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Bonus & Right Issue

BONUS ISSUE

Introduction

A bonus share may be defined as issue of shares at no cost to current shareholders in a company, based upon the number of shares that the shareholder already owns. In other words, no new funds are raised with a bonus issue. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the net worth of the company.

Bonus issue is also known as 'capitalisation of profits'. Capitalisation of profits refers to the process of converting profits or reserves into paid up capital. A company may capitalise its profits or reserves which otherwise are available for distribution as dividends among the members by issuing fully paid bonus shares to the members.

If the subscribed and paid-up capital exceeds the authorised share capital as a result of bonus issue, a resolution shall be passed by the company at its general body meeting for increasing the authorised capital. A return of bonus issue along with a copy of resolution authorising the issue of bonus shares is also required to be filed with the Registrar of Companies.

Provisions of the Companies Act, 2013

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. **As per section 63(1)** a company may issue fully paid-up bonus shares to its members, out of—

(a) its free reserves; (as per section 2(43) free reserves means reserves available for distribution as dividend as per latest audited balance-sheet.)

(b) the securities premium account; (Collected in cash) or

(c) the capital redemption reserve account:

Provided that revaluation reserve cannot be used.

"SEBI says share security premium collected in cash only be used for bonus (SEBI regulations apply to listed co.'s that means unlisted co.'s can use all share security premium."

As per **section 63(2)** Bonus issue allowed if:

(a) Authorised by articles,

(b) Recommended by board & authorised in General meeting.

(c) It has not defaulted in payment of interest or principle of fixed deposit or debt securities, payment of statutory dues of employees like PF, Gratuity, and Bonus etc.

(d) Partly paid up shares if any are made fully paid up.

(e) It complies with other conditions as may be prescribed.

As per Section 63(2) of the Companies Act, 2013, *bonus shares cannot be issued unless party paid-up shares are made fully paid-up.*

Table F under Schedule I to the Companies Act, 2013 *allows use of FREE RESERVES for paying up amounts unpaid on shares held by existing shareholders.*

On a combined reading of both the provisions, *it can be said that free reserves can be used for paying up amounts unpaid on shares held by existing shareholders (though securities premium account and capital redemption reserve cannot be used).*

As per Section 63(3) Bonus issue shall not be in lieu of dividend.

Journal Entries

A) Issue of fully paid Bonus Shares

Particulars	Debit	Credit
1. Upon the sanction of an issue of bonus shares	Capital Redemption Reserve A/c Securities Premium A/c General Reserve Account A/c Profit & Loss Account A/c	Bonus to Shareholders A/c
2. Upon issue of bonus shares	Bonus to Shareholders A/c	Share Capital A/c

B) Conversion of partly paid up shares into fully paid up shares

Particulars	Debit	Credit
1. Upon the sanction of bonus by converting partly paid shares into fully paid shares	General Reserve Account A/c Profit & Loss Account A/c "Only free reserve and profits can be utilized"	Bonus to Shareholders A/c
2. On making the final call due	Share Final Call A/c	Share Capital A/c
3. On adjustment of final call	Bonus to Shareholders A/c	Share Final Call A/c

Regulation 294 - Restrictions on a bonus issue.

An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.

The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments at the time of conversion of such convertible debt instruments on the same proportion at which the bonus shares were issued.

A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalised for this purpose.

RIGHT ISSUE

Introduction

Provisions of section 62(1) (a) govern any company, public or private, desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting rights of the existing shareholders may be diluted, if they are not allowed to preserve them. It may happen because new shareholders may subscribe to the issued share capital. Companies Act, 2013 allows existing shareholders to preserve their position by offering those newly issued shares at the first instance to them. The existing shareholders are given a right to subscribe these shares, if they like.

However, if they do not desire to subscribe these shares, they are even given the right to renounce it in favour of someone else (unless the articles of the company prohibits such a right to renounce).

In nutshell, the existing shareholders have a right to subscribe to any fresh issue of shares by the company in proportion to their existing holding for shares. They have an implicit right to renounce this right in favour of anyone else, or even reject it completely. In other words, the existing shareholders have right of first refusal, i.e., the existing shareholders enjoy a right to either subscribe for these shares or sell their rights or reject the offer.

