Chapter 2 – Company Formation, Share Capital and Debt Securities

Question 2.1

Limited liability indicates that the liability of a shareholder is limited to the amount of capital subscribed to, plus any amounts due to the company on, the capital (shares) subscription. Given that companies are separate legal entities, the purpose is to ensure that individual shareholders do not become liable for excessive amounts of liability (i.e. amounts above the amount they have agreed to contribute) stemming from a company's activities. Although the liability of a shareholder is limited to the amount to which capital has been subscribed, in some situations the courts may 'lift the corporate veil' to ensure that shareholders and directors do not 'abuse' the privilege of limited liability. For example a proprietary company now only needs one shareholder, so if the capital is only $2 then the courts may 'look more closely' at the extent of liability.

Question 2.2

Proprietary (private) companies were originally intended to afford shareholders of smaller companies, which would normally be expected to have more closely held ownership, the privilege of limited liability. In such companies ownership was usually in the hands of families or those actually managing the business. In addition to benefits from limited liability, forming a company is a convenient way to keep the business as an entity clearly separated from its owners and provide the business with certain other privileges. Some proprietary companies grew in size and were converted to public companies. **Public** companies, as their name implies, were designed to allow the general public to participate as shareholders and equity providers, while not requiring their involvement in the day-to-day management of the company. So while many individuals could own shares in the company, management was separated from ownership and placed in the hands of specialist managers who were accountable to the owners. Public ownership permitted larger amounts of capital to be raised and for ownership to be geographically dispersed. As companies became more common, the notion of investment and transfer of ownership assumed a much greater significance.

Public companies have more economic and legal privileges than proprietary companies, but they also have more stringent accountability requirements. An example of the extra privileges of public companies is that, unlike proprietary companies, they are permitted to invite the public to invest in them. An example of a restriction imposed on proprietary companies is that they have restrictions on the transfer of their shares. The law distinguishes between large and small proprietary companies with respect to differing legal obligations.

Question 2.3

Submit an application to ASIC which contains required information; prepare a constitution (or adopt/vary replaceable rules); and prepare a prospectus (public companies only).

Question 2.4

A person may become a shareholder of a company in one of three ways: the person is specified as a member of the company in the application for registration, the company issues shares to the person, or the person buys shares in the company from an existing shareholder and the company registers the transfer.

In the first two instances Share Capital is increased; in the latter Share Capital is unaffected as it is merely a transfer of shares from one member to another (requiring only a change to the company's share register).

Question 2.5

Replaceable rules are included in the Corporations Act as a model set of rules for the day-to-day management of the company. A company may devise its own rules in the form of a constitution for the management of its internal affairs. However, if it elects not to have its own constitution, the replaceable rules become the basis for determining and resolving problems with the day-to-day management of the company. Replaceable rules are therefore default provisions from which a company may opt out. This is particularly attractive for proprietary companies, where the company intends to have simple rules and wishes to avoid the possibly high cost of drafting its own constitution.

Question 2.6

The normal rules of contract apply to share issues. When a company issues a prospectus it is inviting investors to subscribe to shares in the company – it is making an invitation to the public for offers. Those who apply for shares are making an offer to the company. The offer is accepted by the directors when they allocate the shares to the successful applicants. When money is received for applications for shares that money does not belong to the company: the company keeps it 'on trust' until the applications are successful and shares are allotted, or returns it to the unsuccessful applicants.

Question 2.7

Share issue costs that are directly related to the share issue (the incremental costs of the issue) are treated as a reduction in the net proceeds of the issue. For a share issue that is classified as equity, the share issue costs are deducted from equity; for a share issue classified as a liability, the costs are a reduction in liabilities.

Question 2.8

When shares are issued in instalments, those who subscribe (and are successful) pay the amounts due to the company as its directors 'call for it' – that is, when they resolve to require shareholders to pay part (or all) of what is owing on the shares. An advantage of issuing shares in instalments is that it permits investors to subscribe to a larger number of shares than they may have been able to if the amounts were due in full on application. The downside is that the shareholders must make the payments for calls when they are due.

Investors may wish to pay the amounts outstanding on their shares before it becomes due – before it is called. In this situation the company has received calls in advance and must recognise that such amounts have been received before they are due. Once a call is made, amounts unpaid after the due date are calls in arrears. Non-payment of calls may lead to the forfeiture of the shares by the company (constitution permitting). The company has to disclose the fact that amounts due on shares have not been received.

