

Chapter 14 Issue of shares and debentures (發行股份及債券)

14.2 Classification of share capital (股份的分類)

14.2.1 Preference shares vs. ordinary shares (優先股與普通股)

Shares are usually called stock. **Preference shares** (優先股) are known as **preferred stock** while **ordinary shares** (普通股) are known as **common stock**. Preference shares are seldom issued to the **public** (甚少會向公眾發行). They are usually sold **privately** (私人途徑出售) to financial institutions or other companies. Most of the shares **traded on** (買賣) the **Stock Exchange of Hong Kong** (香港交易所) are **ordinary shares** (普通股).

Receipt of dividends (收取股息)

A company may distribute some of the profits earned as **dividends** (股息) to its shareholders. The profits that are not distributed will be held as **reserves** (儲備). **Preference shareholders** (優先股股東) must receive a **certain amount** (一定金額) of dividends **before** (前) **ordinary shareholders** (普通股股東). Moreover, the **dividend amount** (股息金額) that preference shareholders are **entitled to** (收取) is usually **stated as** (按) a **fixed percentage** (固定百分比) of the **nominal value** (票面值) (**par value, face value**) of the **preference shares held** (所持的優先股). However, the rate of dividend payable to ordinary shareholders may be higher or lower, depending on the amount of profit made and distributed as dividend during the year.

Voting rights (投票權)

Ordinary shares **carry voting rights** (附有投票權) at **shareholders' general meetings** (股東大會) while preference shares do not. Only ordinary shareholders can exercise **controlling power** (行使控制權) over the company by voting on **important matters** (重要事項) **tabled** (提交) at shareholders' general meetings.

Claims to the company's net assets in liquidation (公司清盤時的淨資產索償權)

When a limited company goes into **liquidation** (清盤), the preference shareholders have **priority** (優先權) over the ordinary shareholders in **getting back** (取回) the **nominal value** (面值) of their **share capital** (股本) after the company has **paid off** (清還) all its liabilities (所有債務).

14.2.2 Authorised share capital vs. issued share capital (法定股本與已發行股本)

Authorised share capital (法定股本)

Authorised share capital (**registered share capital**) is the **maximum amount** (上限) of **share capital** (股份) that a company is **allowed to issue** (可發行) and is calculated as follows:

Authorised share capital = Maximum number of shares x Nominal value per share (每股面值)

Issued share capital (已發行股本)

Issued share capital is the amount of **share capital** (股本額) that a company **has issued** (已發行). The amount **cannot exceed** (不能超出) the amount of **authorized share capital** (法定股本) and is calculated as follows:

The amount of issued share capital = Number of shares issued x Nominal value per share (每股面值)

The number of shares authorized, **less** (減去) the number issued, is **unissued shares** (未發行股份). When a company plans to **expand** (擴充), it can sell the unissued shares. It **cannot issue more than** (不能發行超出) the **unissued number of shares** (未發行股份) unless it applies for an **increase** (增加) in **authorized share capital** (法定股本).

14.3 Issue of shares (發行股份)

14.3.1 Procedures for issuing shares (發行股份的程序)

- Step 1 The public are invited to **subscribe** for the shares (邀請公眾認購股份).
- Step 2 Applications are received (收集認購申請表格和認購股款).
- Step 3 Shares are **allotted** to applicants (向申請人分配股份).
- Step 4 If shares are **over-subscribed** on application, the **excess application monies** will be **refunded** to **applicants** (如果股份超額認購，超額申請款項將退還申請人。).

14.3.2 Accounting entries for the issue of shares (發行股份的會計分錄)

On 1 December 2010, JJ Ltd announced a public offering of 100,000 ordinary shares of \$4 each at par. On 10 December 2010, applications together with application monies were received for exactly 100,000 shares. The shares were allotted to the applicants two days later.

