Solutions Manual

to accompany

Company Accounting 10e

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Chapter 2 – Financing company operations

REVIEW QUESTIONS

1. Explain the nature of a share. Distinguish between an ordinary share and a preference share.

Basically, a share represents ownership of a portion of the share capital of a company. Also note the discussion in Chapter 1 of the text concerning the relationship between limited liability and the amount paid up on a share.

The differences between ordinary and preference shares are determined by the terms of issue. A company has the right to issue preference shares, but may only do so either if there is a statement in its constitution setting out the rights of these share or if these rights have been approved by a special resolution of the company. Not all preference shares are the same. However common differences between ordinary and preference shares are:

- Ordinary shares represent ordinary ownership interest and therefore have right to participate in profits, voting rights and rights to receive return of capital if the company is wound up and after that of all other claimants (i.e. creditors).
- Preference shares are distinguished as normally having a set rate of 'dividend' (e.g. 5%) that is paid prior to any dividend to ordinary shareholders and have preference (before ordinary shareholders) to return of capital if the company is wound up. Also may be:
- Cumulative – i.e. if dividends are not paid in one period, they accumulate and are paid in the future when profits and funds are available;
- Participating- may receive an 'extra' dividend and participate in surplus assets or profits;
- May have voting rights (often only in specific circumstances; e.g. if dividends are not paid)
- Redeemable – may be able to be bought back either at a fixed time or at the option of either party (shareholder or company)

Note: Classification of preference shares as equity or liabilities depends on the rights and features of the shares – judgment is required re which classification is appropriate. For example, redeemable, cumulative 10% preference shares, which are to be redeemed on a set date, are definitely liabilities. Preference shares redeemable at the option of the company may or may not be liabilities. If the preference shares are classified as liabilities, any dividend paid on those shares must be treated as interest expense (not as a dividend).

2. Describe the purpose of each of the ledger accounts used to record the issue of shares.

Cash Trust: used to record money received from applicants subscribing for shares. These amounts remain in the trust account until the shares have been allotted to applicants. The balance will then be transferred to the company's general bank account.

Application: used to record the amount of money received from applicants subscribing for shares. Once the directors decide to allot the shares to the applicants, then this account is cleared out and transferred to the Share Capital Account or to Allotment, Calls in Advance and refunds from Cash Trust if appropriate.

Share Capital: used to record the amount called up from successful applicants who have now been allotted shares in the company. The amount is transferred in from the Application Account or the Allotment and Call accounts.

Other accounts that may be used depending on the details of the share issue will be the *Allotment* Account and the *Call* Account. These accounts are used if shares are payable by instalments.

3. Explain what can happen if a share issue is 'underwritten' and the effect that under-writing can have on achieving a minimum subscription.

If a share issue is underwritten, this means that the underwriter, if a share issue is not fully subscribed by the public, guarantees to either purchase the remaining unsubscribed shares or arrange for others to subscribe to the issue. Underwriters are usually financial institutions or brokers, and they will charge the company a commission for their services. If the share issue is fully subscribed, the underwriter will collect the commission and not have to do anything.

4. If a share issue is oversubscribed, what action can be taken in relation to excess money received on application?

Excess monies received on application for shares will be refunded to the applicant. However where shares are issued on a partly paid basis, the excess can be used as an offset in reducing allotment money due and in payment of any future calls, provided the company's constitution and the terms of the prospectus allow for this treatment.

5. When can a company forfeit its shares? What happens to money already paid by the holder of those shares?

A company can forfeit its shares provided the rules for forfeiture are in the company's constitution. The rules usually specify that shares would be forfeited for non-payment of calls. Where shares are forfeited, the company can, depending on the constitution, retain the funds already paid on the forfeited shares in which case the Forfeited Shares account will be considered a reserve and part of equity. Alternatively, the forfeited shares can be reissued and the amount received, less the costs of forfeiture and reissue of shares, may then be refunded to the former shareholders. In this case, the Forfeited Shares account is a liability.

6. How should a company account for the legal costs of formation? Should the accounting treatment be the same as that for underwriting and other share issue costs?

Legal costs of formation were traditionally treated as an asset and then systematically amortised over an arbitrary period. However there are no future economic benefits to be gained from these costs and they should be written off to expense, as per AASB 138 *Intangible Assets*. Underwriting and other share issue costs are discussed in AASB 132 *Financial Instruments: Presentation,* paras. 35 and 37, and the appropriate treatment is to regard these costs as a reduction of the share capital being raised (if the share issue occurs). The rationale for the different treatment is that share issue costs and the raising of capital is viewed as a single transaction and as such, the increase in equity is the net amount the company receives from the issue of shares (after considering any tax effect on the share issue costs). However, if no capital is issued (i.e. the share issue is not successful) then such costs are expensed.

7. What is a rights issue? Distinguish between a renounceable and a non-renounceable rights issue. How would a company account for such issues?

A rights issue is an issue of new shares to existing shareholders whereby they are given the right to purchase additional shares in proportion to their current shareholdings. Usually the issue price is set below the current market price of the company's shares.

A *renounceable* rights issue allows the shareholder to take up the rights issue, let it lapse or sell their rights on the securities market. A *non-renounceable* rights issue only allows the shareholder to either take up the rights by subscribing for more shares, or reject the rights, which mean that they lapse. The shareholders cannot sell the rights.

Accounting for a rights issue is discussed in the chapter at section 2.5.1 and practical aspects are shown in illustrative example 2.6.

8. What is private placement of shares? What are the advantages and disadvantages of a private placement?

A private placement is an issue of shares to a large institutional investor. The main advantages are speed, price and direction. The disadvantage is that existing shareholders experience a dilution of their ownership as well as an ability to make a profit if there had been a rights issue instead of a private placement.

9. What is a share option? How does a company account for share options that lapse?

A share option is an instrument giving the holder the right to buy or sell a set number of shares in the company by a set date at a set price. Options can be issued for a price or at no cost to the recipient.

If issued for a price, an options ledger account is used. On expiry of the exercise date, this account balance is transferred to share capital (for the number of options exercised x the options price) and to lapsed options reserve (for the number of options lapsed x the options price).
Where options are issued at a cost, then the amount received for options not yet exercised is disclosed in the statement of financial position as an increase in equity and shown below the company's share capital.

10. Detail the characteristics of redeemable preference shares recognised as liabilities rather than equity.

Redeemable preference shares recognised as liabilities rather than equity normally would be redeemable in cash on a specified date or at the option of the holder, be cumulative in regard to the payment of dividends, non-participating in further dividends and have priority rights to return of capital over ordinary shares. The accounting treatments of such preference shares when they are redeemed are shown the text in illustrative examples 2.9 and 2.10.

11. What are share consolidations and share splits? How are they accounted for?

Share consolidations involve packaging the existing capital into a smaller number of shares. This doesn't affect the balance in the Share Capital account and therefore there is no journal entry required, but only an adjustment to the share register in regard to the number of shares.

Share splits are the opposite to share consolidations. They involve packaging the existing capital into a larger number of shares. For example when BHP merged with Billiton and became BHP Billiton it split its shares on the basis of two shares for every one share. A share split also doesn't affect the balance in the Share Capital account and therefore there is no journal entry required, but only an adjustment to the share register in regard to the number of shares.

12. What restrictions exist under the *Corporations Act 2001* on the conversion of ordinary shares to preference shares?

Conversion of ordinary shares to preference shares is permitted provided the shareholders' rights in regard to the conversion have been set out in the company's constitution or approved by a special resolution of the company. These rights will detail the shareholders' rights in regard to repayment of capital, participation in surplus assets and profits, whether the dividends will be cumulative or non-cumulative, voting rights and priority payment of dividends and capital in relation to other shares.

13. Why would a company wish to buy back its own shares? What conditions must be fulfilled before the company can do so? What types of share buy-backs are permissible under the *Corporations Act 2001*?

A company may wish to buy back its own shares in order to change its financial leverage. Alternatively it may be cashed up with no suitable profitable investments, so rather than keep the cash idle it may be beneficial to buy back its shares. Share buy-backs can also help in cleaning up small lots of shares that are held. A company can only buy back its own shares if the buy back does not materially prejudice the company's ability to pay its creditors.

The five types of share buy backs permissible under the Corporations Act are discussed in section 2.9 of the chapter. See especially Table 2.1, page 55.

14. How should a company account for a share buy-back? How does it account for a buy-back premium? A buy-back discount? Discuss.

Where the amount paid for a buy back share exceeds the initial issue price, then a buy back premium arises. If the amount paid for the buy back is less than the issue price, then a buy back discount arises. The accounting for a buy back of shares was discussed by the Urgent Issues Group in Abstract 22, issued in 1998. Even though the document no longer exists, it is used here in the absence of additional guidance. It states in paragraphs 4 and 5 that where shares are bought back, the equity of the entity must be directly reduced by the cost of acquisition of the shares bought back. Abstract 22 does not however prescribe which equity accounts are to be adjusted as a result of the buy back. Section 2.9.2 of the text outlines common treatments in practice. An example of the accounting for a share buy back is given in illustrative example 2.12.