Question 2.9

When a company decides to issue additional shares, it often gives existing shareholders the right to buy shares in the new issue in proportion to their existing shareholding. Because the shareholders have the right to purchase additional shares, this is called a 'rights issue'. Holders of these rights can often sell the rights or refuse them (they are renounceable) so a market exists to trade these rights. The rights usually have a date by which they must be taken up and the market will reflect this period and 'value' of having the right to purchase such shares.

Question 2.10

When issuing shares a company will attempt to maximise its return. It will try to take advantage of a favourable market situation and issue them at what the directors believe are the prices that the market will bear – high enough to maximise the company's return, yet not so high as to deter would be investors. Where shares have no stated nominal (par) value, the company will simply issue the shares at the appropriate market price and the 'premium' becomes part of the stated price of the share. Obviously the company benefits in having a greater capital. The company will have to 'service' the capital and how it does so will affect the future market price of its shares. That is, it needs to pay a rate of dividend that 'satisfies' the market. But, where the shares are ordinary shares dividends will be presumably be paid only when the company feels it can afford to do so.

Question 2.11

A company is permitted to repurchase its shares from existing shareholders (see sections 257A-257J of the Corporations Act). A company may decide on a self-purchase for a variety of reasons: to increase earnings per share (fewer shares for a given level of earnings) and improve return on equity; adjust its capital structure (mix of debt and equity) increasing financial leverage) and possibly reducing its appeal as a takeover target; return surplus cash to shareholders when the company has insufficient investment opportunities to profitably use that cash; signal value to the market when management believes the shares are undervalued; reducing administrative costs by buying out holders of small lots of shares; and under employee share schemes buying back shares from departing employees.

Question 2.12

Debt capital is a term to describe the long-term debt a company incurs – loans that it will need to repay, unlike its ordinary shares capital. As a legal entity, a company can borrow and this borrowing can take many forms. Debt capital will include debentures, mortgages, notes and other long-term loans.

Question 2.13

Although debt and equity are both sources of financing of assets, it is useful to distinguish between them as they have different contractual rights and responsibilities. For example, shareholders typically have the right to receive a share of profits earned by the company and have certain control rights exercised through voting. In a limited liability company, shareholders also have the responsibility to contribute any amounts unpaid on their shares if requested to do so in a winding up. Thus debt holders rank ahead of equity in the winding up of a company. Furthermore, not all securities are clearly debt or equity. The legal form of a security may differ from its economic substance; a security may contain features of *both* debt and equity (referred to as compound financial instruments). In summary, the distinction between debt and equity is indicative of the nature of the securities.

It is typical to further subdivide shareholders' equity and debt into different classes. For example Shareholders' equity may include 'contributed equity', 'retained earnings' and a variety of other reserves, such as 'revaluation surplus' 'foreign currency translation reserve' 'general reserve' etc. Debt will be grouped into current and non-current liabilities and distinguishes 'borrowings' from other types of liabilities such as 'trade payables' and 'provisions'. Each of these classes contains information on the degree of uncertainty, legal attributes and other features of the liability useful to making decisions involving financial risk.

Problem 2.14

20X1			
Feb 28	Bank Trust	375 000	
	Application		375 000
	Application moneys received on 750 000 shares of 50c per share		
Mar 5	Application	375 000	
	Share Capital		375 000
	Issue of shares		
	Bank	375 000	
	Bank Trust		375 000
	Transfer of application moneys		
	Allotment	375 000	
	Share Capital		375 000
	Allotment moneys due on 500 000 shares of 50c per share		
Mar 31	Bank	337 500	
	Allotment		337 500
	Allotment moneys received 675 000 shares 50c per share		

Problem 2.15

20X3

Mar 1	Bank Trust	500 000	
	Application		500 000
	Application moneys received on 1 000 000 shares of 50c per share		
Mar 10	Application	500 000	
	Share Capital		500 000
	Issue of shares		
	Bank	500 000	
	Bank Trust		500 000
	Transfer of application moneys -		
	Allotment	500 000	
	Share Capital		500 000
	Allotment moneys due on 1 000 000 shares of 50c per share		
Apr 30	Bank	475 000	
	Allotment		475 000
	Allotment moneys received 950 000 shares 50c per share		

The statement of financial position as at 30 April would disclose Calls in Arrears of $25 000 in its shareholders' equity section.

