MANAC Assignment #7, Group:30

Question #1A: Jupiter Infomedia Ltd.

The key components of Share Capital for Jupiter Infomedia Pvt. Ltd. are hereunder:

Particulars	As at 31-03-2015 (in ₹)	As at 31-03-2014 (in ₹)
Authorised Capital: 1,10,00,000 (Previous year 35,00,000) equity shares of Rs. 10 each	11,00,00,000	3,50,00,000
Issued, Subscribed and Paid-up: 1,00,20,000 (Previous year 34,90,000) equity shares of Rs. 10 each	10,02,00,000	3,49,00,000

53,70,000 fully paid up shares were issued as bonus shares in last 5 years by **capitalisation of general reserve**. The reason for bonus issue would be either to conserve cash or to increase the liquidity of shares in the market. The latter reason seems to be more appropriate as in last 5 years, the company has diversified (acquisition of Ujjivan Financial Services) and it has also performed well PAT-wise, hence it might be signalling its confidence to service a larger investor base by issuing bonus shares.

Question #1B:

The breakup of share capital issue for Jupiter during FY15 has been as:

Bonus share issue (A)	Preference share issue (B)	Total share issue (A+B)
50,10,000 shares at Rs. 10 for every paid up equity share of Rs. 10 in Oct 2014	15,20,000 shares at Rs. 30 each (Rs. 20 premium) of face value Rs. 10 in May 2014.	65,30,000 shares

The journal entry for transaction A would be as:

Date	Particulars	Dr. (₹)	Cr. (₹)
01-Oct-2014	Securities Premium Reserve a/c To Bonus to Shareholders a/c (Being Bonus to Shareholders for 50,10,000 shares at ₹10)	5,01,00,000	 5,01,00,000
01-Oct-2014	Bonus to Shareholders a/c To Share Capital a/c (Being the amount of shareholder bonus transferred to Share capital)	5,01,00,000	 5,01,00,000

The journal entry for transaction B would be (**assuming all money received with application**):

Date	Particulars	Dr. (₹)	Cr. (₹)
01-May-2014	Bank a/c To Share Application a/c (Being the application money received on 15,20,000 Preference Equity Shares at ₹30 per Equity Share, including ₹20 premium per share)	4,56,00,000	 4,56,00,000
01-May-2014	Share Application a/c To Share Capital a/c To Securities Premium Reserve a/c (Being the amount of application money transferred to Share Capital and Securities Premium Reserve)	4,56,00,000	

Question #2: The largest constituents of 'Reserves and Surplus' are as:

Item	As on 31-03-2015 (in ₹ '000)	As Proportion of Reserves and Surplus (FY 15)	As on 31-03-2014 (in ₹ '000)	As Proportion of Reserves and Surplus (FY 14)
Deduction for bonus shares (from Capital Reserves)	50100	703.5%	-	0
Capital reserves closing balance	6000	84.2%	25700	96%
Final dividend appropriation (from Surplus)	1002	14.1%	349	1.3%
Surplus closing balance	1122	15.8%	1069	4%

Comments:

a) Capital reserves reduced by 76.6% YoY (Page 37, Item 4), due to capitalization of reserves (Bonus shares). Possible reasons:

- Even after investing in capex, company left with a large amount of reserves.

- Signalling confidence to service a larger investor base.
- Issue of bonus shares is a way to utilize capital reserves for rewarding shareholders.

b) Dividend distributed has increased from ₹349000 to ₹1002000 (187% increase YoY) from FY14 to FY15 (Page 38, 'Final Dividend'). Since the company's PAT has increased by 104% YoY (Page 38, item 'Net PAT transferred'), this increase in dividends is expected.

Question #3A:

Section 55 of the Companies Act 2013 mentions that the redemption of the issued preference shares can be done in 3 possible ways

- Issue of new equity shares worth the same amount
- Redeemed preference shares out of the profits of the company
- Partial combination of the two

The fundamental reason of creating a Capital Redemption Reserve is the **Maintenance of Capital.** While redeeming preference shares with the issue of new equity shares, the total capital is maintained. But if the shares are redeemed from the profits of the company, the payments are directly done from the cash/bank balance and there is a reduction in the shared capital.
To balance this, we add an equal amount to the Capital Redemption Reserve under the reserves and surplus which cannot be utilized for any other purposes apart from issuance of more shares (typically bonus shares).

