

1. UNDERWRITING

PROBLEM NO: 1

Statement of net liability of underwriters

Particulars	Adam	Benzamin	Clayton	Total
Gross liability(10:6:4)	10,000	6,000	4,000	20,000
(-) Marked applications	(8,000)	(2,850)	(4,150)	(15,000)
	2,000	3,150	(150)	(5000)
(-) un marked applications	(500)	(300)	(200)	(1000)
1000 (10:6:4)	1,500	2,850	(350)	4000
Surplus of C allotted to A and B in the ratio of 10:6	(219)	(131)	350	-
Net liability	1,281	2,719	-	4000

WORKING NOTE:

Total Application Received = 16,000 shares
 Less: Marked applications = (15,000 shares)
 Unmarked applications = 1000 shares

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PROBLEM NO: 2

i) Computation of underwriter's liability

Particulars	X	Y	Z	Total
Gross liability (65:25:10)	5,85,000	2,25,000	90,000	9,00,000
(10,00,000-100,000)				
(-) Marked applications	(1,10,500)	(57,500)	(10,500)	(1,87,500)
	4,69,500	1,67,500	79,500	712500
(-) Un marked applications	(4,55,000)	(1,75,000)	(70,000)	7,00,000
700000 (65:25:10)	10,500	(7,500)	9,500	12500
Surplus of y allocated to X and Z in the ratio of 65%, 10%	(6,500)	7,500	(1,000)	-
Net liability	4,000	-	8,500	12500

Computation of Amount Receivable / payable

Particulars	X (Rs.)	Y (Rs.)	Z (Rs.)
Additional liability for add shares @ 11	44,000	-	93,500
Underwriting Commission (G.Lx11X 2%)	(1,28,700)	(49,500)	(19,800)
Net amount (Payable) / Receivable	(84,700)	(49,500)	73,700

ii) Journal Entries:

Particulars	Debit (Rs.)	Credit (Rs.)
1) Bank a/c (100000 + 8,87,500) x11 Dr	1,08,62,500	
To Equity Share application a/c (Being application money received on 987500 shares @ Rs.11, which includes shares form public and shares purchased by directors)		1,08,62,500
2) Equity Share application a/c Dr	1,08,62,500	
x a/c (4000x11) a/c Dr	44,000	
z a/c (8500x11) a/c Dr	93,500	
To Equity share capital a/c		1,00,00,000
To Securities premium a/c (Being allotment of 10 Lakh equity shares of Rs.10 each at a premium of Rs. 1 per share)		10,00,000
3) Under writing Commission a/c Dr	1,98,000	
To X a/c		1,28,700

To Y a/c		49,500
To Z a/c (Being underwriting commission payable to X,Y and Z @ 2% on amount of shares underwritten)		19,800
4) Bank a/c	Dr	73,700
To Z a/c (Being amount received from Z in full settlement)		73,700
5) X'S a/c	Dr	84,700
Y'S a/c	Dr	49,500
To Bank a/c (Being amount paid to X & Y in full settlement)		1,34,200

PROBLEM NO: 3**i) Computation of Underwriter's liability**

Particulars	A & Co	B & Co	C & Co
Gross liability (45,00,000 – 20%) = 36,00,000	12,00,000	12,00,000	12,00,000
(-) Firm Underwriting	(100,000)	(100,000)	(100,000)
	11,00,000	11,00,000	11,00,000
(-) Marked applications	(7,25,000)	(8,40,000)	(13,10,000)
	3,75,000	2,60,000	(2,10,000)
(-) Unmarked applications	(1,12,500)	(1,12,500)	-
	2,62,500	1,47,500	(2,10,000)
Surplus of C apportioned to 'A' and 'B' in the ratio 1:1	(1,05,000)	(105,000)	2,10,000
Net liability	157,500	42,500	-
(+) Firm Underwriting	100,000	100,000	1,00,000
Total liability (No of Shares)	2,57,500	142,500	1,00,000

Note: Un marked applications 2,25,000 which will be distributed among "A" and "B" only. "C" has already exceeded the Underwriting limit hence will not be required to absorb unmarked shares.

