Solutions Manual

to accompany

Company Accounting 9e

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WILEY

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Chapter 2 – Financing company operations

REVIEW QUESTIONS

1. 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.

2. Explain what can happen if a share issue is 'underwritten' and the effect that underwriting 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.

3. 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.

4. 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.

5. 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. 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).

6. 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.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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. An example of the accounting for a share buy back is given in illustrative example 2.12.

14. 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.

15. What factors must a company consider in recognising a convertible notes issue and how are subsequent transactions in relation to those notes to be accounted for?

Convertible notes that will be converted to shares in the future should be classified as equity and interest payments before conversion should be treated as if they were dividends, namely as a distribution to owners. Those notes that will be repaid in cash on maturity would clearly be liabilities and interest payments would be treated as an expense.

CASE STUDIES

Case Study 1:

DDD LTD

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.

Assuming the amount raised by the public float is exactly $3 million and that this represented 11.5 million shares fully paid, the journal entries are:

Cash Trust	Dr	3 000 000	
Application	Cr		3 000 000
(Money received on application 11 500 000 x 26c approx)			
Cash	Dr	3 000 000	
Cash Trust	Cr		3 000 000
(Transfer to cash on allotment of the shares)			
Application	Dr	3 000 000	
Share Capital	Cr		3 000 000
(Issue of 11 500 000 shares to applicants)			

It is unclear form the news report whether the second company sold its shares outside of DDD. If so, then for the private placements of 2.3 million shares and 1.8 million shares, there would be no entries made by DDD, but ownership amendments would be made in the share register. The remaining shares sold to the public would be through the securities exchange and not through the records of DDD apart from amendments in the share registry.

Case Study 2:

VALEMUS

A.

The answer is no. Although the news report is positive in outlook, note carefully the warning at the end of the report to “make sure you (or a trusted financial adviser) pay close attention to the risks listed in the offer document”. More information is needed, such as:

- □ A careful reading of the prospectus
- □ Earnings history, considering that the report points out that Valemus is operating in an industry which is cyclical in nature with thin profit margins
- □ Future industry economic outlook for a “tough industry”, including the profitability of competitors
- □ Other factors such as “carbon footprint”, treatment of workers, ethical behaviour of directors and management etc

B.

If the share price in the public float is exactly \$2.50, this means that 555 million shares fully paid will raise \$1 387 500 000. The journal entries are:

Cash Trust	Dr	1 387 500 000	
Application	Cr		1 387 500 000
(Money received on application 555 000 000 x \$2.50)			
Cash	Dr	1 387 500 000	
Cash Trust	Cr		1 387 500 000
(Transfer from Cash Trust on allotment)			
Application	Dr	1 387 500 000	
Share Capital	Cr		1 387 500 000
(Issue of 555 000 000 shares fully paid to applicants)			

Case Study 3:

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

Case Study 4:

WYATT AND MCDONALD

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:

TRANSURBAN

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

ASIC

A. From ASIC's website, go to Companies and Raising funds. Find the text of Consultation Paper 155 "Prospectus Disclosure: Improving discosure for retail investors", released on 12 April 2011.

B. ASIC's rules for raising funds are available on the website. A proprietary company generally is not allowed to raise funds from the public; however, ASIC does allow a proprietary company to do so in certain restriced circumstances where a disclosure document is not required. See the website for further details.

PRACTICE QUESTIONS

Question 2.1

CHILLI LTD

General Journal

<u>2014</u>				
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)			

CHILLI LTD

GENERAL LEDGER

Cash Trust

31/03/14	Application	1 120 000	31/03/14	Application	20 000
				Application	100 000
				Cash	1 000 000
		1 120 000			1 120 000

Application

31/03/14	Cash Trust	20 000	31/03/14	Cash Trust	1 120 000
	Share Capital	1 000 000			
	Cash Trust	100 000			
		1 120 000			1 120 000

Share Capital

			31/03/14	Application	1 000 000

Share Issue Costs

31/03/14	Cash	12 000			

Cash

31/03/14	Cash Trust	1 000 000	31/03/14	Share Issue Costs	12 000
				Balance c/d	988 000
		1 000 000			1 000 000
	Balance b/d	988 000			

