

## **UNIT 1: UNDER WRITING OF SHARES**

### **Meaning of Underwriting**

Underwriting is an agreement between the underwriters and the company where the underwriters ensure the company that in case the shares and debentures offered to the public are not subscribed by the public then such shares and debentures will be taken up by the underwriters.

### **Meaning of Underwriters.**

The person or institutions underwriting a public issue of shares and debentures are called underwriters.

The underwriters may be individuals, partnership firms, joint stock companies, banks and financial institutions.

Ex : ICICI, SFC's, LIC etc.,

### **Meaning of underwriting Commission.**

The underwriters are entitled to some consideration for the risk they undertake in underwriting the shares or debentures of a public company.

In the words the consideration payable to the underwriters for underwriting the shares and debentures is called underwriting commission.

### **Maximum Limit for underwriting commission.**

For the services rendered by the underwriters : they are entitled to a maximum commission of 5% of the issue price of the shares and debentures at 2.5% on the issue price according to company's act of 1956.

According to SEBI the maximum commission payable to underwriters for underwriting the shares and debentures is 2.5% of the issued price.

### **Advantages of Underwriting.**

1. As underwriters guarantee the sale of shares and debentures, subscription of capital of the company becomes certain.
2. When there is an underwriting arrangement, a company is relieved from the trouble of raising the required capital.
3. When there is an underwriting arrangement, a company can be sure of getting the required capital within a specified period of time.
4. With an underwriting arrangement, a company need not bother about money market conditions.

### **Types of Underwriting**

1. On the basis of number of shares or debentures underwritten:

According to this basis underwriting contracts are classified in 2 types they are,

- a) **Complete underwriting** : It is one under which the whole of the issue of shares or debentures of a company is underwritten by one or more underwriters.
- b) **Partial Underwriting** : It is one under which a part of the issue of shares or debentures of a company is underwritten by one or more underwriters.

2. On the basis of liability of underwriters:

According to this basis underwriting contracts are classified into 2 types they are,

- a) **Pure / Open Underwriting** : it is an arrangement under which and underwriters or underwriters agree to take up the shares or debentures of a company only when the shares or debentures underwritten by him or them is not fully subscribed by the public.
- b) **Firm Underwriting** : It is an arrangement where underwriters agrees to buy a definite number of shares and debentures irrespective of the number of shares or debentures subscribed by the public.  
In case of firm underwriting, the underwriters gets priority over general public if shares / debentures are over subscribed.

#### Calculation of underwriters liability

Liability of underwriters refer to the number of shares, the underwriters must subscribed on account of underwriting agreement.

#### Statement showing underwriter's liability

Particulars	No.of Shares
Gross liability	XXX
(-) Unmarked application	XXX
	XXX
(-) marked application	XXX
Net liability	XXX
(+) Firm Underwriting	XXX
Total Liability	XXX

#### Marked and unmarked applications.

The applications received by the company bearing the officials stamp of the individual underwriter or the respective underwriters are called Marked application.

Applications received by the company directly from the public which do not bear the official stamp of the underwriter or underwriters are called unmarked applications.

## PROBLEMS :

1. A Ltd issued 100000 equity shares the whole of the issue was underwritten as follows.

X – 40%, Y-30% , Z-30%

Applications for 80,000 shares were received in all out of which application for 20,000 shares had the stamp of X those for 10,000 shares that of Y and 20,000 shares that of Z.

Your required to determine the net liability of each underwriter.

### **i. Calculation of unmarked applications**

Total applications received	80,000
(-)Marked applications	50,000
(X-20,000, Y-10,000, Z-20,000)	
Unmarked application	<u>30,000</u>

### **ii. Statement showing Net Liability of underwriter**

Particulars	X	Y	Z	Total
Gross Liability	40,000	30,000	30,000	1,00,000
(-)unmarked application	12,000	9,000	9,000	30,000
(30,000*4:3:3)	28,000	21,000	21,000	70,000
(-) marked application	20,000	10,000	20,000	50,000
	8,000	11,000	1,000	20,000
Net Liability				

2. Super India Ltd., issued 75,000 equity shares the whole of the issue was underwritten as follows.

A-50%, B-25%, C-25%

Applications for 60,000 shares were received in all out of which applications for 15,000 shares had stamp of A, those for 7500 shares had stamp of B and 15,000 of C

Determine the net liability of the underwriters.

### **i. Calculation of unmarked applications**

Total application received	60,000
(-) marked application	37,500
(A-15,000, B-7,500, C-15,000)	
Unmarked application	<u>22,500</u>

### **ii. Statement showing net liability of underwriters**

Particulars	A	B	C	Total
Gross Liability	37,500	18,750	18,750	75,000
(-)unmarked application	11,250	5,625	5,625	22,500

	26,250	13,125	13,125	52,500
(-) marked application	15,000	7,500	15,000	37,500
Liability	11,250	5,625	1,875	15,000
(-) Excess of 'C' (1875*2:1)	1,250	625	-	--
Net Liability	10,000	5,000		15,000

3. Adithya Co. Ltd was incorporated on 1.01.2014, issued a prospectus inviting applications for 5 lakhs equity shares of Rs.10 each. The whole issue was fully underwritten by A, B, C & D as follows A-2,00,000. B - 1,50,000 C-1,00,000 & D-50,000 shares.