Example

Assume a company makes a right issue of 10,000 shares when its existing issued and subscribed capital is 100,000 shares. This enables any shareholder having 10 shares to subscribe to 1 new share. Hence X, an existing shareholder holding 1,000 shares, may subscribe to 100 shares as a matter of right. The existing share percentage of X was 1% (1,000 / 100,000). If X subscribes these shares, his percentage holding in the company will be maintained (1,100 / 1,10,000). However, if X does not mind his share % diluting (1,000 / 1,10,000), he may renounce the right in favour of anyone else, say Y. Hence, these 100 shares will be issued to Y, at the insistence of X. X may charge Y for this privilege, which is technically termed as the value of right.

Conditions for issue of right issue

A company desirous of issuing new shares has to offer, as per Section 62(1) (a) of Conditions for issue of right issue Companies Act 2013, the shares to ***existing equity shareholders*** through a letter of offer subject to the following conditions, namely:

1. The offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
2. Unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice shall contain a statement of this right;
3. After the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and the company.

Exceptions to the rights of existing equity shareholders

1. to employees under a scheme of ***employees***' stock option, subject to special resolution passed by company and subject to such conditions as may be prescribed; or
2. To any persons, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to certain specified conditions.
3. Sometimes companies borrow money through debentures / loans and give their creditor an option to buy equity shares of a company. An option is a right, but not an obligation, to buy equity shares on a future date (expiry date) at a price agreed in advance (exercise price).
4. It is a special situation where the loan has been obtained from the government, and government in public interest, directs the debentures / loan to be converted into equity shares.

Accounting for Right Issue in the books of Company

The accounting treatment of rights share is the same as that of issue of ordinary shares

Particulars	Debit	Credit
1. Issue of Share at Par	Bank A/c	Equity shares capital A/c
2. Issue of Share at Premium	Bank A/c	Equity shares capital A/c Security Premium A/c.

Value of Right

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share & after right issue is termed as Ex-right Market Price of the shares. The difference between the cum-right and ex-right value (average price) of the share is called value of right

Value of right = Cum-right value – Ex- right value

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

Normally, the further public issue to the existing shareholders are offered at a discounted price from the market value, to evoke positive response as well as to reward the existing shareholders.

Example

Assume 1,000 shares are issued (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of ₹ 14 per share. Mr. Narain has 100 shares of Company before rights issue. Current worth of holding = No. of shares X Cum-right Market Price = 100 X ₹ 25 = ₹ 2,500

1. *If Narain exercises his right, he will pay ₹ 14 X 10 shares = ₹ 140. His total investment in the company including right is ₹ 2,640 (₹ 2,500 + ₹ 140). On a per share basis, it is ₹ 2,640 /110 shares = ₹ 24, which is the Ex-right Market value of the share.*
2. *If Narain does not exercises his right to further issue, his holding's worth will decline to ₹ 24 X 100 shares = ₹ 2400. The law allows him to compensate for this dilution of shareholding by renouncing this right in favour of, say, Mr. Murthy. Narain can charge Murthy, in well-functioning capital markets, this dilution of ₹ 100 by renouncing his right to acquire 10 shares. Hence Murthy will be charged ₹ 10 per share (₹ 100 / 10 shares), in return for a confirmed allotment of 10 shares at ₹ 14 each.*

For every share to be offered to Murthy, Narain must have ten shares at the back. Hence his holding of 10 shares fetches him right money of ₹ 10 or ₹ 1 per share held. This is exactly equal to the difference between Cum-right and Ex-right value of the share. It is termed as the Value of Right.

In a well-functioning capital market, this mechanism works in a fair manner to all the participants.

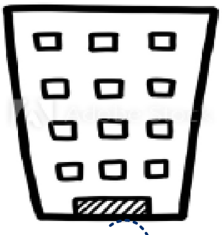
Murthy's total investment will be ₹ 140 (payable to Company) + ₹ 100 (payable to Narain, by way of value of right), or ₹ 240. He will end up holding ten shares at an average cost of ₹ 24, which is the Ex-right Market Price of the share.

Narain will have a final holding of ten shares worth ₹ 2400 + ₹ 100 by way of value of right received from Murthy. It matches with his cum-right holding valuation.

