

Unit 4: ACCOUNTING FOR BONUS ISSUE & RIGHT ISSUE

*"Everything is easy when you are busy...!! Nothing is easy when you are lazy...!!
You are born to success..."*

BONUS ISSUE

Means issue of additional shares to existing shareholders free of cost in proportion to their existing holding.

Section 63(1) A company may issue fully paid-up bonus shares to its shareholders out of—

- its free reserves;
- the securities premium account; or
- the capital redemption reserve account:

Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).

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

- (a) it is authorised by its articles;
 - (b) it has on the recommendation of Board been authorised in the general meeting of 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 paidup shares, if any outstanding on the date of allotment, are made fully paidup.
- The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Section 63(3) provides that the bonus shares shall not be issued in lieu of dividend.

As per Para 39 (i) of Table F under Schedule I to the Companies Act, 2013, a company can utilize free reserves which are available for distribution of dividend, for the purpose of converting partly paid shares into fully paid up.

A Securities Premium A/c and a Capital Redemption Reserve A/c may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, Securities premium A/c and capital redemption reserve cannot be applied towards payment of unpaid amount on any shares held by existing shareholders.

**SEBI Regulations (Issue of Capital & Disclosure Requirements), 2018
Regulation 294- Restrictions on 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.
- 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.
- A 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 reserves created by revaluation of fixed assets shall not be capitalised for this purpose.
- The bonus share shall not be issued in lieu of dividend

Bonus issue has following major effects:

- Share capital gets increased according to the bonus issue ratio.
- Effective Earnings per share, Book Value and other per share values stand reduced.
- Markets take the action usually as a favourable act.
- Market price gets adjusted on issue of bonus shares.
- Accumulated profits get reduced.

RIGHT ISSUE

It is an issue of rights to 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 cum-right and ex-right value of the share is the value of the right.*

In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

Advantages of Right Issue

- Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights.
- 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.
- Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
- Right issue has an image enhancement effect, as public & shareholders view it positively
- The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

Disadvantages of Right Issue

- The right issue invariably leads to dilution in market value of the share of the company.
- The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

Right issue has following major effects:

- Maintenance of existing shareholders' proportional holding in company and retain their financial and governance rights.
- Dilution in the value of share.
- Image enhancement
- Convenience in handling issue

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 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 person either for cash or for consideration other than cash, if price of such shares is determined by valuation report of registered valuer subject to certain conditions.

Situation 3 Sometimes companies borrow money through debentures / loans and give their creditor an option to buy equity shares of a company.

Situation 4 It is a special situation where the loan has been obtained from government, and government in public interest, directs the debentures/loan to be converted into equity shares.

ASSIGNMENT QUESTIONS

TOPIC 1: BONUS ISSUE

Question 1 *(ICAI Study Material)*

Pg no. _____

Following items appear in trial balance of Bharat Ltd (listed company) as on 31st March, 2023

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.

Question 2 *(CA Inter July 2021) (5 Marks)*

Pg no. _____

Following is the extract of the Balance Sheet of K Ltd (listed company) as at 31st March, 2023

	₹
Authorized capital:	
3,00,000 Equity shares of ₹ 10 each	30,00,000
	30,00,000
Issued and Subscribed capital:	
2,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	16,00,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (not realised in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,00,000 equity shares. The call money was received by 25th April, 2023. Thereafter, the company decided to capitalize 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.

Question 3

Pg no. _____

Following is the extract from the Balance Sheet of M/s. Hello Ltd. as at 31st March, 2023:

	₹
Authorised capital:	
50,000, 10% Preference shares of ₹ 10 each	5,00,000
2,00,000 Equity shares of ₹ 10 each	20,00,000
Issued and subscribed capital:	
40,000, 10% Preference shares of ₹ 10 each fully paid	4,00,000
1,80,000, Equity shares of ₹ 10 each, of which ₹ 7.50 paid up	13,50,000
Reserves and Surplus:	
General reserve	2,40,000
Capital reserve	1,50,000
Securities premium	30,000
Profit and loss account	3,00,000

On 1st April, 2023, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2023. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Capital reserve includes ₹ 90,000 being profit on sale of plant and machinery. Pass Journal Entries in the books of company and prepare the extract of Balance Sheet after bonus issue.

Question 4 *(ICAI Study Material)*

Pg no. _____

The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2023:

Note	Particulars	Amount (In Lacs)
Note 1	Share Capital Authorised: 20 crore shares of ₹ 10 each	20,000
	Issued and Subscribed: 10 crore Equity Shares of ₹ 10 each	10,000
	2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
	Total	12,000
	Called and paid up: 10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
	2 crore 11% Cum. Preference Shares of ₹ 10 each, fully called & paid up	2,000
		10,000
Note 2	Reserves and Surplus: 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
		4,798

On 2nd April 2023, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2023.