15. What is a debenture? Briefly outline the different types of debentures permitted under the *Corporations Act 2001* and outline the procedures which must be followed to issue debentures.

A debenture is a chose in action whereby a company undertakes to repay money borrowed by it. The chose in action may include a charge over company property to secure repayment. The different types of debentures under the Corporations Act are a mortgage debenture where the security is a first mortgage on land; a debenture where the security is over sufficient tangible property; and an unsecured note or unsecured deposit note where the first two names cannot apply.

CASE STUDIES

Case Study 1 Public floats

Torque Mining Ltd issued a prospectus on 25 January 2013 inviting applications for up to 20 000 000 ordinary shares at an issue price of 20c each, payable in full on application. A minimum subscription of $3 000 000 was specified, with share issue costs of $376 350 expected to be incurred. The expected closing date for the offer was 15 March 2013. On 27 March 2013, the company advised that the Initial Public Offering had been withdrawn as the minimum subscription had not been reached.
(Based on information from Torque Mining Ltd, www.torquemining.com.au/news.)

Required
A. What is the rationale behind specifying a minimum subscription to be reached before a share issue can be made?
B. Assume that the minimum subscription was reached, the offer closed on 15 March 2013, and that 3,000,000 shares were issued on 27 March 2013 with share issue costs paid on that day. Prepare the journal entries required to be processed from the 25 January to the 27 March inclusive.
C. Given that the share issue was not completed, explain how any costs associated with the offer would be accounted for?

A. A company is required to specify in the disclosure document what it intends to do with the funds expected to be raised. If the minimum subscription specified in the document is not met, no shares can be issued and all application money must be refunded. This is to protect investors as, if the minimum subscription is not reached, the company would not have adequate funds to achieve the objectives as stated in the disclosure document. This would place any investment at risk.

B. The entries required given these assumptions are:

To 15 Mar.				
	Cash Trust	Dr	3 000 000	
	Application	Cr		3 000 000
	(Money received on application)			
27 Mar.				
	Application	Dr	3 000 000	
	Share Capital	Cr		3 000 000
	(Issue of 15m shares fully	paid to 20c)		
	Cash	Dr	3 000 000	
	Cash Trust	Cr		3 000 000
	(Transfer on allotment of shares)			
	Share Issue Costs/Share Capital	Dr	376 350	
	Cash	Cr		376 350
	(Costs of issuing the shares)			

C. If the share issue was not completed the costs associated with the offer would be expensed to the profit/loss (AASB 132, para 37).

Case Study 2 Private placement

On 13 March 2013, Mining company Aeon Metals Ltd announced plans to raise $1 150 000 through a placement of 5 227 273 ordinary fully paid shares at $0.22 per share to institutional investors to fund new surveys and drilling campaigns for its copper project. Prior to this announcement the shares of Aeon Metals Ltd were trading at around $0.26.
(Based on information from Aeon Metals, www.aeonmetals.com.au.)

Required
A. Distinguish between a public share float and a private placement.
B. Assuming that the placement above proceeded, what journal entries would be required to account for it?

A.
The main differences between a public share float (share capital raised by a public company by way of advertisements and disclosure documents to encourage public subscription for shares) and a private placement (shares issued privately to institutional investors) are:

- Time - a public share float is much slower to achieve than a private placement
- Expenditure - Public share floats require greater costs through publication of disclosure documents, advertisement, appointment of underwriters
- Total cash raised – public share floats usually raise more capital as there are restrictions by the ASX on the amount raised through private placements.
- Share price and direction – a private placement may be made close to the current price if it is made to existing shareholders, and a private placement may be made with "friendly" institutions

B.

Cash Dr		1 150 000	
Share Capital	Cr		1 150 000
(Private placement of 5,227,273 shares at $0.22 per share)			

Case Study 3 Prospectus and share issue

From the website of the Australian Securities and Investments Commission (ASIC) (www.asic.gov.au), find a company which has issued a prospectus for the purpose of raising additional funds (shares or debentures) from the public in the current year (calendar or financial). Find a copy of that prospectus online (they are usually on the company's website, linked via ASIC's website).

Required
Report to the class on the nature and details of the prospective fundraising, and the reasons why such funds are being raised.

This answer belongs to the students, depending on the current prospectus selected from the ASIC website.

Case Study 4 Share buy-backs

Read the article on pages 76–79 by Kim Wyatt and Jarrod McDonald, 'Who really wins from an off-market share buyback?' (*In the Black*, October 2004, pp. 54–7).

Required
Considering the given examples of Telstra, Foster's, IAG, Woolworths, Channel Seven and the Commonwealth Bank, discuss in groups of three or four whether you believe off-market buy-backs are worthwhile from an individual shareholder's point of view. Present your findings to the class.

Students should firstly establish the model adopted by Wyatt and McDonald for measuring the gains and losses from share buybacks.

The question that needs to be answered is whether share buy-backs are beneficial to an individual shareholder. From Wyatt and McDonald's research, the answer varies from one buy-back to another depending on an individual's marginal tax bracket. Some buy-backs seem to benefit the company rather than the individual shareholders.

Students should read the article and present their findings to the class for each different buy-back scheme examined by Wyatt and McDonald.

Question to consider: Can we generalise from their research that buy-backs are worthwhile, or not?

Case Study 5 Rights issues vs. private placements

Read the following newspaper article:

Investor prepares for fight as Transurban issues shares
Transurban's largest shareholder has failed in an eleventh-hour appeal to halt an allotment of newly-issued shares to institutional investors but will get a chance to air its grievances before the takeover's umpire.

The Takeovers Panel yesterday rejected a request by the Sydney fund manager CP2 for interim orders — similar to a temporary injunction — seeking to halt the $542 million share issue. However, a panel will be appointed to consider the shareholder's application for final orders against the raising, which Transurban wants to use to pay for its $630 million purchase of Lane Cove Tunnel.

The latest dispute between Transurban and its largest shareholder creates further instability for the toll-road company, and raises fears of a protracted stand-off.

A day after Transurban's embattled chairman, David Ryan, attempted to quell a push for board scalps, CP2 went to the takeovers umpire saying the company's rights issue 'constitutes frustrating actions'.

The fund manager, which owned just under 15 per cent of Transurban before the capital raising, joined two Canadian pension funds in unsuccessfully trying a $7.2 billion takeover offer for the toll-road group two weeks ago. CP2's stake will be diluted because it did not participate in the share issue.

Yesterday CP2 said Transurban had conducted the rights issue in a 'misinformed market' and the timing of the sale precluded the Canadian-led consortium and overseas investors from participating. It wanted shareholders to be able to vote on the capital raising and, if it went ahead, the institutional entitlement offer to be reopened.

However, this appears impractical given the new shares can be traded from today.

Andrew Chambers, an Austock analyst, said there had been mixed messages from CP2 because it wanted the rights issue stopped while it was also seeking to reopen the institutional offer. 'There seems to be mixed objectives, which always create uncertainty for the stock', he said.

Transurban and CP2 declined to comment yesterday because the matter was before the Takeovers Panel. However, Transurban said its capital raising was proceeding as planned. Shares in Transurban closed down 11c, at a seven-month low of $4.30.

Source: Matt O'Sullivan, *Sydney Morning Herald*, 26 May 2010.

Required

A. Distinguish between a rights issue and a private placement.

B. From the above article, what appears to be the problem voiced by Transurban's largest shareholder against the share issue?

A.

A rights issue is an issue of new shares to *existing shareholders*, based on their proportionate holdings of existing shares. Only if the terms of the rights issue are renounceable will new shareholders be able to acquire shares in Transurban.

A private placement is an arrangement whereby shares are sold to new or existing institutional shareholders who have negotiated to buy a block of newly-issued shares in the company. There is no requirement for the placement to be proportional among existing shareholders.

B.

The issue is one of control. In a rights issue, shareholders normally hold the same proportion of shares after the issue as before. Not so in a private placement. New or existing institutional investors may privaely acquire enough shares to reduce the control of other existing shareholders and therefore increase their own control. It appears from the article that CP2 was more interested in being part of a private placement with Canadian pension funds so that its influence over Transurban would rise, rather than being part of a rights issue where its influence would remain at approximately 15%..

Case Study 6 Share market floats

Read the following article:

Companies cautious on floats

Low business confidence and sentiment will continue to cloud the IPO market in Australia next year, but with a backlog of potential market listings and record amounts of cash on the sidelines, activity could pick up in the later part of the year.

Ernst & Young's year-end global IPO update, released yesterday, shows that while the global outlook next year is more positive than this year, a tough 2012 is still weighing on activity.

In Australia this year there have been 36 IPOs to the end of last month, with total capital raised of $US865 million ($821m) — down 63 per cent in volume and 29 per cent in value compared with last year.

More than half the 36 capital raisings were small resource companies with average capital raised less than $US10m and a single IPO — Woolworths' spin-off of retail properties into the Shopping Centres Australasia Property Group — accounted for more than half the total capital raised for the year.

Anne-Maree Keane, Ernst & Young Australia transactions partner, said the Australian equity market was in 'relatively good shape' and was 'on the up', but broader business confidence and sentiment continued to cloud the outlook for increased activity.

