

Quadrant II – Notes

Paper Code : COC 110

**Module Name : Problem 2- Part 2 Full Underwriting - Statement
showing underwriter's Liability**

Module No : 23

Illustration on full underwriting:

Kotak Ltd. was incorporated on 1st January 2015 issued a prospectus inviting applications for 5,00,000 equity shares of ₹ 10 each at premium of 10%.

The whole issue was fully underwritten by Amit, Binny, Chandan and Deepak as follows:

Amit	: 2,00,000 Shares
Binny	: 1,50,000 Shares
Chandan	: 1,00,000 Shares
Deepak	: 50,000 Shares

Applications were received for 4,50,000 Shares of which marked applications were as follows:

Amit	: 2,20,000 shares
Binny	: 90,000 shares
Chandan	: 1,10,000 shares
Deepak	: 10,000 Shares

It was agreed that underwriters be paid commission at 5% on the issue price

You are required to

- 1) Find out liability of individual underwriter
- 2) Give necessary journal entries in the books of the company

Solution

In the books of kotak Ltd
Statement showing underwriters liability (Number of shares)

Particulars	Amit	Binny	Chandan	Deepak	Total
Gross Liability	2,00,000	1,50,000	1,00,000	50,000	5,00,000
Less: Marked Applications	<u>(2,20,000)</u>	<u>(90,000)</u>	<u>(1,10,000)</u>	<u>(10,000)</u>	<u>(4,30,000)</u>
	(20,000)	60,000	(10,000)	40,000	70,000
Less: Unmarked Applications 20,000 shares in 4:3:2:1	(8,000)	(6,000)	(4,000)	(2,000)	(20,000)
Balance remaining	(28,000)	54,000	(14,000)	38,000	50,000
Credit for Amit and Chandan Surplus to Binny and Deepak in 3:1	28,000	(31,500)	14,000	(10,500)	-----
Net liability	-----	22,500	-----	27,500	50,000

JOURNAL ENTRIES

IN THE BOOKS OF KOTAK LTD

Date	Particulars	L.F.	Debit	Credit
	Bank A/c Dr. To Equity share Application A/c (Being application money received for 4,50,000 shares of ₹ 10 each at 10% premium)		49,50,000	49,50,000
	Equity share Application A/c Dr. To Equity Share Capital A/c To Securities premium A/c (Being application money transferred to share capital and securities premium Account)		49,50,000	45,00,000 4,50,000
	Binny's A/c Dr. To Equity share capital Account To Securities Premium A/c (Being 22,500 shares allotted to Binny of ₹ 10 each at ₹ 1 premium per share against his underwriting liability)		2,47,500	2,25,000 22,500
	Deepak's A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being 27,500 shares allotted to Deepak of ₹ 10 each at ₹ 1 premium per share against his underwriting liability)		3,02,500	2,75,000 27,500
	Underwriting Commission A/c Dr. To Amit's A/c To Binny's A/c To Chandan's A/c To Deeak's A/c (Being Underwriting Commission credited to underwriters in proportion to their liability)		2,75,000	1,10,000 82,500 55,000 27,500

Amit's A/c	Dr.	1,10,000	
Chandan's A/c	Dr.	55,000	
To Bank A/c			1,65,000
(Being commission due to Amit and Chandan paid to them)			
Bank A/c	Dr.	4,40,000	
To Binny's A/c			1.65,000
To Deepak's A/c			2,75,000
(Being amount received from underwriters)			

The above are the journal entries in the books of KOTAK Ltd.

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