On 1st June 2023, 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

Question 5 *(ICAI Study Material)*

Pg no. _____

Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2023:

<u>Authorized capital :</u> 10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	<u>10,00,000</u>
	11,00,000
<u>Issued and Subscribed capital:</u> 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
<u>Reserves and Surplus :</u> General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
<u>Secured Loan:</u> 12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2023 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2023. Thereafter the company decided to capitalize 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.

Question 6 _____ Pg no. _____

Following items appear in the Trial Balance of X Ltd. as at 31st March 2023:

	₹
Authorised capital: 3,00,000 equity shares of ₹ 10 each	30,00,000
Issued and subscribed capital: 80,000 Equity Shares of ₹ 10 each, ₹ 7.50 paid up 1,20,000 Equity Shares of ₹ 10 each	6,00,000 12,00,000
Capital Redemption Reserve	2,60,000
Revaluation Reserve	20,000
Securities Premium Account	1,20,000
General Reserve	2,00,000
Profit & Loss Account	1,00,000
Capital Reserve (including ₹ 50,000 being profit on sale of machinery)	1,50,000

The company decided to convert the partly paid equity shares into fully paid shares by way of bonus and to issue fully paid-up bonus shares to the holders of fully paid up shares in the same ratio.

You are required to pass journal entries assuming that there should be minimum reduction in free reserves.

TOPIC 2: RIGHT ISSUE

Question 7 *(RTP May 2019) / (ICAI Study Material)* _____ Pg no. _____

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?

Question 8 _____ Pg no. _____

A Company having 70,000 shares of ₹ 10 each as its issued share capital and having market value of ₹ 21 issues rights shares in the ratio of 1:10 at an issue price of ₹ 10.

Pass journal entry for issue of right shares

Question 9 *(RTP May 2021)* _____ Pg no. _____

Beta Ltd. having share capital of 20,000 equity shares of 10 each decides to issue rights share at the ratio of 1 for every 8 shares held at par value.

Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entry in the books of the company.

Question 10 *(ICAI Study Material)* _____ Pg no. _____

Following notes pertain to the Balance Sheet of Mars Company Limited as at 31st March 2023:

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 equity shares of ₹ 10 each	<u>50,00,000</u>
	<u>55,00,000</u>
Issued and subscribed capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity Shares of ₹ 10 each, ₹ 8 paid up	<u>32,00,000</u>
Reserves & Surplus	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities Premium Account (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit & Loss Account	<u>16,00,000</u>

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25th April, 2023. Thereafter, on 1st May 2023 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1st June 2023, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20th June 2023.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

PRACTICE QUESTIONS**MULTIPLE CHOICE QUESTIONS**

- 1) Which of the following cannot be used for issue of bonus shares as per the Companies Act?
 - (a) Securities premium account
 - (b) Revaluation reserve
 - (c) Capital redemption reserve

- 2) Which of the following statements is true with regard to declaring and issuing of Bonus Shares?
 - (a) Assets are transferred from the company to the shareholders.
 - (b) A Bonus issue results in decrease in reserves and surplus.
 - (c) A Bonus issue is same as declaration of dividends.

- 3) Which of the following statement is true in case of bonus issue?
 - (a) Convertible debenture holders will get bonus shares in same proportion as to the existing shareholders.
 - (b) Bonus shares may be issued to convertible debenture holders at the time of conversion of such debentures into shares.
 - (c) Both (a) and (b).

- 4) Bonus issue is also known as
 - (a) Scrip issue.
 - (b) Capitalisation issue.
 - (c) Both (a) and (b).

- 5) The bonus issue is not made unless
 - (a) Partly paid shares are made fully paid up.
 - (b) It is provided in its articles of association
 - (c) Both (a) and (b).

- 6) Bonus issue has the following effect
 - (a) Market price gets adjusted on issue of bonus shares.
 - (b) Effective Earnings per share, Book Value and other per share values stand increased.
 - (c) Markets generally take the action as an unfavourable act.

- 7) ABC Co. Ltd resolved to issue bonus shares. Which of the following is not a pre-requisite for issuance of bonus shares?
 - (a) Authorization in Articles of Association.
 - (b) Timely Payment of statutory dues of employees such as PF, Gratuity etc.
 - (c) Sufficient balance in bank account of company.