'There are companies in the background, potentially waiting to go (to IPO) but in the meantime they tick along, business as usual, Ms Keane said.

'There is a backlog but people are reluctant to embark on an IPO process because of the time, cost and risk.

'People do need to exit some of these businesses. If you're a large, family-owned operation, succession planning is starting to become a real issue for some because it's been potentially five years waiting for things to get better.'

Ms Keane said this year was driven by sentiment and that, while there were record amounts of cash looking for a home, investors were concerned that IPOs resulted in an immediate drop in the value of their investment.

A lack of confidence to invest for the long term was seeing people focus on short-term fundamentals and what their return would be in six months, rather than three to 10 years, she added.

'Retails investors and institutions have seen that immediate decline in their investments, so they are keeping their money in cash,' she said.

While historically there was a strong uptick with IPOs following a quiet period, Ms Keane said the volatility in global markets made it difficult to predict what the future held for new listings.

'Historically, when we've had a quiet period of IPOs and the window opens, there is a rush and that creates some competition,' she said.

While sentiment remains cautious, the global report is tipping a pick-up in the second half of next year, a trend that is also expected to be seen in Australia.

Ms Keane said the company was getting more inquiries and, while there had previously been a few false starts on activity picking up, plans that had been deferred were being revisited.

'We are getting an increased level of inquiries where people are starting to tentatively think about putting it back on the board agenda for next year and that is something that we haven't seen for a few years,' she said.

Source: Tasker, S 2012, 'Companies cautious on floats', *The Australian*, 19 December, p. 18.

Required

A. What reasons are provided for investors being cautious about participating in public share floats in 2013?

B. Using the Internet, investigate the success or otherwise of IPOs made in 2013 (e.g. Austral Resources and IPB Petroleum made IPOs in 2013).

A. The article suggests a range of factors (interrelated) that will impact. These include:

- Low business confidence
- Concern over global outlook
- Focus on short term returns

B. The success or otherwise will depend on the choice made by students.

PRACTICE QUESTIONS

Question 2.1 Oversubscription on share issue, payable in full on application

Maple Ltd was registered on 1 March 2017. Directors decided to issue 500 000 ordinary shares on 31 March 2017, payable in full on application at an issue price of $2.The company received applications for 560 000 shares, sent letters of regret to applicants for 10 000 shares and the remaining applicants received partial allotments by issue of 10 shares for every 11 shares applied for, making the total allotment 500 000 shares. Legal costs of issuing the shares, $12 000, were paid.

Required
Prepare journal entries and ledger accounts to record the above transactions.

MAPLE LTD
General Journal

2017				
Mar 31	Cash Trust	Dr	1 120 000	
	Application	Cr		1 120 000
	(Money received on application 560 000 x $2)			
	Application	Dr	20 000	
	Cash Trust	Cr		20 000
	(Refund to unsuccessful applicants for 10 000 shares)			
	Application	Dr	1 000 000	
	Share Capital	Cr		1 000 000
	(Issue of 500 000 shares fully paid to applicants for 550 000 shares)			
	Application	Dr	100 000	
	Cash Trust	Cr		100 000
	(Refunds of excess application money to successful applicants)			
	Cash	Dr	1 000 000	
	Cash Trust	Cr		1 000 000
	(Transfer on allotment of shares)			
	Share Issue Costs/Share Capital	Dr	12 000	
	Cash	Cr		12 000
	(Costs of issuing the shares)			

MAPLE LTD

GENERAL LEDGER

Cash Trust

31/03/17	Application	1 120 000	31/03/17	Application	20 000
				Application	100 000
				Cash	1 000 000
		1 120 000			1 120 000

Application

31/03/17	Cash Trust	20 000	31/03/17	Cash Trust	1 120 000
	Share Capital	1 000 000			
	Cash Trust	100 000			
		1 120 000			1 120 000

Share Capital

			31/03/17	Application	1 000 000

Share Issue Costs

31/03/17	Cash	12 000			

Cash

31/03/17	Cash Trust	1 000 000	31/03/17	Share Issue Costs	12 000
				Balance c/d	988 000
		1 000 000			1 000 000
	Balance b/d	988 000			

Question 2.2 Undersubscription on share issue, money due on allotment

On 1 January 2017, Elm Ltd issued a prospectus inviting applications for 300 000 ordinary shares, at an issue price of $6, payable $4 on application, $2 on allotment. By 30 April, applications were received for 290 000 shares with $4 paid. As the minimum required subscription had been reached, on 1 May the directors allotted 290 000 shares. Share issue costs of $1200 were also paid on the same date. All of the allotment money was received by 1 June.

Required
Prepare journal entries to record the above transactions.

ELM LTD

General Journal

2017				
To 30 April	Cash Trust	Dr	1 160 000	
	Application	Cr		1 160 000
	(being receipt of applications)			
1 May	Application	Dr	1 160 000	
	Allotment	Dr	580 000	
	Share Capital	Cr		1 740 000
	(being issue of shares)			
	Share Capital/Share Issue Costs	Dr	1 200	
	Cash/Payables	Cr		1 200
	(being payment of share issue costs)			
	Cash	Dr	1 160 000	
	Cash Trust	Cr		1 160 000
	(transfer of application money)			
To 1 June	Cash	Dr	580 000	
	Allotment	Cr		580 000
	(being receipt of allotment money due)			

Question 2.3 Share issue, payment by instalments

On 1 July 2017, Pine Ltd issued a prospectus inviting applications for 600 000 ordinary shares, at an issue price of $7, payable $2.50 on application, $1.50 on allotment, and $3 on future call(s), dates to be determined by the directors. By 1 September, applications were received for 620 000 shares with $2.50 paid per share. On 6 September, the directors allotted 600 000 shares. Refunds were made to applicants for 20 000 shares. Share issue costs of $12 400 were also paid on the same date. All of the allotment money was received by 1 October. On 1 February 2018, a first and final call for $3 was made. All of the call money was received by 1 March 2018.

Required
Prepare journal entries to record the above transactions.

PINE LTD

General Journal

2017				
To 1 Sept	Cash Trust	Dr	1 550 000	
	Application	Cr		1 550 000
	(being receipt of applications for 620,000 shares at $2.50 per share)			
6 Sept	Application	Dr	1 500 000	
	Allotment	Dr	900 000	
	Share Capital	Cr		2 400 000
	(being issue of 600,000 shares)			
	Application	Dr	50 000	
	Cash Trust	Cr		50 000
	(being refund to unsuccessful applicants)			
	Share Capital/Share Issue Costs	Dr	12 400	
	Cash/Payables	Cr		12 400
	(being payment of share issue costs)			
	Cash	Dr	1 500 000	
	Cash Trust	Cr		1 500 000
	(transfer of application money)			
To 1 October	Cash	Dr	900 000	

	Allotment	Cr		900 000
	(being receipt of allotment money due)			
1 Feb 2018	Call	Dr	1 800 000	
	Share Capital	Cr		1 800 0000
	(being first and final call for $3)			
To 1 March	Cash	Dr	1 800 000	
	Call	Cr		1 800 000
	(being receipt of call money)			

Question 2.4 Calls on different classes of shares, forfeiture and reissue

Share capital of Oak Ltd at 31 March 2017 was as follows: 300 000 ordinary shares at an issue price of $4 each paid to $2.50, and 100 000 preference shares at an issue price of $4 each paid to $2.

At that date, a further call of $1.50 on ordinary shares and $2 on preference shares was made.

During the 3 months to 30 June 2017, all calls were duly received except those on 5000 preference shares which were forfeited as at 30 June 2017.

To bring capital back to the original amount of issued capital, the forfeited shares were offered to an investment company at a price of $3.50 per share paid to $4 and the transfer was completed on 30 September 2017.

According to the company's constitution, shareholders' equity in forfeited shares must be refunded to them. On 31 October, the previous owner of forfeited shares received a refund cheque for the amount due, less selling costs of $720.

Required
Show journal entries to implement the above transactions.

OAK LTD

General Journal

2017				
March 31	Call - Ordinary	Dr	450 000	
	Call - Preference	Dr	200 000	
	Share Capital - Ordinary	Cr		450 000
	Share Capital - Preference	Cr		200 000
	(Call of $1.50 on ordinary shares and $2 on preference shares)			
June 30	Cash	Dr	640 000	
	Call - Ordinary	Cr		450 000
	Call - Preference	Cr		190 000
	(Receipt of $1.50 call on 300 000 ordinary shares and $2 call on 95 000 preference shares)			
	Share Capital - Preference	Dr	20 000	
	Call - Preference	Cr		10 000
	Forfeited Shares Liability	Cr		10 000
	(Forfeiture of 5 000 preference shares for non-payment of $2 per share call)			
Sept 30	Cash	Dr	17 500	
	Forfeited Shares Liability	Dr	2 500	
	Share Capital - Preference	Cr		20 000
	(Reissue of 5 000 preference			

	shares for $3.50, paid to $4)			
	Forfeited Shares Liability	Dr	720	
	Cash	Cr		720
	(Expenses of reissue)			
Oct 31	Forfeited Shares Liability	Dr	6 780	
	Cash	Cr		6 780
	(Refund to former shareholders)			

Question 2.5 Issue of shares by instalment; ledger accounts

On 30 September 2016, Jacaranda Ltd issued a prospectus calling for applications for 600 000 ordinary shares at an issue price of $3, payable $1.50 on application and $1.50 on allotment. By the closing date of 31 October 2016, the company had received the following application money:

From applicants for 500 000 shares	**$**	**750 000**
From applicants for 120 000 shares		**360 000**

On 15 November, it was decided to allot to applicants who paid more than the application money the number of shares applied for, and to applicants who paid only the application money 480 000 shares. Application money was refunded to 20 000 unsuccessful applicants.

