



Issue of Bonus Shares

BONUS SHARES	<p>Bonus issue means an issue of additional shares to existing shareholders free of cost in proportion to their existing holding.</p> <p>A company may issue fully paid-up bonus shares to its shareholders out of—</p> <ul style="list-style-type: none"> (i) its free reserves; (ii) securities premium account; or (iii) capital redemption reserve account: <p>Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).</p>
---------------------	--

Provisions of the Companies Act, 2013

Bonus Shares are Shares issued at no cost to current shareholders in a Company

Based upon No. of Shares

That the shareholder already owns.

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, out of—

- (i) its free reserves (General Reserve/Profit and loss)
- (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 (Revaluation Reserves are not allowed)

Example 1

Alpha Company announced bonus issue to its shareholders in the ratio of 2:3 ie. 2 shares for every 3 shares held. Shareholder X has 6,000 shares before announcement of bonus issue. How much shares would he have after bonus issue?

Solution

Company announced bonus issue in ratio of 2:3

Shareholder X will be entitled to have 4,000 bonus shares ($6,000 \text{ shares} / 3 \times 2$)

Total number of shares X has after bonus issue 10,000 ($6,000 + 4,000$)



Case No. 1-(a) Upon the sanction of an issue of bonus shares

Capital Redemption Reserve Account	Dr.
Securities Premium Account ¹	Dr.
General Reserve Account	Dr.
Profit & Loss Account	Dr.
To Bonus to Shareholders Account.	

(b) Upon issue of bonus shares

Bonus to Shareholders Account	Dr.
To Share Capital Account.	

Case No. 2-(a) 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	

(b) On making the final call due

Share Final Call Account	Dr.
To Share Capital Account.	

(c) On adjustment of final call

Bonus to Shareholders Account	Dr.
To Share Final Call Account	

ILLUSTRATION 1

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
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.**

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

Working Note-

Number of Bonus shares to be issued- $(40,000 \text{ shares} / 4) \times 1 = 10,000 \text{ shares}$

Value of Bonus shares- $10,000 \text{ shares of } `10 \text{ each} = `1,00,000$

ILLUSTRATION 2

Pass Journal Entries in the following circumstances:

- (i) 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.
- (ii) 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.

SOLUTION**Journal Entries**

(i)	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c (For making provision of bonus issue)			1,25,000
	Share Final Call A/c		1,25,000	
	To Equity share capital A/c (For final calls of ` 2.5 per share on 50,000 equityshares due as per Board's Resolution dated....)			1,25,000
(ii)	Bonus to shareholders A/c	Dr.	1,25,000	
	To Share Final Call A/c (For bonus money applied for call)			1,25,000
	General Reserve A/c	Dr.	5,00,000	
	To Bonus to shareholders A/c (For making provision of bonus issue)			5,00,000
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c (For issue of 50,000 bonus shares at `10)			5,00,000

ILLUSTRATION 3

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

Authorised capital :	
10,000 12% Preference shares of ` 10 each	1,00,000
1,00,000 Equity shares of ` 10 each	<u>10,00,000</u>
	<u>11,00,000</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	1,60,000
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, 2022 the Company has made final call @ ` 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. 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.

SOLUTION**Journal Entries in books of Solid Ltd.**

			Dr.	Cr.
2022				
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ` 2 per share on 90,000 equity shares due as per Board's Resolution dated.....)			

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

Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)

		<i>Particulars</i>	<i>Notes</i>	<i>Amount (₹)</i>
		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		
		Total	3	<u>5,00,000</u>
				<u>19,00,000</u>

Notes to Accounts

1	Share Capital	
	<u>Authorised share capital</u>	
	10,000 12% Preference shares of `10 each	1,00,000
	1,12,500 Equity shares of `10 each	<u>11,25,000</u>

	<u>Issued, subscribed and fully paid share capital</u>		
	8,000 12% Preference shares of `10 each		80,000
	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)	<u>11,25,000</u>
		Total	<u>12,05,000</u>
	Reserves and Surplus		
2	Revaluation Reserve		
	Securities Premium	20,000	35,000
	Less: Utilised for bonus issue	<u>(20,000)</u>	
	General reserve	1,60,000	Nil
	Less: Utilised for bonus issue	<u>(1,60,000)</u>	
	Profit & Loss Account	2,05,000	Nil
	Less: Utilised for bonus issue	<u>(45,000)</u>	
		Total	<u>1,60,000</u>
	Long-term borrowings		<u>1,95,000</u>
	Secured		
3	12% Debentures @ `100 each		5,00,000

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

Working Note-

Number of Bonus shares to be issued $(90,000 \text{ shares} / 4) \times 1 = 22,500 \text{ shares}$

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 [value of bonus shares issued less unused authorized capital (excess of authorized capital in comparison to the issued shares before bonus issue)].

ILLUSTRATION 4

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31st March, 2022

Authorised 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>
Share capital:	
	<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	10,80,000
Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2022, the Company has made final call @ ` 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2022. 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, 2022 after bonus issue.

