

11. ACCOUNTING FOR BONUS SHARES**MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC**

MODEL NO.	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	M - 16	N-16
Accounting For Bonus shares	08	-	08	-	-	04	-	-	-	-	-

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.

How to capitalize?

A company may capitalize its profits or reserves:

1. by issuing fully paid bonus shares to the existing members as per Sec. 63 of Companies act 2013 (or)
2. 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)

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:

1. Its free reserves (or)
2. The Securities Premium account as per sec 52(2) (or)
3. The Capital Redemption Reserve account as per sec 55(4)

Note: 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.

SEBI REGULATIONS:**I. CONDITIONS FOR BONUS ISSUE – REG 92**

1. (a) Bonus issue should be authorised by its articles;
(b) 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;
2. 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;
3. The partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
4. Declaration of the bonus issue in lieu of dividend shall not be made.
5. 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.

II. RESTRICTIONS FOR BONUS ISSUE – REG 93

6. 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.

III. BONUS SHARES ONLY AGAINST RESERVES ETC. IF CAPITALISED IN CASH – REG 94

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

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	
	Capital Reserve A/c (realized in cash only) 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	
	Capital Reserve A/c (realized in cash only) 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: Here the term Capital Reserve means only the Capital profit realized in cash and remained after wiping off deficiency on revaluation of other assets i.e. capital profit on sale of Fixed Assets and profit on redemption of Debentures etc.

Note 2: 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 –

- Any amount representing unrealized gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
- 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 3: Development Rebate reserve & Investment allowance reserve should not be considered as a bonus issue of shares.

EFFECTS OF BONUS ISSUE:

1. Share capital gets increased according to the bonus issue ratio. But the net worth remains the same.
2. Liquidity in the stock increases.
3. Effective Earnings per share, Book value and other per share values stand reduced.
4. Markets take the action usually as a favorable act.
5. Market price gets adjusted on issue of bonus shares.
6. Accumulated profits get reduced.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2012:

<i>Particulars</i>	<i>Rs.</i>
Authorized capital:	
50,000, 10% Preference shares of Rs.10 each	5,00,000
2,00,000 Equity shares of Rs.10 each	20,00,000
Issued and subscribed capital:	
40,000, 10% Preference shares of Rs.10 each fully paid	4,00,000
1,80,000, Equity shares of Rs.10 each, of which Rs.7.50 paid up	13,50,000
Reserves and Surplus:	
General reserve	2,40,000
Capital reserve	1,50,000
Securities premium	50,000
Profit and loss account	3,00,000

On 1st April, 2012, the company has made a final call @ Rs.2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2012. There after the company decided to capitalize its reserves by issuing bonus shares at the rate of one share for every three shares held. Securities premium of Rs.50,000 includes a premium of Rs.20,000 for shares issued to vendor for purchase of a special machinery. Capital reserve includes Rs.60,000 being profit on exchange of plant and machinery.

Show necessary Journal Entries in the books of the company and prepare the extract of the Balance Sheet after bonus issue. Necessary assumption, if any, should form part of your answer.

(Ans.: share capital 28,00,000, Reserve and surplus 1,40,000; Total of balance sheet is Rs.19,42,500)

Note: _____

Problem 2: (PRINTED SOLUTION AVAILABLE) Capitalization of profits for issuing fully paid bonus shares: Following is the extract of the Balance Sheet of Omega Ltd., a listed company as at March 31st, 2010:

<i>Particulars</i>	<i>Rs.</i>
Authorized Capital:	
40,000, 12% Preference shares of Rs.10 each	4,00,000
4,00,000, Equity shares of Rs.10 each	<u>40,00,000</u>
	<u>44,00,000</u>
Issued and Subscribed Capital:	
32,000, 12% Preference shares of Rs.10 each fully paid	3,20,000
3,60,000 Equity shares of Rs.10 each fully paid-up	36,00,000

Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ Rs.100 each	20,00,000

On April 30, 2010, the company decided to capitalise its reserves by way of Bonus at the rate 1:4. Securities premium of Rs.1,00,000 includes a premium of Rs.20,000 for shares issued pursuant to a scheme of amalgamation. Capital reserve includes Rs.1,60,000, being profit on sale of Plant and Machinery. 20% of 12% Debentures are convertible into Equity shares of Rs.10 each fully paid on April 30, 2010.

State with reason on the following:

- Whether Revaluation Reserve be capitalised?
- How much amount of Capital reserve can be capitalised?
- How much amount of 'Securities Premium A/c' can be capitalised?
- Are the convertible debenture holders entitled to Bonus shares?
- The minimum number of Equity shares to be issued by way of Bonus as on 30th April, 2010.
- What should be the minimum amount of authorized capital, if the decision to issue Bonus shares gets implemented?

(RTP - May 2011, 2013, Nov.2012)

(Ans.: Minimum Authorised Capital Rs.54,00,000)

(Solve problem no 2 of assignment problems as rework)

Note: _____

Problem 3: 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.