Question 2.2

PARSLEY LTD

General Journal

2014				
March 31	Call - Ordinary	Dr	400 000	
	Call - Preference	Dr	50 000	
	Share Capital - Ordinary	Cr		400 000
	Share Capital - Preference	Cr		50 000
	(Call of $2 on ordinary shares and $1 on preference shares)			
June 30	Cash	Dr	449 000	
	Call - Ordinary	Cr		400 000
	Call - Preference	Cr		49 000
	(Receipt of $2 call on 200 000 ordinary shares and $1 call on 49 000 preference shares)			
	Share Capital - Preference	Dr	2 000	
	Call - Preference	Cr		1 000
	Forfeited Shares Liability	Cr		1 000
	(Forfeiture of 1 000 preference shares for non-payment of $1 per share call)			
Sept 30	Cash	Dr	1 800	
	Forfeited Shares Liability	Dr	200	
	Share Capital - Preference	Cr		2 000
	(Reissue of 1 000 preference shares for $1.80, paid to $2)			
	Forfeited Shares Liability	Dr	500	
	Cash	Cr		500
	(Expenses of reissue)			
Oct 31	Forfeited Shares Liability	Dr	300	
	Cash	Cr		300
	(Refund to former shareholders)			

Question 2.3

CAYENNE LTD

General Ledger

Cash Trust

31/10/13	Application	1 110 000	15/11/13	Application	30 000
			15/11/13	Cash	1 080 000
		1 110 000			1 110 000

Application

15/11/13	Share Capital	900 000	31/10/13	Cash – Trust	1 110 000
15/11/13	Allotment	180 000			
15/11/13	Cash Trust	30 000			
		1 110 000			1 110 000

Share Capital

			15/11/13	Appl'n & Allot.	1 800 000

Allotment

15/11/13	Share Capital	900 000	15/11/13	Application	180 000
			31/12/13	Cash	720 000
		900 000			900 000

Cash

15/11/13	Cash Trust	1 080 000	31/12/13	Balance c/d	1 800 000
31/12/13	Allotment	720 000			
		1 800 000			1 800 000
31/12/13	Balance b/d	1 800 000			

Question 2.4

MAJORAM LTD

A.

(1) 2014

Aug 31	Cash	Dr	300 000	
	Share Capital	Cr		300 000
	(Rights issue for 100 000 shares issued for $3)			
Sept 7	Share Issue Costs/Share Capital	Dr	6 000	
	Cash	Cr		6 000
	(Payment of underwriting commission)			

(2) 2015

March 1	Cash	Dr	450 000	
	Share Capital	Cr		450 000
	(Private placement of 150 000 shares at $3 each with Curry Investments Ltd)			

B.

MAJORAM LTD
EQUITY
(as at 30 June 2015)

Contributed equity:

450 000 ordinary shares issued for $3	$1 350 000	
less Share issue costs (underwriting)	6 000	$1 344 000
Revaluation Reserve/Surplus		300 000
Retained Earnings		250 000
		1 894 000

Question 2.5

ROSEMARY LTD

A.

Cash Trust

31/8/13	Application – Notes	184 000	31/8/13	Cash	184 000

Cash (extract)

31/8/13	Cash Trust	184 000	30/6/16	Unsecured notes and redemption expense	187 680

Application - Notes

31/8/13	Unsecured Notes	184 000	31/8/13	Cash Trust	184 000

Unsecured Notes

30/6/16	Cash	184 000	31/8/13	Application	184 000

Expense on Redemption

30/6/16	Cash	3 680			

Question 2.6

GARAM MASALA NL

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.

General Journal

2014				
	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 2.7

PAPRIKA LTD

General Ledger

Cash Trust

30/4/13	Application	600 000	3/5/13	Cash	600 000

Application

3/5/13	Share capital	500 000	30/4/13	Cash Trust	600 000
3/5/13	Allotment	100 000			
		600 000			600 000

Allotment

3/5/13	Share capital	250 000	3/5/13	Application	100 000
			10/5/13	Cash	150 000
		250 000			250 000

Share Capital

10/3/14	Calls & Forfeited Shares Reserve	150 000	3/5/13	Applic. & allot	750 000
25/3/14	Balance c/d	1 000 000	3/9/13	First call	125 000
			3/1/14	Second call	125 000
			25/3/14	Cash & Forfeited Shares Reserve	150 000
		1 150 000			1 150 000
			25/3/14	Balance b/d	1 000 000