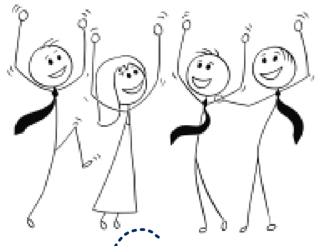
BONUS ISSUE

1. Authorised by Article of Association
2. Authorised in General Meeting
3. Not Defaulted in Payment (Interest or Principle of Debt, Statutory Payment of employees like PF, Gratuity Etc.)
4. Partly Paid up Shares if any Made Fully Paid up

Conditions for Issue of Bonus Shares



Bonus Shares (Shares at Free)



Accounting from Company's Point of View Covered Here

Accounting from Investors Point of View Covered in Investment Chapter – Recorded at Nil Value

Form of Bonus (Not In lieu of Dividend

Issue of Fully Paid up Bonus Shares

Conversion of Partly Paid up Shares into Fully Paid up Shares

Utilisation of Reserve (Capitalization of Profit)

Only Free Reserve and Profit can be utilized

1. CRR A/c
2. Security Premium A/c (Collected in Cash)
3. General Reserve A/c
4. Profit & Loss A/c

Revaluation Reserve Cannot be utilized

Restriction on a Bonus Issue

Reservation of Bonus Issue for Convertible Debt

Issue Bonus Shares at the time of Conversion in Same Proportion

RIGHT ISSUE

Company 1st offer shares to existing shareholders at a lower Price than Market Price

Right Issue

Accounting from Company's Point of View same as for Issue of Shares

Existing Shareholders have 3 Options

Accounting Covered in Investment Chapter

- Subscribe
- Sell Rights
- Lapse

Smart Investor will sell rights if not subscribe by him

Value of Right = Cum Right Value - Ex Right Value

Cum Right Value → Market Price before Right Issue

Ex Right Value → Market Price after Right Issue

$$\text{Market Price after Right Issue} = \frac{[\text{Cum Right Value of the Existing Shares}] + [\text{Right Issue} \times \text{Issue Price}]}{\text{Existing Shares} + \text{Right Shares}}$$

PRACTICAL PROBLEMS

BONUS ISSUE

1. **[May 2018]** Following are the balances appear in the trial balance of Arya Ltd. as at 31st March. 2018.

Issued and Subscribed Capital:

Particulars	₹
10,000; 10% Preference Shares of ₹ 10 each fully paid	1,00,000
1,00,000 Equity Shares of ₹ 10 each ₹ 8 paid up	8,00,000
Reserves and Surplus:	
General Reserve	2,40,000
Securities Premium (collected in cash)	25,000
Profit and Loss Account	1,20,000

On 1st April, 2018 the company has made final call @ ₹ 2 each on 1,00,000 Equity Shares. The call money was received by 15th April, 2018. Thereafter the company decided to issue bonus shares to equity shareholders at the rate of 1 share for every 5 shares held and for this purpose, it decided that there should be minimum reduction in free reserves. Pass Journal entries.

2. Following is the extract from the Balance Sheet of M/s. Yahoo Ltd. as at 31st March, 2011:

Notes	₹
Authorised Capital:	
50,000, 10% Preference Share of ₹ 10 each	5,00,000
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Issued and Subscribed Capital:	
40,000, 10% Preference Shares of ₹ 10 each fully paid	4,00,000
1,80,000, Equity Shares of ₹ 10 each of which ₹ 7.50 paid up	13,50,000
Reserve and Surplus:	
General Reserve	3,90,000
Securities Premium	50,000
Profit and Loss Account	3,00,000

On 1st April, 2011, the company has made a final call @ ₹ 2.50 each on 1,80,000 equity shares. The call money was received by 30th April, 2011. 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 ₹ 50,000 includes a premium of ₹ 20,000 for shares issued to vendor for purchase of a special 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.

3. Following is the extract of the Balance Sheet of Solid Ltd. as at 31st March, 2011:

Particulars	₹
Authorised capital :	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	10,00,000
	11,00,000
Issued and Subscribed capital:	
8,000 12% Preference shares of ₹ 10 each fully paid	80,000
90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	7,20,000
Reserves and Surplus :	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected incash)	20,000
Profit and Loss Account	2,05,000
Secured Loan:	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2011 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2011. 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.