Problem 2.16

20X1			
Aug 15	Bank Trust	500 000	
	Application		500 000
	Application moneys received 1 000 000 ordinary shares, 50c per share		
Aug 24	Application	500 000	
	Share Capital		50 000
	Issue of shares		
	Bank	500 000	
	Bank Trust		500 000
	Transfer of application moneys		
	Allotment	250 000	
	Share Capital		250 000
	Allotment moneys due 1 000 000 shares 25c per share		
Sep 30	Bank	250 000	
	Allotment		250 000

	Allotment moneys received		
Nov 1	Call	250 000	
	Share Capital		250 000
	Call on 1 000 000 shares, 25c pre share		
Dec 1	Bank	248 750	
	Call		248 750
	Call moneys received 995 000 shares 25c per share		

Problem 2.17

General Journal

20X8			
Feb 15	Bank Trust	1 000 000	
	Application – Preference		1 000 000
	Application moneys received from promoters 1 000 000 preference shares, $1/share		
	Application – Preference	1 000 000	
	Share capital – Preference		1 000 000
	Issue of shares		
	Bank	1 000 000	
	Bank Trust		1 000 000
	Transfer of application moneys -		
Mar 31	Bank Trust	8 050 000	
	Application – Ordinary		8 050 000
	Application moneys received 4 600 000 ordinary shares, $1.75 per share		
Apr 5	Application – Ordinary	7 000 000	
	Share Capital – Ordinary		7 000 000
	Issue of shares 4 000 000 ordinary shares, $1.75/share		
	Application – Ordinary	1 050 000	
	Bank	7 000 000	
	Bank Trust		8 050 000
	Transfer and refund of amounts oversubscribed		

General Ledger

Date	Particulars	Debit $	Credit $	Balance $
	Bank Trust			
20X8				
Feb 15	Application – Preference	1 000 000		1 000 000 DR
	Bank		1 000 000	0
Mar 31	Application – Ordinary	8 050 000		8 050 000 DR
Apr 5	Application – Ordinary/Bank		8 050 000	0
	Application – Preference			
20X8				
Feb 15	Bank Trust		1 000 000	1 000 000 CR
	Share Capital – Preference	1 000 000		0
	Application Ordinary			
20X8				
Mar 31	Bank Trust		8 050 000	8 050 000 CR
Apr 5	Share Capital – Ordinary	7 000 000		1 050 000 CR
	Bank Trust	1050 000		0
	Bank			
20X8				
Feb 15	Bank Trust	1 000 000		1 000 000 DR
Apr 5	Bank Trust	7 000 000		8 000 000 DR
	Share Capital – Preference			
20X8				
Feb 15	Application – Preference		1 000 000	1 000 000 CR
	Share Capital – Ordinary			
20X8				
Apr 5	Application – Ordinary		7 000 000	7 000 000 CR

Problem 2.18

Part (1)

AASB 132 para.15 requires the issuer of a financial instrument to classify the instrument, or its component parts, as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. It specifies two tests, both of which must be met, for the instrument to be classified as equity, i.e., “the instrument includes no contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.” (The second test refers to an obligation that may or will be settled in the entity’s own equity instruments.)

In part (1) the shares are redeemable at the option of the *company* so there is no contractual obligation to redeem the shares for cash or other financial assets. An option of the issuer is not a financial liability because the issuer does not have a present obligation to transfer financial assets to shareholders. Redemption is solely at the issuer's discretion. An obligation will only arise when the issuer of the shares exercises its option. Thus preference shares redeemable at the option of the *company* bears the characteristics of equity and the journal entries for preference shares utilise the Share Capital account.