Cash

3/5/13	Cash Trust	600 000	11/5/13	Formation Costs Exp	1 300
10/5/13	Allotment	150 000	11/5/13	Share Issue Costs	800
--/9/13	First Call	112 500	25/3/14	Forfeited Shares Reserve	250
25/1/14	Second Call	106 250	25/3/14	Balance c/d	1 101 400
25/3/14	Share Capital	135 000			
		1 103 750			1 103 750
25/3/14	Balance b/d	1 101 400			

Formation Costs Expense

11/5/13	Cash	1 300		P&L	1 300

Share Issue Costs

11/5/13	Cash	800			

First Call

3/9/13	Share Capital	125 000	--/9/13	Cash	112 500
			10/3/13	Share Capital	12 500
		125 000			125 000

Second Call

3/1/14	Share Capital	125 000	--/1/14	Cash	106 250
			10/3/14	Share Capital	18 750
		125 000			125 000

Forfeited Shares Reserve

25/3/14	Share Capital	15 000	10/3/14	Share Capital	118 750
25/3/14	Cash (costs)	250			
25/3/14	Balance c/d	103 500			
		118 750			118 750
			25/3/14	Balance b/d	103 500

B.

PAPRIKA LTD
Equity
(as at 25 March 2014)

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 2.8

OREGANO LTD

General Journal

2014				
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)			
2014				
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 2.9

CORIANDER LTD

Share Capital - Ordinary

31/5/15	Balance c/d	644 500	31/7/12	Application - ord	300 000
			31/3/15	Application -ord	250 000
			1/5/15	Cash - ord	94 500
		644 500			644 500
			31/5/15	Balance b/d	644 500

Share Capital - Preference

10/4/15	Shareholders' redemption	100 000	31/7/12	Application - pref	100 000

Cash Trust

21/7/12	Application - ord	360 000	31/7/12	Application - ord	60 000
21/7/12	Application - pref	70 000	31/7/12	Cash	370 000
		430 000			430 000
31/3/15	Application - ord	250 000	31/3/15	Cash	250 000
		250 000			250 000

Application – Ordinary

31/7/12	Share capital - ord	300 000	21/7/12	Cash trust	360 000
31/7/12	Cash trust (refund)	60 000			
		360 000			360 000
31/3/15	Share capital - ord	250 000	31/3/15	Cash trust	250 000

Application - Preference

31/7/12	Share capital - pref	100 000	21/7/12	Cash Trust	70 000
			14/8/12	Cash and share issue costs	30 000
		100 000			100 000

Cash (extract)

31/7/12	Cash trust	370 000	10/4/15	Shareholders' redemption	105 000
14/8/12	Application - pref	23 500			
31/3/15	Cash trust	250 000			
1/5/15	Share Capital - ord	94 500			

Share Issue Costs

14/8/12	Application - pref	6 500			

Shareholders' Redemption

10/4/15	Cash	105 000	10/4/15	Share capital -pref and retained earns.	105 000

Retained Earnings (extract)

10/4/15	Shareholders' redemption	5 000			

Question 2.10

CUMIN LTD

<u>2013</u>				
Oct 31	Cash Trust	Dr	170 000	
	Application - Debentures	Cr		170 000
	(Cash received on 3 400 $100 debentures payable $50 on application)			
Oct 31	Application - Debentures	Dr	125 000	
	Debenture Holders	Dr	125 000	
	Debentures	Cr		250 000
	(Allotment of debentures)			
Oct 31	Application - Debentures	Dr	45 000	
	Cash Trust	Cr		45 000
	(Refund to unsuccessful applicants)			
Oct 31	Cash	Dr	125 000	
	Cash Trust	Cr		125 000
	(Transfer from trust account)			
Nov 30	Cash	Dr	125 000	
	Debenture Holders	Cr		125 000
	(Cash received on allotment)			
Dec 31	Interest Expense	Dr	2 500	
	Cash	Cr		2 500
	(Interest paid on debentures: $125 000 x .08 x 2/12) + $125 000 x .08 x 1/12)			
<u>2014</u>				
June 30 &	Interest Expense	Dr	10 000	
Dec 31	Cash	Cr		10 000
	(Interest on $250 000 @ 8% for each ½ year)			

