	General Reserve 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 Dr. To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	7,500	 7,500

Note: For capitalization of Bonus shares and transfer to capital redemption reserve accounts any other free reserves given in the balance sheet many also be used.

Balance Sheet as at 30th September, 2012

Particulars	Notes	Amount (Rs.)
Equity and liabilities:		
1. Share holders' funds		4,40,000
a) Share capital funds	1	13,32,500
b) Reserves and Surplus	2	
2. Current Liabilities		
a) Trade payable		1,70,000
Total		19,42,500
Assets:		
1. Non-current assets		
a) Fixed assets		
Tangible assets		7,80,000
b) Deferred tax asset		3,40,000
2. Current assets		
Trade receivables		6,20,000
Cash and cash equivalents		2,02,500
Total		**19,42,500**

Particulars		Amount (Rs.)
1. Share capital:		
Authorized share capital		
2,50,000 Equity shares of Rs.2 each	5,00,000	
10,000 Preference shares of Rs.100 each	10,00,000	15,00,000
Issued, subscribed and paid up 2,20,000 Equity shares of Rs.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	
		7,20,000
Capital Redemption Reserve		5,00,000
General Reserve A/c		
Opening balance	6,50,000	
Less: capitalisation for Bonus Issue (55,000 x 2)	(1,10,000)	
Less: Adjustment for Premium on redemption Of Preference shares	(25,000)	
Less: Transfer to CRR	(5,00,000)	15,000
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 (Rs.)
1. Redemption of preference share:	
5,000 Preference shares of Rs.100 each	5,00,000
Premium on redemption @ 5%	25,000
Amount Payable	5,25,000
2. Redemption of Debentures:	
2,500 Debentures of Rs.100 each	2,50,000
Less: Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	
Equity shares issued on conversion $= \frac{1,50,000}{10} = 15,000$ shares	1,50,000
3. Issue of Bonus Shares:	
Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	15,000 shares
Equity shares entitled for bonus	1,65,000 shares
Bonus shares (1 share for every shares held) to be issued	1,55,000 shares
4. Cash and Bank Balance:	
Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	5,55,000
	8,35,000
Less: Paid to preference share holders	(5,25,000)
Paid to Debenture holders (7,500 + 1,00,000)	(1,07,500)
Balance	2,02,500

5. Interest of Rs.7,500 paid to debenture holders have been debited to Profit & Loss Accounts

THE END