

CHAPTER 16

Companies: Formation and operations

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ADDITIONAL PROBLEMS**Problem 16.1** Issue of ordinary shares and preparing shareholders' equity

Italy Ltd was incorporated on 1 July 2003. An issue of 200 000 shares was offered to the public on 1 August on the following terms:

- 25c per share on application
- 50c per share on allotment
- 25c per share on call as and when required.

By 31 August applications were received for 240 000 shares, including 4000 shares for which the applicant had forwarded his cheque for \$4000 in full payment.

On 10 September the directors refunded application money to unsuccessful applicants for 20 000 shares. They allotted 4000 shares to the applicant who had paid in full for 4000 shares. The other successful applicants were allotted the remaining 196 000 shares in proportion to the shares they had applied for, and their excess application money was transferred to allotment.

All money due on allotment was received by 30 September.

A first and final call was made on 31 October, and this was received by 30 November except for the amount due on 3000 shares.

Required:

- A. Record the transactions in general journal form.
- B. Show the shareholders' equity section of the statement of financial position after all the entries have been recorded to 30 November 2003.

Solution

ITALY LTD

A.

2003

Aug.	31	Cash Trust	63 000	
		Application		63 000
		(236 000 × 25c + 4000 × \$1)		
Sept	10	Application (25c)	50 000	
		Allotment (50c)	100 000	
		Share Capital		150 000
		To record allotment of shares.		
	10	Application	13 000	
		Cash Trust (25c × 20 000)		5 000
		Calls in Advance (25c)		1 000
		Allotment		7 000
		To transfer excess application monies.		
	10	Cash at Bank	58 000	
		Cash Trust		58 000
		To transfer money held in trust.		
	30	Cash at Bank	93 000	
		Allotment		93 000
		Money received on allotment.		
Oct.	31	First Call	50 000	
		Share Capital		50 000
		To record first call receivable.		
	31	Calls in Advance	1 000	
		First Call		1 000
		To transfer call in advance.		
Nov.	30	Cash at Bank	48 250	
		First Call		48 250
		(\$50 000 – \$1 000 – [3 000 × 25c])		
		To record cash received on call.		

B.

ITALY LTD

Statement of Shareholders' Equity
as at 30 November 2003Share capital

200 000 shares called to \$1	200 000
Less: Calls in arrears (3 000 shares @ 25c)	<u>750</u>
	<u>\$199 250</u>



Problem 16.2 Issue of ordinary and preference shares, forfeiture and reissue

Greece Ltd was incorporated on 1 February 2002. Shares were offered to the public on 9 February on the following terms:

12% Preference shares

\$1 per share payable on application

50c per share payable on allotment

50c per share payable on 1 September 2002.

Ordinary shares

60c per share payable on application

25c per share payable on allotment

35c to be called at the discretion of the directors.

Applications were received for 50 000 preference shares and for 60 000 ordinary shares. When applications closed on 1 April 2002, the directors allotted 40 000 preference shares and 50 000 ordinary shares to the successful applicants and decided to refund excess application monies to unsuccessful applicants. All cash due on allotment was received by 30 April.

On 1 June the directors resolved to make a first and final call on the ordinary shares due on 1 September. By 30 September call money in respect of 6000 ordinary shares and 2002 preference shares remained unpaid. The directors resolved to forfeit the ordinary shares concerned.

The ordinary shares forfeited were reissued on 15 October as fully paid for \$1 per share. Expenses of reissue amounted to \$150.

Required:

Prepare journal entries in general journal form to record the above transactions.

Solution

GREECE LTD

2002

April	1	Cash Trust	86 000	
		Application - Ordinary		36 000
		Application - Preference		50 000
		(\$86 000 = 50 000 × \$1 + 60 000 × 60c)		
	1	Application - Ordinary (50 000 × 60c)	30 000	
		Application - Preference (40 000 × \$1)	40 000	
		Allotment - Ordinary (50 000 × 25c)	12 500	
		Allotment - Preference (40 000 × 50c)	20 000	
		Share Capital - Ordinary		42 500
		Share Capital - Preference		60 000
		To record allotment of shares.		
April	1	Application - Ordinary	6 000	
		Application - Preference	10 000	
		Cash Trust		16 000
		To refund excess application money.		
	1	Cash at Bank	70 000	
		Cash Trust		70 000
		To transfer cash held in trust.		
	30	Cash at Bank	32 500	
		Allotment - Ordinary		12 500
		Allotment - Preference		20 000
		Money received on allotment.		
June	1	Call - Ordinary	17 500	
		Share Capital - Ordinary		17 500
		(50 000 × 35c) For call receivable.		
Sept.	1	Call - Preference	20 000	
		Share Capital - Preference		20 000
		(40 000 × 50c) For call receivable.		
	30	Cash at Bank	34 400	
		Call - Ordinary		15 400
		Call - Preference		19 000
		For cash received on calls.		
	30	Share Capital - Ordinary	7 200	
		Call - Ordinary		2 100
		Forfeited Shares Account		5 100
		To forfeit 6 000 shares called to \$1.20.		
Oct.	15	Sundry Shareholders	6 000	
		Forfeited Shares Account	1 200	
		Share Capital - Ordinary		7 200
		To reissue forfeited shares.		
	15	Cash at Bank	6 000	
		Sundry Shareholders		6 000
		Cash received on reissue of shares.		
	15	Forfeited Shares Account	150	
		Cash at Bank		150
		Expenses of reissue.		