General Journal

20X8			
Feb 15	Bank Trust	600 000	
	Application – Preference		600 000
	Application moneys received from promoters		
	600 000 preference shares, $1/share		
	Application – Preference	600 000	
	Share capital – Preference		600 000
	Issue of shares		
	Bank	600 000	
	Bank Trust		600 000
	Transfer of application moneys		
Mar 31	Bank Trust	5 125 000	
	Application – Ordinary		5 125 000
	Application moneys received:		
	2 500 000 ordinary shares, $2.05 per share		
Apr 5	Application – Ordinary	4 100 000	
	Share Capital – Ordinary		4 100 000
	Issue of shares		
	2 000 000 ordinary shares, $2.05 per share		
	Application – Ordinary	1 025 000	
	Bank	4 100 000	
	Bank Trust		5 125 000
	Transfer and refund of amounts oversubscribed		

General Ledger

		Debit $	Credit $	Balance $
	Bank Trust			
20X8				
Feb 15	Application – Preference	600 000		600 000 DR
	Bank		600 000	0
Mar 31	Application – Ordinary	5 125 000		5 125 000 DR
Apr 5	Application – Ordinary/Bank		5 125 000	0
	Application - Preference			
20X8				
Feb 15	Bank Trust		600 000	600 000 CR
	Share Capital – Preference	600 000		0
	Application Ordinary			
20X8				
Mar 31	Bank Trust		5 125 000	5 125 000 CR
	Share Capital – Ordinary	4 100 000		1 025 000 CR
	Bank Trust	1 025 000		0
	Bank			
20X8				
Feb 15	Bank Trust	600 000		600 000 DR
Apr 5	Bank Trust	4 100 000		4 700 000 DR
	Share Capital – Preference			
20X8	Application – Preference		600 000	600 000 CR
	Share Capital – Ordinary			
20X8				
Apr 5	Application – Ordinary	4 100 000		4 100 000 CR

Part (2)

Where a company issues preference shares that are redeemable at the option of the *holder* it provides a contractual obligation to those shareholders to deliver cash if the holder demands repayment. The shares meet the definition of a financial liability because the issuer has an obligation to transfer cash or other financial assets to the holder of the share whether or not sufficient funds exists to do so, irrespective of statutory restrictions or insufficient profits or reserves. The general journal entries for an issue of preference shares with these rights utilise a liability account.

20X8			
Feb 15	Bank Trust	600 000	
	Application – Preference		600 000
	Application moneys received from promoters 600 000 preference shares, $1/share		
	Application – Preference	600 000	
	Preference Share Liability		600 000
	Issue of shares		
	Bank	600 000	
	Bank Trust		600 000
	Transfer of application moneys -		

Part (3) – Agree it is part 3 but not (e)
Share issue costs are deducted from the proceeds of the issue and hence follow the economic substance of the security. The issue in part (1) is classified as equity and therefore AASB 132, para. 35 requires that the costs be deducted from equity (net of an income tax effect).
The general journal entry is

Dr Share capital	XXX	
Cash		XXX
Share issue costs		

In part (2) as the preference shares are regarded as a financial liability the issue costs will be expensed. The general journal entry is

Dr Share issue costs	XXX	
Cr Cash		XXX
Share issue costs		

Problem 2.19

General Journal

20X9			
Mar 31	Bank Trust	2 640 000	
	Application – Preference		1 200 000
	Application – Ordinary		1 440 000
	Application moneys received 800 000 preference shares $1.50/share 2 400 000 ordinary shares $0.60/share		
Apr 10	Application – Preference	1 200 000	
	Application – Ordinary	1 200 000	
	Share Capital – Preference		1 200 000
	Share Capital – Ordinary		1 200 000
	Amounts due on application and issue of shares: 800 000 preference $1.50/share, 2 000 000 ordinary shares $1.20/share paid to 60c		

	Bank	2 400 000	
	Bank Trust		2 400 000
	Transfer of Application moneys		
	Application – Ordinary	240 000	
	Allotment – Ordinary		240 000
	Excess application moneys credited to allotment		
	Bank	240 000	
	Bank Trust		240 000
	Transfer of allotment moneys		
	Allotment – Ordinary	600 000	
	Share Capital – Ordinary		600 000
	Allotment moneys due 2 000 000 shares issued at $1.20 each, due on allotment 30c/share		
May 15	Bank	360 000	
	Allotment – Ordinary		360 000
	Balance of allotment moneys received		
Aug 31	Call – ordinary	600 000	
	Share Capital – Ordinary		600 000
	Call on 2 000 000 ordinary shares call 30c/share		
Sep 30	Bank	599 100	
	Call – Ordinary		599 100
	Call moneys received 1 997 000 shares 30c/share		

General Ledger:

