

66.1 A drill to practise accounting for bonus issues

For each of the companies below:

- show the standard working for the bonus issue
- state the double entry to account for the bonus issue
- show the balance sheet of the company after the bonus issue

1.

ABC Ltd begins with this balance sheet:

ABC Balance Sheet before bonus issue	
Net Assets	<u>£480</u>
Issued Share Capital	
560 shares of 50p	280
Retained Earnings	<u>200</u>
	<u>£480</u>

The company makes a 2 for 7 bonus issue.

Standard Working for Bonus Issue

number of new shares	560	x	$\frac{2}{7}$	=	160
Nominal Value of new shares	160	x	50p	=	£80

Double Entry

DR	Retained Earnings	£80	
CR	Issued Share Capital		£80

Balance Sheet after Bonus Issue

ABC Balance Sheet after bonus issue	
Net Assets	<u>£480</u>
Issued Share Capital	
720 shares of 50p	360
Retained Earnings	<u>120</u>
	<u>£480</u>

2.

DEF Ltd begins with this balance sheet:

DEF Balance Sheet before bonus issue	
Net Assets	<u>£350</u>
Issued Share Capital	
1500 shares of 10p	150
Share Premium	50
Retained Earnings	<u>150</u>
	<u>£350</u>

The company makes a 1 for 5 bonus issue.

Standard Working for Bonus Issue

number of new shares	1 500	x	$\frac{1}{5}$	=	300
Nominal Value of new shares	300	x	10p	=	£30

Double Entry

DR	Share Premium	£30	
CR	Issued Share Capital		£30

Balance Sheet after Bonus Issue

DEF Balance Sheet after bonus issue	
Net Assets	<u>£350</u>
Issued Share Capital	
1800 shares of 10p	180
Share Premium	20
Retained Earnings	<u>150</u>
	<u>£350</u>

3.

GHI Ltd begins with this balance sheet:

GHI Balance Sheet before bonus issue	
Net Assets	<u>£1 725</u>
Issued Share Capital	
4000 shares of 25p	1 000
Capital Redemption Reserve	100
Retained Earnings	<u>625</u>
	<u>£1 725</u>

The company makes a 3 for 8 bonus issue.

Standard Working for Bonus Issue

number of new shares	4 000	x	$\frac{3}{8}$	=	1 500
----------------------	-------	---	---------------	---	-------

Nominal Value of new shares	1 500	x	25p	=	£375
------------------------------------	--------------	----------	------------	----------	-------------

Double Entry

DR	Capital Redemption Reserve	£100	
DR	Retained Earnings	£275	
CR	Issued Share Capital		£375

Balance Sheet after Bonus Issue

GHI Balance Sheet after bonus issue	
Net Assets	<u>£1 725</u>
Issued Share Capital	
5500 shares of 25p	1 375
Retained Earnings	<u>350</u>
	<u>£1 725</u>

4.

JKL Ltd begins with this balance sheet:

JKL Balance Sheet before bonus issue	
Net Assets	<u>£6 420</u>
Issued Share Capital	
1800 shares of £1	1 800
Revaluation Reserve	500
Retained Earnings	<u>4 120</u>
	<u>£6 420</u>

The company makes a 1 for 3 bonus issue.

Standard Working for Bonus Issue

number of new shares	1 800	x	$\frac{1}{3}$	=	600
Nominal Value of new shares	600	x	£1	=	£600

Double Entry

DR	Revaluation Reserve	£500	
DR	Retained Earnings	£100	
CR	Issued Share Capital		£600

Balance Sheet after Bonus Issue

JKL Balance Sheet after bonus issue	
Net Assets	<u>£6 420</u>
Issued Share Capital	
2400 shares of £1	2 400
Retained Earnings	<u>4 020</u>
	<u>£6 420</u>