

7/10/24

Bonus Issue of Shares

- * Bonus issue is also known as Capitalisation of profit.
- * Capitalisation of profits refers to process on converting profits or Reserves into paid-up capital.
- * If subscribed and paid-up share capital Excess authorised share capital, it results to Bonus issue.
- * Company may issue Bonus shares from:-
 - 1) Free Reserve
 - 2) Capital Redemption Reserve of Securities Premium.

- * Exception:- If co-capitalise Reserves created by Revaluation of Asset will not valid for Issuing Bonus Share.
- * Securities Prem. Reserve or Capital Redemption Reserve cannot be used for Payment of unpaid amount of Shares held by Existing Shareholders.

Entry for Issuing Bonus Share:-

CRR - Dr → xx
 Sec. Prem. Dr → xx
 * General Reserve Dr → xx
 P&L Ac Dr → xx
 To Bonus to shareholders/c → xx

 * Bonus to Shareholders/c dr → xx
 To Share capital cr → xx

Entry for converting Partly Paid of Shares into fully paid:-

* General Reserve cr dr - x
 Profit & Loss cr dr - x
 To Bonus to Shareholder cr - xy

Entry for Making Final Call Due:-

* Share final call Dr - xy
 To Share Capital - xy

Entry for Adjustment of final call:-

* Bonus to Shareholders cr dr - xy
 To Share final call cr - xy

Major Effects when co. issue Bonus Shares:-

- Increase in Share Capital.
- Reduction in Earning per Share [EPS] & other per share value.
- Adjustment in Market Price.
- Reduction in Accumulated Profit.

Right Issue of Shares

- * Sec-62(1) :- Existing share holders offers new shares to preserve their position.
- * Right to subscribe :- Right to buy new shares in proportion to Existing holdings.
- * Right to Renounce :- Renoun in favour of someone else (unless prohibited).
- * Letter of offer :- Specifies no. of shares, time period & Renunciation Right.
- * Unsubscribed Shares :- Board can dispose of them if not accepted.

Exception to Right Issue:-

- 1) Employee :- Under stock option scheme.
- 2) Debenture/Lender Option :- Shares issued as part of loans/debentures with special Resolution.
- 3) Government Loans :- converted to shares in public interest.

Financial Impact:-

1) Balance sheet :- Increases Equity & liquid resources.

2) Book value formula:-

Net Worth ÷ No. of Shares

3) Formula for computing value of right:-

Cum Right value (-) Ex-Right value.

4) Ex-Right value:-

$$\Rightarrow \frac{\text{Cum right value} + (\text{Right share} \times \text{issue price})}{\text{Existing shares} + \text{Right shares}}$$