

11. ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

SOLUTIONS TO ASSIGNMENT PROBLEMS

PROBLEM NO.1

- 1) **Additional Shares issued:** Ratio of bonus declared on partly paid shares is Rs. 2 for every Rs. 8 paid - up Capital. So, bonus shares are issued at the rate of 1 for every 4 shares held. Hence, the amount of Bonus payable to the holders of Fully paid Shares is (1 bonus share ÷ 4 Shares Held) x 60,000 Shares x Rs. 10 issue Price = Rs.1,50,000
- 2) **Types of bonus Issued:** There are two types of bonus Issue in the above case
- a) **Converting 50,000 Rs. 8 paid up Shares into Rs. 10 paid up** - Securities Premium and Capital Redemption Reserve cannot be used for this purpose. Hence, the company can utilize General Reserve and P& L A/c only for this purpose.

Journal Entries in the books of the company

S.No.	Particulars	L.F.	Debit	Credit
1	Equity Share Final Call A/c Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being Equity Share Final Call of Rs. 2 per share due on 50,000 shares as per board's Resolution no..... Dated...)			
2	General Reserve A/c Dr.		1,00,000	
	To Bonus to Equity Shareholders A/c			1,00,000
	(Being bonus declared for making partly paid shares fully paid, as per shareholders resolutionDated.....)			
3	Bonus to Equity Shareholders A/c Dr.		1,00,000	
	To Equity Share Final Call A/c			1,00,000
	(Being Utilization of bonus Payable towards payment of Equity Share Final Call of Rs. 2 per share on 50,000 shares)			

- b) **Issuing Additional Shares to the holders of fully paid shares** - Securities Premium and Capital Redemption Reserve can be fully utilized for this purpose. For the balance requirements, General Reserve and Profit & Loss A/c may be used.

Journal Entries in the books of the company

1	Securities Premium A/c Capital Redemption Reserve A/c General Reserve A/c (B/f)	Dr. Dr. Dr.	40,000 60,000 50,000	
	To Bonus to Equity Shareholders A/c			1,50,000
	(Being bonus declared for issuing Fully paid - up shares as per shareholders resolution dated...) (Refer Note 2 above)			
2	Bonus to Equity Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being issue of 15,000 fully paid shares of Rs. 10 each as Bonus Shares in the Ratio of one share for every four shares, as per Board's Resolution dated...)			

PROBLEM NO.2

Journal Entries in the books of Bharat Ltd.

	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	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.....)		
2.	Bonus to Shareholders A/c	Dr. 1,00,000	
	To Equity Share Capital A/c		1,00,000
	(Being Capitalisation of profit by making bonus issue)		

PROBLEM NO.3

Journal Entries in the books of Brite Ltd.

(Rs. in Lakhs)

2011	Particulars	Debit (Rs.)	Credit (Rs.)
April 2	Equity Share Final Call A/c	Dr. 2,000	
	To Equity Share Capital A/c		2,000
	(Final call of Rs. 2 per share on 10 crore equity shares made due)		
	Bank A/c	Dr. 2,000	
	To Equity Share Final Call A/c		2,000
	(Final call money on 10 crore equity shares received)		
June 1	Capital Redemption Reserve A/c	Dr. 1,485	
	Securities Premium A/c	Dr. 2,000	
	General Reserve A/c (B/f)	Dr. 515	
	To Bonus to Shareholders A/c		4,000
	(Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.)		
	Bonus to Shareholders A/c	Dr. 4,000	
	To Equity Share Capital A/c		4,000
	(Capitalisation of profit)		

Notes to Accounts:

	Particulars		
1.	Share Capital:		
	Authorised share capital:		
	20 crore shares of Rs. 10 each		<u>20,000</u>
	Issued, subscribed and fully paid up share capital		
	14 crore Equity shares of Rs. 10 each, fully paid up		14,000
	(Out of the above, 4 crore equity shares @ Rs. 10 each were issued by way of bonus)		
	2 crore, 11% Cumulative Preference share capital of Rs. 10 each, fully paid up		<u>2,000</u>
			16,000
2.	Reserves and Surplus		
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	<u>(1,485)</u>	-
	Securities Premium	2,000	
	Less: Utilised for bonus issue	<u>(2,000)</u>	-
	General Reserve	1,040	
	Less: Utilised for bonus issue	<u>(515)</u>	525
	Surplus (Profit and Loss Account)		273
	Total		798

