

## UNIT – 4: ACCOUNTING FOR BONUS ISSUE AND RIGHT ISSUE

### LEARNING OUTCOMES

**After studying this unit, you will be able to:**

- ♦ Understand the provisions relating to issue of bonus shares and right shares;
- ♦ Account for bonus shares and rights issue in the books of issuing company;
- ♦ Understand the meaning of renunciation of right;
- ♦ Differentiate between cum-right and ex-right value of share;
- ♦ Calculate value of rights.

**UNIT OVERVIEW**

<b>BONUS SHARES</b>	<p>Bonus issue means an issue of additional shares to existing shareholders free of cost in proportion to their existing holding.</p> <p>A company may issue fully paid-up bonus shares to its shareholders out of—</p> <ul style="list-style-type: none"> <li>(i) its free reserves;</li> <li>(ii) securities premium account; or</li> <li>(iii) capital redemption reserve account:</li> </ul> <p>Bonus shares should not be issued out of revaluation reserves (i.e., reserves created by the revaluation of assets).</p>
<b>RIGHT ISSUE</b>	<p>Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. In a rights offering, the subscription price at which each share may be purchased is generally at a discount to the current market price. Rights are often transferable, allowing the holder to sell them in the open market. The difference between the cum-right and ex-right value of the share is the value of the right.</p>

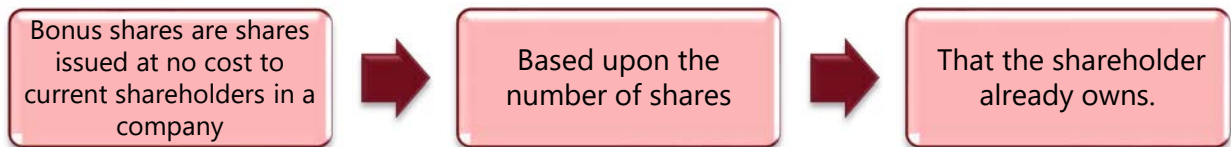
## **4.1 ISSUE OF BONUS SHARES**

### **4.1.1 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. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.

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.



### Example 1

*Alpha Company announced bonus issue to its shareholders in the ratio of 2:3 ie. 2 shares for every 3 shares held. Shareholder X has 6,000 shares before announcement of bonus issue. How much shares would he have after bonus issue?*

### Solution

Company announced bonus issue in ratio of 2:3

Shareholder X will be entitled to have 4,000 bonus shares  $(6,000 \text{ shares} / 3 \times 2)$

Total number of shares X has after bonus issue 10,000  $(6,000 + 4,000)$

## 4.1.2 Provisions of the Companies Act, 2013

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

- (i) its free reserves\*;
- (ii) the securities premium account; or
- (iii) the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Sub-section (2) of Section 63 provides that no company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

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\* As per Section 2(43) of the Companies Act, 2013, "free reserves" means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend. Provided that—

- (i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or
- (ii) any change in carrying amount of an asset or of a liability recognised in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value, shall not be treated as free reserves.

- (a) it is authorised by its articles;
- (b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
- (c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- (e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.
- (f) it complies with such conditions as may be prescribed.

The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Sub-section (3) of the Section also provides that the bonus shares shall not be issued in lieu of dividend.

As per Para 39 (i) of Table F under Schedule I to the Companies Act, 2013, a company in general meeting may, upon the recommendation of the Board, resolve—

- (i)
  - (a) that it is desirable to capitalise any part of the amount for the time being standing to the credit of any of the company's reserve accounts, or to the credit of the profit and loss account, or otherwise available for distribution; and
  - (b) that such sum be accordingly set free for distribution in the specified manner amongst the members who would have been entitled thereto, if distributed by way of dividend and in the same proportions.
- (ii) The sum aforesaid shall not be paid in cash but shall be applied, subject to the provision contained in clause (iii), either in or towards— (a) paying up any amounts for the time being unpaid on any shares held by such members respectively; (b) paying up in full, unissued shares of the company to be allotted and distributed, credited as fully paid-up, to and amongst such members in the proportions aforesaid; partly in the way specified in (a) and partly in that specified in (b) above;

A securities premium account and a capital redemption reserve account may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, securities premium account and capital redemption reserve **cannot** be applied towards payment of unpaid amount on any shares held by existing shareholders.

As per Section 63(2) of the Companies Act, 2013, bonus shares cannot be issued unless partly paid-up shares are made fully paid-up. Para 39(ii) of 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 may be used for paying up amounts unpaid on shares held by existing shareholders (though securities premium account and capital redemption reserve cannot be used).

### 4.1.3 Journal Entries

**(A) (1) Upon the sanction of an issue of bonus shares**

Capital Redemption Reserve Account	Dr.
Securities Premium Account <sup>1</sup>	Dr.
General Reserve Account	Dr.
Profit & Loss Account	Dr.
To Bonus to Shareholders Account.	

**(2) Upon issue of bonus shares**

Bonus to Shareholders Account	Dr.
To Share Capital Account.	

