

Underwriting of Shares and Debentures

Illustration 1:

Chirag Limited issues 40,000 shares. A, B and C underwrite issue in the ratio of 5:3:2 respectively. Unmarked applications totaled 2,000 shares, whereas marked applications are as follows: A - 16,000; B - 5,700; and C - 8,300. Calculate the net liability of each one of the underwriters. Unmarked applications are to be distributed amongst the underwriters in the ratio of their gross liability.

Illustration 2:

AIRTEL Ltd. issued 50,00,000 Equity shares of ₹10 each. The whole issue was underwritten by A, B and C as below:

A 15,00,000 shares

B 25,00,000 shares

C 10,00,000 shares

Applications were received for 48,50,000 shares of which the marked applications were as follows:

A 12,00,000 shares

B 25,00,000 shares

C 8,50,000 shares

Underwriters are entitled to get 5% commission on face value.

Calculate the number of shares to be taken up by the underwriters. From the above information find out the liability of underwriters and give journal entries.

Unmarked applications are to be distributed amongst the underwriters in the ratio of their gross liability.

Illustration 3:

Authorized capital of Jairam Ltd. was 12,50,000 Equity shares of ₹10 each. Company issued 80% shares at a premium of ₹ 2 per share which was entirely underwritten as follows:

Karan - 40% Taran - 20%

Kiran - 30% Gagan - 10%

Company received applications for 9,00,000 Equity Shares including marked applications as below:

Karan: 2,85,000 shares

Kiran: 3,00,000 shares

Taran: 1,10,000 shares

Gagan: 1,05,000 shares

Underwriters are entitled to get 5% commission on face value.

From the above information find out the liability of underwriters and give journal entries in the books of Jairam Ltd.

Illustration 4:

Naman Ltd. issued 80,000 Equity Shares which were underwritten as follows:

Mr. A: 48,000 Equity Shares

Mr. B: 20,000 Equity Shares

Mr. C: 12,000 Equity Shares

The above mentioned underwriters made applications for 'firm' underwritings as follows:

Mr. A: 6,400 Equity Shares

Mr. B: 8,000 Equity Shares

Mr. C: 2,400 Equity Shares

The total applications excluding 'firm' underwriting, but including marked applications were for 40,000 Equity Shares.

The marked applications were as under:

Mr. A 8,000 Equity Shares

Mr. B. 10,000 Equity Shares

Mr. C. 4,000 Equity Shares

(The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten). You are required to show the allocation of liability. Workings will be considered as a part of your answer.

Illustration 5:

Delta Ltd. issued 25,00,000 equity shares of 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 and R in the ratio of 2 : 3 : 4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting. Marked applications were as follows:

P - 3,00,000; Q - 3,50,000; and R - 4,50,000.

Unmarked and surplus applications to be distributed in gross liability ratio, Ascertain the liability of each underwriter.

Illustration 6:

Kumar Ltd. has Authorized capital of 25,00,000 divided into 1,00,000 Equity shares of 25 each. The company issued for subscription 25,000 shares at a premium of 10 each. The entire issue was underwritten as follows:

A - 15.000 shares (firm underwriting - 2.500 shares)

B - 7.500 shares (firm underwriting - 1.000 shares)

C - 2.500 shares (firm underwriting - 500 shares)

Out of the total issue, 22.500 shares including firm underwriting were subscribed. The following were the marked forms:

A - 8,000 shares

B - 5,000 shares

C - 2,000 shares

Calculate the liability of each underwriter.

Illustration 7:

Manav Ltd. issued 10.000 shares of ₹10 each.

These shares are underwritten as Nitu - 6.000, Mitu - 2,500 and Ritu - 1,500.

In addition to this there was firm underwriting as Nitu - 800. Mitu -300 and Ritu - 1,000 shares. The total subscription received including firm underwriting and marked applications are 7,500 shares. The Marked applications excluding firm underwriting are Nitu - 1,000. Mitu - 2,000 and Ritu - 500 shares. You are required to show statement of liability of underwriters in both cases if credit of firm underwriting is to be given and not to be given.

Illustration 8:

A company issued 1,50,000 shares of Z 10 each at a premium of Z 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.~~

Illustration 9:

Jumper Ltd. issued 10,000 shares of ₹ 10 each. The entire issue was underwritten as follows:

Sun - 5,000 shares (firm underwriting - 1,000 shares)

Moon - 3,000 shares (firm underwriting - 500 shares)

Star - 2,000 shares (firm underwriting - 500 shares)

Shares applied for were 9,000 shares, the following being the marked application forms including firm underwriting:

Sun - 3,500 shares

Moon - 1,400 shares

Star - 1,600 shares. Calculate the liability of each underwriter.

Illustration 10:

Airlinks Ltd. made a public issue of 2,50,000 Equity shares of 10 each, the entire amount payable on application.

The entire issue was underwritten as follows:

Red - 30%, Yellow - 25%, Green - 25% and White - 20% of public issue respectively.

Red, Yellow, Green and White had also agreed on firm underwriting of 8,000; 12,000; nil and 30,000 shares respectively.

The total subscriptions excluding firm underwriting, including marked applications were 1,80,000 shares.

The marked applications received were as under:

Underwriter No. of Shares Red 48,000 Yellow 40,000 Green 24,000 White 48,000

Ascertain the net liability of each underwriter.

Illustration 11:

Rax Ltd. invited applications from public for 1,00,000 Equity shares of 10 each at a premium of 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 from public out of which applications for 19,000; 10,000; 21,000 and 8,000 shares were marked in favors of P, Q, R and S respectively. Calculate the liability of each of the underwriters when firm underwriting shares are treated as (i) marked applications; and (ii) unmarked applications. Also ascertain the underwriting commission payable to the different underwriters.