		Debit $	Credit $	Balance $
	Bank Trust			
20X9				
Mar 31	Application – Ordinary	1 440 000		1 440 000 DR
	Application – Preference	1 200 000		2 640 000 DR
Apr 10	Bank		2 400 000	240 000 DR
	Bank		240 000	0
	Application – Preference			
20X9				
Mar 31	Bank Trust		1 200 000	1 200 000 CR
Apr 10	Share Capital – Preference	1 200 000		0
	Application – Ordinary			
20X9				
Mar 31	Bank Trust		1 440 000	1 440 000 CR
Apr 10	Share Capital – Ordinary	1 200 000		240 000 CR
	Allotment – Ordinary	240 000		0
	Allotment – Ordinary			
20X9				
Apr 10	Share Capital – Ordinary	600 000		600 000 DR
	Application – Ordinary		240 000	360 000 DR
May 15	Bank		360 000	0
	Bank			
20X9				
Apr 10	Bank Trust	2 400 000		2 400 000 DR
	Bank Trust	240 000		2 640 000 DR
May 15	Allotment – Ordinary	360 000		3 000 000 DR
Sep 30	Call – Ordinary	599 100		3 599 100 DR
	Share Capital – Preference			
20X9				
Apr 10	Application		1 200 000	1 200 000 CR
	Share Capital – Ordinary			
20X9				
Apr 10	Application – Ordinary		1 200 000	1 200 000 CR
	Allotment – Ordinary		600 000	1 800 000 CR
Aug 31	Call – Ordinary		600 000	2 400 000 CR
	Call – Ordinary			
20X9				
Aug 31	Share Capital – Ordinary	600 000		600 000 DR
Sep 30	Bank		599 100	900 DR

Problem 2.20

20X4			
Mar 31	Bank Trust	2 040 000	
	Application – Preference		600 000
	Application – Ordinary		`1 440 000
	Application Moneys received: 400 000 preference shares $1.50/share 2 400 000 ordinary shares $0.60/share		
Apr 12	Application – Preference	600 000	
	Application – Ordinary	1 200 000	
	Share Capital – Preference		600 000
	Share Capital – Ordinary		1 200 000
	Issue of Shares: 400 000 preference $1.50/share, 2 000 000 ordinary shares $1.20/ share paid to 60c		
	Bank	2 040 000	
	Bank Trust		2 040 000
	Transfer of Application Moneys		
	Application – Ordinary	240 000	
	Allotment – Ordinary		240 000
	Excess application moneys credited to allotment		
May 21	Bank	360 000	
	Allotment – Ordinary		360 000
	Application Moneys received: 2 000 000 ordinary shares $0.30/share less $240 000 oversubscription on application		
	Allotment – Ordinary	600 000	
	Share Capital – Ordinary		600 000
	Issue of Shares: 2 000 000 ordinary shares at 30c		
Sep 30	Bank	597 900	
	Call – Ordinary		597 900
	Call monies received on 1 993 000 shares		
	Call – Ordinary	600 000	
	Share Capital – Ordinary		600 000
	Call moneys due 2 000 000 shares issued at 30c		

(Note that the 'Call – Ordinary' account has a debit balance of $2 100, representing the amount of calls in arrears. If a statement of financial position were to be prepared on 30 September, this debit balance would be offset against the Share Capital – Ordinary account, such that the net amount of $2 397 900 would represent the amount of cash received).

General Ledger:

	Debit	Credit	Balance

		$	$	$
	Bank Trust			
20X4				
Mar 31	Application – Ordinary	1 440 000		1 440 000 DR
	Application – Preference	600 000		2 040 000 DR
Apr 12	Bank		2 040 000	0
	Application – Preference			
20X4				
Mar 31	Bank Trust		600 000	600 000 CR
Apr 12	Share Capital – Preference	600 000		0
	Application – Ordinary			
20X4				
Mar 31	Bank Trust		1 440 000	1 440 000 CR
Apr 12	Share Capital – Ordinary	1 200 000		240 000 CR
	Allotment – Ordinary	240 000		0
	Allotment – Ordinary			
20X4				
Apr 12	Application – Ordinary		240 000	240 000 CR
May 21	Share Capital – Ordinary	600 000		360 000 DR
	Bank		360 000	0
	Bank			
20X4				
Apr 12	Bank Trust	2 040 000		2 040 000 DR
May 21	Allotment – Ordinary	360 000		2 400 000 DR
Sep 30	Call – Ordinary	597 900		2 997 900 DR
	Share Capital – Preference			
20X4				
Apr 10	Application		600 000	600 000 CR
	Share Capital – Ordinary			
20X4				
Apr 10	Application – Ordinary		1 200 000	1 200 000 CR
May 21	Allotment – Ordinary		600 000	1 800 000 CR
Aug 31	Call – Ordinary		600 000	2 400 000 CR
	Call – Ordinary			
20X4				
Aug 31	Share Capital – Ordinary	600 000		600 000 DR
Sep 30	Bank		597 900	2 100 DR