1 Receipt of application monies: (收取申請認購股款)

Dr Bank account \$400,000 (100,000 x \$4)
Cr Ordinary share applicants account \$400,000

2 Allotment of shares to share applicants: (向申請人分配股份)

Dr Ordinary share applicants account \$400,000
Cr Ordinary share capital account \$400,000 (100,000 x \$4)

Journal		
Details	Dr	Cr
	\$	\$
Bank	400,000	
Ordinary share applicants		400,000
Ordinary share applicants	400,000	
Ordinary share capital		400,000

or

Journal		
Details	Dr	Cr
	\$	\$
Bank	400,000	
Ordinary share capital		400,000

Class work 1

A limited company has an authorized share capital of \$100,000, divided into 100,000 ordinary shares of \$1 each. On 1 January 2010, the company announced that all of its share capital would be issued at par, payable in full on application. Applications were received for exactly 100,000 shares on 15 January 2010. Shares were allotted on 31 January 2010. Prepare journal entries to record the issue of shares.

Journal		
Details	Dr	Cr
	\$	\$
Bank	100,000	
Ordinary share applicants		100,000
Ordinary share applicants	100,000	
Ordinary share capital		100,000

or

Journal		
Details	Dr	Cr
	\$	\$
Bank	100,000	
Ordinary share capital		100,000

2 Over-subscription of shares (股份超額認購)

On 1 December 2010, JJ Ltd announced a public offering of 100,000 ordinary shares of \$4 each at par. On 10 December 2010, applications together with application monies were received for 150,000 shares. The shares were allotted to the applicants two days later and the excess application monies were refunded on the same day.

1 Receipt of application monies: (收取申請認購股款)

Dr Bank account \$600,000 (150,000 x \$4)
Cr Ordinary share applicants account \$600,000

2 Allotment of shares to share applicants: (向申請人分配股份)

Dr Ordinary share applicants account \$400,000
Cr Ordinary share capital account \$400,000 (100,000 x \$4)

3 Refund of excess application monies: (退還超額申請款項)

Dr Ordinary share applicants account \$200,000 (50,000 x \$4)
Cr Bank account \$200,000

Journal		
Details	Dr	Cr
	\$	\$
Bank (150,000 x \$4)	600,000	
Ordinary share applicants		600,000
Ordinary share applicants	400,000	
Ordinary share capital		400,000
Ordinary share applicants	200,000	
Bank – Refund (50,000 x \$4)		200,000

or

Journal		
Details	Dr	Cr
	\$	\$
Bank (150,000 x \$4)	600,000	
Ordinary share capital		400,000
Bank – Refund (50,000 x \$4)		200,000

Class work 2

A limited company had a registered share capital of \$120,000 in ordinary shares of \$1 each. The company announced on 1 April 2010 that a quarter of its share capital would be issued at par, payable in full on application. Applications were received for 40,000 shares on 10 April 2010. The shares were allotted on 30 April 2010, and the excess application monies were refunded on the same day. Show the necessary journal entries to record the issue of shares.

Journal		
Details	Dr	Cr
	\$	\$
Bank (40,000 x \$1)	40,000	
Ordinary share applicants		40,000
Ordinary share applicants	30,000	
Ordinary share capital		30,000
Ordinary share applicants	10,000	
Bank – Refund (10,000 x \$1)		10,000

or

Journal		
Details	Dr	Cr
	\$	\$
Bank (40,000 x \$1)	40,000	
Ordinary share capital		30,000
Bank – Refund (10,000 x \$1)		10,000

Class work 3

Cheung King Ltd has an authorized share capital of 200,000 ordinary shares of \$1 each, of which 150,000 had been issued and fully paid. To finance expansion, Cheung King Ltd decided to issue all the remaining authorized ordinary shares at \$1 each, payable in full on application. On 10 June 2009, applications for 60,000 ordinary shares were received. The shares were allotted on 20 June 2009, and the excess application monies were refunded on the same day. Show the necessary ledger accounts and journal to record the issue of shares.