**(B) (1) Upon the sanction of bonus by converting partly paid shares into fully paid shares**

General Reserve Account	Dr.
Profit & Loss Account	Dr.
To Bonus to Shareholders Account	

**(2) On making the final call due**

Share Final Call Account	Dr.
To Share Capital Account.	

<sup>1</sup> As per SEBI Regulations, such securities premium should be realized in cash, whereas under the Companies Act, 2013, there is no such requirement. In accordance with Section 52, securities premium may arise on account of issue of shares other than by way of cash. Thus, for unlisted companies, securities premium (not realized in cash) may be used for issue of bonus shares, whereas the same cannot be used in case of listed companies.

**(3) On adjustment of final call**

Bonus to Shareholders Account

Dr.

To Share Final Call Account

**ILLUSTRATION 1**

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31<sup>st</sup> March, 2022:

	₹
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.**

		Dr.	Cr.
		₹	₹
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.....)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

**Working Note-**

Number of Bonus shares to be issued-  $(40,000 \text{ shares} / 4) \times 1 = 10,000 \text{ shares}$

Value of Bonus shares-  $10,000 \text{ shares of ₹ 10 each} = ₹ 1,00,000$

**ILLUSTRATION 2**

Pass Journal Entries in the following circumstances:

- (i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

**SOLUTION****Journal Entries**

		₹	₹
(i)	General Reserve A/c Dr. To Bonus to shareholders A/c (For making provision of bonus issue)	1,25,000	1,25,000
	Share Final Call A/c To Equity share capital A/c (For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....)	1,25,000	1,25,000
	Bonus to shareholders A/c Dr. To Share Final Call A/c (For bonus money applied for call)	1,25,000	1,25,000
(ii)	General Reserve A/c Dr. To Bonus to shareholders A/c (For making provision of bonus issue)	5,00,000	5,00,000
	Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of 50,000 bonus shares at ₹ 10)	5,00,000	5,00,000

**ILLUSTRATION 3**

Following notes pertain to the Balance Sheet of Solid Ltd. as at 31st March, 2022:

	₹
<b>Authorised capital :</b>	
10,000 12% Preference shares of ₹ 10 each	1,00,000
1,00,000 Equity shares of ₹ 10 each	<u>10,00,000</u>
	<u>11,00,000</u>
<b>Issued and Subscribed capital:</b>	
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
<b>Reserves and Surplus :</b>	
General reserve	1,60,000
Revaluation reserve	35,000
Securities premium (collected in cash)	20,000
Profit and Loss Account	2,05,000
<b>Secured Loan:</b>	
12% Debentures @ ₹ 100 each	5,00,000

On 1st April, 2022 the Company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 20th April, 2022. 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.

**SOLUTION****Journal Entries in books of Solid Ltd.**

			Dr.	Cr.
			₹	₹
2022				
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ₹ 2 per share on 90,000 equity shares due as per Board's Resolution dated....)			



April 20	Bank A/c	Dr.	1,80,000	1,80,000
	To Equity Share Final Call A/c (Final Call money on 90,000 equity shares received)			
	Securities Premium A/c	Dr.	20,000	
	General Reserve A/c	Dr.	1,60,000	
	Profit and Loss A/c (b.f.)	Dr.	45,000	
	To Bonus to Shareholders A/c (Bonus issue @ one share for every four shares held by utilising various reserves as per Board's Resolution dated...)			2,25,000
April 20	Bonus to Shareholders A/c	Dr.	2,25,000	2,25,000
	To Equity Share Capital A/c (Capitalization of profit)			

**Balance Sheet (Extract) as at 30th April, 2022 (after bonus issue)**

		<b>Particulars</b>	<b>Notes</b>	<b>Amount (₹)</b>
<b>1</b>		<b>Equity and Liabilities</b>		
		<b>Shareholders' funds</b>		
	a	Share capital	1	12,05,000
	b	Reserves and Surplus	2	1,95,000
<b>2</b>		<b>Non-current liabilities</b>		
	a	Long-term borrowings	3	<u>5,00,000</u>
		<b>Total</b>		<b><u>19,00,000</u></b>

**Notes to Accounts**

<b>1</b>	<b>Share Capital</b>	
	Equity share capital	
	<u>Authorised share capital</u>	
	10,000 12% Preference shares of ₹ 10 each	1,00,000
	1,12,500 Equity shares of ₹ 10 each	<u>11,25,000</u>

<u>Issued, subscribed and fully paid share capital</u>		
8,000 12% Preference shares of ₹ 10 each		80,000
1,12,500 Equity shares of ₹ 10 each, fully paid (Out of above, 22,500 equity shares @ ₹ 10 each were issued by way of bonus)	(A)	<u>11,25,000</u>
<b>Total</b>		<b><u>12,05,000</u></b>
<b>2 Reserves and Surplus</b>		
Revaluation Reserve		35,000
Securities Premium	20,000	
Less: Utilised for bonus issue	<u>(20,000)</u>	Nil
General reserve	1,60,000	
Less: Utilised for bonus issue	<u>(1,60,000)</u>	Nil
Profit & Loss Account	2,05,000	
Less: Utilised for bonus issue	<u>(45,000)</u>	<u>1,60,000</u>
<b>Total</b>		<b><u>1,95,000</u></b>
<b>3 Long-term borrowings</b>		
Secured		
12% Debentures @ ₹ 100 each		5,00,000

The authorised capital has been increased by sufficient number of shares. (11,25,000 – 10,00,000)

### Working Note-

Number of Bonus shares to be issued (90,000 shares / 4 ) X 1 = 22,500 shares

**Note:** It has to be ensured that the authorized capital after bonus issue should not be less than the issued share capital (including bonus issue) in all the practical problems. The authorized capital may either be increased by the amount of bonus issue or the value of additional shares [value of bonus shares issued less unused authorized capital (excess of authorized capital in comparison to the issued shares before bonus issue)].

