1. UNDERWRITINGS OF SHARES AND DEBENTURES

NO. OF PROBLEMS IN 39e OF CA INTER: CLASSROOM -11, ASSIGNMENT - 11

NO. OF PROBLEMS IN 40e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 11

NO. OF PROBLEMS IN 41e OF CA INTER: CLASSROOM - 10, ASSIGNMENT - 09

MODEL - WISE ANALYSIS OF PREVIOUS EXAMINATIONS OF IPCC AND CA INTER

MODEL NO.	M - 10	N - 10	M - 11	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	N - 15	M - 16	N - 16	M - 17	N - 17	M-18 (O)	M-18 (N)	N-18 (O)	N-18 (N)
Model - 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 2	4	-	-	-	-	05	12	-	08	-	-	08	-	-	-	08	-	08	10	10	10
Model - 3	-	-	05	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Model - 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Model - 1 : Complete underwriting without firm underwriting

Model - 2 : Complete underwriting with firm underwriting

Model - 3 : Partial underwriting with firm underwriting

Model - 4 : Theory

SIGNIFICANCE OF EACH PROBLEM COVERED IN THIS MATERIAL

Problem No. in this material	Problem No. in new SM	Problem No. in old SM	Problem No. in old PM	RTP	MTP	Previous Exams	Remarks
Ex	Ex	-	-	-	-	-	-
CR 1	ILL - 2	-	5		M 18	-	-
CR 2	PQ - 1	-	3	-	-	-	-
CR 3	ILL - 5	ILL - 4	-	M 17	-	-	-
CR 4	ILL - 4	ILL - 3	-	M18	M18	M17-8M	-
CR 5	ILL - 6	ILL - 5	-	-	N18	M18(O)-10M, N18(O) - 8M	-
CR 6	-	-	10	-	-	-	-
CR 7	ILL - 3	ILL - 2	-	-	-	-	-
CR 8	-	-	-	-	-	N09-4M	-
CR 9	-	-	-	-	-	-	-
CR 10	-	-	-	-	-	-	-
ASG 1	ILL - 1	ILL - 1	-	-	-	-	-
ASG 2	-	-	7	-	-	-	-
ASG 3	-	-	-	-	-	N15-8M	-
ASG 4	PQ - 2	-	4	-	-	-	-
ASG 5	ILL - 7	-	9	N18(N&O)	-	M18(N)-10, N18 (N) - 10M	-
ASG 6	-	-	-	M12	-	-	-
ASG 7	-	-	-	N09 & M13	-	-	-
ASG 8	-	ILL - 5	-	-	-	-	-
ASG 9	-	-	-	-	-	-	-

Introduction: In case of Public Ltd. Companies minimum subscription must be received in order to name that issue as a successful one & to get the certificate of commencement of business. Companies in order to ensure minimum subscription take the help of the procedure called underwriting.

Definition: Underwriting is an agreement whereby the underwriters (i.e. persons or institutions) gives the guarantee to the Company that in case the shares and debentures offered to the public, are not fully subscribed by the public, the balance of shares and debentures will be taken up by the underwriters.

Underwriters: They may be Individuals, Partnership firms or Joint Stock Companies, Banks or Financial Institutions. Generally, issue of shares or debentures of a company is underwritten by two or more firms rather than by a single individual. **Ex:** ICICI, IDBI, IFCI, LIC, UTI, Nationalized Banks etc.

Underwriters Vs Brokers:

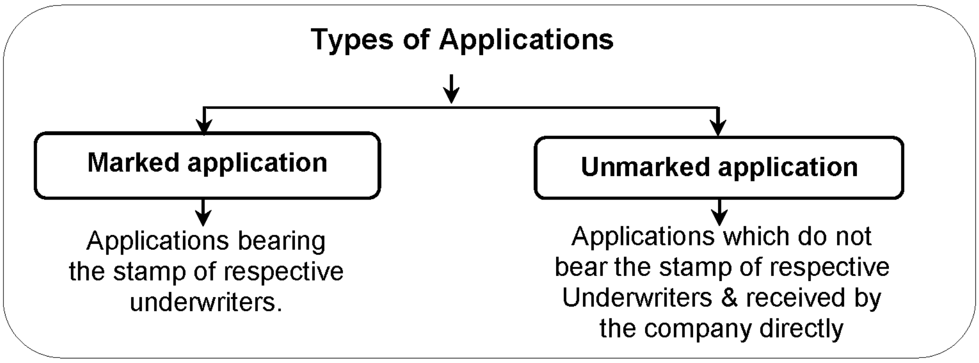
Underwriters	Brokers
Defined as above	Brokers only help in getting the shares or debentures sold and do not offer any guarantee to take the unsubscribed shares.
Consideration paid is called Under-writing commission.	Brokerage

Underwriting Commission:

1. It is the consideration which is payable to the underwriters for underwriting the shares/ debentures.
2. Given on issue price of underwritten shares irrespective of number of shares subscribed by the public.
3. The maximum rate of commission payable to underwriters is:
   - **a)** In case of Equity shares - 5% of issue price (or) the rate prescribed by the AOA which ever is lower.
   - **b)** In case of debentures - 2.5% of issue price (or) the rate prescribed by the AOA which ever is lower.