SOLUTION**Journal Entries in the books of Preet Ltd.**

1-4-2022	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ` 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)			
20-4-2022	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			

Securities Premium A/c	Dr.	37,500	
Capital Redemption Reserve A/c	Dr.	60,000	
General Reserve A/c	Dr.	1,80,000	
Profit and Loss A/c (b.f.)	Dr.	60,000	
To Bonus to shareholders A/c			3,37,500
(For making provision for bonus issue of one share for every four shares held)			
Bonus to shareholders A/c	Dr.	3,37,500	
To Equity share capital A/c			3,37,500
(For issue of bonus shares)			

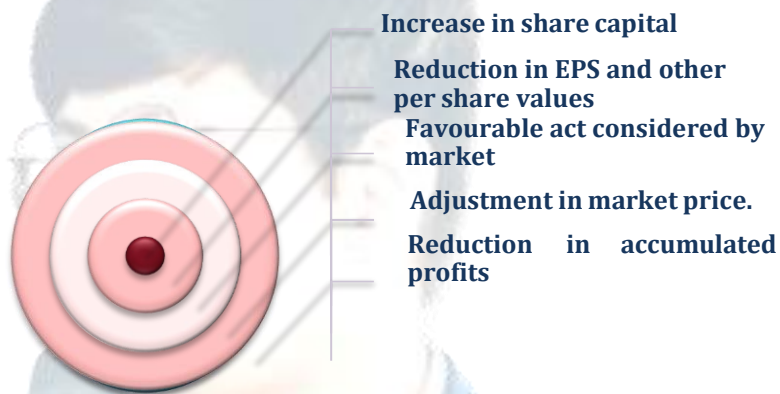
Extract of Balance Sheet as at 30th April, 2022 (after bonus issue)

Share Capital		
<i>Authorised Capital</i>		
15,000 12% Preference shares of `10 each		1,50,000
1,68,750 Equity shares of `10 each (refer working note below)		<u>16,87,500</u>
<i>Issued and subscribed capital</i>		
12,000 12% Preference shares of `10 each, fully paid		1,20,000
1,68,750 Equity shares of `10 each, fully paid		16,87,500
(Out of above, 33,750 equity shares @ `10 each were issued by way of bonus)		
<i>Reserves and surplus</i>		
Securities Premium	37,500	
Less: Utilised for bonus issue	<u>(37,500)</u>	NIL
Capital Redemption Reserve	60,000	
Less: Utilised for bonus issue	<u>(60,000)</u>	NIL
General Reserve	1,80,000	
Less: Utilised for bonus issue	<u>(1,80,000)</u>	NIL
Profit and Loss Account	3,00,000	
Less: Utilised for bonus issue	<u>(60,000)</u>	2,40,000

Working Notes:

- Number of Bonus shares to be issued-
(1,35,000 shares / 4) X 1 = 33,750 shares
- The authorised capital should be increased as per details given below:

Existing issued Equity share capital	13,50,000
<i>Add:</i> Issue of bonus shares to equity shareholders	<u>3,37,500</u>
	<u>16,87,500</u>

Effects of Bonus Issue**Bonus issue has following major effects:**

- The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	` in Lakhs
(1) Share Capital	
Authorised :	
20 crore shares of ` 10 each	<u>20,000</u>
Issued and Subscribed :	
10 crore Equity Shares of ` 10 each	10,000
2 crore 11% Cumulative Preference Shares of ` 10 each	2,000
Total	<u>12,000</u>
Called and paid up:	
10 crore Equity Shares of ` 10 each, ` 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ` 10 each, fully called and paid up	2,000
Total	<u>10,000</u>

<i>(2) Reserves and Surplus :</i>	
<i>Capital Redemption Reserve</i>	<i>1,485</i>
<i>Securities Premium (collected in cash)</i>	<i>2,000</i>
<i>General Reserve</i>	<i>1,040</i>
<i>Surplus i.e. credit balance of Profit & Loss Account</i>	<i>273</i>
<i>Total</i>	<i>4,798</i>

On 2nd April 2022, the company made the final call on equity shares @ ` 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, 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.

2. Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31st March, 2022

Authorised capital:	`
30,000 12% Preference shares of ` 10 each	3,00,000
3,00,000 Equity shares of ` 10 each	30,00,000
	33,00,000

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

On 1st April, 2022, the Company has made final call @ ` 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2022. 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, 2022 after bonus issue.

Bullets:

- **Bonus issue means an issue of additional shares free of cost to existing shareholders.**
- **Bonus Issue is also known as a "scrip issue" or "capitalization issue" or "capitalization of profits".**
- **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.**
- **Bonus shares can be issued from following:**
 - **Free Reserves.**
 - **Securities Premium collected in cash.**
 - **Capital Redemption Reserve.**
- **Bonus issue cannot be made out of Revaluation Reserve created by revaluation of assets**