**ILLUSTRATION 4**

Following notes pertain to the Balance Sheet of Preet Ltd. as at 31<sup>st</sup> March, 2022

	₹
<b>Share capital:</b>	
Authorised capital:	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	<u>15,00,000</u>
	<u>16,50,000</u>
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
<b>Reserves and surplus:</b>	
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 1<sup>st</sup> April, 2022, the Company has made final call @ ₹ 2 each on 1,35,000 equity shares. The call money was received by 20<sup>th</sup> April, 2022. 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 30<sup>th</sup> April, 2022 after bonus issue.

**SOLUTION****Journal Entries in the books of Preet Ltd.**

		₹	₹
1-4-2022	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 1,35,000 equity shares due as per Board's Resolution dated....)	2,70,000	2,70,000
20-4-2022	Bank A/c Dr.	2,70,000	

To Equity share final call A/c (For final call money on 1,35,000 equity shares received)			2,70,000
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 (b.f.)	Dr.	60,000	
To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)			3,37,500
Bonus to shareholders A/c	Dr.	3,37,500	
To Equity share capital A/c (For issue of bonus shares)			3,37,500

**Extract of Balance Sheet as at 30<sup>th</sup> April, 2022 (after bonus issue)**

		₹
<b>Share Capital</b>		
<b>Authorised Capital</b>		
15,000 12% Preference shares of ₹10 each		1,50,000
1,68,750 Equity shares of ₹10 each (refer working note below)		<u>16,87,500</u>
<b>Issued and subscribed capital</b>		
12,000 12% Preference shares of ₹10 each, fully paid		1,20,000
1,68,750 Equity shares of ₹10 each, fully paid		16,87,500
(Out of above, 33,750 equity shares @ ₹10 each were issued by way of bonus)		
<b>Reserves and surplus</b>		
Securities Premium	37,500	
Less: Utilised for bonus issue	<u>(37,500)</u>	NIL
Capital Redemption Reserve	60,000	
Less: Utilised for bonus issue	<u>(60,000)</u>	NIL
General Reserve	1,80,000	

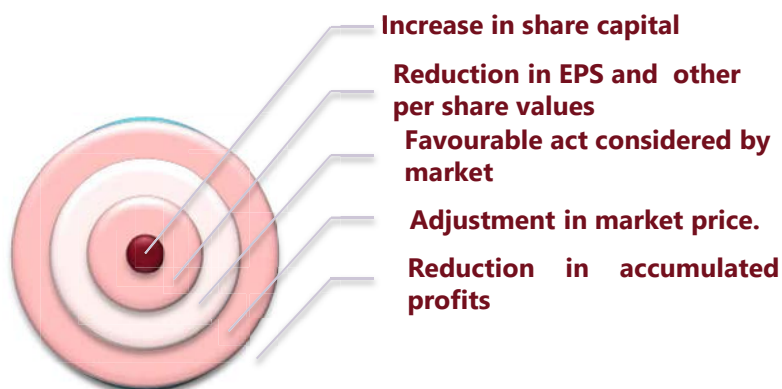
Less: Utilised for bonus issue	(1,80,000)	NIL
Profit and Loss Account	3,00,000	
Less: Utilised for bonus issue	(60,000)	2,40,000

**Working Notes:**

- Number of Bonus shares to be issued- ₹  
 $(1,35,000 \text{ shares} / 4) \times 1 = 33,750 \text{ shares}$
  - The authorised capital should be increased as per details given below:
- |   |                  |
|---|------------------|
| Existing issued Equity share capital              | 13,50,000        |
| Add: Issue of bonus shares to equity shareholders | <u>3,37,500</u>  |
|   | <u>16,87,500</u> |

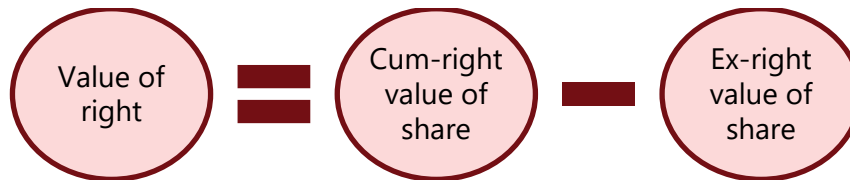
**4.1.4 Effects of Bonus Issue**

**Bonus issue has following major effects:**

**4.2 RIGHT ISSUE****4.2.1 Introduction**

Provisions of section 62(1)(a) of the Companies Act, 2013 govern any company, public or private, which is desirous of raising its subscribed share capital by issue of further shares. Whenever a company intends to issue new shares, the voting and governance 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 2

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 at 1% ( $1,100 / 1,10,000$ ). However, if X does not mind his share 0.91% diluting ( $1,000 / 1,10,000$ ), he may renounce the right in favour of any one 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.