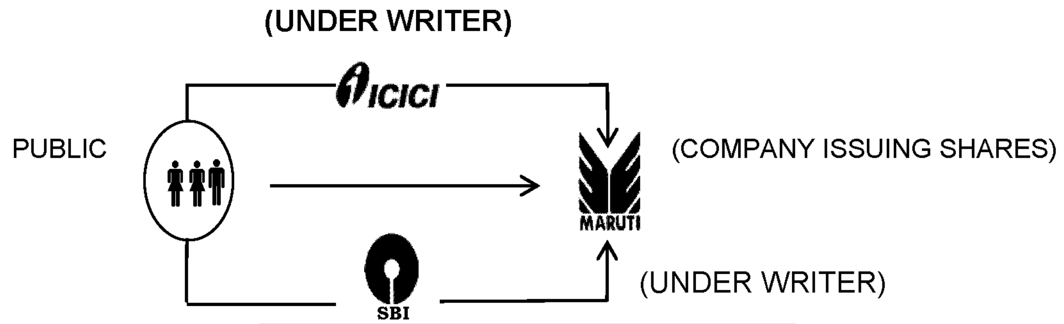
   Notes:

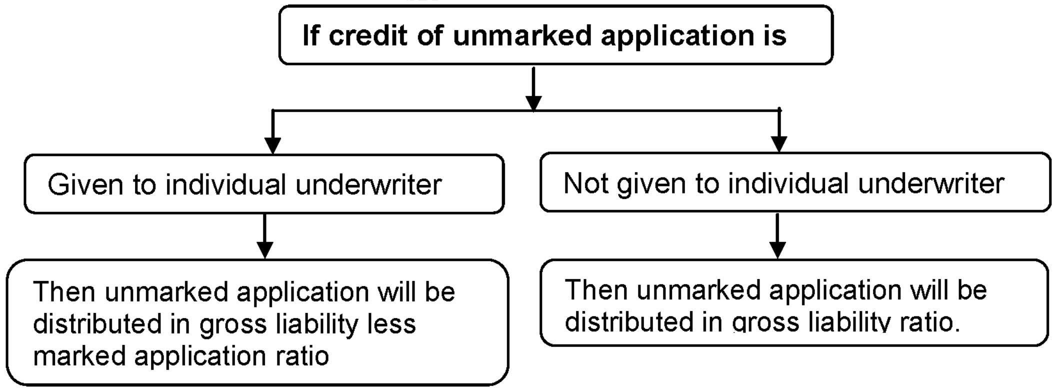
   1. Underwriters will also get brokerage, if they take risk of placing shares/debentures before public.
   2. No Underwriting commission will be given if the issue is privately placed. ***E.g.:*** Shares issued to promoters, Employees, Directors etc.,
   3. Practically underwriting commission will be given as per SEBI guidelines which is 2.5% of issue price of shares & debentures.



Importance of division of applications:

1. If there is only one Underwriter all subscribed applications benefit will be given to such Underwriter.
2. If there is more than one Underwriter, subscribed application benefit should be given in which ratio? In order to clear such ambiguity, applications are divided as above.





Example: XYZ & Co. Ltd. issued 10,000 equity shares. These were underwritten as follows:

A- 40%, B- 35%, C-25%. In all, applications for 8,000 shares were received; applications for 2,000 shares have the stamp of A; those for 1,000 shares that of B, and those for 2,000 shares that of C. Determine the liability of Underwriters, When

i) Credit for unmarked applications is not given

ii) Credit for unmarked applications is given

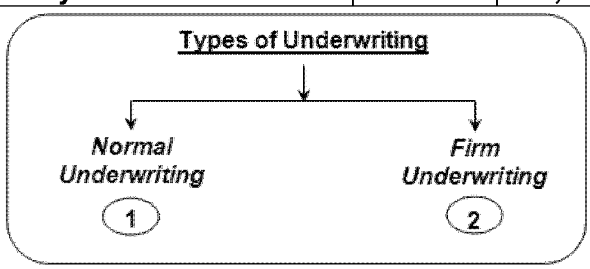
Solution:

Case i: When credit for unmarked applications is not given

	A	B	C	Total
Gross liability as underwritten	4,000	3,500	2,500	10,000
Less: Marked applications	(2,000)	(1,000)	(2,000)	(5,000)
	2,000	2,500	500	5,000
Less: Unmarked applications				
3,000 shares in the ratio of 8:7:5	(1,200)	(1,050)	(750)	(3,000)
Balance	800	1,450	(250)	2,000
Credit to A and B for C's surplus (ratio 8:7)	(133)	(117)	250	
Net liability	**667**	**1,333**	**—**	**2,000**

Case ii: When credit for unmarked applications is given

	A	B	C	Total
Gross liability as underwritten	4,000	3,500	2,500	10,000
Less: Marked applications	(2,000)	(1,000)	(2,000)	(5,000)
	2,000	2,500	500	5,000
Less: Credit for Unmarked applications in the ratio of Gross liability less marked applications ratio i.e. 4:5:1	(1,200)	(1,500)	(300)	(3,000)
Net liability	**800**	**1,000**	**200**	**2,000**



1) **Normal Underwriting:**

a) **Complete Underwriting:** If the whole of the issue of shares/debentures is underwritten, it is said to be Complete Underwriting. It may be under written by:

(i) One firm /Institution (or)

(ii) More than One firm /Institution.

b) **Partial Underwriting:** If only part of the issue of shares/debentures of a company is under written it is said to be Partial Underwriting. The part of the issue of shares/debentures, may be underwritten by:

(i) One person / Institution (or)