The constitution gives the directors the power to apply excess application money to allotment. All other allotment money was received by 31 December 2016.

Required
Prepare the necessary ledger accounts to record the above transactions.

JACARANDA LTD

General Ledger

Cash Trust

31/10/16	Application	1 110 000	15/11/16	Application	30 000
			15/11/16	Cash	1 080 000
		1 110 000			1 110 000

Application

15/11/16	Share Capital	900 000	31/10/16	Cash – Trust	1 110 000
15/11/16	Allotment	180 000			
15/11/16	Cash Trust	30 000			
		1 110 000			1 110 000

Share Capital

			15/11/16	Appl'n & Allot.	1 800 000

Allotment

15/11/16	Share Capital	900 000	15/11/16	Application	180 000

			31/12/16	Cash	720 000
		900 000			900 000

Cash

15/11/16	Cash Trust	1 080 000	31/12/16	Balance c/d	1 800 000
31/12/16	Allotment	720 000			
		1 800 000			1 800 000
31/12/16	Balance b/d	1 800 000			

Question 2.6 Rights issues and private placements

The equity of Ash Ltd on 30 June 2017 was:

Share capital (issued at $4, fully paid)	**$**	**1 200 000**
Asset revaluation surplus		**700 000**
Retained earnings		**400 000**

The following transactions occurred during the year ended 30 June 2018.

1. **On 1 August 2017, a 1-for-4 rights offer was made to existing shareholders. The issue price was $4 per share payable in full on allotment, and rights were transferable. Shares issued under the offer were to rank equally with existing shares as from 1 August 2017. The issue was underwritten for a commission of $8000. The issue closed fully subscribed on 31 August, the holders of 50 000 shares having transferred their rights. Directors proceeded to allotment. The underwriting commission was paid on 7 September.**
2. **On 1 March 2018, 220 000 shares were privately placed with Blossom Investments Ltd at $4 per share.**

Required

A. Prepare general journal entries to record the above transactions.

B. Prepare the equity section of the statement of financial position as it would appear at 30 June 2018, assuming a profit for the year of $50 000.

ASH LTD
General Ledger

A.

(1) <u>2017</u>				
Aug 31	Cash	Dr	300 000	
	Share Capital	Cr		300 000
	(Rights issue for 75 000 shares issued for $4)			
Sept 7	Share Issue Costs/Share Capital	Dr	8 000	
	Cash	Cr		8 000
	(Payment of underwriting commission)			
(2) <u>2018</u>				
March 1	Cash	Dr	880 000	
	Share Capital	Cr		880 000
	(Private placement of 220 000 shares at $4 each with Blossom Investments Ltd)			

B.

ASH LTD
EQUITY
(as at 30 June 2018)

Contributed equity:		
595 000 ordinary shares issued for $4	$2 380 000	
less Share issue costs (underwriting)	8 000	$2 372 000
Revaluation Reserve/Surplus		700 000
Retained Earnings		450 000
		$3 522 000

Question 2.7 Unsecured notes, issue and redemption

On 1 July 2016, Beech Ltd issued a prospectus inviting applications for 1000 7.5% unsecured notes of $200 each, payable in full on application. By 31 August, the company received applications for 920 of the notes and they were subsequently allotted. The notes were classified as a liability in the financial statements.

On 30 June 2019, the company decided to redeem the notes in cash on the open market, at a premium of $4 per note.

Required
Ignoring interest, prepare the ledger accounts to record the above transactions.

BEECH LTD

A.

Cash Trust

31/8/16	Application – Notes	184 000	31/8/16	Cash	184 000

Cash (extract)

31/8/16	Cash Trust	184 000	30/6/19	Unsecured notes and redemption expense	187 680

Application - Notes

31/8/16	Unsecured Notes	184 000	31/8/16	Cash Trust	184 000

Unsecured Notes

30/6/19	Cash	184 000	31/8/16	Application	184 000

Expense on Redemption

30/6/19	Cash	3 680			

Question 2.8 Forfeiture of shares

The notice shown below appeared in the *Financial News* on 1 October 2017.

ARGAN NL

Notice of Sale of Forfeited Shares

All shares on which the call of fifty cents per share, due for payment on 1 September 2017, remains unpaid, will be sold by public auction on 1 November 2017, at 11 a.m. at the Australian Securities Exchange, Sydney, NSW.

Assume the following:
- **1 000 000 shares were forfeited**
- **the forfeited shares were all paid to $1.50 per share**
- **all the shares were sold at the auction for $1.80 per share and will be credited to $2.00**
- **costs of forfeiture and reissue amounted to $4000**
- **the balance of the Forfeited Shares account will be refunded to the former shareholders.**

Required
Discuss the benefits to a company from forfeiting and reissuing shares, and prepare journal entries to record the forfeiture and reissue above.

The main benefit to a company for forfeiting and reissuing shares is to tidy up the share capital account and the share register. Shares are usually forfeited for non-payment of calls; hence, by forfeiting and reissuing these shares, the company can ensure that all shareholders are paid up to the same amount on their shares. This makes it easier in the future when dividends are declared on a per share basis in that all shareholders are paid up to the same amount and no proportionate dividends need to be calculated.

ARGAN NL
General Journal

2017				
	Share Capital	Dr	2 000 000	
	Call	Cr		500 000
	Forfeited Shares Liability	Cr		1 500 000
	(Forfeiture of 1 000 000 shares called to $2 for non-payment of 50c call)			
1 Nov	Cash	Dr	1 800 000	
	Forfeited Shares Liability	Dr	200 000	
	Share Capital	Cr		2 000 000
	(Reissue of forfeited shares at public auction for $1.80, paid to $2)			
	Forfeited Shares Liability	Dr	4 000	
	Cash	Cr		4 000
	(Expenses of forfeiture and reissue)			

Forfeited Shares Liability	Dr	1 296 000	
Cash	Cr		1 296 000
(Refund to former shareholders)			

Question 2.9 Oversubscription and payment by instalments

The equity balances for Acacia Ltd at the 1 July 2018 comprised the following:

Share capital	**$2 988 000**
(All ordinary shares, issued and paid to $5, less issue costs of $12 000)	
Retained earnings	**$7 600 400**
	$10 588 400

On 1 October 2018, Acacia Ltd issued a prospectus for applications for 200 000 ordinary shares to the public at an issue price of $7, payable $2.50 on application, $1.50 on allotment and the remaining $3 in future call(s) as determined by the directors.

By 1 December applications had been received for 240 000 ordinary shares with $2.50 attached.

At a directors' meeting on 5 December, it was decided to reject applications for 40 000 shares and issue shares to the remaining applicants.

Share issue costs of $4000 were paid on 5 December. All outstanding allotment money was received by the 1 January 2019.

The first call for $2 was made on 1 February 2019 with all money received by 20 February. The final call for $1 was made on 20 June 2019. At 30 June 2019 this call money had not been received in relation to 25 000 shares.

Required

A. Prepare the journal entries to record the transactions of Acacia Ltd as outlined above. (Show all workings.)

B. Calculate the amount of share capital in the statement of financial position of Acacia Ltd as at 30 June 2019 (Show all workings.)

C. How would your answers to requirements A and B change if:
By 1 December applications had been received for 240 000 ordinary shares of which applicants for 80 000 shares forwarded $4 per share, and the remainder paying only the application money.
At a directors' meeting on 5 December, it was decided to allot shares applicants who had paid $4, and to reject applications for 40 000 shares where applicants had only forwarded $2.50 on application. According to the company's constitution, all surplus money from application can be transferred to Allotment and/or Call accounts.

ACACIA LTD

(i)

2018				
To 1 Dec	Cash Trust	Dr	600 000	
	Application	Cr		600 000
	(being receipt of applications)			
5 Dec	Application	Dr	500 000	
	Allotment	Dr	300 000	
	Share Capital	Cr		800 000

	(being issue of shares)			
	Application	Dr	100 000	
	Cash Trust	Cr		100 000
	(being refund to unsuccessful applicants)			
	Share Capital/Share Issue Costs	Dr	4 000	
	Cash/Payables	Cr		4 000
	(being payment of share issue costs)			
	Cash	Dr	500 000	
	Cash Trust	Cr		500 000
	(transfer of application money)			
2019				
To 1 Jan	Cash	Dr	300 000	
	Allotment	Cr		300 000
	(being receipt of allotment money due)			
1 Feb	Call	Dr	400 000	
	Share Capital	Cr		400 000
	(being first call for $2)			
To 20 Feb	Cash	Dr	400 000	
	Call	Cr		400 000
	(being receipt of call money)			
20 June	Second (or Final) Call	Dr	200 000	
	Share Capital	Cr		200 000
	(being final call for $1)			
To 30 June	Cash	Dr	175 000	
	Second (or Final) Call	Cr		175 000
	(being receipt of call money)			

(ii) The amount of share capital in the statement of financial position of Acacia Ltd as at 30 June 2019 is $4,659,000.