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

- 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;
- 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 (referred to in above bullet point) shall contain a statement of this right;
- 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**

Section 62 recognises four situations under which the further shares are to be issued by a company, but they need not be offered to the existing shareholders.

The shares can be offered, without being offered to the existing shareholders, provided the company has passed a special resolution and shares are offered accordingly.

#### **Situation 1**

To employees under a scheme of employees' stock option subject to certain specified conditions

#### **Situation 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.

#### **Situation 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).

According to Section 62(3), nothing in this section shall apply to the increase of the subscribed capital of a company caused by the exercise of an option as a term attached to the debentures issued or loan raised by the company to convert such debentures or loans into shares in the company.

Provided that the terms of issue of such debentures or loan containing such an option have been approved before the issue of such debentures or the raising of loan by a special resolution passed by the company in general meeting.

#### **Situation 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.

According to Section 62(4), notwithstanding anything contained in sub-section (3), where any debentures have been issued, or loan has been obtained from any Government by a company, and if that Government considers it necessary in the public interest so to do, it may, by order, direct that such debentures or loans or any part thereof shall be converted into shares in the company on such terms and conditions as appear to the Government to be reasonable in the circumstances of the case even if terms of the issue of such debentures or the raising of such loans do not include a term for providing for an option for such conversion.

### Financial effects of a further issue

The financial position of a business is contained in the balance sheet. Further issue of shares increase the amount of equity (net worth)<sup>2</sup> as well as the liquid resources (Bank). *The amount of equity is the product of further number of shares issued multiplied by issue price.* The issue price may be higher than the face value (issue at a premium). Companies Act does not allow issue of shares at a discount, except issue of sweat equity shares under Section 53.

### Book Value of a share

Book value of a share = Net worth (as per books)/ Number of shares

if there are 10,000 shares with net worth of 1,25,000. The book value of one share is (₹ 125,000/ 10,000 shares) ₹ 12.50 per share. However, the market value may differ from the book value of shares. The market value of a company's shares represents the present value of future cash flows expected to be earned from the share in the form of dividends and capital gains from expected future share price appreciation.

The market price, which exists before the rights issue, is termed as Cum-right Market Price of the share. If the company decides to issue further shares, it may affect the market value of the share. 'Theoretically', the value of a company's shares after a rights issue must equal the sum of market capitalisation immediately prior to rights issue and the cash inflows generated from the rights issue.

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.

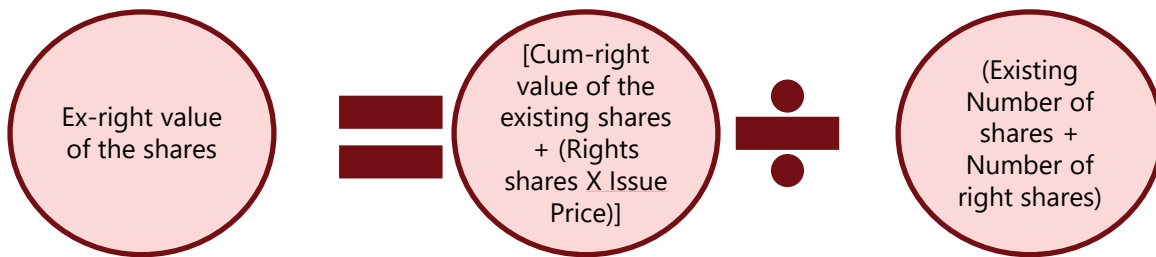
Assume a company having a net worth of ₹ 250,000. 1,000 shares are issued (making it a right issue of 1:10; or 1 new share for 10 existing shares held) at a price of ₹ 14 per share. The existing worth of tangible assets held by the business shall become 264,000 (Existing net worth ₹ 250,000 + Fresh Issue ₹ 14,000). Equity shares shall correspondingly command a valuation of ₹ 264,000.

The market price of the shares after further issue of shares (right issue) is termed as Ex-right Market Price of the shares. Theoretical Ex-Rights Price is a deemed value, which is attributed to a company's share immediately after a rights issue transaction occurs. This price is going to prevail after the further issue of shares is executed.

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<sup>2</sup> As per Section 2(57) of Companies Act 2013, "net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.





### Right of Renunciation

Right of renunciation refers to the right of the shareholder to surrender his right to buy the securities and transfer such right to any other person. Shareholders that have received right shares have three choices of what to do with the rights. They can act on the rights and buy more shares as per the particulars of the rights issue; they can sell them in the market; or they can pass on taking advantage of their rights (i.e., reject the right offer).

