

## 7. ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

### ASSIGNMENT SOLUTIONS

#### PROBLEM NO: 1

Journal Entries in the books of Brite Ltd

20X1	Particulars	Dr. Rs. in lakhs	Cr. Rs. in lakhs
April 2	Equity Share Final Call A/c <span style="float: right;">Dr.</span>	2000	
	To Equity Share Capital A/c		2000
	(Final call of Rs. 2 per share on 10 crore equity shares made due)		
	Bank A/c <span style="float: right;">Dr.</span>	2000	
	To Equity Share Final Call A/c		2000
	(Final call money on 10 crore equity shares received)		
June 1	Capital Redemption Reserve A/c <span style="float: right;">Dr.</span>	1485	
	Securities Premium A/c <span style="float: right;">Dr.</span>	2000	
	General Reserve A/c (b.f.) <span style="float: right;">Dr.</span>	515	
	To Bonus to Shareholders A/c		4000
	(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 <span style="float: right;">Dr.</span>	4000	
	To Equity Share Capital A/c		4000
	(Capitalisation of profit)		

#### Notes to Accounts:

1.	<b>Share Capital:</b> <b>Authorised share capital:</b> 20 crore shares of Rs. 10 each <span style="float: right;"><u>20,000</u></span> <b>Issued, subscribed and fully paid up share capital</b> 14 crore Equity shares of Rs. 10 each, fully paid up <span style="float: right;">14,000</span> (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 <span style="float: right;">2,000</span> <span style="float: right;">16,000</span>		
2.	<b>Reserves and Surplus</b> Capital Redemption reserve <span style="float: right;">1,485</span> Less: Utilised for bonus issue <span style="float: right;"><u>(1,485)</u></span> <span style="float: right;">-</span> Securities Premium <span style="float: right;">2,000</span> Less: Utilised for bonus issue <span style="float: right;"><u>(2,000)</u></span> <span style="float: right;">-</span> General Reserve <span style="float: right;">1,040</span> Less: Utilised for bonus issue <span style="float: right;"><u>(515)</u></span> <span style="float: right;">525</span> Surplus (Profit and Loss Account) <span style="float: right;">273</span> <b>Total</b> <span style="float: right;"><b>798</b></span>		

#### PROBLEM NO: 2

Journal Entries in the books of Manoj Ltd.

Date	Particulars	Amount (Rs.)	Amount (Rs.)
1-4-20X1	Equity share final call A/c <span style="float: right;">Dr.</span>	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 <span style="float: right;">Dr.</span>	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 W.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	<b>Rs.</b>
Existing authorised Equity share capital	30,00,000
<b>Add:</b> Issue of bonus shares to equity shareholders	<u>6,75,000</u>
	<b>36,75,000</b>

**PROBLEM NO: 3**

**Journal Entries in the Books of Trinity Ltd.**

	Particulars		Rs.	Rs.
<b>1.</b>	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			1,10,000
	(Being the amount payable to preference shareholders on Redemption)			
<b>2.</b>	Securities Premium A/c	Dr.	10,000	
	To Premium on Redemption of Preference shares A/c			10,000
	(Being amount of premium of Payable on redemption of preference shares)			
<b>3.</b>	General Reserve A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c			1,00,000
	(Being transfer to the latter account on redemption of shares)			
<b>4.</b>	Bank A/c	Dr.	90,000	
	Profit & Loss A/c	Dr.	10,000	
	To Investments A/c			1,00,000
	(Being amount realised on sale of Investments and Loss thereon adjusted)			
<b>5.</b>	Preference shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
	(Being payment made to preference shareholders)			
<b>6.</b>	Capital Redemption Reserve A/c	Dr.	1,00,000	
	To Bonus to Shareholders A/c			1,00,000
	(Being Amount adjusted for issuing bonus share in ratio of 1:1)			
<b>7.</b>	Bonus to Shareholders A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being Balance on former account transferred to latter)			

**PROBLEM NO: 4**

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.

**THE END**