WORKING NOTE:

Total shares issued	45,00,000
Less: shares purchased by promoters	(9,00,000)
Shares offered to public	36,00,000
Less: total subscriptions received	(31,00,000)
Shares purchased by underwriters (including Firm underwriting)	5,00,000

iii) Computation of amount payable by underwriters:

Particulars	A & Co	B & Co	C & Co
Liability towards shares to be subscribed @ 12 Per Share	30,90,000	17,10,000	12,00,000
(-) Under writing Commission (5% on Fv Rs. 10 each on 12 Lakhs)	(600,000)	(600,000)	(6,00,000)
Net amt paid by underwriters	24,90,000	11,10,000	6,00,000

iii) Journal Entries:

Particulars	Rs.	Rs.
1) A & Co a/c	Dr	30,90,000
B & Co a/c	Dr	17,10,000
C & Co a/c	Dr	12,00,000
To Equity share capital a/c		50,00,000
To Securities premium a/c (Being shares including firm underwriting shares allotted to underwriters)		10,00,000

2) Underwriting Commission a/c	Dr	18,00,000	
To A & Co a/c			6,00,000
To B & Co a/c			6,00,000
To C & Co a/c			6,00,000
3) Bank a/c		42,00,000	
To A & Co a/c			24,90,000
To B & Co a/c			11,10,000
To C & Co a/c			6,00,000

PROBLEM NO: 4**Computation of liability of each underwriter in shares****i) Benefit of firm underwriting is NOT GIVEN to Individual Underwriters**

Particulars	P	Q	R	S	Total
Gross liability (30:30:20:20)	30,000	30,000	20,000	20,000	1,00,000
(-) Marked applications	(19,000)	(10,000)	(21,000)	(8,000)	(58000)
	11,000	20,000	(1,000)	12,000	42000
Surplus of 'R' distributed To P,Q and S in the ratio of 3:3:2	(375)	(375)	1,000	(250)	-
	10,625	19,625	-	11,750	42000
(-) Unmarked application including firm underwriting 3:3:2:2 (70,000-58000+7000)	(5,700)	(5,700)	(3,800)	(3,800)	(19000)
	4,925	13,925	(3,800)	7,950	23000
Surplus of 'R' distributed to P,Q and s in the ratio of 3:3:2	(1,425)	(1,425)	3,800	(950)	-
Net liability	3,500	12,500	-	7,000	23000
(+) firm underwriting	3,000	2,000	1,000	1,000	7000
Total liability	6,500	14,500	1,000	8,000	30,000

Note: Alternatively, it can be assumed that benefit of firm underwriting is given to individual underwriters. At that time, the answer will be changed accordingly.

WORKING NOTE:

Calculation of unmarked applications:

(As it is assumed that firm underwriting benefit is not given to individual underwriters)

Applications received from public = 70,000 shares

Add: Firm underwriting = 7,000 shares

Total Applications = 77,000 shares

Less: Marked applications = (5800 shares)

Unmarked application = 19,000 shares

(Including firm underwriting)

ii) Computation of underwriting Commission payable to differs underwriters:

As per Law in force, underwriting commission is payable @ 5% on issue price of shares

a) P → 30,000 x 15 x 5% = 22,500

b) Q → 30,000 x 15 x 5% = 22,500

c) R → 20,000 x 15 x 5% = 15,000

d) S → 20,000 x 15 x 5% = 15,000

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PROBLEM NO: 5**i) Computation of liability of each underwriter :**

Particulars	X	Y	Z	Total
Gross liability	90,000	37,500	22,500	1,50,000
(-) Marked applications	(15,000)	(30,000)	(7,500)	(52,500)
	75,000	7,500	15,000	97,500
(-) Unmarked applications 22,500 (12:5:3)	(13,500)	(5,625)	(3,375)	(22,500)
	61,500	1,875	11,625	75,000
(-) Firm Underwriting	(12,000)	(4,500)	(15,000)	31,500
	49,500	(2,625)	(3,375)	43,500
Surplus of y and z allocated To 'X'	(6,000)	2,625	3,375	75,000
Net liability	43,500	-	-	43,500
(+) Firm underwriting	12,000	4,500	15,000	31,500
Total liability	55,500	4,500	15,000	75,000

ii) Calculation of amount payable to or due from underwriters :

Particulars	X	Y	Z	Total
Total liability in shares	55,500	4,500	15,000	75,000
Issue price (FV+ Premium)	20/-	20/-	20/-	20/-
Amount receivable from Under written	11,10,000	90,000	300,000	(15,00,000)
(-) Underwriting commission payable (G.L X 20 X 5%)	(90,000)	(37,500)	(22,500)	(1,50,000)
Net amount receivable	10,20,000	52,500	2,77,500	13,50,000

iii) Journal Entries :