4. The following notes pertain to Brite Ltd.'s Balance Sheet as on 31st March, 2012:

Notes	₹ in Lakhs
(1) Share Capital	
Authorised:	
20 crore shares of ₹ 10 each	20,000
Issued and Subscribed:	
10 crore Equity Shares of ₹ 10 each	10,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each	2,000
Total	12,000
Called and Paid up:	
10 crore Equity Shares of ₹ 10 each, ₹ 8 per share called and paid up	8,000
2 crore 11% Cumulative Preference Shares of ₹ 10 each, fully called and paid up	2,000
Total	10,000
(2) Reserves and Surplus:	
Capital Redemption Reserve	1,485
Securities Premium	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss (Appropriation) Account	273
Total	4,798

On 2nd April 2012, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2012.

On 1st June 2012, the company decided to issue to equity shareholders bonus shares at the rate of 2 shares for every 5 shares held.

Pass journal entries for all the above mentioned transactions. Also prepare the notes on Share Capital and Reserves and Surplus relevant to the Balance Sheet of the company immediately after the issue of bonus shares.

5. The Balance Sheet of Hindustan Ltd., on 31st December, 2017 was as follows:

Liabilities	₹	Assets	₹
4,000 Equity shares of ₹100 each, ₹ 80 paid	3,20,000	Sundry Assets	10,00,000
Security Premium	60,000		
Capital Redemption Reserve A/c	70,000		
General Reserve A/c	1,00,000		
Profit & Loss A/c	3,00,000		
Sundry Creditors	1,50,000		
	10,00,000		10,00,000

The directors recommend the following with a view to capitalizing whole of share premium account, Capital Redemption Reserve Account, General Reserve and ₹ 50,000 out of Profit and Loss Account.

1. The existing shares are made fully paid without the shareholders having to pay anything.
2. Each shareholder to be given fully paid bonus shares at a premium of 25% for the remaining amount in proportion to his holdings. Assuming that the scheme is accepted and that all formalities are gone through.

Give journal entries and also show in what proportion bonus shares will be distributed among shareholders.

6. Universal Limited has 20,000 fully Paid Equity Shares of ₹ 100 each and 6,000 fully convertible Debentures of ₹ 200 each. Debenture are convertible into 10,000 number of fully paid equity shares after 6 months. Pass entries for the Bonus @ 1 for 4 shares held.

RIGHT ISSUE

7. **[May 2003]** Pragya Limited has issued 75,000 equity shares of ₹ 10 each. The current market price per share is ₹ 24. The company has a plan to make a right issue of one new equity share at a price of ₹ 16 for every four share held.

You are required to:

a) Calculate the theoretical post-rights price per share.

b) Calculate the theoretical value of the right alone.

c) Show the effect of the rights issue on the wealth of a shareholder, who has 1,000 shares assuming he sells the entire rights; and

d) Show the effect, if the same shareholder does not take any action and ignores the issue.

8. A company offers new shares of ₹ 100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹ 150. Calculate the value of a right. What should be the ex-right market price of a share?

PRACTICE DRILL

BONUS ISSUE

1. Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2011:

Particulars	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	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.

Solution:

Journal Entries in the books of Bharat Ltd.

Particulars		Dr. ₹	Cr. ₹
Capital Redemption Reserve A/c.	Dr.	55,000	
Securities Premium A/c.	Dr.	30,000	
General Reserve A/c.	Dr. (Bal. Fig.)	15,000	
To Bonus to Shareholders A/c.			1,00,000
(Being Bonus issue of one share for every four shares held by utilising various reserves as per board's resolution dated……)			
Bonus to Shareholders A/c.	Dr.	1,00,000	
To Equity Share Capital A/c.			1,00,000
(Being Capitalization of Profit)			

2. Following is the extract of the Balance Sheet of Preet Ltd. as at 31st March, 2011

Authorised capital:	₹
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed capital:	
12,000 12% Preference shares of ₹ 10 each fully paid	1,20,000
1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000

Reserves and surplus:	
General Reserve	1,80,000
Capital Redemption Reserve	60,000
Securities premium (collected in cash)	37,500
Profit and Loss Account	3,00,000

On 1st April, 2011, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2011. 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 journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2011 after bonus issue.

Solution:

Journal Entries in the books of Preet Ltd.