Problem 2.21

General Journal
20X8

July 31	Share Capital	3 000	
	Call		800
	Forfeited Shares Account		2 200
	Forfeiture of 4 000 shares at $1 paid to 55c; unpaid call of 20c.		
	Bank	3 200	
	Share Capital		3 200
	Re-issue of 4 000 shares, 80c/share		

Working

Amounts paid Application	4 000 x 15c =	600
Allot	4 000 x 40c =	1 600
		2 200
1st Call unpaid	4 000 x 20c =	800
		3 000

Problem 2.22

General Journal

20X7			
May 31	Share Capital	7 500	
	First Call		400
	Second Call		2 500
	Forfeited Shares A/c		4 600
	Forfeiture of 10 000 shares for non-payment at call		
June 28	Bank	7 000	
	Forfeited Shares Account	500	
	Share Capital		7 500
	Re-issue of forfeited shares 10 000 paid to 75c for 70c		

Working

Share capital	10 000 x 75c	=	7500
First Call forfeiture	4 000 x 10c	=	400
2nd Call forfeiture	10 000 x 25c	=	2500

Problem 2.23

General Journal

20X2			
Feb 28	Bank Trust	67 500 000	
	Application		67 500 000
	Application moneys received 45 000 000 shares		
Mar 3	Application	60 000 000	
	Share Capital		60 000 000
	Issue of 40 000 000 shares		
	Bank	60 000 000	

	Application	7 500 000	
	Bank Trust		67 500 000
	Transfer of application moneys and refund on oversubscription		
	Allotment	24 000 000	
	Share Capital		24 000 000
	Amounts due on allotment 40 000 000		
Mar 17	Buildings – under Lease	35 000	
	Lease Liability		35 000
	Lease of factory		
Mar 31	Bank	24 000 000	
	Allotment		24 000 000
	Allotment moneys received		
	Plant	30 000	
	Bank		30 000
	Purchase of plant		
Aug 31	Bank	3 000 000	
	Options		3 000 000
	Options issued on 10 000 000 at 30c per share		

The ex gratia option to purchase shares offered to employees should also be recorded. AASB 2 requires that the cost of the options should be determined as the fair value of the options on the grant date, using an appropriate option pricing model which would take account of the exercise price, term of the option, share price at grant date, expected volatility of the share, expected dividend yield and the risk-free interest rate for the term of the option. The fair value would be recognised as an employee benefit expense with a corresponding credit to a ‘share based payment reserve’ or ‘options’ reserve in shareholders’ equity.

In this example, if 30 cents is assumed to be the fair value of the option the entry would be:

Aug 31	Employee benefits expense	1 500 000	
	Options		1 500 000
	Options issued on 5 000 000 at 30c per share		

Problem 2.24

General Journal

20X5			
Sep 20	Bank Trust	9 750 000	
	Application – Debentures		9 750 000
	Application moneys received 195 000 debentures		
Sep 30	Bank	8 650 000	
	Bank Trust		8 650 000
	Transfer of amount received on issue of 173 000 debentures		
	Application – Debentures	8 650 000	
	Debenture Holders	6 350 000	
	Debentures		15 000 000
	Acceptance of debenture applications		
Oct 4	Applications – Debentures	1 100 000	
	Bank Trust		1 100 000
	Refund of moneys to unsuccessful applicants		

