

ACCOUNTING FOR BONUS ISSUE

BASIC CONCEPTS

- Bonus Issue means an offer of free additional shares to existing shareholders. A company may decide to distribute further shares as an alternative to increase the dividend payout.
- Bonus Issue is also known as a "scrip issue" or "capitalization issue".
- Bonus issue has following major effects :
 - Share capital gets increased according to the bonus issue ratio
 - Liquidity in the stock increases.
 - Effective Earnings per share, Book Value and other per share values stand reduced.
 - Markets take the action usually as a favourable act.
 - Market price gets adjusted on issue of bonus shares.
 - Accumulated profits get reduced.
- Bonus shares can be issued from following :
 - General reserves
 - Capital Reserve realized in cash
 - Securities Premium realized in cash

Question 1

The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009:

	₹
Sources of funds	
Authorized capital	
50,000 Equity shares of ₹10 each	5,00,000
10,000 Preference shares of ₹100 each	<u>10,00,000</u>
	<u>15,00,000</u>

<u>Issued, subscribed and paid up</u>	
30,000 Equity shares of ₹ 10 each	3,00,000
5,000, 8% Redeemable Preference shares of ₹ 100 each	5,00,000
<u>Reserves & Surplus</u>	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2,500, 9% Debentures of ₹ 100 each	2,50,000
Sundry Creditors	<u>1,70,000</u>
	<u>26,50,000</u>
<u>Application of funds</u>	
Fixed Assets (net)	7,80,000
Investments (market value ₹ 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000
Preliminary expenses	<u>1,40,000</u>
	<u>26,50,000</u>

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions:

- (i) To split equity share of ₹ 10 each into 5 equity shares of ₹ 2 each from 1st July, 09.
- (ii) To redeem 8% preference shares at a premium of 5%.
- (iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ₹ 10 per share or accept cash on redemption.
- (iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for ₹ 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option to accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer.
(November, 2010)

Answer

Bumbum Limited
Journal Entries

2009		Dr. (₹)	Cr. (₹)
July 1	Equity Share Capital A/c (₹ 10 each) Dr. To Equity share capital A/c (₹ 2 each) (Being equity share of ₹ 10 each splitted into 5 equity shares of ₹ 2 each)	3,00,000	3,00,000
July 10	Cash & Bank balance A/c Dr. To Investment A/c To Profit & Loss A/c (Being investment sold out and profit on sale credited to Profit & Loss A/c)	5,55,000	4,90,000 65,000
July 10	8% Redeemable preference share capital A/c Dr. Premium on redemption of preference share A/c Dr. To Preference shareholders A/c (Being amount payable to preference share holders on redemption)	5,00,000 25,000	5,25,000
July 10	Preference shareholders A/c Dr. To Cash & bank A/c (Being amount paid to preference shareholders)	5,25,000	5,25,000
July 10	Securities premium A/c Dr. To Capital redemption reserve A/c (Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)	5,00,000	5,00,000
Aug 1	9% Debentures A/c Dr. Interest on debentures A/c Dr. To Debentureholders A/c (Being amount payable to debentureholders along with interest payable)	2,50,000 7,500	2,57,500

Aug. 1	Debentureholders A/c To Cash & bank A/c (1,00,000 + 7,500) To Equity share capital A/c To Securities premium A/c (Being claims of debenture holders satisfied)	Dr.	2,57,500	1,07,500 30,000 1,20,000
Sept. 5	Securities premium A/c To Bonus to shareholders A/c (Being securities premium capitalized to issue bonus shares)	Dr.	1,10,000	1,10,000
Sept. 12	Bonus to shareholders A/c To Equity share capital A/c (Being 55,000 fully paid equity shares of ₹ 2 each issued as bonus in ratio of 1 share for every 3 shares held)	Dr.	1,10,000	1,10,000
Sept. 30	Securities Premium A/c To Premium on redemption of preference shares A/c (Being premium on preference shares adjusted from securities premium account)	Dr.	25,000	25,000
Sept. 30	Profit & Loss A/c To Interest on debentures A/c (Being interest on debentures transferred to Profit and Loss Account)	Dr.	7,500	7,500

Note: For capitalisation of Bonus shares and transfer to capital redemption reserve account any other free reserves given in the balance sheet may also be used.