- 8) In case of further issue of shares, the right to renounce the shares in favour of a third party
 - (a) Must include a right exercisable by the person concerned to renounce the shares;
 - (b) Should include a right exercisable by the person concerned to renounce the shares;
 - (c) Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).

- 9) A company's share's face value is ₹10, book value is ₹20, Right issue price is ₹30 and Market price is ₹40, while recording the issue of right share, the securities premium will be credited with
- ₹10
 - ₹20
 - ₹30
- 10) A. Right shares enable existing shareholders to maintain their proportional holding in the company.
B. Right share issue does not cause dilution in the market value of the share.
Which of the option is correct?
- A-Correct; B Correct
 - A - Incorrect; B Correct
 - A - Correct; B - Incorrect
- 11) Ex-Rights price can be calculated by which of these formulas?
- (Cum rights value of the existing shares + Rights share issue proceeds)/ (existing number of shares + No. of right shares).
 - (Cum rights value of the existing shares + Rights share issue proceeds) X (existing number of shares + No. of right shares).
 - (Cum rights value of the existing shares - Rights share issue proceeds)/ (existing number of shares - No. of right shares).

ANSWERS MCQs

1. (b) 2. (b) 3. (c) 4. (c) 5. (c) 6. (a) 7. (c) 8. (c) 9. (b) 10. (c) 11. (a)

TRUE / FALSE

State with reasons whether the following statement is true or false:

- Earning per share gets increased after bonus issue.
- Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.
- Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
- Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.

Solution

- False: Earnings per share gets decreased after bonus issue.
- False: Issued share capital including issue of rights shares and bonus shares is always less than or equal to Authorised capital.
- True: Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
- False: Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue.

HOMEWORK QUESTIONS**TOPIC 1: BONUS ISSUE****Question 1** *(ICAI Study Material)* Pg no. _____

Following items appear in the trial balance of Saral Ltd. as on 31st March, 2023:

4,500 Equity shares of ₹ 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)	45,000

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 of Saral Ltd.

Question 2 *(RTP May 2023)* Pg no. _____

Following items appear in the Trial Balance of Satish Limited as on 31st March, 2023:

9,000 Equity shares of ₹ 100 each	9,00,000
Capital Reserves (including ₹ 80,000 being profit on sale of plant)	1,80,000
Securities Premium	80,000
Capital Redemption Reserve	60,000
General Reserve	2,10,000
Profit and Loss Account (Cr. Balance)	1,30,000

The company decided to issue bonus shares to equity shareholders 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 of Satish Ltd.

Question 3 *(CA Inter Nov 2019) (5 Marks)* Pg no. _____

Following is the extract of Balance Sheet of Prem Ltd. as at 31st March, 2023:

	₹
Authorized capital:	
3,00,000 equity shares of ₹ 10 each	30,00,000
25,000, 10% preference shares of ₹ 10 each	2,50,000
	32,50,000
Issued and subscribed capital:	
2,70,000 equity shares of ₹ 10 each fully paid up	27,00,000
24,000, 10% preference shares of ₹10 each fully paid up	2,40,000
	29,40,000
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
	11,55,000

On 1st April, 2023, the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet after bonus issue.

Question 4 *(ICAI Study Material)*

Pg no. _____

Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2023

Authorized capital :	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	<u>15,00,000</u>
	<u>16,50,000</u>
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	<u>10,80,000</u>
Reserves and Surplus :	
General reserve	1,80,000
Capital Redemption reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	<u>3,00,000</u>

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize 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, 2023 after bonus issue.

Question 5 *(ICAI Study Material) / (RTP M18/N19/N20/M21/N21/N23) (Similar)*

Pg no. _____

Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2023

Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	<u>30,00,000</u>
	<u>33,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	<u>21,60,000</u>
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	<u>6,00,000</u>

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize 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 company and prepare the extract of the balance sheet as on 30th April, 2023 after bonus issue.

Question 6 *(RTP Nov 2018) / (RTP May 2019)*

Pg no. _____

Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2023

Authorized capital :	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	<u>40,00,000</u>
	<u>45,00,000</u>
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	<u>21,60,000</u>

Reserves and Surplus :	
General reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2023, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2023. Thereafter, the company decided to capitalize 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, 2023 after bonus issue

Question 7 *(CA Inter May 2018) (5 Marks)*

Pg no. _____

Following are the balances appear in the trial balance of Arya Ltd. as at 31st March, 2023.

	Amount
Issued and Subscribed Capital:	
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2023 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2023. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves.

Pass Journal entries.