	Particulars	Debit (Rs.)	Credit (Rs.)
1.	X a/c Dr	11,10,000	
	Y a/c Dr	90,000	
	Z a/c Dr	3,00,000	
	To equity share capital a/c		7,50,000
	To Securities Premium a/c		750,000
	(Being allotment of shares to underwriters)		
2.	Underwriting Commission a/c Dr	150,000	
	To x a/c		90,000
	To y a/c		37,500
	To z a/c		22,500
	(Being underwriting commission payable to underwriters)		
3.	Bank a/c Dr	13,50,000	
	To x a/c		10,20,000
	To y a/c		52,500
	To z a/c		2,77,500

PROBLEM NO: 6**i) Computation of liability of underwriter:**

Particulars	X	Y	Z	T
Gross liability	3,00,000	3,00,000	2,00,000	2,00,000
(-) Marked applications	(1,90,000)	(1,00,000)	(2,10,000)	(80,000)
	1,10,000	2,00,000	(10,000)	1,20,000
(-) Unmarked applications 1,20,000 (3:3:2:2)	(36,000)	(36,000)	(24,000)	(24,000)
	74,000	1,64,000	(34,000)	96,000
(-) Firm underwriting	(30,000)	(20,000)	(10,000)	(10,000)
	44,000	1,44,000	(44,000)	86,000

Surplus of 'Z' appraised to X, Y and T in the ratio of 3:3:2	(16,500)	(16,500)	44,000	(11,000)
Net liability	27,500	1,27,500	-	75,000
(+) Firm underwriting	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>	<u>10,000</u>
Total liability	57,500	1,47,500	10,000	85,000

ii) **Computation of underwriting Commission:**

X → 30,000 × 15 × 2.5% = 1,12,500

Y → 30,000 × 15 × 2.5% = 1,12,500

Z → 20,000 × 15 × 2.5% = 75,000

T → 20,000 × 15 × 2.5% = 75,000

PROBLEM NO: 7

i) **Allocation of liability among underwriters :**

Particulars	P	Q	R
Gross liability	6,30,000	2,10,000	2,10,000
(-) Marked applications	(5,50,000)	(2,00,000)	(1,50,000)
	80,000	10,000	60,000
(-) Unmarked applications	(30,000)	(10,000)	(10,000)
	50,000	-	50,000
(-) Firm Underwriting	(30,000)	(20,000)	(10,000)
	20,000	(20,000)	40,000
Surplus of 'Q' distributed to 'P' and 'R' in the ratio of 3:1	(15,000)	20,000	(5,000)
Net liability	5,000	-	3,5000
(+) Firm Underwriting	<u>30,000</u>	<u>20,000</u>	<u>10,000</u>
Total liability	35,000	20,000	45,000

ii) **Journal Entries :**

	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Bank a/c Dr To Equity share application (Being share application money received on firm application for shares 30,000 → P, 20,000 → Q and 10,000 → R @ 2.5)	1,50,000	1,50,000
2.	P's a/c (5,000 × 2.5) Dr R's a/c (35,000 × 2.5) Dr	12,500 87,500	
	To Equity share capital a/c (Being allotment of shares to underwrites)		1,00,000
3.	Underwriter's Commission a/c Dr To P a/c To Q a/c To R a/c	4,20,000	2,52,000 84,000 84,000
4.	P's a/c Dr Q's a/c Dr To Bank a/c	2,39,500 84,000	3,23,500
5.	Bank a/c Dr To R's a/c	3,500	3,500

Working Notes:

1) **Calculation of amount payable to / by underwrites:**

Particulars	P (Rs.)	Q (Rs.)	R (Rs.)
Liabilities (No. of Shares)	35,000	20,000	45,000
(-) Firm Underwriting	<u>(30,000)</u>	<u>(20,000)</u>	<u>(10,000)</u>
Net liability	5,000	-	35,000
Amt payable on application @ 2.5	12,500	-	87,500
Underwriting commission receivable @ 4%	2,52,000	84,000	84,000
Amt payable to underwriters	2,39,500	84,000	-
Amt receivable from underwriters	-	-	3,500

P → $6,30,000 \times 10 \times 4\% = \text{Rs.}2,52,000$

Q → $2,10,000 \times 10 \times 4\% = \text{Rs.}84,000$

R → $2,10,000 \times 10 \times 4\% = \text{Rs.}84,000$

PROBLEM NO: 8

Computation of Net Liability

Particulars	Green (60%)	Company (40%)
Gross Liability	30,000	20,000
(-) Marked application	(26,000)	-
Unmarked applications	-	(19,000)
Net liability	4000	1000

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THE END

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