Beg balance $2,988,000
+ new share issue 1,400,000 (200,000 * $7)
-less costs (4,000)
-less calls in arrears (25,000)
Total $4,359,000

(iii) Entries changed as below. (Note: the entries for calls would not change; nor would the total amount of share capital at 30 June 2019).

<u>2018</u>				
To 1 Dec	Cash Trust	Dr	720 000	
	Application	Cr		720 000
	(being receipt of applications 80,000 * $4 + 160,000* 2.50)			
5 Dec	Application	Dr	500 000	
	Allotment	Dr	300 000	
	Share Capital	Cr		800 000
	(being issue of shares)			
	Application	Dr	120 000	
	Allotment	Cr		120 000
	(transfer of allotment monies received on application)			
	Application	Dr	100 000	
	Cash Trust	Cr		100 000
	(being refund to unsuccessful applicants)			
	Share Capital/Share Issue Costs	Dr	4 000	
	Cash/Payables	Cr		4 000
	(being payment of share issue costs)			
	Cash	Dr	620 000	

	Cash Trust	Cr		620 000
	(transfer of application money)			
2019				
To 1 Jan	Cash	Dr	180 000	
	Allotment	Cr		180 000
	(being receipt of allotment money due)			

Question 2.10 Issue by instalments, oversubscription, forfeiture and reissue

On 1 April 2016, Magnolia Ltd was incorporated and a prospectus was issued inviting applications for 100 000 shares, at an issue price of $10, payable $5 on application, $2.50 on allotment and $1.25 on each of two calls to be made at intervals of 4 months after the date of allotment.

By 30 April, applications were received for 120 000 shares. On 3 May, the directors allotted 100 000 ordinary shares to the applicants in proportion to the number of shares for which applications had been made. The surplus application money was offset against the amount payable on allotment. The balance of the allotment money was received by 10 May. Legal costs of forming the company were $1300 and were paid on 11 May. Share issue costs of $800 were also paid on the same date.

The two calls were made on the dates stated in the prospectus, but the holders of 10 000 shares did not pay either call. In addition, a holder of another 5000 shares did not pay the second call.

On 10 March 2017, as provided by the company's constitution, the directors forfeited the 15 000 shares on which calls were unpaid.

On 25 March 2017, the forfeited shares were reissued as fully paid for a consideration of $9 per share. Costs of forfeiture and reissue amounted to $250. The constitution does not provide for refund of any balance in the forfeited shares account after reissue to former shareholders.

Required

A. Prepare ledger accounts to record the above transactions.

B. Prepare the equity section of Magnolia's statement of financial position on completion of the transactions.

MAGNOLIA LTD
General Ledger

Cash Trust

30/4/16	Application	600 000	3/5/16	Cash	600 000

Application

3/5/16	Share capital	500 000	30/4/16	Cash Trust	600 000
3/5/16	Allotment	100 000			
		600 000			600 000

Allotment

3/5/16	Share capital	250 000	3/5/16	Application	100 000
			10/5/16	Cash	150 000
		250 000			250 000

Share Capital

10/3/17	Calls & Forfeited Shares Reserve	150 000	3/5/16	Applic. & allot	750 000
			3/9/16	First call	125 000

25/3/17	Balance c/d	1 000 000	3/1/17	Second call	125 000
			25/3/17	Cash & Forfeited Shares Reserve	150 000
		1 150 000			1 150 000
			25/3/17	Balance b/d	1 000 000

Cash

3/5/16	Cash Trust	600 000	11/5/16	Formation Costs Exp	1 300
10/5/16	Allotment	150 000	11/5/16	Share Issue Costs	800
--/9/16	First Call	112 500	25/3/17	Forfeited Shares Reserve	250
25/1/17	Second Call	106 250	25/3/17	Balance c/d	1 101 400
25/3/17	Share Capital	135 000			
		1 103 750			1 103 750
25/3/17	Balance b/d	1 101 400			

Formation Costs Expense

11/5/16	Cash	1 300		P&L	1 300

Share Issue Costs

11/5/16	Cash	800			

First Call

3/9/16	Share Capital	125 000	--/9/16	Cash	112 500
			10/3/16	Share Capital	12 500
		125 000			125 000

Second Call

3/1/17	Share Capital	125 000	--/1/17	Cash	106 250
			10/3/17	Share Capital	18 750
		125 000			125 000

Forfeited Shares Reserve

25/3/17	Share Capital	15 000	10/3/17	Share Capital	118 750
25/3/17	Cash (costs)	250			
25/3/17	Balance c/d	103 500			
		118 750			118 750
			25/3/17	Balance b/d	103 500

B.

MAGNOLIA LTD
Equity
(as at 25 March 2017)

Contributed equity:		
(100 000 shares paid to $10)	$1 000 000	
Less Share issue costs	800	$999 200
Reserves		103 500
[Forfeited shares]		
Retained earnings [formation costs]		(1 300)
Total Equity		$1 101 400

Question 2.11 Oversubscription, with excess money received on application

On 1 August 2018, Prunus Ltd issued a prospectus inviting applications for 800 000 ordinary shares to the public at an issue price of $12, payable as follows:

$4 on application (due by closing date of 1 November)
$5 on allotment (due 1 December)
$3 on future call/calls to be determined by the directors

By 1 November, applications had been received for 860 000 ordinary shares of which applicants for 100 000 shares forwarded the full $12 per share, applicants for 300 000 shares forwarded $9 per share and the remainder forwarded only the application money.

At a directors' meeting on 7 November, it was decided to allot shares in full to applicants who had paid the either $12 or $9 on application, to reject applications for 20 000 shares and to proportionally allocate shares to all remaining applicants. According to the company's constitution, all surplus money from application can be transferred to Allotment and/or Call accounts.

Share issue costs of $11 000 were also paid on 7 November. All outstanding allotment money was received by the due date.

A first call for $1.60 was made on 1 February 2019 with money due by 1 March. All money was received by the due date. A second and final call for $1.40 was made on 1 June with money due by 18 June. All money was received by the due date.

Required

Prepare the journal entries to record these transactions of Prunus Ltd. (Show all workings.)

PRUNUS LTD

General Journal

2018				
To 1 November 15	Cash Trust	Dr	5 740 000	
	Application	Cr		5 740 000
	(Cash received on application)			
November 7	Application	Dr	80 000	
	Cash Trust	Cr		80 000
	(Refund to 20 000 applicants)			
	Application	Dr	3 200 000	
	Allotment	Dr	4 000 000	
	Share Capital	Cr		7 200 000

	(Allotment of 800 000 shares)			
	Cash	Dr	5 660 000	
	Cash Trust	Cr		5 660 000
	(Transfer of trust funds)			
	Application *	Dr	2 460 000	
	Allotment	Cr		2 160 000
	Calls in Advance	Cr		300 000
	(Allocation of application across allotment and calls in advance)			
	** refer to workings table at end of solution*			
	Share Issue Costs/Share Capital	Dr	11 000	
	Cash	Cr		11 000
	(Payment of share issue costs $11 000)			
December 1	Cash	Dr	1 840 000	
	Allotment	Cr		1 840 000
	(Cash received on allotment)			
<u>2019</u>				
February 1	Call 1	Dr	1 280 000	
	Share Capital	Cr		1 280 000
	(Call of $1.60 per share)			
	Calls in Advance	Dr	160 000	
	Call 1	Cr		160 000
	(Transfer of calls received in advance)			
March 1	Cash	Dr	1 120 000	
	Call 1	Cr		1 120 000
	(Cash received on 700 000 shares)			

June 1	Call 2	Dr	1 120 000	
	Share Capital	Cr		1 120 000
	(Call of $1.40 per share)			
	Calls in Advance	Dr	140 000	
	Call 2	Cr		140 000
	(Transfer of calls received in advance)			
June 28	Cash	Dr	980 000	
	Call 2	Cr		980 000
	(Cash received on 700 000 shares)			

Workings

Allocation of money received on application

No. of Shares applied for	No. of Shares Allotted	Money Received	Applicatio n $4	Allotment $5	Call 1 $1.60	Call 2 $1.40
100 000	100 000	1 200 000	400000	500 000	160 000	140 000
300 000	300 000	2 700 000	1 200 000	1 500 000	-	
440 000	400 000	1 760 000	1 600 000	160 000		
20 000	0	80 000				
860 000	800 000	$5 740 000	$3 200 000	$2 160 000	$160 000	$140 000

Question 2.12 Oversubscription with pro rata allotment, and forfeiture

On 1 July 2017, Gum Ltd was registered and offered 1 000 000 ordinary shares to the public at an issue price of $6, payable as follows:

$3 on application (due 15 August)
$2 on allotment (due 15 September)
$1 on final call

The issue was underwritten at a commission of $8000. By 15 August, applications had been received for 1 200 000 ordinary shares of which applicants for 200 000 shares forwarded the full $6 per share, the remainder paying only the application money.