The renunciation of the right is valuable and can be monetised by the existing shareholders in well-functioning capital market. The monetised value available to the existing shareholders due to right issue is known as 'value of right'. If a shareholder decides to renounce all or any of the right shares in favour of his nominee, the value of right is restricted to the sale price of the renouncement of a right in favour of the nominee. In case the right issue offer is availed by an existing shareholder, the value of right is determined as given below:

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

Ex-right value of the shares =  $[\text{Cum-right value of the existing shares} + (\text{Rights shares} \times \text{Issue Price})] / (\text{Existing Number of shares} + \text{Number of right shares})$

In our previous example, Ex-right value of share =  $[\text{₹ } 250,000 + (\text{₹ } 14 \times 1,000 \text{ shares})] / 10,000 + 1,000 \text{ shares} = \text{₹ } 24$

Value of right =  $\text{₹ } 25 - \text{₹ } 24 = \text{₹ } 1$  per share.

### Example 3

Continuing the previous case, consider an individual shareholder Mr. Narain holding 100 shares of Prosperous Company before rights issue.

Current worth of holding = No. of shares X Cum-right Market Price  
 $= 100 \times 25 = \text{₹ } 2,500$

(a) If Narain exercises his right, he will pay  $\text{₹ } 14 \times 10 \text{ shares} = \text{₹ } 140$ .

His total investment in the company including right is  $\text{₹ } 2,640$  ( $\text{₹ } 2,500 + \text{₹ } 140$ ).

On a per share basis, it is  $\text{₹ } 2,640 / 110 \text{ shares} = \text{₹ } 24$ , which is the Ex-right Market value of the share.

- (b) If Narain does not exercise 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.

### ILLUSTRATION 5

*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?*

### SOLUTION

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

$$= (\text{₹ } 150 \times 4 \text{ Shares} + \text{₹ } 125 \times 1 \text{ Share}) / (4 + 1) \text{ Shares}$$

$$= \text{₹ } 725 / 5 \text{ shares} = \text{₹ } 145 \text{ per share.}$$

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

$$= \text{₹ } 150 - \text{₹ } 145 = \text{₹ } 5 \text{ per share.}$$

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 125 will have to pay ₹ 20 (4 shares X ₹ 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

### 4.2.2 Accounting for Right issue

The accounting treatment of rights share is the same as that of issue of ordinary shares and the following journal entry will be made:

Bank A/c	Dr.
To Equity shares capital A/c	

In case rights shares are being offered at a premium, the premium amount is credited to the securities premium account.

The accounting entry is usual and is

Bank A/c	Dr.
To Equity Share Capital A/c	
To Securities Premium A/c	

#### Example 4

*A Company having 70,000 shares of ₹10 each as its issued share capital and having market value of ₹21 issues rights shares in the ratio of 1:10 at an issue price of ₹10. Pass journal entry for issue of right shares.*

The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	70,000	
To Equity Share Capital A/c			70,000

(Being issue of 7,000 right shares at price of ₹ 10)

Working Note- Number of rights shares to be issued-  $70,000/10 \times 1 = 7000$  shares.

#### Example 5

*A company having 1,00,000 shares of ₹10 each as its issued share capital, and having a market value of ₹46, issues rights shares in the ratio of 1:10 at an issue price of ₹31. Pass journal entry for issue of right shares.*

The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	3,10,000	
To Equity Share Capital A/c			1,00,000
To Securities Premium A/c			2,10,000

(Being issue of 10,000 right shares @ ₹ 31 offered)

### 4.2.3 Advantages and Disadvantages of Right Issue

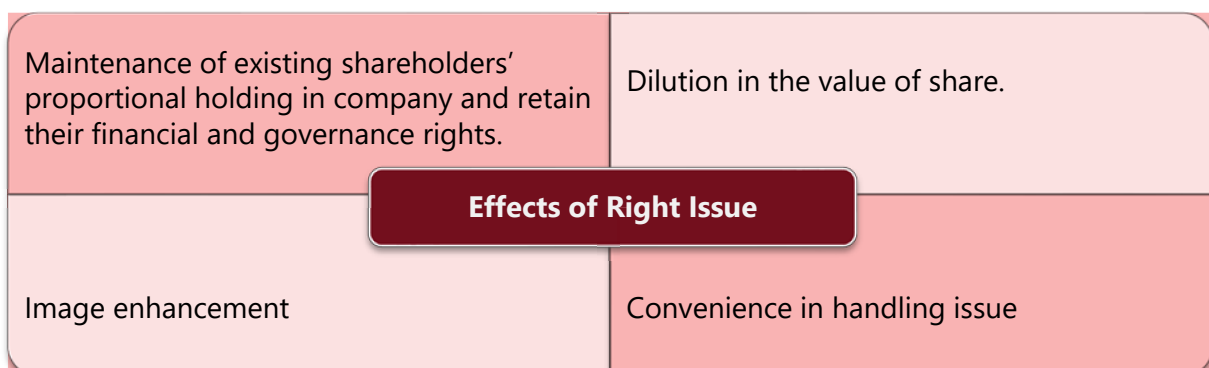
#### Advantages of Right Issue

1. Right issue enables the existing shareholders to maintain their proportional holding in the company and retain their financial and governance rights. It works as a deterrent to the management, which may like to issue shares to known persons with a view to have a better control over the company's affairs.
2. In well-functioning capital markets, the right issue necessarily leads to dilution in the value of share. However, the existing shareholders are not affected by it because getting new shares at a discounted value from their cum-right value will compensate decrease in the value of shares. The cum-right value is maintained otherwise also, if the existing shareholders renounce their right in favour of a third party.
3. Right issue is a natural hedge against the issue expenses normally incurred by the company in relation to public issue.
4. Right issue has an image enhancement effect, as public and shareholders view it positively.
5. The chance of success of a right issue is better than that of a general public issue and is logistically much easier to handle.