Bank

2009			\$	2009			\$
Jun	10	Ordinary share applicants (60,000 x \$1)	60,000	Jun	20	Ordinary share applicants – Refund	10,000

Ordinary share Applicants

2009			\$	2009			\$
Jun	20	Ordinary share capital (50,000 x \$1)	50,000	Jun	10	Bank	60,000
"	20	Bank – Refund (10,000 x \$1)	10,000				
			60,000				60,000

Ordinary share Capital

2009			\$	2009			\$
				Jun	20	Ordinary share applicants	50,000

Journal

Details	Dr	Cr
	\$	\$
Bank (60,000 x \$1)	60,000	
Ordinary share capital (250,000 x \$1)		50,000
Bank – Refund (10,000 x \$1)		10,000

HKCEE (2006, 4)

Ball Limited had an issued share capital consisting of 650,000 ordinary shares of \$1 each as at 1 January 2005. On 1 July 2005, the company made an additional issue of 250,000 ordinary shares at \$1 per share, payable in full on application. Applications were received for 260,000 shares on 8 July 2005. The shares were allotted to the successful applicants on 15 July 2005. Cash was returned to the unsuccessful applications on the same day.

You are required to:

Prepare journal entries for Ball Limited to record the share issue in July 2005. (Narrations are not required)

Journal

Details	Dr	Cr
	\$	\$
Bank (260,000 x \$1)	260,000	
Ordinary share capital (250,000 x \$1)		250,000
Bank – Refund (10,000 x \$1)		10,000

14.4 Issue of debentures (發行債券)

14.4.1 Differences between debentures and shares (債券與股份不同之處)

- 1 A debenture represents a **loan (貸款)** made to a company, while a share represents a **part of the ownership (擁有權的一部分)** of a company.
- 2 Debenture holders are entitled to a **fixed rate of return (固定的回報率)** (interest, coupon rate) while ordinary shareholders are **not guaranteed (不一定)** any dividend. Debenture interest is payable whether or not a company makes profits.
- 3 **Debenture interest (債券利息)** must be paid before (先派) **share dividends (股息)**.
- 4 When a company goes into **liquidation (清盤)**, the debenture holders have **priority (優先權)** over the shareholders in their **claim (索償)** on the **company's residual assets (公司餘下的資產)**.
- 5 Debentures are usually **redeemable (可贖回)** but shares are usually **irredeemable (不可贖回)**.
- 6 In the balance sheet, the debentures issued are shown as a **liability (負債)**, while the shares issued are shown as **share capital or owners' equity (股本或股東權益)**.
- 7 Debenture holders do not have any **voting rights (投票權)** but ordinary shareholders have such rights.

14.4.2 Accounting entries for the issue of debentures (發行債券的會計分錄)

Debentures issued at par (債券按面值發行)

BAFS Ltd announced on 1 March 2011 that it would issue \$100,000 5% debentures at par. On 20 March 2011, applications were received for \$150,000 debentures. Allotments were made on 1 Apr 2011, and the excess application monies were refunded on the same day. The interest on debenture was to be paid every 6 months.

1 Receipt of application monies: (收取申請認購股款)

Dr Bank account \$150,000
Cr Debenture applicants account \$150,000

2 Allotment of debentures to debenture applicants: (向申請人分配債券)

Dr Debenture applicants account \$100,000
Cr 5% debentures account \$100,000

3 Refund of excess application monies: (退還超額申請款項)

Dr Debenture applicants account \$50,000
Cr Bank account \$50,000

Journal		
Details	Dr	Cr
	\$	\$
Bank	150,000	
Debenture applicants		150,000
Debenture applicants	100,000	
6% debentures		100,000
Debenture applicants	50,000	
Bank – Refund		50,000
Debenture interest (\$100,000 x 5% x 6/12)	2,500	
Bank		2,500

or

Journal		
Details	Dr	Cr
	\$	\$
Bank	150,000	
6% debentures		100,000
Bank – Refund		50,000

4 Payment of Debenture interest: (支付債券利息)

Dr Debenture interest \$2,500 (\$100,000 x 5% x 6/12)

Cr Bank account \$2,500

Journal		
Details	Dr	Cr
	\$	\$
Debenture interest (\$100,000 x 5% x 6/12)	2,500	
Bank		2,500

Class work 5

1. BAFS Ltd announced on 1 March 2011 that it would issue \$200,000 6% debentures at par. On 20 March 2011, applications were received for \$250,000 debentures. Allotments were made on 1 Apr 2011, and the excess application monies were refunded on the same day.