PROBLEM NO. 4**Journal Entries in the books of Manoj Ltd.**

Date	Particulars	Debit (Rs.)	Credit (Rs.)
1-4-20X1	Equity share final call A/c Dr.	5,40,000	
	To Equity share capital A/c		5,40,000
	(For final calls of Rs. 2 per share on 2,70,000 equity shares due as per Board's Resolution dated...)		
20-4-20X1	Bank A/c Dr.	5,40,000	
	To Equity share final call A/c		5,40,000
	(For final call money on 2,70,000 equity shares Received)		
	Securities Premium A/c Dr.	75,000	
	Capital redemption Reserve A/c Dr.	1,20,000	
	General Reserve A/c Dr.	3,60,000	
	Profit and Loss A/c (B/f) Dr.	1,20,000	
	To Bonus to shareholders A/c		6,75,000
	(For making provision for bonus issue of one share for every four shares held)		
	Bonus to shareholders A/c Dr.	6,75,000	
	To Equity share capital A/c		6,75,000
	(For issue of bonus shares)		

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

Particulars	Amount (Rs.)
Authorised Capital	
30,000 12% Preference shares of Rs. 10 each	3,00,000
3,67,500 Equity shares of Rs. 10 each (refer V.N.)	36,75,000
Issued and subscribed capital	
24,000 12% Preference shares of Rs. 10 each, fully paid	2,40,000
3,37,500 Equity shares of Rs. 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ Rs. 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

Working Note:

The authorised capital should be increased as per details given below	Rs.
Existing authorised Equity share capital	30,00,000
Add: Issue of bonus shares to equity shareholders	<u>6,75,000</u>
	36,75,000

PROBLEM NO. 5**Journal Entries in the Books of Trinity Ltd.**

	Particulars	Dr. (Rs.)	Cr. (Rs.)
1.	10% Redeemable Preference Capital A/c Dr.	1,00,000	
	Premium on redemption of Preference Shares A/c Dr.	10,000	
	To Preference Shareholders A/c (Being the amount payable to preference shareholders on Redemption)		1,10,000
2.	Securities Premium A/c Dr.	10,000	
	To Premium on Redemption of Preference shares A/c (Being amount of premium of Payable on redemption of preference shares)		10,000

3.	General Reserve A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c (Being transfer to the latter account on redemption of shares)			1,00,000
4.	Bank A/c	Dr.	90,000	
	Profit & Loss A/c	Dr.	10,000	
	To Investments A/c (Being amount realised on sale of Investments and Loss thereon adjusted)			1,00,000
5.	Preference shareholders A/c	Dr.	1,10,000	
	To Bank A/c (Being payment made to preference shareholders)			1,10,000
6.	Capital Redemption Reserve A/c	Dr.	1,00,000	
	To Bonus to Shareholders A/c (Being Amount adjusted for issuing bonus share in ratio of 1:1)			1,00,000
7.	Bonus to Shareholders A/c	Dr.	1,00,000	
	To Equity Share Capital A/c (Being Balance on former account transferred to latter)			1,00,000

PROBLEM NO. 6

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price)/(Existing Number of shares + Rights Number of shares)

$$= (\text{Rs. } 240 \times 2 \text{ Shares} + \text{Rs. } 120 \times 1 \text{ Share}) / (2 + 1) \text{ Shares}$$

$$= \text{Rs. } 600 / 3 \text{ shares} = \text{Rs. } 200 \text{ per share.}$$

Value of right

$$= \text{Cum-right value of the share} - \text{Ex-right value of the share}$$

$$= \text{Rs. } 240 - \text{Rs. } 200 = \text{Rs. } 40 \text{ per share.}$$

Hence, any one desirous of having a confirmed allotment of one share from the company at Rs. 120 will have to pay Rs. 80 (2 shares x Rs. 40) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.