Problem 16.3**Ledger accounts for issue of shares, forfeiture and reissue, and statement of shareholders' equity**

On 1 July 2002, Spain Ltd was registered as a public company.

On 4 July 2002, a prospectus was issued inviting applications for 20 000 shares payable 45c on application, 25c on allotment and 25c on each of two calls to be made at intervals of 3 months after the date of allotment.

By 31 July, applications were received for 24 000 shares. On 3 August, the directors allotted 20 000 shares to the applicants in proportion to the number of shares for which application had been made. The surplus application monies were offset against the amount payable on allotment. The balance of allotment monies was received by 12 August. Share issue costs of \$350 were paid on 31 August.

The two calls were made on the dates stated in the prospectus, but the holders of 1400 shares did not pay either call. In addition, a holder of another 600 shares did not pay the second call.

On 5 April 2003, the directors forfeited the 2000 shares on which calls were unpaid.

On 21 April 2003, the forfeited shares were reissued as fully paid for a consideration of 90c per share. Costs of forfeiture and reissue amounted to \$100, and previous shareholders were paid any refund to which they were entitled, in accordance with the company's constitution.

Required:

- A. Prepare general ledger accounts to record the above transactions.
- B. Prepare a statement of shareholders' equity of Spain Ltd on completion of the transactions.

Solution

A.

SPAIN LTD

Cash Trust

2002			2002		
31/7	Application	10 800	3/8	Cash at bank	10 800
		<u>10 800</u>			<u>10 800</u>

Cash at Bank

2002			2002		
3/8	Cash Trust	10 800	31/8	Share capital	350
12/8	Allotment	3 200			
3/11	First call	4 650			
2003			2003		
3/2	Second call	4 500	21/4	Forf shares	100
21/4	Sundry S/Hs	1 800		Forf shares	850
		<u>24 950</u>	21/4	Balance c/d	23 650
					<u>24 950</u>
21/4	Balance b/d	23 650			

Share capital

2002			2002		
31/8	Cash (Share issue costs)	350	3/8	Applic & Allot	14 000
			3/11	First call	5 000
2003			2003		
5/4	Forf. shares	2 400	3/2	Sec. call	5 000
21/4	Balance c/d	23 650	21/4	Sundry S/Hs	2 400
		<u>26 400</u>			<u>26 400</u>
			21/4	Balance b/d	23 650

Application

2002			2002		
3/8	Share Capital	9 000	31/7	Cash Trust	10 800
3/8	Allotment	1 800			
		<u>10 800</u>			<u>10 800</u>

Allotment

2002			2002		
3/8	Share capital	5 000	3/8	Application	1 800
		<u>5 000</u>	12/8	Cash at bank	3 200
					<u>5 000</u>

(continued)

First Call

2002			2002		
3/11	Share capital	5 000	3/11	Cash	4 650
			2001		
			5/4	Share capital	350
		<u>5 000</u>			<u>5 000</u>

Second Call

2003			2003		
3/2	Share capital	5 000	3/2	Cash at bank	4 500
			5/4	Share capital	500
		<u>5 000</u>			<u>5 000</u>

Forfeited Shares Account

2003			2003		
21/4	Share capital	600	5/4	Share capital	1 550
21/4	Cash at bank	100			
	Cash at bank	850			
		<u>1 550</u>			<u>1 550</u>

Sundry Shareholders

2003			2003		
21/4	Share capital	1 800	21/4	Cash at bank	1 800
		<u>1 800</u>			<u>1 800</u>

B.

SPAIN LTD
Statement of Shareholders' Equity
as at 21 April 2003

<u>Share capital</u>	
20 000 shares fully paid at \$1.20	24 000
Less Share issue costs	<u>(350)</u>
	<u>\$23 650</u>



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Problem 16.4 Takeover of existing business, issue of ordinary shares, preparation of statement of financial position

Finland Ltd was formed on 1 March 2002, for the purpose of purchasing the business of Ireland & Co. whose assets and liabilities at that date were as shown below.