(PM) (Ans: Balance sheet Total Rs.19,42,500)

(Solve problem no 3 of assignment problems as rework)

Note: _____

Problem 4: Profit & loss Statement: The following is the Trial Balance of Subhash Limited as on 31.3.2015: (Figures in '000)

Debit	Rs.	Credit	Rs.
Land at cost	110	Equity Capital (Shares of Rs.10 each)	150
Plant & Machinery at cost	385	10% Debentures	100
Debtors	48	General Reserve	65
Stock (31.3.2015)	43	Profit & Loss A/c	36
Bank	10	Securities Premium	20
Adjusted Purchases	160	Sales	350
Factory Expenses	30	Creditors	26
Administration Expenses	15	Provision for Depreciation	86
Selling Expenses	15	Suspense account	2
Debenture Interest	10		
Interim Dividend Paid	9		
	835		835

Additional Information:

1. On 31.3.2015, the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.
2. The authorised share capital of the company is 25,000 shares of Rs.10 each.
3. The company on the advice of independent valuator wish to revalue the land at Rs.1,80,000.
4. Proposed final dividend 10%.
5. Suspense account of Rs.2,000 represents cash received for the sale of some of the machinery on 1.4.2014. The cost of the machinery was Rs.5,000 and the accumulated depreciation thereon being Rs.4,000.

6. Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Subhash Limited's Statement of Profit & Loss for the year ended 31.3.2015 and a balance sheet on that date

Your answer to include detailed notes only for the following:

(1) Share Capital (2) Reserves & Surplus (3) Fixed Assets

Ignore previous years' figures & taxation .

(PM) (Ans.: Net profit is Rs.83,000, Total of balance sheet is 5,41,000)

Note: _____

Problem 5: Following items appear in the Trial Balance of X Ltd. as at 31st March 2013:

Particulars	Amount(Rs)
Authorised share capital:	
3,00,000 equity shares of Rs. 10 each	30,00,000
Issued and Subscribed share capital:	
80,000 Equity Shares of Rs. 10 each, Rs. 7.50 paid up	6,00,000
1,20,000 Equity Shares of Rs. 10 each	12,00,000
Capital Redemption Reserve	2,60,000
Plant Revaluation Reserve	20,000
Securities Premium Account	1,20,000
General Reserve	2,00,000
Profit & Loss Account	1,00,000
Capital Reserve (including Rs. 50,000 being profit on sale of machinery) Remaining balance of capital reserve is on account of non-cash items.	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 the necessary journal entries assuming that there should be minimum reduction in free reserves. (RTP NOV - 13)

Note: _____

ASSIGNMENT PROBLEMS

Problem 1: Basic level: Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2015:

Particulars	Rs.
40,000 Equity shares of Rs. 10 each	4,00,000
Capital Reserve (including 30,000 being profit on sale of machinery)	75,000
Capital Redemption Reserve	25,000
Securities Premium	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. (SM)

Problem 2: 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

Name of the Company : Solid Ltd

Balance Sheet as at : 31st March, 2015:

(Extract)

		Particulars	Notes No.	Rs.
		1	2	3
		Equity and Liabilities:		
1	a	Share capital	1	8,00,000
	b	Reserves and Surplus	2	4,20,000
		Non-current Liabilities		
2	a	Long term borrowings (Secured) (12% Partly Convertible Debentures @ Rs.100 each)		5,00,000

Notes to accounts:

Particulars	Rs.
1. Share capital	1,00,000
Authorised capital:	
10,000 12% Preference shares of Rs.10 each	10,00,000
1,00,000 Equity shares of Rs.10 each	<u>11,00,000</u>
Issued and subscribed capitals:	
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
TOTAL	8,00,000
2. Reserves and Surplus:	
(a) General Reserve	1,20,000
(b) Capital Reserve	75,000
(c) Securities Premium	25,000
(d) Profit and Loss Account	2,00,000
TOTAL	4,20,000

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. (SM)

(Ans.: Share Capital after Bonus issues but before conversion Rs.12,05,000)

Problem 3: 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
1		EQUITY AND LIABILITIES:		
		Shareholder's funds		
	a	Share capital	1	2,00,000
	b	Reserves and Surplus	2	2,08,500
2		Current liabilities		
	a	Other current liabilities	3	11,500
		TOTAL		4,20,000
1		ASSETS:		
		Non-current assets		
	a	Fixed assets		
		(i) Tangible assets	4	2,00,000
		(ii) Non-current investments		1,00,000
2		Current Asset		
	a	Stock in Trade		25,000
	b	Trade receivables (debtors)		25,000
	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	<u>9,00,000</u>
	<u>10,00,000</u>
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	<u>1,00,000</u>
	<u>2,00,000</u>
2. Reserves and Surplus	
General Reserve	1,20,000
Securities Premium	70,000
Profit and Loss A/c	<u>18,500</u>
TOTAL	<u>2,08,500</u>

3. Other current liabilities	
Current Liabilities and Provisions	11,500
4. Tangible Assets	
Gross Block	3,00,000
Less: Depreciation	<u>1,00,000</u>
Net Block	<u>2,00,000</u>

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. (PM)

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	1, 3, 5	2	4
Assignment Problems	2	1, 3	-

Verified by: Mahesh Sir,
Hari Narayana Sir
Executed by: Rajasekhar Sir

THE END