Date	Particulars		₹	₹
1-4-2011	Equity share final call A/c	Dr.	2,70,000	
	To Equity share capital A/c			2,70,000
	(For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated….)			
20-4-2011	Bank A/c	Dr.	2,70,000	
	To Equity share final call A/c			2,70,000
	(For final call money on 1,35,000 equity shares received)			
	Securities Premium A/c	Dr.	37,500	
	Capital Redemption Reserve A/c	Dr.	60,000	
	General Reserve A/c	Dr.	1,80,000	
	Profit and Loss A/c	Dr.	60,000	
	To Bonus to shareholders A/c			3,37,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	3,37,500	
	To Equity share capital A/c			3,37,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2011 (after bonus issue)

Particulars	₹
Authorised Capital	
15,000 12% Preference shares of ₹10 each	1,50,000
1,68,750 Equity shares of ₹10 each	16,87,500

Issued and subscribed capital	1,20,000
12,000 12% Preference shares of ₹10 each, fully paid	16,87,500
1,68,750 Equity shares of ₹10 each, fully paid	
(Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	2,40,000

3. **[May 2014]** Following items appear in the Trial Balance of Saral Ltd. as on 31.03.2014:

Particulars	₹
4,500 Equity Shares of Rs. 100 each	4,50,000
Securities Premium	40,000
Capital Redemption Reserve	70,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The Company decided to issue to Equity Shareholders, Bonus Shares at the rate of 1 Share for every 3 Shares held. The Company decided that there should be the minimum reduction in Free Reserves. Pass necessary Journal Entries in books of Saral Ltd.

Solution:

Number of Bonus Shares to be given = 4,500 × 1/3 = 1,500 Shares of Face Value ₹ 100 each = ₹ 1,50,000.

Since the Company has decided minimum reduction in Free Reserves, the Bonus Issue is made out of the following –

a) Capital Redemption Reserve ₹ 70,000.

b) Securities Premium (assumed realized in Cash) ₹ 40,000.

The total of the above is **₹** 1,10,000. Hence, the balance required amount ₹ 1,50,000 – ₹ 1,10,000 = ₹ 40,000 may be taken from Free Reserves, i.e. General Reserve A/c.

Journal Entries in the books of Saral Ltd.

	Particulars		Debit (₹)	Credit (₹)
1.	Capital Redemption Reserve A/c	Dr.	70,000	
	Security Premium A/c.	Dr.	40,000	
	General Reserve A/c	Dr.	40,000	
	To Bonus to Equity Shareholders A/c			1,50,000
	(Being appropriation made to issue Bonus Shares at the rate of 1 Share for every 3 shares held, i.e. Total Bonus Value: 1,50,000)			
2.	Bonus to Equity Shareholders A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being the issue of 1,500 Shares by way of Bonus)			

4. **[RTP May 2018, Similar in RTP Nov. 2018, May 2019 & Nov. 2019]** Following is the extract of the Balance Sheet of Manoj Ltd. as at 31 st March, 2011

Particulars	₹
Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 2011, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2011. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 2011 after bonus issue.

Solution:

Journal Entries in the books of Manoj Ltd.

Date	Particulars		Debit (₹)	Credit (₹)
1-4-2011	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2011	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)			

2018 Extract of Balance Sheet as at 30th April, 20X1

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

RIGHT ISSUE

5. **[RTP - May 2018]** Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200. You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

Solution:

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)

= (₹ 200 X 5 Shares + ₹ 125 X 1 Share) / (5 + 1) Shares

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

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

= ₹ 200 – ₹ 187.50 = ₹ 12.50 per share.

6. **[RTP - Nov 2018]** Zeta Ltd. has decided to increase its existing share capital by making rights issue to its existing shareholders. Zeta Ltd. is offering one new share for every two shares held by the shareholder. The market value (cum-right) of the share is ₹ 360 and the company is offering one right share of ₹ 180 each to its existing shareholders. You are required to calculate the value of a right. What should be the ex-right value of a share?

Solution:

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)

= (₹ 360 x 2 Shares + ₹ 180 x 1 Share) / (2 + 1) Shares

= ₹ 900 / 3 shares = ₹ 300 per share.

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

= ₹ 360 – ₹ 300 = ₹ 60 per share.

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 180 will have to pay ₹ 120 (2 shares x ₹ 60) to an existing shareholder holding 2 shares and willing to renounce his right of buying one share in favour of that person.