Problem 2.25

General Journal

20X1			
Jan 1	Bank Trust	9 500 000	
	Application – Debentures		9 500 000
	Amount received from debenture issue		
	Bank	9 500 000	
	Bank Trust		9 500 000
	Transfer of amount received for debenture issue		
	Application – Debentures	9 500 000	
	Discount – Debentures	500 000	
	Debentures		10 000 000
	Acceptance of debenture applications		
Dec 31	Interest Expense	800 000	
	Bank		800 000
	Payment of interest on debentures 8% x $10 000 000		
	Amortisation – debenture discount	50 000	
	Discount – debentures		50 000
	Amortisation of discount on issue – 10 years		
20X2			
Dec 31	Interest Expense	800 000	

	Bank		800 000
	Payment of interest on debentures		
	Amortisation – debenture discount	50 000	
	Discount – debentures		50 000
	Amortisation of discount on issue		

Problem 2.26

General Journal

20X4			
Jan 31	Net Assets	2 000 000	
	Share Capital – Ordinary		2 000 000
	Purchase of net assets of Grady's business in exchange for 1 million ordinary shares		
Feb 28	Bank Trust	5 000 000	
	Application – Ordinary		3 100 000
	Application – Preference		1 900 000
	Application moneys received, 3 100 000 ordinary shares 950 000 preference, $2/share		
	Application – Ordinary	3 000 000	
	Application – Preference	1 900 000	
	Share capital – Ordinary		3 000 000
	Share capital – Preference		1 900 000
	Issue of ordinary and preference shares 3000 000 ord, 950 000 pref.		
	Application – Ordinary	100 000	
	Allotment – Ordinary		100 000
	Excess application moneys received applied to allotment moneys due		
	Bank	5 000 000	
	Bank Trust		5 000 000
	Transfer of application moneys received		
	Allotment – Ordinary	2 400 000	
	Share Capital – Ordinary		2 400 000
	Amounts due on allotment 80c/share		
Mar 25	Bank	2 300 000	
	Allotment – Ordinary		2 300 000
	Allotment moneys received		
Sept 30	Bank	2 500 000	
	Share Capital – Ordinary		2 500 000
	1 for 4 rights issue, $2.50 per share on 4 000 000 shares.		

Mattessisch Ltd
Statement of Financial Position
as at 31 December 20X4

Shareholders Equity		
Share Capital		
5 000 000 ordinary shares		9 900 000
950 000 preference shares		1 900 000
		$11 800 000
Assets		
Bank		9 800 000
Net Assets		2 000 000
		$11 800 000

Problem 2.27

General Journal

Date	Particulars	Dr	Cr
20X3			
Jan 31	Bank Trust	2 000 000	
	Application Ordinary B		2 000 000
	Moneys received for 1 million ordinary B shares		
	Application – Ordinary B	2 000 000	
	Share Capital – Ordinary B		2 000 000
	Issue of shares		
	Bank	2 000 000	
	Bank Trust		2 000 000
	Transfer of application moneys -		
Mar 31	Bank Trust	3 500 000	
	Application – Ordinary A		3 500 000
	Application moneys received for 3 500 000 shares		
	Application – Ordinary A	3 000 000	
	Share Capital – Ordinary A		3 000 000
	Issue of shares		
	Bank	3 350 000	
	Application – Ordinary A	150 000	
	Bank Trust		3 500 000
	Transfer of application moneys and refund to unsuccessful applicants		
	Application – Ordinary A	350 000	
	Allotment – Ordinary A		350 000
	Application moneys received – applied to		

	amounts due on allotment		
	Allotment – Ordinary A	3 000 000	
	Share Capital – Ordinary A		3 000 000
	Moneys due on allotment		
Apr 15	Bank	2 650 000	
	Allotment – Ordinary A		2 650 000
	Allotment moneys received (balance thereof)		
June 30	Call – Ordinary A	1 500 000	
	Share capital – Ordinary A		1 500 000
	Call of 50c/share		
July 31	Bank	1 490 000	
	Call – Ordinary A		1 490 000
	Moneys received from call 2 980 000 shares at 50c/share		
Aug 6	Share Capital – Ordinary A	50 000	
	Call – Ordinary A		10 000
	Forfeited shares account		40 000
	Forfeiture of 20 000 shares for non payment of call		
	Bank	55 000	
	Share Capital – Ordinary A		55 000
	Reissue of forfeited shares 20 000 for $2.75		
	Forfeited Shares Account	2 000	
	Bank		2 000
	Costs of reissue		
	Forfeited Shares Account	38 000	
	Bank		38 000
	Refund of balance held in respect of shares previously forfeited		
Sep 8	Bank	300 000	
	Options		300 000
	Call option on 1 000 000 ordinary A shares at 30c/share		