(ii) More than one person / Institution

Notes:

a. Company is said to be underwriter for the balance shares

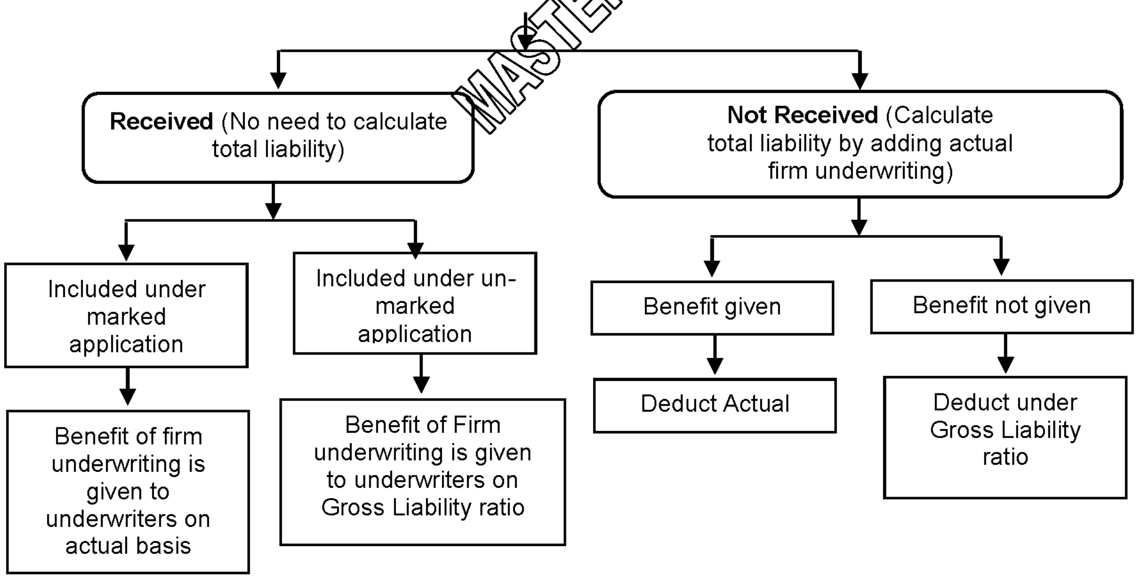
b. In case the information as regards the number of applications that are marked and those that are unmarked is not available (for instance, in an examination) it should be assumed that out of the total number of applications received a number proportionate to the value of the issue underwritten has been received through the underwriters.

2) **Firm/Committed Underwriting:**

a) It refers to definite commitment by the underwriter/underwriters to take up specified numbers of shares/debentures of a company irrespective of the no. of shares/ debentures subscribed by the public.

b) If issue is undersubscribed, for underwriters this is in addition to unsubscribed shares or debentures.

Firm Underwriting Application



Accounting treatment relating to Underwriting of shares & debentures:

Date	Particulars	Amount (Rs.)
1.	**When shares or debentures are allotted to underwriters in respect of their liability:** Underwriters A/c Dr To Share Capital A/c (or) To Debentures A/c	With the value of the shares or debentures taken up by the underwriters.
2.	**When commission becomes payable to the underwriters:** Underwriting Commission A/c Dr To Underwriters A/c	With the amount of commission due on the total issue price of the shares underwritten.

3.	**When the net amount due from the underwriters on the shares or debentures taken up by them is received:** Bank A/c Dr To Underwriters A/c	With the net amount due.
4.	**When the net amount due to the underwriters for commission on the shares or debentures underwritten is paid:** Underwriters A/c Dr. To bank a/c	With the net amount due.

Notes: Total underwriting commission is not generally paid in cash. Instead the same is adjusted against the money due on shares or debentures taken up by the underwriters and only the net amount (i.e., total amount due on shares or debentures taken up by the underwriters minus the underwriting commission) is received from the underwriters.

PROBLEMS FOR CLASSROOM DISCUSSION

PROBLEM 1: (PRINTED SOLUTION AVAILABLE) Determination of Liability of underwriters along with journal entries: Gemini Ltd. came up with public issue of 30,00,000 Equity shares of Rs. 10 each at Rs. 15 per share. A, B and C took underwriting of the issue in 3 : 2 : 1 ratio.
Applications were received for 27,00,000 shares.

The marked applications were received as under.

A	8,00,000 shares
B	7,00,000 shares
C	6,00,000 shares

Commission payable to underwriters is at 5% on the face value of shares.

i) Compute the liability of each underwriter as regards the number of shares to be taken up.

ii) Pass journal entries in the books of Gemini Ltd. to record the transactions relating to underwriters.

(B) (NEW SM, MTP2 M18 (N&O)) (ANS.: NET LIABILITY OF UNDERWRITER A-2,80,000 SHARES; B-20,000 SHARES; C-NIL)
(SOLVE PROBLEM NO: 1 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 2: (PRINTED SOLUTION AVAILABLE) Complete underwriting-Firm Underwriting-Determination of liability in case it is clearly given that subscriptions totaled excludes firm underwriting : A company made a public issue of 1,25,000 equity shares of Rs.100 each, Rs.50 payable on application. The entire issue was underwritten by A, B, C and D in the proportion of 30% and 25%, 25% and 20% respectively. Under the terms agreed upon, a commission of 2% was payable on the amounts underwritten.

A, B, C & D also agreed on firm underwriting of 4,000, 6,000, Nil and 15,000 shares respectively.

The total subscriptions, excluding firm underwriting, including marked applications were for 90, 000 shares. Marked applications received were as under:

A - 24,000, C-12,000, B-20,000, D-24,000

Ascertain the liability of the individual underwriters and also show the journal entries that you would make in the books of the company. All workings should form part of your answer.