At a directors' meeting on 16 August, it was decided to allot shares in full to applicants who had paid the full amount and proportionally to all remaining applicants. According to the company's constitution, all surplus money from application can be transferred to Allotment and/or Call accounts.

The underwriting commission was paid on 28 August. Other share issue costs of $6000 were also paid on this date. All outstanding allotment money was received by the due date.

The final call was made on 1 November with money due by 30 November. All money was received on the due date except for the holder of 30 000 shares who failed to meet the final call. On 7 December, as provided for in the constitution, the directors decided to forfeit these shares. They were reissued, on 15 December, as paid to $6 for $5.60 cash. The balance of the Forfeited Shares account was returned to the former shareholder on 16 December.

Required
Prepare the journal entries to record the transactions of Gum Ltd up to and including that which took place on 16 December 2017. (Show all workings.)

GUM LTD

General Journal

2017				
August 15	Cash Trust	Dr	4 200 000	
	Application	Cr		4 200 000
	(Cash received on application)			
August 16	Application	Dr	3 000 000	
	Allotment	Dr	2 000 000	
	Share Capital	Cr		5 000 000
	(Allotment of 1 000 000 shares)			
	Cash	Dr	4 200 000	
	Cash Trust	Cr		4 200 000

	(Transfer of trust funds)			
	Application *	Dr	1 200 000	
	Allotment	Cr		1 000 000
	Calls in Advance	Cr		200 000
	(Allocation of application across allotment and calls in advance)			
August 28	Share Issue Costs/Share Capital	Dr	14 000	
	Cash	Cr		14 000
	(Payment of underwriting commission and other share issue costs [$8 000 + $6 000])			
September 15	Cash	Dr	1 000 000	
	Allotment	Cr		1 000 000
	(Cash received on allotment)			
2017				
November 1	Call	Dr	1 000 000	
	Share Capital	Cr		1 000 000
	(Call of $1 per share)			
	Calls in Advance	Dr	200 000	
	Call	Cr		200 000
	(Transfer of calls received in advance)			
November 30	Cash	Dr	770 000	
	Call	Cr		770 000
	(Cash received on 770 000 shares)			
December 7	Share Capital	Dr	180 000	
	Call	Cr		30 000
	Forfeited Shares Liability	Cr		150 000
	(Forfeiture of 30 000 shares)			

December 15	Cash	Dr	168 000	
	Forfeited Shares Liability	Dr	12 000	
	Share Capital	Cr		180 000
	(Reissue of shares forfeited)			
December 16	Forfeited Shares Liability	Dr	138 000	
	Cash	Cr		138 000
	(Refund to former shareholders)			

* **Workings**

Allocation of money received on application

No. of Shares applied for	No. of Shares Allotted	Money Received	Application	Allotment	Call
200 000	200 000	1 200 000	600 000	400 000	200 000
1 000 000	800 000	3 000 000	2 400 000	600 000	-
1 200 000	1 000 000	$4 200 000	$3 000 000	$1 000 000	$200 000

Question 2.13 Ordinary shares, redeemable preference shares and options

Prepare ledger accounts to record the following transactions for Poplar Ltd, ignoring preference share interest payments:

2015		
July	**1**	**A disclosure document was issued inviting applications for 100 000 ordinary shares at an issue price of $3, payable in full on application. The disclosure document also offered 50 000 10% redeemable preference shares at $2, fully payable on application. The issue was underwritten at a commission of $6500.**
	21	**Applications closed with the ordinary issue oversubscribed by 20 000 and the preference shares undersubscribed by 15 000.**
	31	**All shares were allotted with application money being refunded to unsuccessful applicants for ordinary shares.**
Aug.	**14**	**The underwriter paid amounts due less commission.**
Dec.	**1**	**The directors resolved to give each ordinary shareholder, free of charge, one option for every two shares held. The options are exercisable on 1 May 2018 and allow each holder to acquire one ordinary share at an exercise price of $2.70. Options not exercised on that date will lapse.**
2018		
March	**1**	**A disclosure document was issued inviting applications for 100 000 ordinary shares at an issue price of $2.50, payable in full on application. The main purpose of the issue was to fund the redemption of the preference shares.**
March	**31**	**The issue was fully subscribed and all money due was received. The shares were then allotted.**
April	**10**	**The preference shares were redeemed at a price of $2.10 per share. The shares had been classified as equity in the financial statements.**
May	**1**	**The holders of 35 000 options elected to exercise those options and 35 000 ordinary shares were issued and cash received. All other options lapsed.**

POPLAR LTD

Share Capital - Ordinary

31/5/18	Balance c/d	644 500	31/7/15	Application - ord	300 000
			31/3/18	Application -ord	250 000
			1/5/18	Cash - ord	94 500
		644 500			644 500
			31/5/18	Balance b/d	644 500

Share Capital - Preference

10/4/18	Shareholders' redemption	100 000	31/7/15	Application - pref	100 000

Cash Trust

21/7/15	Application - ord	360 000	31/7/15	Application - ord	60 000
21/7/15	Application - pref	70 000	31/7/15	Cash	370 000
		430 000			430 000
31/3/18	Application - ord	250 000	31/3/18	Cash	250 000
		250 000			250 000

Application – Ordinary

31/7/15	Share capital - ord	300 000	21/7/15	Cash trust	360 000
31/7/15	Cash trust (refund)	60 000			
		360 000			360 000
31/3/18	Share capital - ord	250 000	31/3/18	Cash trust	250 000

Application - Preference

31/7/15	Share capital - pref	100 000	21/7/15	Cash Trust	70 000
			14/8/15	Cash and share issue costs	30 000
		100 000			100 000

Cash (extract)

31/7/15	Cash trust	370 000	10/4/18	Shareholders' redemption	105 000
14/8/15	Application - pref	23 500			
31/3/18	Cash trust	250 000			
1/5/18	Share Capital - ord	94 500			

Share Issue Costs

14/8/15	Application - pref	6 500			

Shareholders' Redemption

10/4/18	Cash	105 000	10/4/18	Share capital -pref and retained earns.	105 000

Retained Earnings (extract)

10/4/18	Shareholders' redemption	5 000	

Question 2.14 Debentures issue and redemption

A prospectus was issued by Birch Ltd on 1 November 2016, inviting applications for 5000 9% $200 debentures, payable $150 on application and $50 on allotment. The terms of the prospectus were such as to give the company the option to redeem the debentures at 1 month's notice, providing a 12% premium was paid. If the company chose not to exercise this option for a period of 5 years, then the company could redeem them at nominal value. The market interest rate for debentures of similar risk was 9%.

Applications for 5300 debentures were received by 24 November. The debentures were allotted on 30 November, with excess application money being refunded to the unsuccessful applicants. All allotment money was received on 31 December. Interest was payable half-yearly on 30 June and 31 December.

On 1 November 2018, the company purchased 800 of the debentures on the open market for $180 each. Brokerage and stamp duty amounted to $210.

On 1 September 2019, the company gave notice to the holders of 3000 debentures of redemption on 31 October 2019. These were subsequently redeemed on 31 October, and appropriate interest was paid.

The balance of debentures was redeemed in due course on 30 November 2021.

Required

Provide general journal entries for the above transactions. Include entries for half-yearly interest payments. Assume the end of the reporting period is 30 June.

BIRCH LTD

2016				
to Nov 24	Cash Trust	Dr	795 000	
	Application - Debentures	Cr		795 000
	(Cash received on 5 300 $200 debentures payable $150 on application)			
Nov 30	Application - Debentures	Dr	750 000	
	Debenture Holders	Dr	250 000	
	Debentures	Cr		1 000 000
	(Allotment of debentures)			
Nov 30	Application - Debentures	Dr	45 000	
	Cash Trust	Cr		45 000
	(Refund to unsuccessful applicants)			
Nov 30	Cash	Dr	750 000	
	Cash Trust	Cr		750 000
	(Transfer from trust account)			
Dec 31	Cash	Dr	250 000	
	Debenture Holders	Cr		250 000
	(Cash received on allotment)			
Dec 31	Interest Expense	Dr	5 625	
	Cash	Cr		5 625

	(Interest paid on debentures:			
	$750 000 x 0.09 x 1/12)			
2017				
June 30 &	Interest Expense	Dr	45 000	
Dec 31	Cash	Cr		45 000
	(Interest on $1 000 000 @ 9% for each ½ year)			
2018				
June 30	Interest Expense	Dr	45 000	
	Cash	Cr		45 000
	(Interest on $1 000 000 @ 9% for ½ year)			
Nov 1	Debentures	Dr	160 000	
	Interest Expense	Dr	4 800	
	Income on Redemption of Debs.	Cr		20 800
	Cash	Cr		144 000
	(Redemption of 800 debentures on the open market for $180 each, and interest expense for four months)			
Nov 1	Brokerage and Stamp Duty Expense	Dr	210	
	Cash	Cr		210
	(Brokerage and stamp duty on open market redemption)			
Dec 31	Interest Expense	Dr	37 800	
	Cash	Cr		37 800
	(Interest on 4,200 debentures @ 9% for ½ year)			
2019				
June 30	Interest Expense	Dr	37 800	
	Cash	Cr		37 800
	(Interest on 4,200 debentures @ 9% for ½ year)			
Oct 31	Debentures	Dr	600 000	
	Interest Expense	Dr	18 000	
	Expense on Redemption of Debs.	Dr	54 000	
	Debenture Holders	Cr		672 000
	(Redemption of 3 000 $200 debentures for $224 each, and interest expense for four months)			
Oct 31	Debenture Holders	Dr	672 000	
	Cash	Cr		672 000
	(Cash paid)			
Dec 31	Interest Expense	Dr	10 800	