Assets	
Freehold land	\$ 30 000
Buildings	180 000
Machinery	70 000
Supplies	45 000
Accounts receivable	120 000
Inventory	190 000
Liabilities	
Mortgage payable	70 000
Bank overdraft	25 000
Accounts payable	85 000

Finland Ltd agreed that the fair values of all assets and liabilities taken over were equal to carrying amounts with the exception of the following:

Freehold land was to be valued at \$50 000, buildings to be valued at \$150 000, accounts receivable to be taken over at \$110 000 and inventory to be valued at \$180 000.

The purchase price was \$450 000 and, in satisfaction thereof, the vendors were to receive \$300 000 in fully paid ordinary shares and the balance in cash. The fair value of each ordinary share is \$2.

The company offered for public subscription 250 000 ordinary shares on the following terms:

- 31 March: 60c per share on application
- 30 April: 60c per share on allotment
- 31 May: 40c per share on first call
- and a final call: 40c per share as and when required.

Applications were received for 260 000 shares. The directors allotted 250 000 shares and any excess application money received was returned to unsuccessful applicants.

All money due was received on allotment, but holders of 2002 shares failed to pay the first call.

The vendors were paid, according to the agreement, on 15 May 2002.

Required:

- A. Record all the above transactions in general journal form in the accounts of Finland Ltd up to 30 June 2002.
- B. Prepare the statement of financial position of Finland Ltd as at 30 June 2002.

(continued)

Solution

A.

FINLAND LTD

2002

Mar	1	Freehold Land	50 000	
		Buildings	150 000	
		Machinery	70 000	
		Supplies	45 000	
		Accounts Receivable	120 000	
		Inventory	180 000	
		Goodwill	25 000	
		Allowance for Doubtful Debts		10 000
		Mortgage Payable		70 000
		Bank Overdraft		25 000
		Accounts Payable		85 000
		Vendor - Ireland & Co.		450 000
		To record acquisition of net assets.		
	31	Cash Trust	156 000	
		Application		156 000
		(260 000 × 60c) Cash received.		
Apr	30	Application (60c)	150 000	
		Allotment (60c)	150 000	
		Share Capital		300 000
		To record allotment of shares.		
	30	Application	6 000	
		Cash Trust		6 000
		For refunds of application money.		
	30	Cash at Bank	150 000	
		Cash Trust		150 000
		For transfer of cash held in trust.		
	30	Cash at Bank	150 000	
		Allotment		150 000
		For cash received on allotment.		
May	15	Vendor - Ireland & Co.	450 000	
		Share Capital		300 000
		Cash at Bank		150 000
		For payment to vendor of 150 000 shares plus cash.		
	31	First Call (40c)	100 000	
		Share Capital		100 000
		For first call receivable.		
	31	Cash at Bank	99 200	
		First Call		99 200
		(248 000 × 40c) Cash received.		

(continued)



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B.

FINLAND LTD
Statement of Financial Position
as at 30 June 2002

<u>Current assets</u>		
Cash at bank		\$249 200
Accounts receivable	\$120 000	
Less: Provision for doubtful debts	<u>10 000</u>	110 000
Inventory		180 000
Supplies		<u>45 000</u>
Total current assets		<u>584 200</u>
<u>Non-current assets</u>		
Freehold land		50 000
Buildings		150 000
Machinery		70 000
Goodwill		<u>25 000</u>
Total non-current assets		<u>295 000</u>
Total assets		<u>879 200</u>
<u>Liabilities</u>		
Mortgage payable		70 000
Bank overdraft		25 000
Accounts payable		<u>85 000</u>
Total liabilities		<u>180 000</u>
Net assets		<u>\$699 200</u>
<u>Shareholders' equity</u>		
Share capital		
150 000 shares fully paid at \$2		\$300 000
250 000 shares called to \$1.60	\$400 000	
Less: Unpaid calls (2 000 shares @ 40c)	<u>800</u>	<u>399 200</u>
Total shareholders' equity		<u>\$699 200</u>

Problem 16.5 Comprehensive problem

On 1 August 2001, Denmark Ltd was registered as a company, in order to take over the assets and certain liabilities of an existing business. The agreed values placed upon the assets taken over were as follows:

Land\$ 60 000
Buildings 240 000
Plant and equipment 90 000
Inventory 210 000
Accounts receivable (net) 75 000
(The gross value of the accounts receivable was \$78 000.)

Liabilities taken over comprised accounts payable totalling \$45 000 and a 10-year mortgage loan of \$120 000 on the land and buildings.

Shares were issued as follows:

To the vendor

300 000 fully paid 12% preference shares at a price of \$1 and 300 000 fully paid ordinary shares at a fair value of \$1, in full settlement of the agreed purchase price. These shares were issued on 15 August 2001.