Balance Sheet as at 30th September, 2009

Particulars		Notes	Rs.
Equity and Liabilities			
1	Shareholders' funds		
a	Share capital	1	4,40,000
b	Reserves and Surplus	2	14,72,500
2	Current liabilities		
a	Trade Payables		1,70,000
Total			20,82,500

Assets			
1	Non-current assets		
a	Fixed assets		
	Tangible assets		7,80,000
2	Current assets		
	Trade receivables		6,20,000
	Cash and cash equivalents		2,02,500
	Other current assets	3	4,80,000
	Total		20,82,500

Notes to accounts**1 Share Capital**

Authorized share capital

2,50,000 Equity shares of ₹ 2 each 5,00,000

10,000 Preference shares of ₹100 each 10,00,000 15,00,000

Issued, subscribed and paid up

2,20,000 Equity shares of ₹ 2 each 4,40,000

2 Reserves and Surplus

Securities Premium 85,000

Capital Redemption Reserve 5,00,000

General Reserve 6,50,000

Profit & Loss A/c (1,80,000 + 65,000 – 7,500) 2,37,500**Total** 14,72,500**3. Other current asset**

Preliminary expenses 1,40,000

Deferred tax assets (assumed to be current asset) 3,40,000**Total** 4,80,000**Working Notes:**

	₹
1. Redemption of preference share:	
5,000 Preference shares of ₹ 100 each	5,00,000
Premium on redemption @ 5%	<u>25,000</u>
Amount Payable	<u>5,25,000</u>

2. Redemption of Debentures

2,500 Debentures of ₹ 100 each	2,50,000
Less: Cash option exercised by 40% holders	<u>(1,00,000)</u>
Conversion option exercised by remaining 60%	<u>1,50,000</u>
Equity shares issued on conversion = $\frac{1,50,000}{10} = 15,000$ shares	

3. Issue of Bonus Shares

Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	<u>15,000 shares</u>
Equity shares entitled for bonus	<u>1,65,000 shares</u>
Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares

4. Securities Premium A/c

Balance as per balance sheet	6,00,000
Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	<u>1,20,000</u>
	7,20,000
Less: Capitalization for bonus issue (55,000 x 2)	(1,10,000)
Adjustment for premium on preference shares	(25,000)
Transfer to capital redemption reserve	<u>(5,00,000)</u>
Balance	<u>85,000</u>

5. Cash and Bank Balance

Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	<u>5,55,000</u>
	8,35,000
Less: Paid to preference share holders	(5,25,000)
Paid to Debentureholders (7,500 + 1,00,000)	<u>(1,07,500)</u>
Balance	<u>2,02,500</u>

6. Interest of ₹ 7,500 paid to debenture holders have been debited to Profit & Loss Account.

EXERCISES

1. The Balance Sheet of A Ltd. as at 31.3.2012 is as follows:

Balance Sheet as at 31.3.2012

Liabilities	Rs.	Assets	Rs.
Authorised Share Capital		Sundry Assets	17,00,000
1,50,000 Equity Shares of Rs. 10 each	<u>15,00,000</u>		
Issued, Subscribed and Paid-up			
80,000 Equity Shares of			
Rs. 7.50 each called-up and paid-up	6,00,000		

Reserves and surplus

Capital Redemption Reserve	1,50,000	
Plant Revaluation Reserve	20,000	
Securities Premium Account	1,50,000	
Development Rebate Reserve	2,30,000	
Investment Allowance Reserve	2,50,000	
General Reserve	3,00,000	
	<u>17,00,000</u>	<u>17,00,000</u>

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with:

- You are required to give effect to the proposal by passing journal entries in the books of A Ltd.
- Show the amended Balance Sheet.

(Hints: Total of Balance Sheet Rs.19,00,000)

- The following is the Trial Balance of Subhash Limited as on 31.3.2012 :

(Figures in Rs. '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 (31.3.2012)	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		
	<u>835</u>		<u>835</u>

Additional Information :

- On 31.3.2012, the company issued bonus shares to the shareholders on 1 : 3 basis. No entry relating to this has yet been made.
- The authorised share capital of the company is 25,000 shares of Rs. 10 each.
- The company on the advice of independent valuer wish to revalue the land at Rs. 1,80,000.
- Proposed final dividend 10%.
- Suspense account of Rs. 2,000 represents cash received for the sale of some of the machinery on 1.4.2011. The cost of the machinery was Rs. 5,000 and the accumulated depreciation thereon being Rs. 4,000.

(f) Depreciation is to be provided on plant and machinery at 10% on cost.

You are required to prepare Subhash Limited's Profit & Loss account for the year ended 31.3.2012 and a balance sheet on that date in vertical form as per the provisions of Schedule VI of the Companies Act, 1956.

Your answer to include detailed notes only for the following:

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

Ignore previous years' figures & taxation.

(Hints: Total of Balance Sheet Rs. 500; Net profit before dividend Rs. 83)