Bonus Issue

Issuing Fully paid Bonus Shares (Sec 63)

Existing capital: 200000 equity shares of 10 each

Bonus scheme: 1 for every 4 held

Bonus shares: $200000 \times \frac{1}{4} = 50000$ shares

Value: $50000 \times 10 = 500000$

Converting partly paid shares into fully paid (Reg. 39 - Table F)

Existing capital: 200000 equity shares of 10 each, 8 paid up

Bonus scheme: convert partly paid into fully paid

Paid up capital: $200000 \times 8 = 1600000$

Final call due = Bonus value

$= 200000 \times 2 = 400000$

Sources

- **Issuing Fully paid Bonus Shares (Sec 63)**
  - Capital Redemption Reserve (CRR)
  - Securities Premium
    - For listed companies as per SEBI Reg. 294 Only securities Premium collected in cash can be utilised
  - Free Reserves
- **Converting partly paid Shares into fully paid (Reg. 39 - Table F)**
  - Free Reserves

Sec 2(43)

* Which are available for distribution as dividend
* Does not include unrealised gain, notional gain, revaluation gain, change in carrying amount of assets or liabilities.

* REVALUATION RESERVE cannot be utilised for issue of bonus shares

Bonus Issue

Reserve & Surplus	Issuing Fully paid Bonus Shares	Converting partly paid Shares into fully paid
1) CRR (Capital Redemption Reserve)	✓	X
2) Securities Premium		
a) In cash	✓	X
b) Without cash	X	X
3) Capital Reserve		
a) In cash	✓	✓
b) Without cash	X	X
4) General Reserve / Revenue Reserve	✓	✓
5) P&L A/c / Surplus	✓	✓

Journal Entries

Issuing Fully paid Bonus Shares

1) CRR A/c - Dr
In cash [Sec. Premium A/c - Dr
Capital Reserve A/c - Dr]
General Reserve A/c - Dr
P&L / Surplus A/c - Dr
To Bonus to Shareholders A/c

2) Bonus to Shareholders A/c - Dr
To Equity Share capital A/c

Converting partly paid Shares into fully paid

1) Share Final call A/c - Dr
To Equity Share capital A/c

2) Capital Reserve A/c - Dr (In cash)
General Reserve A/c - Dr
P&L / Surplus A/c - Dr
To Bonus to Shareholders A/c

3) Bonus to Shareholders A/c - Dr
To Share Final call A/c

Right Issue

* Issue of rights to existing shareholders that entitles them to buy additional shares directly from company in proportion to their existing holdings.
* Right Price is generally lower than current Market Price
* Rights are often transferable, allowing holder to sell them in open market.
* Control does not get diluted

Example:

Issued & subscribed capital 100000 shares   Right Issue: 1 for every 10 held

$$\text{Total Right Shares} = 100000 \times \frac{1}{10} = 10000 \text{ shares}$$

Shareholder A holding 5000 shares may subscribe 500 shares

$$\text{Before Right Issue} = \frac{5000}{100000} \times 100 = 5\%$$

$$\text{After Right Issue (Opted)} = \frac{5500}{110000} \times 100 = 5\%$$

* A may renounce his right in favour of B for a price called value of right.
(% of holding will dilute)

Value of Right = Cum Right value of Share − Ex-Right value of Share

Market Price of share before Right Issue − Market Price of share after Right Issue (Average Price)

$$\text{Ex-Right value of share} = \frac{\left(\text{No. of shares before Right} \times \text{Cum-Right Price}\right) + \left(\text{Right Shares} \times \text{Right Price}\right)}{\text{No. of shares before Right} + \text{Right shares}}$$

Example: Face value of share = 10   Cum Right Price = 50   Right Issue Price = 28

Right Issue Scheme = 1 for every 10 held

$$\text{Ex-Right value of share} = \frac{(10 \times 50) + (1 \times 28)}{10 + 1} = 48$$

$$\text{Value of Right} = 50 - 48 = \boxed{2}$$

* Any one desirous of having confirmed allotment of 1 share from company at 28 will have to pay 20 (2×10) to existing shareholder holding 10 shares & willing to renounce his right of buying 1 share in favour of that person.

Suppose: Mr. A shareholder holding 100 shares

Current Net worth of A's holding = 100 sh. X 50 = 5000

a) If A exercises his right: A will pay = 10 sh. X 28 = 280

A's total Investment = 5000 + 280 = 5280

On per share Basis = $\frac{5280}{110}$ = 48 [which is Ex-Right value of share]

b) If A does not exercise right:

A's holding worth = 100 sh. X 48 = 4800

(Declined from 5000)

Law allows him to compensate for this dilution of shareholding by renouncing right in favour of B.

A will charge B, ₹200 by renouncing his right to acquire 10 shares.

Hence B will be charged ₹20/share (200/10) in return for confirmed allotment of 10 shares at 28 each.

For every share to be offered to B, A will have 10 shares at back.
Hence his holding of 10 shares fetches him ₹20 or ₹2/share held

Value of Right

B's Total Investment will be = 280 (payable to co.) + 200 (payable to A)

=) 480

He will have 10 shares at average cost of 48
which is Ex-Right Market Price of share.

A will have final holding of 100 shares worth (4800 + 200) by way of value of right received from B. (Matches with Cum Right holding)