Question 8 *(CA Inter Jan 2021) (5 Marks)*

Pg no. _____

Following items appear in the Trail Balance of Star Ltd. as on 31st March, 2023:

	₹
80,000 equity shares of ₹ 10 each, ₹ 8 paid-up	6,40,000
Capital Reserve (including ₹ 45,000 being profit on sale of Machinery)	1,10,000
Revaluation Reserve	80,000
Capital redemption reserve	75,000
Securities premium	60,000
General reserve	2,10,000
Profit and loss account (Cr. Balance)	1,00,000

On 1st April, 2023, the Company has made final call on Equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2021. On 1st June, 2023, the Company decided to issue to Equity shareholders bonus shares at the rate of 2 shares for every 5 shares held and for this purpose, it was decided that there should be minimum reduction in free reserves. Pass necessary journal entries in the Books of Star Ltd.

Question 9 *(ICAI Study Material) / (RTP Nov 2022) (Similar)*

Pg no. _____

Pass Journal Entries in the following circumstances:

- A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

Question 10 *(CA Inter May 2023) (5 Marks)* Pg no. _____

Storek Limited has a subscribed capital of ₹ 21,00,000 in Equity Share Capital consisting of 1,50,000 shares of ₹ 10 each fully paid and 1,00,000 shares of ₹ 10 each, called up capital ₹ 6 per share. On 01.04.2023 the company decides to convert the partly paid-up shares into fully paid-up shares by way of bonus issue and holders of fully paid-up shares are also allotted fully paid-up bonus share in the same ratio.

The following figures appear in trial balance of Storek Limited as on 31.03.2023:

	(₹)
Capital Redemption Reserve	80,000
Capital Reserve	1,00,000
Securities Premium	2,20,000
General Reserve	12,50,000
Surplus (credit balance in Profit & Loss Account)	2,40,000

Securities Premium Account includes a premium of ₹ 75,000 for shares issued to vendors pursuant to a scheme of absorption. It was decided that there should be minimum reduction in free reserves. You are required to pass necessary Journal Entries.

Question 11 *(RTP May 2022)* Pg no. _____

Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

	₹
General Reserve	₹ 1,60,000
Plant Revaluation Reserve	₹ 25,000
Securities Premium Account (Realised in cash)	₹ 60,000
Capital Redemption Reserve	₹ 80,000

Answer the following questions:

- What is the number of Bonus shares to be issued?
 - Can company issue Bonus out of General Reserve only?
 - Give Journal Entries & also give the extracts of balance sheet after such Bonus issue.
- Is it possible for the company to issue partly paid-up bonus shares?

TOPIC 2: RIGHT ISSUE**Question 12** *(RTP Nov 18/22/23) (Similar) / (RTP May 2020) / (ICAI Study Material)* Pg no. _____

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 right. What should be the ex-right market price of share?

Question 13 *(RTP May 2018) / (RTP Nov 2020) / (RTP May 2021)* Pg no. _____

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

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

Question 14 *(RTP Nov 2019) / (RTP Nov 2021)* Pg no. _____

Omega company offers new shares of ₹ 100 each at 20% premium to existing shareholders on the basis of one for four shares. The cum-right market price of a share is ₹ 190.

You are required to calculate the Value of a right share.

Question 15 *(RTP May 2023)* Pg no. _____

A company having 100,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 46, issues rights shares in the ratio of 1:10 at an issue price of ₹ 31.

Calculate value of right & pass necessary journal entry in the books of company.

Question 16 *(ICAI Study Material)* Pg no. _____

A Ltd company having share capital of 25,000 equity shares of ₹ 10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value.

Assuming all the shareholders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.

Question 17 *(RTP May 2022)* Pg no. _____

a) A company offers new right shares of ₹ 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is ₹ 140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.

b) A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 45 issues rights shares in the ratio of 1:5 at an issue price of ₹ 25. Pass journal entry for issue of right shares.

Question 18 *(CA Inter May 2022) (5 Marks)* Pg no. _____

Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March,2023:

Particulars	₹
Authorised Capital	
1,00,000 12% Preference shares of ₹ 10 each	10,00,000
5,00,000 Equity shares of ₹ 10 each	<u>50,00,000</u>
	<u>60,00,000</u>
Issued and Subscribed capital	
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	1,20,000
Capital Redemption Reserve	75,000
Securities Premium (Collected in cash)	25,000
Profit and Loss Account	2,00,000
Revaluation Reserve	80,000

On 1st April 2023, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April,2023. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June 2023, the Company issued right shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the right shares were accepted by the existing shareholders and the money was duly received by 20th June,2023.

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.