#### Disadvantages of Right Issue

1. The right issue invariably leads to dilution in the market value of the share of the company.
2. The attractive price of the right issue should be objectively assessed against its true worth to ensure that you get a bargained deal.

#### Effects of Right Issue



## SUMMARY

- Bonus issue means an issue of additional shares free of cost to existing shareholders.
- Bonus Issue is also known as a "scrip issue" or "capitalization issue" or "capitalization of profits".
- Bonus issue has following major effects:
  - Share capital gets increased according to the bonus issue ratio
  - 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:
  - Free Reserves
  - Securities Premium collected in cash
  - Capital Redemption Reserve.
- Bonus issue cannot be made out of Revaluation Reserve created by revaluation of assets.
- A right issue is an offer of equity shares in a further issue of shares by a company to its existing shareholders, to enable them in maintaining their financial and governance interest in the company, if they so desire.
- The Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue. The value of share after right is termed as ex-right value (or average price) of the share. The difference between the cum-right and ex-right value (average price) of the share is called value of right.
- The accounting treatment of rights share is the same as that of issue of ordinary shares.
- The right issue offers considerable advantages to existing shareholders enabling them to maintain their rights in the company and is equally advantageous to the company for its relatively simple logistics and cost effectiveness as compared to a full blown public issue. However, the dilution in the value of the share is a dampener and a major limitation.

## TEST YOUR KNOWLEDGE

### True and false

1. *Earning per share gets increased after bonus issue.*
2. *Issued share capital including issue of rights shares and bonus shares may be more than the Authorised capital.*
3. *Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.*
4. *Right shares are normally offered at a price more than the cum-right value of the share, causing dilution in its value post-right issue.*

### Multiple Choice Questions

1. *Which of the following cannot be used for issue of bonus shares as per the Companies Act?*
  - (a) *Securities premium account*
  - (b) *Revaluation reserve*
  - (c) *Capital redemption reserve*
2. *Which of the following statements is true with regard to declaring and issuing of Bonus Shares?*
  - (a) *Assets are transferred from the company to the shareholders.*
  - (b) *A Bonus issue results in decrease in reserves and surplus.*
  - (c) *A Bonus issue is same as declaration of dividends.*
3. *Which of the following statement is true in case of bonus issue?*
  - (a) *Convertible debenture holders will get bonus shares in same proportion as to the existing shareholders.*
  - (b) *Bonus shares may be issued to convertible debenture holders at the time of conversion of such debentures into shares.*
  - (c) *Both (a) and (b).*
4. *Bonus issue is also known as*
  - (a) *Scrip issue.*
  - (b) *Capitalisation issue.*
  - (c) *Both (a) and (b).*

5. *The bonus issue is not made unless*
- (a) *Partly paid shares are made fully paid up.*
  - (b) *It is provided in its articles of association*
  - (c) *Both (a) and (b).*
6. *Bonus issue has the following effect*
- (a) *Market price gets adjusted on issue of bonus shares.*
  - (b) *Effective Earnings per share, Book Value and other per share values stand increased.*
  - (c) *Markets generally take the action as an unfavourable act.*
7. *ABC Co. Ltd resolved to issue bonus shares. Which of the following is not a pre-requisite for issuance of bonus shares?*
- (a) *Authorization in Articles of Association.*
  - (b) *Timely Payment of statutory dues of employees such as PF, Gratuity etc.*
  - (c) *Sufficient balance in bank account of company.*
8. *In case of further issue of shares, the right to renounce the shares in favour of a third party*
- (a) *Must include a right exercisable by the person concerned to renounce the shares;*
  - (b) *Should include a right exercisable by the person concerned to renounce the shares;*
  - (c) *Is deemed to include a right exercisable by the person concerned to renounce the shares (subject to the provisions under the articles of the company).*
9. *A company's share's face value is ₹ 10, book value is ₹ 20, Right issue price is ₹ 30 and Market price is ₹ 40, while recording the issue of right share, the securities premium will be credited with*
- (a) *₹ 10*
  - (b) *₹ 20*
  - (c) *₹ 30*
10. A. *Right shares enable existing shareholders to maintain their proportional holding in the company.*
- B. *Right share issue does not cause dilution in the market value of the share.*

Which of the option is correct?