To the public

A prospectus was issued inviting the public to subscribe for 600 000 ordinary shares to be issued at \$1, payable 25c on application, 25c on allotment and the balance in calls. Subscription lists closed on 30 September 2001, applications having been received for 720 000 ordinary shares but only 600 000 shares were allotted as originally planned. Surplus application money on 120 000 shares was applied in payment of amounts due on allotment and the balance was returned to unsuccessful applicants.

The accounts payable and the mortgage payable on the land and buildings were paid off on 1 October 2001. Formation costs and costs of share issues, amounting to \$2500, were also paid on this date.

All allotment money was received by 31 October 2001.

On 15 December 2001, the directors resolved to make a call of 25c per share on the public issue. The call money was received on all shares by 15 February 2002 with the exception of the amounts due on 20 000 shares. These shares were forfeited on 12 March and were subsequently reissued on 24 April 2002, credited as paid to 75c per share for 60c per share. No refunds were made to the former shareholders.

The company entered into a contract for building additions and \$180 000 was owing on this contract at 30 April 2002.

Required:

- A. Prepare entries in general journal form to record the above transactions.
- B. Prepare the statement of financial position of Denmark Ltd as at 30 April 2002.

(continued)



Solution

A.

DENMARK LTD

2001

Aug.	1	Land	60 000	
		Buildings	240 000	
		Plant and Equipment	90 000	
		Inventory	210 000	
		Accounts Receivable	78 000	
		Goodwill	90 000	
		Allowance for Doubtful Debts		3 000
		Accounts Payable		45 000
		Mortgage Payable		120 000
		Vendor		600 000
		To record acquisition of net assets.		
	15	Vendor	600 000	
		Share Capital - Preference		300 000
		Share Capital - Ordinary		300 000
		To record issue of shares to vendor.		
Sep.	30	Cash Trust	180 000	
		Application - Ordinary		180 000
		(720 000 × 25c) Cash on application.		
	30	Application - Ordinary	150 000	
		Allotment - Ordinary	150 000	
		Share Capital - Ordinary		300 000
		For allotment of 600 000 shares.		
	30	Application - Ordinary	30 000	
		Allotment - Ordinary		18 000
		Cash Trust		12 000
		Transfer of excess application money.		
	30	Cash at Bank		168 000
		Cash Trust		168 000
		Transfer of cash held in trust.		
Oct.	1	Accounts Payable	45 000	
		Mortgage Payable	120 000	
		Cash at Bank		165 000
		Payment of accounts and mortgage.		
	1	Share Capital	2 500	
		Cash at Bank		2 500
		Payment of formation costs		
	31	Cash at Bank	132 000	
		Allotment - Ordinary		132 000
		Cash received on allotment.		
Dec.	15	First Call - Ordinary	150 000	
		Share Capital - Ordinary		150 000
		To record first call receivable.		

2002

Feb.	15	Cash at Bank	145 000	
		First Call - Ordinary		145 000
		(580 000 × 25c) Cash received on call.		
Mar.	12	Share Capital - Ordinary	15 000	
		First Call - Ordinary		5 000
		Forfeited Shares Reserve		10 000
		For forfeiture of 20 000 shares.		
				(continued)
Apr	24	Sundry Shareholders	12 000	
		Forfeited Shares Reserve	3 000	
		Share Capital - Ordinary		15 000
		To reissue forfeited shares.		
Apr	24	Cash at Bank	2 000	
		Sundry Shareholders		12 000
		For cash received on reissued shares.		
	30	Buildings	180 000	
		Accounts Payable		180 000
		For amount due on building additions.		

B.

DENMARK LTD
Statement of Financial Position
as at 30 April 2002

Current assets

Cash at bank		\$289 500
Accounts receivable	\$78 000	
Less: Allowance for doubtful debts	<u>3 000</u>	75 000
Inventory		<u>210 000</u>
Total current assets		<u>574 500</u>

Non-current assets

Land		60 000
Buildings		420 000
Plant and equipment		90 000
Goodwill		<u>90 000</u>
Total non-current assets		<u>660 000</u>
Total assets		<u>1 234 500</u>

Liabilities

Accounts payable		<u>180 000</u>
Total liabilities		<u>180 000</u>

Net assets		<u>\$1 054 500</u>
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Shareholders' equity

Share capital:		
300 000 preference shares fully paid at \$1		300 000
300 000 ordinary shares fully paid at \$1		300 000
600 000 ordinary shares paid to 75c		<u>450 000</u>
		1 050 000
Less Formation costs		<u>(2 500)</u>
Net shareholders' equity		1 047 500
Reserves: Forfeited shares reserve		<u>7 000</u>
Total shareholders' equity		<u>\$1 054 500</u>