	Cash	Cr		10 800
	(Interest on 1 200 $200 debentures for six months at 9%)			
<u>2020</u>				
June 30 &	Interest Expense	Dr	10 800	
Dec 31	Cash	Cr		10 800
	(Interest on 1 200 $200 debentures for ½ year at 9%)			
<u>2021</u>				
June 30	Interest Expense	Dr	10 800	
	Cash	Cr		10 800
	(Interest on 1 200 $200 debentures for 2/1 year at 9%)			
Nov 30	Debentures	Dr	240 000	
	Interest Expense	Dr	9 000	
	Debenture Holders	Cr		249 000
	(Redemption of 1 200 $200 debentures at nominal value, and interest expense for five months)			
Nov 30	Debenture Holders	Dr	249 000	
	Cash	Cr		249 000
	(Cash paid)			

Question 2.15 Shares, debentures and options

At 30 June 2016, the trial balance of Evergreen Ltd contained the following.

EVERGREEN LTD
Trial Balance
as at 30 June 2016

Current assets	**$**	**300 000**		
Plant and equipment (net)		**820 000**		
Goodwill		**320 000**		
Retained earnings		**900 000**		
Accounts payable			**$**	**340 000**
10% unsecured notes				**500 000**
Share capital				
80 000 preference shares issued at $10, paid to $5				**400 000**
1 100 000 ordinary shares issued at $2, paid to $1				**1 100 000**
	$	**2 340 000**	**$**	**2 340 000**

After a number of years of unprofitable trading, the company underwent the following restructure to improve its financial position:

1. **A call of $5 per share was made on the issued preference capital and a call of $1 on each of the ordinary shares. All call money was duly received.**
2. **The ordinary shareholders were given the following options:**
   - **A rights issue of 1 ordinary share, at an issue price of $2, payable in full on application, for every 10 shares held.**
   - **To apply for one $50 7% debenture for every 100 shares held. These were payable in full on application.**

   Holders of 600 000 shares chose the first option and holders of 500 000 shares chose the second option. All money was received when due.

Required
Prepare general journal entries to record the above events.

EVERGREEN LTD
General Journal

1.	Call - Preference	Dr	400 000	
	Call - Ordinary	Dr	1 100 000	
	Share Capital - Preference	Cr		400 000
	Share capital - Ordinary	Cr		1 100 000
	(Call of $5 on 80 000 preference shares and $1 call on 1 100 000 ordinary shares)			
	Cash	Dr	1 500 000	
	Call - Preference	Cr		400 000
	Call - Ordinary	Cr		1 100 000
	(Receipt of calls)			
2.	Cash	Dr	120 000	
	Share Capital - Ordinary	Cr		120 000

(Cash on 60 000 shares
under rights issue)

Cash Trust	Dr	250 000	
Application - Debentures	Cr		250 000
(Cash on 5 000 $50 debentures payable in full on application)			
Application - Debentures	Dr	250 000	
Debentures	Cr		250 000
(Issue of 5 000 $50 debentures)			
Cash	Dr	250 000	
Cash Trust	Cr		250 000
(Transfer from trust account)			

Question 2.16 Share buy-back

Wattle Ltd decided to repurchase 250 000 of its ordinary shares under a buy-back scheme for $5.70 per share. At the date of the buy-back, the equity of Wattle Ltd consisted of:

Share capital (3 000 000 shares fully paid)	**$**	**6 000 000**
General reserve		**680 000**
Retained earnings		**1 230 000**

Required

A. Prepare the journal entries to account for the buy-back, assuming:
   (i) that the original amount of the shares is eliminated from Share Capital, and then any remaining buy-back price adjusted equally against the General Reserve and Retained Earnings accounts.
   (ii) that the buy-back is not adjusted against share capital, but is adjusted firstly against the General Reserve account, then any remaining against the Retained Earnings account.

B. Assume now that the buy-back price per share was equal to $2.60 and that the company had no General Reserve account, and retained earnings of only $520 000. Further, assume that the company accounts for share buy-backs against retained earnings first. Prepare journal entries to record the share buy-back.

WATTLE LTD
General Journal

A.

(i)	General Reserve	Dr	464 400	
	Retained Earnings	Dr	464 400	
	Share Capital	Dr	500 000	
	Cash	Cr		1 428 800
	(Repurchase of 250 000 ordinary shares under a buy-back scheme plus costs)			
(ii)	General Reserve	Dr	680 000	
	Retained Earnings	Dr	748 800	
	Cash	Cr		1 428 800
	(Repurchase of 250 000 ordinary shares under a buy-back scheme plus costs)			

B.	Retained Earnings	Dr	520 000	
	Share Capital	Dr	133 800	
	Cash	Cr		653 800
	(Repurchase of 250 000 ordinary shares under a buy-back scheme plus costs)			

Question 2.17 Series of independent situations

Prepare journal entries to implement the following *independent* decisions:

1. **To redeem out of retained earnings 150 000 preference shares, issued and paid to $2.50, at a price of $2.60. The preference shares had been treated as equity.**
2. **To redeem 150 000 preference shares, recorded as liabilities, fully paid at $1.50 each, for $1.60, this being funded by the issue of 240 000 ordinary shares at an issued price of $1 payable in full on application. Assume all shares were applied for and allotted.**
3. **To redeem 20 000 $50 debentures by purchasing them on the open market for $48 each. They were previously issued by the company at nominal value.**
4. **To issue 50 000 options, at an issue price of 75c per option. Each option allows the holder to subscribe for one ordinary share at an exercise price of $3.60 per share on or before 1 July 2017.**
5. **By 1 July 2017, 40 000 of the options issued in (4) above were exercised and shares were issued. The remaining options lapsed.**
6. **To issue 150 000 $25 debentures, payable in full on application. Applications were received for 180 000 debentures. Allocation was done on a first-come first-served basis and excess application money was refunded to unsuccessful applicants.**
7. **To convert $25 000 of 9% convertible notes. Holders of $20 000 of the notes do not wish to exercise their rights and request payment in cash, and holders of the remaining $5000 decide to convert on the basis of one ordinary share paid to 75c for each $1 note held. The company has recognised all of the notes as a liability.**
8. **To make a 1-for-4 rights issue at an issue price of $1.60 per share. Share capital before the issue consisted of 100 000 ordinary shares issued and paid to $1. All rights are exercised by the expiry date.**

1.	Share Capital - Preference	Dr	375 000	
	Retained Earnings	Dr	15 000	
	Shareholders' Redemption	Cr		390 000
	(Redemption of 150 000 shares at price of $2.60)			
	Shareholders' Redemption	Dr	390 000	
	Cash	Cr		390 000
	(Payment on redemption)			
	Retained Earnings	Dr	375 000	
	Share Capital - Ordinary	Cr		375 000
	(Transfer against retained earnings)			
2.	Cash Trust	Dr	240 000	
	Application - Ordinary	Cr		240 000
	(Money received on application)			
	Application - Ordinary	Dr	240 000	
	Share Capital - Ordinary	Cr		240 000
	(Allotment of 240 000 shares)			

	Cash	Dr	240 000	
	Cash Trust	Cr		240 000
	(Transfer on allotment)			
	Preference Share Liability	Dr	225 000	
	Redemption Premium Expense	Dr	15 000	
	Shareholders' Redemption	Cr		240 000
	(Redemption of 150 000 shares at a price of $1.60)			
	Shareholders' Redemption	Dr	240 000	
	Cash	Cr		240 000
	(Payment on redemption)			
3.	Debentures	Dr	1 000 000	
	Cash	Cr		960 000
	Income on Redemption of Debentures	Cr		40 000
	(Purchase of 20,000 $50 debentures for $48 each on stock exchange)			
4.	Cash	Dr	37 500	
	Share Options	Cr		37 500
	(Issue of 50 000 share options at 75c each)			
5.	Cash	Dr	144 000	
	Share Capital – Ordinary	Cr		144 000
	(Issue of 40 000 ordinary shares as a result of 40 000 options exercised)			
	Share Options	Dr	37 500	
	Share Capital – Ordinary	Cr		30 000
	Lapsed Options Reserve	Cr		7 500
	(Write-off of options exercised, and lapsed)			
6.	Cash Trust	Dr	4 500 000	
	Application - Debentures	Cr		4 500 000
	(Cash received as $25 per debenture Application money on 180 000 debentures)			
	Application - Debentures	Dr	3 750 000	
	Debentures	Cr		3 750 000
	(Issue of 150 000 $25 debentures)			
	Cash	Dr	3 750 000	
	Application - Debentures	Dr	750 000	
	Cash Trust	Cr		4 500 000
	(Transfer on allotment and refund to unsuccessful applicants)			

7.	Convertible Note Liability	Dr	25 000	
	Convertible Noteholders	Cr		25 000
	(Transfer to noteholders account)			
	Convertible Noteholders	Dr	25 000	
	Cash	Cr		20 000
	Share Capital	Cr		5 000
	(Conversion of 5,000 of convertible notes by cash payment and issue of 5 000 shares issued for $1 and paid to 75c each: fair value of notes redeemed)			
8.	Cash	Dr	40 000	
	Share Capital	Cr		40 000
	(1 for 4 rights issue of 25 000 shares at $1.60)			

Question 2.18 Shares, options and debentures

The share capital of Cedar Ltd on 30 June 2015 was:

Share capital:		
140 000 'A' ordinary shares issued at $4, paid to $2.50	**$**	**350 000**
60 000 'B' ordinary shares issued at $3, fully paid		**180 000**
	$	**530 000**

Required
Prepare journal entries to record the following transactions in the records of Cedar Ltd.