<u>2015</u>				
June 30	Interest Expense	Dr	10 000	
	Cash	Cr		10 000
	(Interest on $250 000 @ 8% for ½ year)			
Oct 1	Debentures	Dr	50 000	
	Interest Expense	Dr	1 000	
	Income on Redemption of Debs.	Cr		3 500
	Cash	Cr		47 500
	(Redemption of 500 debentures on the open market for $95 each, and interest expense for three months)			
Oct 1	Brokerage and Stamp Duty Expense	Dr	150	
	Cash	Cr		150
	(Brokerage and stamp duty on open market redemption)			
Dec 31	Interest Expense	Dr	8 000	
	Cash	Cr		8 000
	(Interest on $200 000 @ 8% for ½ year)			
<u>2016</u>				
June 30	Interest Expense	Dr	8 000	
	Cash	Cr		8 000
	(Interest on $200 000 @ 8% for ½ year)			
Oct 1	Debentures	Dr	100 000	
	Interest Expense	Dr	2 000	
	Expense on Redemption of Debs.	Dr	8 000	
	Debenture Holders	Cr		110 000
	(Redemption of 1 000 $100 debentures for $110 each, and interest expense of $2 000 for three months)			
Oct 1	Debenture Holders	Dr	110 000	
	Cash	Cr		110 000
	(Cash paid)			
Dec 31	Interest Expense	Dr	4 000	
	Cash	Cr		4 000
	(Interest on 1 000 $100 debentures for six months at 8%)			

<u>2017-2018</u>				
June 30 &	Interest Expense	Dr	4 000	
Dec 31	Cash	Cr		4 000
	(Interest on 1 000 $100 debentures for ½ year at 8%)			
<u>2019</u>				
June 30	Interest Expense	Dr	4 000	
	Cash	Cr		4 000
	(Interest on 1 000 $100 debentures for 2/1 year at 8%)			
Oct 1	Debentures	Dr	100 000	
	Interest Expense	Dr	2 000	
	Debenture Holders	Cr		102 000
	(Redemption of 1 000 $100 debentures at nominal value, and interest expense for three months)			
Oct 1	Debenture Holders	Dr	102 000	
	Cash	Cr		102 000
	(Cash paid)			

General Ledger

Cash Trust

31/10/13	Application -debs	170 000	31/10/13	Application - debs	45 000
			31/10/13	Cash	125 000
		170 000			170 000

Application - Debentures

31/10/13	Debentures	125 000	31/10/13	Cash trust	170 000
31/10/13	Cash trust	45 000			
		170 000			170 000

Debenture Holders

31/10/13	Debentures	125 000	30/11/13	Cash	125 000
1/10/16	Cash	110 000	1/10/16	Debs, int. & exp on redemption	110 000
1/10/19	Cash	102 000	1/10/19	Debentures & interest	102 000

Debentures

1/10/15	Cash (redemption)	50 000	31/10/13	Applic & deb. holders	250 000
30/6/16	Balance c/d	200 000			
		250 000			250 000
1/10/16	Debenture holders	100 000	1/7/16	Balance b/d	200 000
30/6/17	Balance c/d	100 000			
		200 000			200 000
1/10/19	Debenture holders	100 000	1/7/17	Balance b/d	100 000

Cash (extract)

31/10/13	Cash trust	125 000	31/12/13	Interest exp	2 500
30/11/13	Debenture holders	125 000	30/6/14	Interest exp	10 000
			31/12/14	Interest exp	10 000
			30/6/15	Interest exp	10 000
			1/10/15	Debentures (redemp. & interest)	47 500
			1/10/15	Broker & stamp duty	150
			31/12/15	Interest exp	8 000
			30/6/16	Interest exp	8 000
			1/10/16	Debenture holders	110 000
			31/12/16	Interest exp	4 000
			30/6/17	Interest exp	4 000
			31/12/17	Interest exp	4 000
			30/6/18	Interest exp	4 000
			31/12/18	Interest exp	4 000
			30/6/19	Interest exp	4 000
			1/10/19	Debenture holders	102 000