PROBLEM NO.7

a) Calculation of theoretical Post - rights (ex - right) price per share:

$$\text{Ex - right value} = \left[\frac{MN + SR}{N + R} \right]$$

Where,

M = Market Price,

N = Number of old shares for a right share

S = Subscription price

R = Right share offer

$$= \left[\frac{(\text{Rs.}24 \times 4) + (\text{Rs.}16 \times 1)}{4 + 1} \right] = \text{Rs. } 22.40$$

b) Calculation of theoretical value of the rights alone:

$$= \text{Ex-right price} - \text{Cost of rights share}$$

$$= \text{Rs. } 22.40 - \text{Rs. } 16 = \text{Rs. } 6.40$$

Or

$$= \frac{\text{Rs.}22.40 - \text{Rs.}16}{4} = \text{Rs. } 1.60$$

- c) Calculation of effect of the rights issue on the wealth of a shareholder who has 1,000 shares assuming he sells the entire rights:

	Particulars	Amount (Rs.)
(a)	Value of shares before right issue (1,000 shares x Rs. 24)	24,000
(b)	Value of shares after right issue (1,000 x Rs. 22.40)	22,400
	Add: Sale proceeds of rights renunciation (250 shares x Rs. 6.40)	1,600
		24,000

There is no change in the wealth of the shareholder even if he sells his right.

- d) Calculation of effect if the shareholder does not take any action and ignores the issue:

	Particulars	Amount (Rs.)
	Value of shares before right issue (1,000 shares x Rs. 24)	24,000
	Less: Value of shares after right issue (1,000 x Rs. 22.40)	22,400
	Loss of wealth to shareholders, if rights ignored	1,600

SOLUTIONS FOR ADDITIONAL PROBLEMS FOR SELF PRACTICE

PROBLEM NO.1

Journal Entries in the books of Preet Ltd.

Date	Particulars	Dr. (Rs.)	Cr. (Rs.)
1-4-20X1	Equity share final call A/c To Equity share capital A/c (For final calls of Rs. 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)	Dr. 2,70,000	2,70,000
20-4-20X1	Bank A/c To Equity share final call A/c (For final call money on 1,35,000 equity shares received)	Dr. 2,70,000	2,70,000
	Securities Premium A/c Capital Redemption Reserve A/c General Reserve A/c Profit and Loss A/c To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	Dr. Dr. Dr. Dr. 3,37,500	3,37,500
	Bonus to shareholders A/c To Equity share capital A/c (For issue of bonus shares)	Dr. 3,37,500	3,37,500

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

Particulars	Amount (Rs.)
Authorised Capital	
15,000 12% Preference shares of Rs.10 each	1,50,000
1,83,750 Equity shares of Rs.10 each (refer working note below)	18,37,500
Issued and subscribed capital	
12,000 12% Preference shares of Rs.10 each, fully paid	1,20,000
1,68,750 Equity shares of Rs.10 each, fully paid	16,87,500
(Out of above, 33,750 equity shares @ Rs.10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

Working Note:

The authorised capital should be increased as per details given below:

Existing authorised Equity share capital	15,00,000
Add: Issue of bonus shares to equity shareholders	<u>3,37,500</u>
	<u>18,37,500</u>

PROBLEM NO.2

Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (Rs. 200 x 5 Shares + Rs. 125 x 1 Share) / (5 + 1) Shares

= Rs. 1,125 / 6 shares = Rs. 187.50 per share.

Value of right:

= Cum-right value of the share - Ex-right value of the share

= Rs. 200 - Rs. 187.50 = Rs. 12.50 per share.

PROBLEM NO.3

Particulars	Dr. (Rs.)	Cr.(Rs)
Capital Redemption Reserve A/c	Dr. 30,000	
Securities Premium A/c	Dr. 40,000	
General Reserve A/c	Dr. 30,000	
To Bonus to Shareholders		1,00,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated)		
Bonus to Shareholders A/c	Dr. 1,00,000	
To Equity Share Capital		1,00,000
(Being capitalization of Profit)		

PROBLEM NO.4

Computation of Bonus Shares = $\frac{2,70,000}{5} \times 2 = 1,08,000$ shares of Rs.10 each

Journal Entries in the books of Company

1.	Capital Redemption Reserve A/c	Dr.	1,20,000	
	Securities Premium A/c	Dr.	75,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	5,25,000	
	To Bonus to Equity Shareholders A/c			10,80,000
	(Being Bonus issued to Equity Shareholders)			
2.	Bonus to Equity Shareholders A/c	Dr.	10,80,000	
	To Equity Share Capital A/c			10,80,000
	(Being Bonus declared to Equity Shareholders)			

NOTE: Remove the sentence "Prepare the Extract of the Balance sheet after the Bonus Issue in the Question".

THE END

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