(A) (NEW SM) (ANS.: NET LIABILITY FOR UNDERWRITER C=10,000 SHARES)

(SOLVE PROBLEM NO: 2 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 3: Private Placement-Complete underwriting-Firm underwriting in unmarked forms: A Joint stock company resolved to issue 10 lakh equity shares of Rs.10 each at a premium of Re.1 per share. 1 Lakh of these shares were taken up by the directors of the company, their relatives, associates and friends, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications. The issue was underwritten by X, Y and Z for a commission @ 2% of the issue price, 65% of the issue was underwritten by X, while Y's and Z's shares were 25% and 10% respectively.

Their firm underwriting was as follows: X: 30,000 shares, Y: 20,000 shares and Z: 10,000 shares. The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with members of the general public. Marked applications were as follows: X - 1,19,500 shares, Y - 57,500 shares and Z 10,500 shares. Unmarked applications totalled 7,00,000 shares. Accounts with the underwriters were promptly settled.

You are required to **(i)** Prepare a statement calculating underwriter's liability for shares other than shares underwritten firm. **(ii)** Pass journal entries for all the transactions including cash transactions.

(A) (NEW SM) (ANS.: NET LIABILITY X - 4,000, Y- NIL, Z - 8,500)

(SOLVE PROBLEM NO: 3 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:

PROBLEM 4: Paper limited comes out with a public issue of share capital on 01-01-2016 of 30,00,000 equity shares of rs.10 each at a premium of 5%.Rs.2.50 is payable on application (on or before 31 -01-2016) and Rs 3 on allotment (31-3-2016) including premium.

This issue was underwritten by two underwriters namely white and black, equally, the commission being 4% of the issue price. Each of the underwriters underwrites 60,000 shares firm. subscriptions including firm underwriting came for 28,80,000 shares, the distribution of forms being white:15,60,000: black :10,80,000 and unmarked 2,40,000.

One of the allottees (using forms marked with name of white) for 6000 shares fails to pay the amount due to allotment, all the other money due being received in full including any due from the shares devolving upon the underwrites. The commission due was paid separately.

6000 shares of one allotee who failed to pay the allotment money were finally forfeited by 30-06-2016 and were re-allotted for payment in cash of Rs.4 per share. you are required to prepare each underwriter's liability (in shares) in statement form and to pass necessary journal entries to record the above events and transactions (including cash) ***(A) (M17 - 8M, RTP M18 (N&O), MTP1 M18 (N&O))***

(ANS.: TOTAL LIABILITY WHITE - 60,000 SHARES; BLACK - 1,80,000 SHARES)

Note:

PROBLEM 5: (PRINTED SOLUTION AVAILABLE) Private Placement - Complete underwriting - Libra Ltd. camp up with an issue of 20,00,000 equity shares of Rs.10 each at par. 5,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters Anand, Vijay and Ashok - equally with firm underwriting of 50,000 shares each. Subscriptions totaled 12,97,000 shares included the marked forms which were:

Anand	4,25,000 shares
Vijay	4,50,000 shares
Ashok	3,50,000 shares

The underwriters had applied for the number of shares covered by firm underwriting. The amounts payable on application and allotment were Rs.2.50 and Rs.2.00 respectively. The agreed commission was 5%.

Pass summary journal entries for -

(a) The allotment of shares to the underwriters;

(b) The commission due to each of them; and

(c) The net cash paid and or received.

Note: Unmarked applications are to be credited to underwriters equally. Benefit of firm underwriting is given individual underwriter. ***(A) (NEW SM, SIMILAR: MTP N18 (N), SIMILAR: N18 (O) - 8M, M18 (O) - 8M)***

(ANS.: AMOUNT PAID TO ANAND RS. 1,50,000, VIJAY RS. 1,50,000, AMOUNT RECEIVED BY THE COMPANY FROM ASHOK RS. 88,500)(SOLVE PROBLEM NO: 4, 5, 6 AND 7 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 6: (PRINTED SOLUTION AVAILABLE): Computation of liability of each Underwriter- when benefit of firm underwriting is not given to individual underwriters: A company made a public issue of 2,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The entire issue was underwritten by the underwriters L, M, N and O in the ratio of 4:3:2:1 respectively with the provision of firm underwriting of 5,000, 4,000, 2,000 and 2,000 shares respectively.

The company received application for 1,50,000 shares (excluding firm underwriting) from public, out of which applications for 55,000, 40,000, 42,000 and 8,000 shares were marked in favour of L, M, N and O respectively.

Calculate the liability of each underwriter as regards the number of shares to be taken up assuming that the benefit of underwriting is not given to the individual underwriter.

(B) (OLD PM) (ANS.: NET LIABILITY L=20,000; M=16,500; N=2,000; O=11,500)
(SOLVE PROBLEM NO: 8 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

PROBLEM 7: Complete underwriting-Determination of underwriting commission along with Brokerage: Rosy Ltd made a public issue of 4,00,000 equity shares of Rs.10 each, Rs.2 payable on application. The entire issue was underwritten by five underwriters as follows:

A - 25%, B - 25%, C - 25%, D: 10% and E - 15%. Under the underwriting terms, a commission of 2% was payable on the amount underwritten. Further, the underwriter was at liberty to apply, during the tenure of public issue, for any number of shares in which case he was entitled to a brokerage equal to 1/2% of the par value of shares so applied for.

