

9. ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

ASSIGNMENT SOLUTIONS

PROBLEM NO. 1

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. 2

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 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		2,000
			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. 3

Journal Entries in the books of Manoj Ltd.

Date	Particulars	Amount (Rs.)	Amount (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 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	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. 4

Journal Entries in the Books of Trinity Ltd.

	Particulars	Rs.	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		1,10,000
	(Being the amount payable to preference shareholders on Redemption)		
2.	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)		
3.	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)		
4.	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)		

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. 5

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

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To **MASTER MINDS**, Guntur