Interest Expense

31/12/13	Cash	2 500	30/6/14	P or L	12 500
30/6/14	Cash	10 000			
		12 500			12 500
31/12/14	Cash	10 000	30/6/15	P or L	20 000
30/6/15	Cash	10 000			
		20 000			20 000
1/10/15	Cash	1 000	30/6/16	P or L	17 000
31/12/15	Cash	8 000			
30/6/16	Cash	8 000			
		17 000			17 000
1/10/16	Debenture holders	2 000	30/6/17	P or L	10 000
31/12/16	Cash	4 000			
30/6/17	Cash	4 000			
		10 000			10 000
31/12/17	Cash	4 000	30/6/18	P or L	8 000
30/6/18	Cash	4 000			
		8 000			8 000
31/12/18	Cash	4 000	30/6/19	P or L	8 000
30/6/019	Cash	4 000			
		8 000			8 000
1/10/19	Debenture holders	2 000	30/6/20	P or L	2 000

Income on Redemption of Debentures

30/6/16	P or L	3 500	1/10/15	Debenture (redempt)	3 500

Brokerage and Stamp Duty Expense

1/10/15	Cash	150	30/6/16	P or L	150

Expense on Redemption of Debentures

1/10/16	Debenture holders	8 000	30/6/17	P or L	8 000

Question 2.11

TURMERIC 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 2.12

PIMENTO LTD

General Journal

A.	Contingencies Reserve	Dr	700 000	
	Retained Earnings	Dr	1 000 000	
	Share Capital	Dr	1 404 300	
	Cash	Cr		3 104 300
	(Repurchase of 500 000 ordinary shares under a buy-back scheme plus costs)			

B.	Retained Earnings	Dr	70 000	
	Share Capital	Dr	684 300	
	Cash	Cr		754 300
	(Repurchase of 500 000 ordinary shares under a buy-back scheme)			

Question 2.13

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 2.14

BASIL LTD

General Journal

2012				
Nov 30	Cash	Dr	46 800	
	Share Capital - B Ordinary	Cr		46 800
	(Issue of 18 000 B ordinary shares at a price of $2.60 under a 1 for 5 rights issue)			
2013				
Jan 16	Call -A Ordinary	Dr	180 000	
	Share Capital - A Ordinary	Cr		180 000
	(Call of $1.50 per share on 120 000 A Ordinary shares)			
Jan 31	Cash	Dr	165 000	
	Call - A Ordinary	Cr		165 000
	(Cash received on call)			
Feb 5	Share Capital - A Ordinary	Dr	30 000	
	Call - A Ordinary	Cr		15 000
	Forfeited Shares Reserve	Cr		15 000
	(Forfeiture and cancellation of 10 000 A ordinary shares)			
Mar 31	Cash	Dr	24 500	
	Share Options	Cr		24 500
	(Issue of 35 000 options exercisable on 31 December 2007)			
2014				
Dec 31	Cash	Dr	75 600	
	Share Capital - A Ordinary	Cr		75 600
	(Issue of 27 000 A ordinary shares at $2.80 on exercise of 27 000 options)			
	Share Options	Dr	24 500	
	Share Capital – A Ordinary	Cr		18 900
	Lapsed Options Reserve	Cr		5 600
	(Write-off of options exercised and lapsed)			

<u>2015</u>				
Jan 31	Share Issue Costs/Share Capital	Dr	2 200	
	Cash	Cr		2 200
	(Payment of share issue costs)			
<u>2016</u>				
June 30	Cash Trust	Dr	60 000	
	Application - Debentures	Cr		60 000
	(Cash on 600 $100 debentures payable in full on application)			
	Application - Debentures	Dr	60 000	
	Debentures	Cr		60 000
	(Issue of 600 $100 debentures)			
	Cash	Dr	60 000	
	Cash Trust	Cr		60 000
	(Transfer from trust account)			
July 15	Debenture Issue Expenses	Dr	1 200	
	Cash	Cr		1 200
	(Costs of debenture issue)			
July 31	Convertible Note Liability	Dr	100 000	
	Expense on Redemption of Notes	Dr	5 000	
	Convertible Noteholders	Cr		105 000
	(Transfer of 5000 notes at a 5% premium to noteholders account)			
	Convertible Noteholders	Dr	105 000	
	Cash	Cr		52 500
	Share Capital - B Ordinary	Cr		52 500
	(Cash payment to 5 000 convertible noteholders and issue of 30 000 shares for $1.75 each ie. fair value of notes redeemed)			

Question 2.15

CAJUN LTD

General Journal

2013				
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)			
2014				
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)			