(a) Show the necessary journal entries to record the issue of debentures.

(b) If the interest on debenture was to be paid every 6 months, show the necessary journal entries to record the interest payment after six months.

Journal		
Details	Dr	Cr
	\$	\$
(a) Bank	250,000	
6% debentures		200,000
Bank – Refund		50,000
(b) Debenture interest (\$200,000 x 6% x 6/12)	6,000	
Bank		6,000

2. Cyber Ltd announced on 1 March 2011 that it would issue \$200,000 5% debentures at par. Applications were received for \$250,000 debentures on 15 March 2011. Allotments were made on 1 April 2011, and the excess application monies were refunded on the same day.

(a) Show the necessary ledger accounts to record the issue of debentures.

(b) Suppose the financial year ends on 31 December. Calculate the debenture interest for the year ended 31 December 2011.

(c) If the interest on debenture was to be paid every 6 months, show the necessary journal entries to record the interest payment after preparing the financial statement. (Accrued expenses = 3 months debenture interest)

(a)

Bank

	\$		\$
Debenture applicants	250,000	Debenture applicants – Refund	50,000

Debenture Applicants

	\$		\$
5% debentures	200,000	Bank	250,000
Bank – Refund	50,000		
	250,000		250,000

5% Debentures

	\$		\$
		Debenture applicants	200,000

(b) Debenture interest = \$200,000 x 5% x 9/12 = \$7,500

(c)

Journal		
Details	Dr	Cr
	\$	\$
Debenture interest (Profit and loss)	2,500	
Accrued debenture interest (\$200,000 x 5% x 3/12)		2,500

HKDSE (2012, 9)**(Limited company and correction of errors)**

After closing all the nominal accounts and preparing the draft income statement, the ledger balances of Dragon Ltd as at 31 December 2011 are as follows:

	Dr \$	Cr \$
\$2 Ordinary shares, fully paid		4,000,000
Retained profit as at 31 December 2011		996,500
Inventory as at 31 December 2011	226,000	
Property, plant and equipment		
– Cost	4,800,000	
– Accumulated depreciation as at 31 December 2011		1,240,000
Trade receivables and trade payables	716,400	691,500
Prepayment [note (vi)]	424,800	
Cash at bank	760,800	
	<u>6,928,000</u>	<u>6,928,000</u>

During the internal audit process, the following items were discovered:

- (ii) To finance the expansion of the business, the authorized share capital of \$5,000,000 was increased to \$15,000,000 on 15 December 2011. On the same date, **600,000 ordinary shares of \$2 each had been issued at \$2 each**. All the monies subscribed had been received and shares had been allotted on 28 December 2011. However, no entries had been made in the books.
- (iii) On 1 December 2011, a five-year **2% debenture of \$900,000** in total had been issued at par. **Debenture interest is payable on 31 March and 30 September each year**. All the monies subscribed were duly collected. In order to obtain the **cash discount of 4% from a supplier**, **one-quarter of the monies** collected was used to **pay the supplier** during the discount period as the full settlement of its account. However, entries regarding all the above transactions were omitted from the books.

REQUIRED:

(a) Prepare for Dragon Ltd

- (1) the journal entries necessary for correcting the errors and the omission in (ii) and (iii) above (narrations are not required)

(a) (1)

Journal

2011	Dr	Cr
December 31	\$	\$
(ii) Cash at bank (600,000 x 2)	1,200,000	
Ordinary share capital (600,000 x 2)		1,200,000
(iii) Cash at bank	900,000	
2% Debentures		900,000
Trade payables (900,000 x 25% / 96%)	234,375	
Retained profit – Discounts received		9,375
Cash at bank (900,000 x 25%)		225,000
Retained profit – Debenture interest (900,000 x 2% x 1/12)	1,500	
Accrued expense		1,500

Debenture interest for a year = \$900,000 x 2% = \$18,000

31 December 2011, 1 month

Debenture interest for a month = \$18,000 x 1/12 = \$1,500

Accrued expenses

Dr. Debenture interest \$1,500