Applications received were to be analyzed on the basis of rubber stamp of the underwriters, who was to be given credit for the number of applications received bearing his rubber stamp. Applications received which did not bear any rubber stamp were considered as 'direct applications' to be credited to all the underwriters in the ratio of their respective underwriting commitment. If, any such credit being given a "surplus" was to result in respect of any underwriter, as compared to his commitment, such surplus was to be distributed amongst the remaining underwriters in the ratio of their respective underwriting commitments.

Bearing rubber stamp of	A	1,02,000 shares
- Do -	B	95,000 shares
- Do -	C	60,000 shares
- Do -	D	32,000 shares
- Do -	E	51,000 shares
Not bearing any stamp		10,000 shares
		3,50,000 shares

Included in the number of applications mentioned against D in the above table was an application made by D himself for 10,000 shares. The underwriters were informed of the amounts due to or from them, the amounts were duly received or paid. Show with the aid of necessary workings, the entries to record the amount so received or paid. ***(B) (NEW SM)***

(ANS: RECEIVED C=52,000; D=4,300; E=1,200 AND PAID A=20,000; B=18,000)

Note:____

PROBLEM 8: (PRINTED SOLUTION AVAILABLE) Partial underwriting with firm underwriting: A entered into an underwriting agreement with B Ltd. for 60% of the issue of 15% Rs.50,00,000 debentures with a firm underwriting of Rs.5,00,000. Marked applications were for Rs.35,00,000 debentures. Calculate the liability of underwriter & the commission payable to him. ***(C) (N09)***

(ANS.: COMMISSION RS. 75,000)

Note:____

PROBLEM 9: (PRINTED SOLUTION AVAILABLE) Partial underwriting and determination of liability in case of non-availability of information of marked forms in total subscriptions: X Limited issued 10,000 equity shares of Rs.10 each. The issue was underwritten as follows: A-30%, B-30%, and C-20%. However, the company received applications for 8,000 shares only. Determine the liability of the respective underwriters. ***(C) (ANS.: NET LIABILITY A 600, B 600, C 400, COMPANY - 400)***

Note:____

PROBLEM 10: Partial underwriting Vs complete underwriting: Wye Co. Ltd invited the public to subscribe to the following:

a) 10,000 equity shares of Rs.100 each at a premium of 5% and

b) 2,500, 4% debentures of Rs.100 each @ Rs. 96, Rs.2,50,000

60% of the shares and the whole of the issue of debentures were underwritten by M/s. Sure & Fast for the maximum commission allowable under the law. The applications from the public totalled 6,000 shares and 2,000 debentures. The underwriters fulfilled their obligations. Show the journal entries that would appear in the books of the company.

(C) (SOLVE PROBLEM NO: 9 OF ASSIGNMENT PROBLEMS AS REWORK)

Note:____

ASSIGNMENT PROBLEMS

PROBLEM 1: Determination of Liability of underwriters as per agreement in case of full underwriting: Newton Limited incorporated on 1st January, 2013 issued a prospectus inviting applications for 20,000 equity shares of Rs.10 each. The whole issue was fully under written by Adams, Benzamin and Clayton as follows:

Adam	10,000 shares;
Benzamin	6,000 shares;
Clayton	4,000 shares

Applications were received for 16,000 shares, of which marked applications were as follows:

Adam	8,000 shares ;	Benzamin	2,850 shares;	Clayton	4,150 shares

You are required to find out the liabilities of individual underwriters.

(A) (NEW SM, SIMILAR: M08) (ANS.: NET LIABILITY FOR ADAMS 1,281, BENZAMIN RS. 2,719, CLAYTON - NIL)

PROBLEM 2: Determination of Liability of underwriters - Basic model on Firm underwriting: Delta Ltd. issued 25,00,000 equity shares of Rs.10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P,Q & R in the ratio of 2:3:4 with firm underwriting of 50,000 60,000 and 70,000 shares each respectively. Total subscriptions received 13,88,000 shares including marked application and excluding firm underwriting. Marked application were as follows:

P 3,00,000 shares;

Q 3,50,000 shares;

R 4,50,000 shares

Unmarked and Surplus Applications to be distributed in Gross liability ratio. Ascertain the liability of each underwriter. ***(A) (OLD PM) (ANS.: TOTAL LIABILITY OF P - 50,000 SHARES; Q - 1,48,000 SHARES; R - 2,14,000 SHARES)***

PROBLEM 3: Complete underwriting-Firm Underwriting-Determination of liability in case it is not clear that whether subscriptions totaled includes firm underwriting or not: Sourav Flour Mills Pvt. Ltd. Floated a public issue of 1,50,000 Equity shares having face value of Rs.10 each at par. A, B&C has taken underwriting of the issue in equal share with the firm underwriting of 25,000;20,000 &20,000 shares respectively. Applications were received for 1,46,000 shares out of which the marked applications were as under:

A - 24,600 B - 20,000 C - 15,000

Credit of unmarked applications is to be given to underwriters equally. The agreed underwriting commission was 5%. Total amount payable on application and allotment was Rs.5 and balance in calls.

Compute the following:

i) Liability of each underwriter (In shares as well as in amount).

ii) Commission due to underwriters

iii) Net cash paid/received from underwriters.