2015		
Nov.	**1**	**The company makes a 1-for-4 rights offer to its 'B' ordinary shareholders. The rights are renounceable and allow holders to obtain 'B' ordinary shares for $3.20 per share, payable in full on application.**
	30	**The holders of 44 000 'B' ordinary shares accept the rights offer by the expiry date. The shares are duly allotted and all money is received.**
2016		
Jan.	**16**	**A call of $1.50 per share is made on all 'A' ordinary shares. All call money except that owing by the holder of 8000 shares is received by 31 January.**
Feb.	**5**	**Shares on which calls are unpaid are forfeited and cancelled, as per the company's constitution.**
Mar.	**17**	**To assist with cash flow difficulties, the company issued a prospectus inviting offers for 80 000 options to acquire 'A' ordinary shares at an issue price of $1.20 per option, payable in full on application. Each option, exercisable on 31 December 2017, allows the holder to acquire one 'A' ordinary share for $3.60.**
	31	**Offers had been received for 60 000 options and these were duly allotted.**
2017		
Dec.	**31**	**The holders of 45 000 options exercised their options and 45 000 'A' ordinary shares were allotted. The remaining options lapsed. All money was received. Costs of issuing the shares, $3400, were paid on 31 January 2018.**
2019		
June	**1**	**The company issued a disclosure document inviting applications for 1000 7% $100 debentures, payable in full on application. The debentures are redeemable at nominal value on 1 June 2022.**
June	**30**	**Applications were received for all debentures which were duly allotted. Costs of debenture issue, $2100, were paid on 15 July.**

CEDAR LTD

General Journal

<u>2015</u>				
Nov 30	Cash	Dr	35 200	
	Share Capital - B Ordinary	Cr		35 200
	(Issue of 11 000 B ordinary shares at a price of $3.20 under a 1 for 4 rights issue)			
<u>2015</u>				
Jan 16	Call -A Ordinary	Dr	210 000	
	Share Capital - A Ordinary	Cr		210 000
	(Call of $1.50 per share on 140 000 A Ordinary shares)			
Jan 31	Cash	Dr	198 000	
	Call - A Ordinary	Cr		198 000
	(Cash received on call)			
Feb 5	Share Capital - A Ordinary	Dr	32 000	
	Call - A Ordinary	Cr		12 000
	Forfeited Shares Reserve	Cr		20 000
	(Forfeiture and cancellation of 8 000 A ordinary shares)			
Mar 31	Cash	Dr	72 000	
	Share Options	Cr		72 000
	(Issue of 60 000 options exercisable on 31 December 2007)			
<u>2017</u>				
Dec 31	Cash	Dr	162 000	
	Share Capital - A Ordinary	Cr		162 000
	(Issue of 45 000 A ordinary shares at $3.60 on exercise of 45 000 options)			
	Share Options	Dr	72 000	
	Share Capital – A Ordinary	Cr		54 000
	Lapsed Options Reserve	Cr		18 000
	(Write-off of options exercised and lapsed)			

2018				
Jan 31	Share Issue Costs/Share Capital	Dr	3 400	
	Cash	Cr		3 400
	(Payment of share issue costs)			
2019				
June 30	Cash Trust	Dr	100 000	
	Application - Debentures	Cr		100 000
	(Cash on 1000 $100 debentures payable in full on application)			
	Application - Debentures	Dr	100 000	
	Debentures	Cr		100 000
	(Issue of 1000 $100 debentures)			
	Cash	Dr	100 000	
	Cash Trust	Cr		100 000
	(Transfer from trust account)			
July 15	Debenture Issue Expenses	Dr	2 100	
	Cash	Cr		2 100
	(Costs of debenture issue)			

Question 2.19 Calls on shares, forfeiture, issue and exercise of options, redemption of preference shares

Olive Ltd's equity at 30 June 2016 was as follows:

400 000 ordinary shares, issued at $1.60, fully paid	**$ 640 000**
500 000 ordinary shares, issued at $2, called to $1.20	**600 000**
180 000 redeemable preference shares, issued at $1, fully paid	**180 000**
Calls in advance (10 000 ordinary shares)	**8 000**
Share issue costs	**(7 000)**
General reserve	**60 000**
Retained earnings	**310 000**

The following events occurred during the year ended 30 June 2017:

2016		
July	**15**	**The final call, due 31 August, was made on the partly paid shares.**
Aug.	**31**	**All call money was received, except for that due on 24 000 shares.**
Sept.	**10**	**In accordance with the constitution, the shares on which the call was unpaid were forfeited. The company is entitled to keep any balance from forfeiture of shares.**
Oct.	**1**	**The company offered ordinary shareholders 1 option (at a price of 80 cents per option) for every 5 shares held. Each option entitled the holder to buy 1 ordinary share at a price of $1.50 per share, exercisable on or before 15 April 2017.**
	31	**70 000 options were taken up by shareholders, for which all money due was received.**
2017		
Jan.	**3**	**A prospectus was issued, inviting applications for 100 000 ordinary shares at an issue price of $2, payable in full on application. The purpose of the issue was to fund the redemption of the preference shares. The issue was underwritten at a commission of $6700.**
	31	**The issue closed fully subscribed, with all money due having been received.**
Feb.	**5**	**The 100 000 shares were allotted, and the underwriting commission was paid.**
	18	**The directors resolved to redeem the preference shares out of the proceeds of the January share issue for $1.06 per share.**
	26	**Cheques were issued to the preference shareholders.**
April	**15**	**52 000 shares were issued as a result of 52 000 options having been exercised, for which money had been received. The unexercised options lapsed.**

Required
Prepare general journal entries to record the above transactions.

OLIVE LTD
General Journal

<u>2016</u>				
Jul 15	Call - Ordinary	Dr	400 000	
	Share Capital - Ordinary	Cr		400 000
	(Final call of 80c per share on 500 000 ordinary shares)			
	Calls in Advance	Dr	8 000	
	Call –Ordinary	Cr		8 000
	(Calls already received in advance cancelled against the call due)			
Aug 31	Cash	Dr	372 800	
	Call – Ordinary	Cr		372 800
	(Cash received on 466 000 ordinary shares)			
Sep 10	Share Capital - Ordinary	Dr	48 000	
	Call – Ordinary	Cr		19 200
	Forfeited Shares Reserve	Cr		28 800
	(Forfeiture of 24 000 ordinary shares for non-payment of 80c call, with the capital already paid in held as a reserve)			
Oct 31	Cash	Dr	56 000	
	Share Options	Cr		56 000
	(Issue of 70 000 options purchased at 80c each)			
<u>2017</u>				
Jan 31	Cash Trust	Dr	200 000	
	Application – Ordinary	Cr		200 000
	(Cash trust money held on application for 100 000 ordinary shares @ $2 each)			

Feb 5	Application – Ordinary	Dr	200 000	
	Share Capital – Ordinary	Cr		200 000
	(Issue of 100 000 ordinary shares)			
	Cash	Dr	200 000	
	Cash Trust	Cr		200 000
	(Transfer of cash)			
Feb 5	Share Issue Costs/Share Capital	Dr	6 700	
	Cash	Cr		6 700
	(Underwriting commission paid)			
Feb 18	Share Capital – Preference	Dr	180 000	
	Retained Earnings	Dr	10 800	
	Shareholders Redemption	Cr		190 800
	(Redemption of 180 000 preference shares at $1.06 per share, out of the proceeds received from issue of ordinary shares)			
Feb 26	Shareholders' Redemption	Dr	190 800	
	Cash	Cr		190 800
	(Payment to redeem preference shares)			
Apr 15	Cash	Dr	78 000	
	Share Capital – Ordinary	Cr		78 000
	(Issue of 52 000 ordinary shares @ $1.50 as a result of options exercised)			
	Share Options	Dr	56 000	
	Share Capital – Ordinary	Cr		41 600
	Lapsed Options Reserve	Cr		14 400
	(Write-off of share options @ 80c, with 52 000 being exercised and 18 000 lapsing)			