General Ledger

BANK

20X3		Debit $	Credit $	Balance $
Jan 31	Bank Trust – Application Ord B	2 000 000		2 000 000 DR
Mar 31	Bank Trust – Application Ord A	3 350 000		5 350 000 DR
Apr 15	Allotment – Ordinary A	2 650 000		8 000 000 DR
July 31	Call – Ordinary A	1 490 000		9 490 000 DR
Aug 6	Share Capital – Ordinary A	55 000		9 545 000 DR
	Forfeited Shares		2 000	9 543 000 DR
	Forfeited Shares		38 000	9 505 000 DR
Sep 8	Options	300 000		9 805 000 DR

Problem 2.28

(a)

	Dr	Cr
Wages expense	750 000	
Options		750 000

Options granted to employees (100x500x $15)

(b) AASB 2, Implementation, suggests the following treatment:

Year	Calculation	Remuneration expense
1	50,000 options × 80% ×$15 × 1/3years	200 000
2	(50,000 options × 80% × $15 × 2/3years) – $200 000	200 000
3	(50,000 options × 80% × $15) – (200 000 + 200 000)	200 000

Yr 1 Wages Expense 200000

Options 200000

Yr 2 Wages Expense 200000

Options 200000

Yr 3 Wages Expense 200000

Options 200000

Problem 2.29

General Journal

20X8			
Feb 1	Net Assets	2 500 000	
	Share Capital		2 500 000
	Issue of ordinary shares for purchase of		
	L Goldberg P/L 750 000 shares, $1.5 million		
	R Gynther P/L 500 000 shares, $1 million		
Mar 31	Bank Trust	7 000 000	
	Application		7 000 000
	Application moneys received 3 500 000 shares, $2/share		
Apr 30	Application	6 000 000	
	Share Capital		6 000 000
	Allotment of shares		
	Bank	6 000 000	
	Application	1 000 000	
	Bank Trust		7 000 000
	Transfer of application moneys & refund to unsuccessful applicants		
	Allotment	3 000 000	
	Share Capital		3 000 000
	Amount due on allotment		
Apr 30	Bank	3 000 000	
	Allotment		3 000 000
	Allotment moneys received		
Oct 31	Bank Trust	3 500 000	
	Application		3 500 000
	Application moneys received		
Oct 31	Application	3 500 000	
	Share Capital		3 500 000
	Issue of shares 1 million, $3.50/share		
	Bank	3 500 000	
	Bank Trust		3 500 000
	Transfer of application moneys		

G & G Ltd
Statement of Financial Position
31 October 20X8

Shareholders Equity		
Share Capital		
5 250 000 ordinary shares	15 000 000	
Assets		
Bank	12 500 000	
Net Assets	2 500 000	
	$15 000 000	

Problem 2.30

20X8			
Feb 1	Net Assets	10 000 000	
	Share Capital		10 000 000
	Issue of ordinary shares for purchase of Torville P/L 3 000 000 shares, $6 million Dean P/L 2 000 000 shares, $4 million		
Mar 31	Bank Trust	23 200 000	
	Application		23 200 000
	Application moneys received 11 600 000 shares, $2/share		
Apr 30	Application	20 000 000	
	Share Capital		20 000 000
	Allotment of shares		
	Bank	20 000 000	
	Application	3 200 000	
	Bank Trust		23 200 000
	Transfer of application moneys & refund to unsuccessful applicants		
	Allotment	10 000 000	
	Share Capital		10 000 000
	Amount due on allotment		
	Bank	10 000 000	
	Allotment		10 000 000
	Allotment moneys received		
Oct 31	Bank Trust	21 000 000	
	Application		21 000 000
	Application moneys received		

Oct 31	Application	21 000 000	
	Share Capital		21 000 000
	Issue of shares 1 million, $3.50/share		
	Bank	21 000 000	
	Bank Trust		21 000 000
	Transfer of application moneys		

Torville & Dean Ltd
Statement of Financial Position
31 October 20X5

Shareholders Equity	
Share Capital	
21 000 000 ordinary shares	$61 000 000
Assets	
Bank	51 000 000
Net Assets	10 000 000
	$61 000 000