Also pass journal entries for above

(B) (N15) (ANS.: I. TOTAL LIABILITY IN SHARES FOR A-25,000 B-20,000 C-24,000; TOTAL LIABILITY IN AMOUNTS FOR A RS.2,50,000 B-RS.2,00,000 C-RS.2,40,000 II. COMMISSION DUE TO EACH UNDERWRITER - RS.25,000 III. NET AMOUNT PAID TO A-RS.1,00,000 B-RS.75,000 C-RS.1,15,000)

PROBLEM 4: Private Placement-Complete underwriting: Scorpio Ltd. came out with an issue of 45,00,000 equity shares of Rs.10 each at a premium of Rs.2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co.; B & Co. and C & Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:

A & Co.	7,25,000 shares
B & Co.	8,40,000 shares
C & Co.	13,10,000 shares
Total	**28,75,000 shares**

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application. You are required to:

a) Compute the underwriters liability (number of shares)

b) Compute the amounts payable or due to underwriters; and

c) Pass necessary journal entries in the books of Scorpio Ltd. relating to underwriting.

(A) (OLD PM, N05) (ANS.: A) TOTAL LIABILITY (NUMBER OF SHARES) A & CO.-RS. 2,57,500, B & CO. RS. 1,42,500, C & CO. RS. 1,00,000, B) NET AMOUNT TO BE PAID BY UNDERWRITERS A & CO. RS.24,90,000, B & CO. RS. 11,10,000, C & CO RS.6,00,000)

PROBLEM 5: Computation of Amounts payable or due to underwriters: A company issued 1,50,000 shares of Rs.10 each at a premium of Rs.10. The entire issue was underwritten as follows:

X - 90,000 shares (Firm underwriting 12,000 shares)

Y - 37,500 shares (Firm underwriting 4,500 shares)

Z - 22,500 shares (Firm underwriting 15,000 shares)

Total subscriptions received by the company (excluding firm underwriting and marked applications) were 22,500 shares.

The marked applications (excluding firm underwriting) were as follows:

X - 15,000 shares; Y - 30,000 shares; Z - 7,500 shares

Commission payable to underwriters is at 5% of the issue price. The underwriting contract provides that credit for unmarked applications be given to the underwriters in proportion to the shares underwritten and benefit of firm underwriting is to be given to individual underwriters.

i) Determine the liability of each underwriter (number of shares);

ii) Compute the amounts payable or due from underwriters; and

iii) Pass Journal Entries in the books of the company relating to underwriting.

(A) (OLD PM, SIMILAR: N18(N)-10M, RTP N18(N&O),M18 (N) - 10M) (ANS.: TOTAL LIABILITY (IN SHARES) X-55,500, Y-4,500, Z-15,000 NET AMOUNT RECEIVABLE - X - RS. 10,20,000, Y - RS. 52,500, Z - RS. 2,77,500)

PROBLEM 6: Complete underwriting-Firm Underwriting-Determination of liability in case it is not clear that whether subscriptions totaled includes firm underwriting or not : Ram Limited invited applications from public for 10,00,000 equity shares of Rs. 10 each at a premium of Rs. 5 per share. The entire issue was underwritten by the underwriters X, Y, Z and T to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 30,000, 20,000, 10,000 and 10,000 shares respectively. The underwriters were entitled to the maximum 2.5% commission.

The company received applications for 7,00,000 shares from public, out of which applications for 1,90,000, 1,00,000, 2,10,000 and 80,000 shares were marked in favour of X, Y, Z and T respectively.

Calculate the gross liability of each underwriter in terms of shares. Also ascertain the underwriting commission, payable to or by different underwriters.

(Note: Solve the problem assuming that the benefit of firm under writing is given)

(A) (RTP M12) (ANS.: TOTAL LIABILITY (IN SHARES) X-57,500, Y-1,47,500, Z-10,000, T-85,000. UNDERWRITING COMMISSION DUE X - RS. 1,12,500, Y - RS. 1,12,500, Z - RS. 75,000, T - RS. 75,000)

PROBLEM 7: Complete underwriting-Firm Underwriting-Determination of liability in case it is not clear that whether subscriptions totaled includes firm underwriting or not: Rathnam Chemicals Limited planned to set up a unit for manufacture of shoes. For the purpose of financing the unit, the Board of Directors have issued 15,00,000 equity shares of Rs. 10 each. 30% of the issue was reserved for promoters and the balance was offered to the public. P, Q and R have come forward to underwrite the public issue in the ratio of 3:1:1 and also agreed for firm underwriting of 30,000; 20,000 and 10,000 shares respectively. The underwriting commission was fixed at 4%. The amount payable on application was Rs. 2.50 per share and allotment was Rs. 2.50 per share. The details of subscriptions excluding firm underwriting are:

Marked forms of P 5,50,000 shares

Marked forms of Q 2,00,000 Shares

Marked forms of R 1,50,000 Shares

Unmarked forms 50,000 Shares

You are required to show

a) The allocation of liability among underwriters with workings assuming that the benefit of firm underwriting is given to individual underwriters.

b) Journal entries for:

- **i)** the allotment of shares to the underwriters,
- **ii)** the commission due to each of them and,
- **iii)** the net cash paid or received.

(RTP N09 & RTP M13)(ANS.: TOTAL LIABILITY (IN SHARES) P-35,000, Q-20,000, R-45,000 COMMISSION DUE P-RS.2,52,000, Q - RS.84,000, R - RS.84,000 NET CASH PAID P-2,39,500 ,Q -84,000 NET CASH RECEIVED R-3500)

PROBLEM 8: Computation of liability of each Underwriter-when benefit of firm underwriting is not given to individual underwriters: Outset Ltd. invited applications from public for 1,00,000 equity shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by the underwriters P, Q, R and S to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares (excluding firm underwriting) from public out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of P, Q, R and S respectively.