- (a) A-Correct; B Correct
  - (b) A – Incorrect; B Correct
  - (c) A - Correct; B – Incorrect
11. Ex-Rights price can be calculated by which of these formulas?
- (a)  $(\text{Cum rights value of the existing shares} + \text{Rights share issue proceeds}) / (\text{existing number of shares} + \text{No. of right shares})$ .
  - (b)  $(\text{Cum rights value of the existing shares} + \text{Rights share issue proceeds}) \times (\text{existing number of shares} + \text{No. of right shares})$ .
  - (c)  $(\text{Cum rights value of the existing shares} - \text{Rights share issue proceeds}) / (\text{existing number of shares} - \text{No. of right shares})$ .

### Theoretical Questions

- What is meant by Bonus issue? Explain its related provisions as per the Companies Act, 2013.
- Explain the financial effects of a further issue of equity shares on the market value of the share.
- What are the advantages and disadvantages of a rights issue?
- What is meant by renunciation of rights shares by existing shareholder?

### Practical Questions

- Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2022:

Particulars	Amount
4,500 Equity Shares of ₹ 100 each	4,50,000
Securities Premium (collected in cash)	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. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.



2. The following notes pertain to Brite Ltd.'s Balance Sheet as at 31st March, 2022:

Notes	₹ in Lakhs
(1) Share Capital	
Authorised :	
20 crore shares of ₹ 10 each	<u>20,000</u>
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 (collected in cash)	2,000
General Reserve	1,040
Surplus i.e. credit balance of Profit & Loss Account	273
Total	4,798

On 2nd April 2022, the company made the final call on equity shares @ ₹ 2 per share. The entire money was received in the month of April, 2022.

On 1st June 2022, 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.

3. Following notes pertain to the Balance Sheet of Manoj Ltd. as at 31<sup>st</sup> March, 2022

Authorised capital:	₹
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	30,00,000
	33,00,000

<i>Issued and Subscribed capital:</i>	
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
<i>Reserves and surplus:</i>	
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 1<sup>st</sup> April, 2022, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20<sup>th</sup> April, 2022. 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 30<sup>th</sup> April, 2022 after bonus issue.

- A company has decided to increase its existing share capital by making rights issue to its existing shareholders. The company is offering one new share for every two shares held by the shareholder. The market value of the share is ₹ 240 and the company is offering one share of ₹ 120 each. Calculate the value of a right. What should be the ex-right market price of a share?
- A Ltd company having share capital of 25,000 equity shares of ₹10 each decides to issue rights share at the ratio of 1 for every 4 shares held at par value. Assuming all the share holders accepted the rights issue and all money was duly received, pass journal entries in the books of the company.
- Following notes pertain to the Balance Sheet of Mars Company Limited as at 31<sup>st</sup> March 2022:

	₹
<i>Authorised capital:</i>	
50,000 12% Preference shares of ₹ 10 each	5,00,000
5,00,000 Equity shares of ₹ 10 each	50,00,000
	55,00,000
<i>Issued and Subscribed capital:</i>	
50,000 12% Preference shares of ₹ 10 each fully paid	5,00,000

4,00,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,00,000
Reserves and surplus:	
General Reserve	1,60,000
Capital Redemption Reserve	2,40,000
Securities premium (collected in cash)	2,75,000
Revaluation Reserve	1,00,000
Profit and Loss Account	16,00,000

On 1<sup>st</sup> April, 2022, the Company has made final call @ ₹ 2 each on 4,00,000 equity shares. The call money was received by 25<sup>th</sup> April, 2022. Thereafter, on 1<sup>st</sup> May 2022 the company decided to capitalise its reserves by way of bonus at the rate of one share for every four shares held, it decided that there should be minimum reduction in free reserves.

On 1<sup>st</sup> June 2022, the Company issued Rights shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the rights shares were accepted by the existing shareholders and the money was duly received by 20<sup>th</sup> June 2022.

Show necessary journal entries in the books of the company for bonus issue and rights issue.

## ANSWERS/ HINTS

### True and False

1. False. Earnings per share gets decreased after bonus issue.
2. False. Issued share capital including issue of rights shares and bonus shares is always less than or equal to Authorised capital.
3. True. Rights issue of shares results in decrease of market value of per share in comparison to market price before rights issue.
4. False. Right shares are normally offered at a price less than the cum-right value of the share, causing dilution in its value post-right issue.

## Multiple Choice Questions

1.	(b)	2.	(b)	3.	(c)	4.	(c)	5.	(c)	6.	(a)
7.	(c)	8.	(c)	9.	(b)	10.	(c)	11.	(a)		

## Theoretical Questions

1. 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 pay-out. For details, refer para 4.1.1 & 4.1.2.
2. The financial position of a business is contained in the balance sheet. Further issue of shares increases the amount of share capital as well as the liquid resources (Bank). The amount of share capital issued is the product of further number of shares issued multiplied by issue price. The issue price may be higher than the face value (issue at a premium).
3. Rights issue is an issue of rights to a company's existing shareholders that entitles them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed time period. For advantages and disadvantages of right issue, refer para 4.2.3.
4. In a situation where existing shareholder does not intend to subscribe to the rights issue of a company, he may give up his right in favour of another person for a consideration. Such giving up of rights is called renunciation of rights.

