

**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                                    | (1,19,600) | (57,500)   | (10,500) | (1,87,500) |
|  | 4,65,500   | 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<br>(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<br>(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  |           | 19,800   |
| (Being underwriting commission payable to X, Y and Z @ 2% on amount of shares underwritten) |           |          |
| 4) Bank a/c   | Dr 73,700 |          |
| To Z a/c  |           | 73,700   |
| (Being amount received from Z in full settlement)   |           |          |
| 5) X'S a/c  | Dr 84,700 |          |
| Y'S a/c   | Dr 49,500 |          |
| To Bank a/c   |           | 1,34,200 |
| (Being amount paid to X & Y in full settlement)   |           |          |

### **PROBLEM NO: 3**

#### i) Computation of Underwriter's liability

| Particulars   | A & Co          | B & Co         | C & Co          |
|---|-----------------|----------------|-----------------|
| Gross liability<br>(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<br>'A' and 'B' in the ratio 1:1 | (1,05,000)      | (105,000)      | 2,10,000        |
| Net liability   | 197,500         | 42,500         | -               |
| (+) Firm Underwriting                                       | 100,000         | 100,000        | 1,00,000        |
| <b>Total liability (No of Shares)</b>                       | <b>2,57,500</b> | <b>142,500</b> | <b>1,00,000</b> |

**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  |
| <b>Less:</b> shares purchased by promoters                     | (9,00,000) |
| Shares offered to public                                       | 3600000    |
| <b>Less:</b> total subscriptions received                      | (3100000)  |
| Shares purchased by underwriters (including Firm underwriting) | 500000     |

#### 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  |
| (-) Underwriting Commission<br>(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  |              | 10,00,000 |
| (Being shares including firm underwriting shares allotted to underwriters) |              |           |

|                                |    |           |           |
|--------------------------------|----|-----------|-----------|
| 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 →  $30,000 \times 15 \times 5\% = 22,500$

b) Q →  $30,000 \times 15 \times 5\% = 22,500$

c) R →  $20,000 \times 15 \times 5\% = 15,000$

d) S →  $20,000 \times 15 \times 5\% = 15,000$

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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   | 97500    |
| (-) Unmarked applications           | (13,500) | (5,625)  | (3,375)  | (22500)  |
| 22,500 (12:5:3)                     |          |          |          |          |
|                                     | 61,500   | 1,875    | 11,625   | 75000    |
| (-) Firm Underwriting               | (12,000) | (4,500)  | (15,000) | 31500    |
|                                     | 49,500   | (2,625)  | (3,375)  | 43500    |
| Surplus of y and z allocated To 'X' | (6,000)  | 2,625    | 3,375    | 75000    |
| Net liability                       | 43,500   | -        | -        | 43500    |
| (+) Firm underwriting               | 12,000   | 4,500    | 15,000   | 31500    |
| Total liability                     | 55,500   | 4,500    | 15,000   | 75000    |

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

| Particulars  | X         | Y        | Z        | Total       |
|--|-----------|----------|----------|-------------|
| Total liability in shares                              | 55,500    | 4500     | 15000    | 75000       |
| 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<br>(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   | (36,000)   | (36,000)   | (24,000) |
| (3:3:2:2)                 |            |            |            |          |
|                           | 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  | 30,000   | 20,000   | 10,000 | 10,000   |
| Total liability  | 57,500   | 1,47,500 | 10,000 | 85,000   |

**ii) Computation of underwriting Commission:**

$$X \rightarrow 30,000 \times 15 \times 2.5\% = 1,12,500$$

$$Y \rightarrow 30,000 \times 15 \times 2.5\% = 1,12,500$$

$$Z \rightarrow 20,000 \times 15 \times 2.5\% = 75,000$$

$$T \rightarrow 20,000 \times 15 \times 2.5\% = 75,000$$

**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   | 30,000     | 20,000     | 10,000     |
| Total liability   | 35,000     | 20,000     | 45,000     |

**ii) Journal Entries :**

|    | Particulars   | Debit (Rs.)                              | Credit (Rs.) |
|----|---|--|--------------|
| 1. | Bank a/c Dr<br>To Equity share application<br>(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<br>R's a/c (35,000×2.5) Dr<br>To Equity share capital a/c<br>(Being allotment of shares to underwriters)                                   | 12,500<br>87,500<br>1,00,000             |              |
| 3. | Underwriter's Commission a/c Dr<br>To P a/c<br>To Q a/c<br>To R a/c   | 4,20,000<br>2,52,000<br>84,000<br>84,000 |              |
| 4. | P's a/c Dr<br>Q's a/c Dr<br>To Bank a/c   | 2,39,500<br>84,000<br>3,23,500           |              |
| 5. | Bank a/c Dr<br>To R's a/c   | 3,500<br>3,500                           |              |

**Working Notes:**

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

| Particulars                             | P (Rs.)  | Q (Rs.)  | R (Rs.)  |
|---|----------|----------|----------|
| Liabilities (No. of Shares)             | 35,000   | 20,000   | 45,000   |
| (-) Firm Underwriting                   | (30,000) | (20,000) | (10,000) |
| 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<br>(60%) | Company<br>(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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