Calculate the liability of each underwriter. Also ascertain the underwriting commission payable to different underwriters. ***(B) (NEW SM) (ANS.: TOTAL LIABILITY (NUMBER OF SHARES) P. 6,500, Q. 14,500, R. 1,000, S. 8,000)***

PROBLEM 9: Partial underwriting: Moonlit Ltd., issued 50,000 equity shares, of which only 60% was underwritten by Green. Applications for 45,000 shares were received in all out of which application for 26,000 were marked. Determine the liability of Green.

(C) (ANS.: NET LIABILITY: GREEN 4,000, COM.1,000)

PRINTED SOLUTIONS TO SOME SELECTIVE PROBLEMS

PROBLEM NUMBERS TO WHICH SOLUTIONS ARE PROVIDED: 1, 2, 5, 6, 8, 9

PROBLEM NO: 1

1.

i) Computation of liability of underwriters in respect of shares

Particulars	(In shares)		
	A	B	C
Gross liability (Total Issue of 30,00,000 equity shares) in agreed ration of 3 : 2 : 1	15,00,000	10,00,000	5,00,000
Less: Unmarked applications (Subscribed shares - marked shares) in 3 : 2 : 1	(3,00,000)	(2,00,000)	(1,00,000)
Marked shares as per agreed ratio	12,00,000	8,00,000	4,00,000
Less: Marked applications actually received	(8,00,000)	(7,00,000)	(6,00,000)
Shortfall / surplus in marked shares	4,00,000	1,00,000	(2,00,000)
Surplus of C distributed to A & B in 3:2 ratio	(1,20,000)	(80,000)	2,00,000
Net liability for underwriting shares	2,80,000	20,000	Nil

ii) Journal Entries in the books of Gemini Ltd.

		Rs.	Rs.
A's Account (2,80,000 x 15)	Dr.	42,00,000	
B's Account (20,000 x 15)	Dr.	3,00,000	
To Share Capital Account (3,00,000 x 10)			30,00,000
To Securities Premium Account (3,00,000 x 5)			15,00,000
(Being the shares to be taken up by the underwriters)			
Underwriting Commission Account	Dr.	15,00,000	
To A's Account (15,00,000 x 10 x 5%)			7,50,000
To B's Account (10,00,000 x 10 x 5%)			5,00,000
To C's Account (5,00,000 x 10 x 5%)			2,50,000
(Being the underwriting commission due to the underwriters)			
Bank Account	Dr.	34,50,000	
To A's Account			34,50,000
(Being the amount received from underwriter A for the shares taken up by him after adjustment of his commission)			
B's Account	Dr.	2,00,000	
To Bank Account			2,00,000
(Being the amount paid to underwriter B after adjustment of the shares taken by him against underwriting commission due to him)			

C's Account	Dr.	2,50,000	
To Bank Account			2,50,000
(Being the underwriting commission paid to C)			

Note: C had sold in excess of the underwriting obligation and hence he will not be required to purchase any shares but will get commission for underwriting.

PROBLEM NO: 2

When the benefit of firm underwriting is given to individual underwriters.

i) Total marked applications

A	B	C	D	Total
24,000	+ 20,000	+ 12,000	+ 24,000	80,000

ii) Shares subscribed excluding firm undertaking

Total applications	90,000 shares
Less: Marked applications	(80,000) shares
Unmarked	10,000 shares

iii) Statement showing Liability of underwriters

Particulars	A	B	C	D	TOTAL
Gross Liability (30:25:25:20)	37,500	31,250	31,250	25,000	1,25,000
Less: Marked applications	(24,000)	(20,000)	(12,000)	(24,000)	(80,000)
	13,500	11,250	19,250	1,000	45,000
Less: Unmarked (in Gross Ratio)	(3,000)	(2,500)	(2,500)	(2,000)	(10,000)
	10,500	8,750	16,750	(1,000)	35,000
Less: Firm underwriting	(4,000)	(6,000)	-	(15,000)	(25,000)
	6,500	2,750	16,750	(16,000)	10,000
Less: Surplus of 'D' allotted to A, B & C (30 : 25 : 25)	(6,000)	(5,000)	(5,000)	-	-
	500	(2,250)	11,750	-	10,000
Surplus of 'B' allotted	500	-	1,750	-	-
Net Liability	-	-	10,000	-	10,000

iv) Statement of underwriters' liability

Firm	4,000	6,000	-	15,000	25,000
Others	-	-	10,000	-	10,000
	4,000	6,000	10,000	15,000	35,000

v) Amount due from underwriters

Particulars	A	B	C	D	TOTAL
Shares to be subscribed as per (iv) above	4,000	6,000	10,000	15,000	35,000
Amount due @ Rs.50 per share	2,00,000	3,00,000	5,00,000	7,50,000	17,50,000
Less: Commission due shares underwritten (Gross LiabilityX100X2%)	(75,000)	(62,500)	(62,500)	(50,000)	(2,50,000)
	1,25,000	2,37,500	4,37,500	7,00,000	15,00,000

When the benefit of firm underwriting is not given to individual underwriters:

(i) Total marked applications = 24,000 + 20,000 + 12,000 + 24,000 = 80,000

(ii) Shares subscribed excluding 'Firm' underwriting but including

Marked applications	90,000	shares
Add: 'Firm' underwriting	(25,000)	shares
Total subscriptions	1,15,000	shares
Less: Marked Applications	(80,000)	shares
Balance being unmarked	35,000	shares

vi) Check:

a) Taken by public - unmarked applications 10,000 shares

b)	Public through underwriters - marked	80,000	shares
c)	By underwriters - under agreement	35,000	shares
		1,25,000	shares