## Practical Questions

1. **Journal Entries in the books of Saral Ltd.**

2022		Dr.	Cr.
	Capital Redemption Reserve A/c Dr.	70,000	
	Securities Premium A/c Dr.	40,000	
	General Reserve A/c (b.f.) Dr.	40,000	
	To Bonus to Shareholders A/c (Bonus issue of one shares for every three shares held, by utilising various reserves as per Board's resolution dated.....)		1,50,000
	Bonus to Shareholders A/c Dr.	1,50,000	
	To Equity Share Capital A/c (Capitalisation of profit)		1,50,000

**Working Note-** Number of bonus shares to be issued-  $4500 / 3 \times 1 = 1500$  shares

2.

**Journal Entries in the books of Brite Ltd.**

2022		Dr. ₹ in lakhs	Cr. ₹ in lakhs
April 2	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 2 per share on 10 crore equity shares made due)	2,000	2,000
	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on 10 crore equity shares received)	2,000	2,000
June 1	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c (b.f.) Dr. To Bonus to Shareholders A/c (Bonus issue of two shares for every five shares held, by utilising various reserves as per Board's resolution dated.....)	1,485 2,000 515	4,000
	Bonus to Shareholders A/c Dr. To Equity Share Capital A/c (Capitalisation of profit)	4,000	4,000

**Notes to Accounts**

		₹ in lakhs
1.	Share Capital Authorised share capital: 20 crore shares of ₹ 10 each Issued, subscribed and fully paid up share capital: 14 crore Equity shares of ₹ 10 each, fully paid up (Out of the above, 4 crore equity shares @ ₹ 10 each were issued by way of bonus) 2 crore, 11% Cumulative Preference share capital of ₹ 10 each, fully paid up	<u>20,000</u>  14,000  <u>2,000</u> <u>16,000</u>

2.	Reserves and Surplus:		
	Capital Redemption reserve	1,485	
	Less: Utilised for bonus issue	(1,485)	-
	Securities Premium	2,000	
	Less: Utilised for bonus issue	(2,000)	-
	General Reserve	1,040	
	Less: Utilised for bonus issue	(515)	525
	Surplus (Profit and Loss Account)		273
	Total		798

### 3. Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-2022	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....)			
20-4-2022	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 30<sup>th</sup> April, 2022 (after bonus issue)**

		₹
<i>Authorised Capital</i>		
30,000 12% Preference shares of ₹10 each		3,00,000
3,37,500 Equity shares of ₹10 each (refer W.N.)		<u>33,75,000</u>
<i>Issued and subscribed capital</i>		
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)		
<i>Reserves and surplus</i>		
Capital Redemption Reserve	1,20,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	NIL
Securities premium	75,000	
Less: Utilised for bonus issue	<u>(75,000)</u>	NIL
General Reserve	3,60,000	
Less: Utilised for bonus issue	<u>(3,60,000)</u>	NIL
Profit and Loss Account	6,00,000	
Less: Utilised for bonus issue	<u>(1,20,000)</u>	4,80,000

**Working Note:**

- Number of bonus shares to be issued-  $2,70,000/4 \times 1 = 67,500$  shares
  - The authorised capital should be increased as per details given below: ₹
 

Existing issued Equity share capital	27,00,000
Add: Issue of bonus shares to equity shareholders	<u>6,75,000</u>
	<u>33,75,000</u>
4. Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing Number of shares + No. of right shares)
- = (₹ 240 x 2 Shares + ₹ 120 x 1 Share) / (2 + 1) Shares
- = ₹ 600 / 3 shares = ₹ 200 per share.

Value of right = Cum-right value of the share – Ex-right value of the share  
 = ₹ 240 – ₹ 200 = ₹ 40 per share.

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

**5. Journal Entry in the books of A Ltd.**

		₹	₹
Bank A/c	Dr.	62,500	
To Equity share capital A/c			62,500
(For rights share issued at par value in the ratio of 1:4 equity shares due as per Board's Resolution dated....)			

**Working Note:**

Number of Rights shares to be issued- 25,000/4x1= 6,250 shares

**6. Journal Entries in the books of Mars Ltd.**

2022		Dr. ₹	Cr. ₹
April 1	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Final call of ₹ 2 per share on 4,00,000 equity shares made due)	8,00,000	8,00,000
April 25	Bank A/c Dr. To Equity Share Final Call A/c (Final call money on equity shares received)	8,00,000	8,00,000
May 1	Capital Redemption Reserve A/c Dr. Securities Premium A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr.	2,40,000 2,75,000 1,60,000 3,25,000	



June 20	To Bonus to Shareholders A/c (Bonus issue of one shares for every four shares held, by utilising various reserves as per Board's resolution dated.....)		10,00,000
	Bonus to Shareholders A/c Dr.	10,00,000	
	To Equity Share Capital A/c (Capitalisation of profit)		10,00,000
	Bank A/c Dr.	24,00,000	
	To Securities Premium A/c		4,00,000
	To Equity Share Capital A/c (Being Rights issue of 2 shares for every 5 shares held as per board resolution dated .....)		20,00,000