- As we can see in the given case, even though there have been shares issued worth 83,00,000, there is a decrease in the total capital of 87,00,000

	2010	2009	Changes
Authorized			
Preference shares of Rs 10 each	₹ 2,50,00,000.00	₹ 2,50,00,000.00	
Equity Share of Rs 10 each	₹ 17,50,00,000.00	₹ 17,50,00,000.00	
	₹ 20,00,00,000.00	**₹ 20,00,00,000.00**	
Issued and Subscribed			
5% Redeemable Preference Shares of Rs 10 each	₹ 65,00,000.00	₹ 2,35,00,000.00	**₹ 1,70,00,000.00**
Equity Share of Rs 10 each (includes new issue of shares worth 83,00,000)	₹ 12,65,06,000.00	₹ 11,82,06,000.00	**₹ 83,00,000.00**
	₹ 13,30,06,000.00	**₹ 14,17,06,000.00**	
Paid Up			
5% Redeemable Preference Shares of Rs 10 each	₹ 65,00,000.00	₹ 2,35,00,000.00	
Equity Share of Rs 10 each	₹ 12,58,82,000.00	₹ 11,75,82,000.00	
Forfeited Shares	₹ 3,12,000.00	₹ 3,12,000.00	
	₹ 13,26,94,000.00	**₹ 14,13,94,000.00**	**₹ 87,00,000.00**

Another reason to add the amount to Capital Redemption Reserve, would be to avoid **understatement of profits**. In case redemption is done using the profits, the P&L statement would show figures less of theses redemption costs and that will not be an accurate picture of the overall reserves.

In the given example, we see that the company's reserves and surplus would be understated in case the CRR is not considered

	2010	2010 (without CRR)	2009
Share Premium Account	₹ 4,12,46,600.00	₹ 4,12,46,600.00	₹ 1,90,76,600.00
Capital Reserve	₹ 1,87,06,527.00	₹ 1,87,06,527.00	₹ 90,74,000.00
General Reserve	₹ 1,79,05,755.00	₹ 1,79,05,755.00	₹ 1,79,02,755.00
Capital Redemption Reserve	₹ 1,70,00,000.00	**₹ 0.00**	₹ 0.00
Profit and Loss Balance	₹ 15,87,38,945.00	₹ 15,87,38,945.00	₹ 16,07,83,580.00
Reserve and Surplus	**₹ 25,35,97,827.00**	**₹ 23,65,97,827.00**	**₹ 20,68,36,935.00**

Question #3B:

	2010		2009		Percentage Change
Capital Reserve					
Capital Redemption Reserve		150		150	0
Share Premium Account		10799		10799	0
Special Reserve*	64		82		
Less: Transferred to P&L Account	18		18		
		46		64	-28.125
Debenture Redemption Reserve					
Balance as per last Balance Sheet	1290		950		
Less: Transferred to P&L Account	285		285		
Add: Transferred from P&L Account	1542		625		
		2547		1290	97.44186047
General Reserve					
Balance as per last balance sheet	8010		7129		
Less: Forex loss adjustment			619		
Add: Transferred from P&L account	1750		1500		
		9760		8010	21.84769039
Surplus in P&L Account		60918		51178	19.03161515
		84220		**71491**	17.8050384

As we can clearly see from the Schedule II - Reserves and Surplus of DFPCL, all the reserves are either increasing or are steady. The only reserve depleting is the **Special Reserve.** The following are the reasons for the above trend:

Capital Reserve – Capital Redemption Reserve and Share Premium Account both are steady. No shares at premium were issued in this accounting period nor any preference shares were redeemed.

Debenture Redemption Reserve – The company is trying to redeem its debentures; we see a massive jump in transfer of funds (profits) from P&L to this reserve. There has been close to 100% growth in this reserve.

General Reserve – This is increasing at 21% because of 2 reasons,

- the operating profits have increased for this year
- there were losses in previous accounting period due to forex fluctuations which are not found in this period

Special Reserve – This is a special kind of reserve which was accounted for based on the refund obtained in custom duties for a particular machinery. Good accounting principles were followed and instead of showing this as a one-time expense and reducing the cost of machinery or increasing profits in a particular year, the benefits are spread over the complete life of the project. Thus this reserve is depleted each year and would go as long as the life of the project.