Bank A/c	Dr.	60,00,000	
Underwriting Commission a/c	Dr.	2,50,000	
To Equity share application a/c			62,50000

PROBLEM NO: 5

Particulars		Dr.(Rs.)	Cr.(Rs.)
Bank A/c	Dr.	3,75,000	
To Share Application A/c (50,000X2.5X3)			3,75,000
(Application money received on firm applications for 50,000 each @ Rs. 2.50 per share from Anand, Vijay & Ashok)			
Anand (WN-2)	Dr.	1,00,000	
Vijay	Dr.	1,00,000	
Ashok	Dr.	3,38,500	
Share Application A/c	Dr.	3,75,000	
To Share Capital A/c			9,13,500
(Allotment of shares to underwriters 50,000 to Anand; 50,000 to Vijay and 1,03,000 to Ashok; application and allotment money credited to share capital)			
Underwriting Commission A/c	Dr.	7,50,000	
To Anand (5,00,000X5%X10)			2,50,000
To Vijay			2,50,000
To Ashok			2,50,000
(Amount of underwriting commission payable to Anand, Vijay and Ashok @ 5% on the amount of shares underwritten.)			
Bank A/c	Dr.	88,500	
To Ashok			88,500
(Amount received from Ashok on shares allotted less underwriting commission)			
Anand	Dr.	1,50,000	
Vijay	Dr.	1,50,000	
To Bank A/c			3,00,000
(Amount paid to Anand & Vijay in final settlement of underwriting commission due less amount payable on shares allotted payable to him.)			

Working Notes:

(1) Calculation of Liability of Underwriters:

Particulars	Anand	Vijay	Ashok
Gross Liability (No. of shares)	5,00,000	5,00,000	5,00,000
Less: Marked Applications(excluding firm underwriting)	(4,25,000)	(4,50,000)	(3,50,000)
	75,000	**50,000**	**1,50,000**
Less: Unmarked Applications (equally)	(24,000)	(24,000)	(24,000)
	51,000	**26,000**	**1,26,000**
Less: Firm Underwriting	(50,000)	(50,000)	(50,000)
	1,000	**(24,000)**	**76,000**
Surplus of Vijay distributed between Anand & Ashok equally	(12,000)	24,000	(12,000)
	(11,000)	**-**	**64,000**
Surplus of Anand allocated to Ashok totally	11,000	-	(11,000)
Net liability, excluding firm underwriting	-	-	53,000
Add: Firm underwriting	50,000	50,000	50,000
Total liability of underwriters	**50,000**	**50,000**	**1,03,000**

(2) Calculation of Amounts Payable by Underwriters:

Particulars	Anand	Vijay	Ashok
Liability (No. of shares)	50,000	50,000	1,03,000
Amount payable @ Rs. 4.50 per share	2,25,000	2,25,000	4,63,500
Less : Amount paid on Firm Applications of 50,000 each @ Rs. 2.50	(1,25,000)	(1,25,000)	(1,25,000)

Balance payable	1,00,000	1,00,000	3,38,500
Underwriting Commission Receivable	2,50,000	2,50,000	2,50,000
Amount Paid	**1,50,000**	**1,50,000**	**-**
Amount received by the Co.	**-**	**-**	**88,500**

PROBLEM NO: 6

Calculation of liability of each underwriter assuming that the benefit of firm underwriting is not given to individual underwriter

Particulars	No. of shares				
	L	M	N	O	Total
Gross underwriting	80,000	60,000	40,000	20,000	2,00,000
Less: Marked Application (excluding firm underwriting)	(55,000)	(40,000)	(42,000)	(8,000)	(1,45,000)
Balance	25,000	20,000	(2,000)	12,000	55,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,000)	(750)	2,000	(250)	-
Balance	24,000	19,250	-	11,750	55,000
Less: Unmarked application including firm underwriting(WN)	(7,200)	(5,400)	(3,600)	(1,800)	(18,000)
Net Liability	16,800	13,850	(3,600)	9,950	37,000
Less: Surplus of N allotted to L, M & O in the ratio of 4:3:1	(1,800)	(1,350)	3,600	(450)	-
Balance	15,000	12,500	-	9,500	37,000
Add: Firm Underwriting	5,000	4,000	2,000	2,000	13,000
Net Liability	20,000	16,500	2,000	11,500	50,000

Working Note:

Particulars	No. of shares
Application received from public	1,50,000
Add: Firm underwriting	13,000
Total Applications	1,63,000
Less: Marked application	(1,45,000)
Unmarked application including firm underwriting	18,000

PROBLEM NO: 8

Computation of liability of underwriter A:

Particulars	A (60%)
Gross Liability (50,00,000 x 60%)	30,00,000
Less: Marked applications	35,00,000
	(5,00,000)
Less: Firm underwriting	(5,00,000)
Excess credit	10,00,000

Commission: 30,00,000 x 2.5 % = 75,000

PROBLEM NO: 9

Computation of Net Liability of underwriters:

Particulars	A (30%)	B (30%)	C (20%)	Company (20%)	Total
Gross Liability	3,000	3,000	2,000	2,000	10,000
Less: Received applications (WN)	(2,400)	(2,400)	(1,600)	(1,600)	(8,000)
Net Liability of Underwriters	600	600	400	400	2,000

Working Notes:

Calculation of received applications:

A 8,000 x 30% = **2,400**

B 8,000 x 30% = **2,400**

C 8,000 x 20% = **1,600**

Company 8,000 x 20% = **1,600**

Note: In case of non-availability of information, Company would also be treated as an underwriter for subscription of shares.

THE END