

63.1 A drill to practise accounting for rights issues

For each of the companies below:

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

1.

ABC Ltd begins with this balance sheet:

ABC Balance Sheet before rights issue	
Net Assets	<u>£550</u>
Issued Share Capital	
700 shares of 50p	350
Retained Earnings (Loss)	<u>200</u>
	<u>£550</u>

The company makes a 3 for 7 rights issue at 80p.

Standard Working for Rights Issue

number of new shares	700	x	$\frac{3}{7}$	=	300
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cash raised	300	x	80p	=	£ 240
Nominal Value of new shares	300	x	50p	=	(150)
Share Premium					<u>£90</u>

Double Entry

DR	Cash	£240	
CR	Issued Share Capital		£150
CR	Share Premium		£90

Balance Sheet after Rights Issue

ABC Balance Sheet after rights issue	
Net Assets	<u>£790</u>
Issued Share Capital	
1000 shares of 50p	500
Share Premium	90
Retained Earnings (Loss)	<u>200</u>
	<u>£790</u>

2.

DEF Ltd begins with this balance sheet:

DEF Balance Sheet before rights issue	
Net Assets	<u>£300</u>
Issued Share Capital	
1000 shares of 10p	100
Share Premium	50
Retained Earnings (Loss)	<u>150</u>
	<u>£300</u>

The company makes a 2 for 5 rights issue at 16p.

Standard Working for Rights Issue

number of new shares	1 000	x	$\frac{2}{5}$	=	400
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					£
cash raised	400	x	16p	=	64
Nominal Value of new shares	400	x	10p	=	(40)
Share Premium					<u>£24</u>

Double Entry

DR	Cash	£64	
CR	Issued Share Capital		£40
CR	Share Premium		£24

Balance Sheet after Rights Issue

DEF Balance Sheet after rights issue	
Net Assets	<u>£364</u>
Issued Share Capital	
1400 shares of 10p	140
Share Premium	74
Retained Earnings (Loss)	<u>150</u>
	<u>£364</u>

3.

GHI Ltd begins with this balance sheet:

GHI Balance Sheet before rights issue	
Net Assets	<u>£2 000</u>
Issued Share Capital	
4000 shares of 25p	1 000
Share Premium	250
Retained Earnings (Loss)	<u>750</u>
	<u>£2 000</u>

The company makes a 3 for 8 rights issue at 60p.

Standard Working for Rights Issue

number of new shares	4 000	x	$\frac{3}{8}$	=	1 500
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					£
cash raised	1 500	x	60p	=	900
Nominal Value of new shares	1 500	x	25p	=	(375)
Share Premium					<u>£525</u>

Double Entry

DR	Cash	£900	
CR	Issued Share Capital		£375
CR	Share Premium		£525

Balance Sheet after Rights Issue

GHI Balance Sheet after rights issue	
Net Assets	<u>£2 900</u>
Issued Share Capital	
5500 shares of 25p	1 375
Share Premium	775
Retained Earnings (Loss)	<u>750</u>
	<u>£2 900</u>

4.

JKL Ltd begins with this balance sheet:

JKL Balance Sheet before rights issue	
Net Assets	<u>£10 000</u>
Issued Share Capital	
2100 shares of £1	2 100
Share Premium	3 780
Retained Earnings (Loss)	<u>4 120</u>
	<u>£10 000</u>

The company makes a 1 for 3 rights issue at £1.90p.

Standard Working for Rights Issue

number of new shares	2 100	x	$\frac{1}{3}$	=	700
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					£
cash raised	700	x	£1.90	=	1 330
Nominal Value of new shares	700	x	£1.00	=	(700)
Share Premium					<u>£630</u>

Double Entry

DR	Cash	£1 330	
CR	Issued Share Capital		£700
CR	Share Premium		£630

Balance Sheet after Rights Issue

JKL Balance Sheet after rights issue	
Net Assets	<u>£11 330</u>
Issued Share Capital	
2800 shares of £1	2 800
Share Premium	4 410
Retained Earnings (Loss)	<u>4 120</u>
	<u>£11 330</u>