Applications were received for 4,50,000 shares of which marked applications were as follows: A-2,20,000 , B - 1,10,000 , C - 90,000 , D-10,000 you are required to find out the Net liability of each underwriter and also calculate the commission received by each underwriters as per company's Act of 1956.

**i. Calculation of unmarked applications**

Total application received	4,50,000
(-) marked application	4,30,000
(2,20,000+1,10,000+90,000+10,000)	_____
Unmarked application	<u>20,000</u>

**ii. Statement showing net liability of underwriters**

Particulars	A	B	C	D	Total
Gross Liability	2,00,000	1,50,000	1,00,000	50,000	5,00,000
(-) unmarked application	8,000	6,000	4,000	2,000	20,000
(-) marked application	1,92,000	1,44,000	96,000	48,000	4,80,000
Liability	2,20,000	1,10,000	90,000	10,000	4,30,000
(-) Excess of 'A'	-28,000	34,000	6,000	38,000	50,000
(3:2:1*28,000)	--	14,000	9,333	4,667	--
(-) Excess of 'C' shared among 'B' & 'D'	--	20,000	-3,333	33,333	--
(3,333*3:1)	--	2,500	--	833	--
Net Liability	-	17,500	-	32,500	50,000

**iii. Calculation of underwriters Commission**

- A-  $2,00,000 * 10 * 5\% = \text{Rs.}1,00,000$   
 B-  $1,50,000 * 10 * 5\% = \text{Rs.}75,000$   
 C-  $1,00,000 * 10 * 5\% = \text{Rs.}50,000$   
 D-  $50,000 * 10 * 5\% = \text{Rs.}25,000$

4. A Company issued 1,00,000 shares of Rs.10 each. The whole issue was fully underwritten by A, B, C & D as follows: A-40,000, B-30,000 C - 10,000 & D - 20,000 the company received applications for 90,000 shares of which marked applications were as follows. A-44,000, B-22,000, C-2,000 and D-18,000 shares. Determine the liability of each underwriter.

**i. Calculation of unmarked applications**

Total application received	90,000
(-) marked application	86,000
(44,000+22,000+2,000+18,000)	<hr/>
Unmarked application	4,000

**ii. Statement showing net liability of underwriters**

Particulars	A	B	C	D	Total
Gross Liability	40,000	30,000	10,000	20,000	1,00,000
(-)unmarked application	1,600	1,200	400	800	4,000
(4,000*4:3:1:2)	38,400	28,800	9,600	19,200	96,000
(-) marked application	44,000	22,000	2,000	18,000	86,000
Liability	-5,600	6,800	7,600	1,200	
(-) Excess of 'A'		2,800	933	1,867	
(5,600*3:1:2)		4,000	6,667	-667	
(-) Excess of 'C'	-	500	167		
(667*3:1)					
Net Liability	-	3,500	6,500	-	10,000

5. A company issued prospectus inviting applications for 3,50,000 equity shares of Rs.10 each the whole issue was fully underwritten by A, B, C & D as follows A-1,40,000 , B-1,05,000, C-70,000 & D-35,000 applications were received for 3,15,000 shares of which marked applications were as follows: A-1,54,000 B – 77,000 C – 63,000 & D-7,000 Determine the Net liability of each underwriter.

**i. Calculation of unmarked applications**

Total application received	3,15,000
(-) marked application	3,01,000
(1,54,000+77)	<hr/>
Unmarked application	14,000

**ii. Statement showing net liability of underwriters**

Particulars	A	B	C	D	Total
Gross Liability	1,14,000	1,05,000	70,000	35,000	3,50,000
(-)unmarked application	5,600	4,200	2,800	1,400	14,000
(14,000*4:3:2:1)	1,34,400	1,00,800	67,200	33,600	3,36,000
(-) marked application	1,54,000	77,000	63,000	7,000	3,01,000
	-19,600	23,800	4,200	26,600	
(-) Excess of 'A'		9,800	6,533	3,267	
(19,600*3:2:1)		14,000	-2333	23,333	
(-) Excess of 'C' (2333*3:1)		1,750		583	
Net Liability		12,250		22,750	35,000

6. ABC company issued 1,00,000 equity shares of Rs.10 each. The whole issue was fully underwritten by the following underwriters. A -35,000 B-30,000 C-20,000 D-10,000 E-3,000 F-2,000. The application forms marked by the underwriters were A-10,000 B-22,500 C-20,000 D-7,500 E-5,000 F-Nil.

Application for 20,000 shares were received as unmarked. You are required to find out Net liability of underwriters.

→ **Statement showing net liability of underwriters**

Particular	A	B	C	D	E	F	Total
Gross Liability	35,000	30,000	20,000	10,000	3,000	2,000	1,00,000
(-) unmarked application (20,000*35:30:20:10:3:2)	7,000	6,000	4,000	2,000	600	400	20,000
(-) marked application	28,000	24,000	16,000	8,000	2,400	1,600	80,000
(-) Excess of (C+E) (6,600*35:30:10:2)	10,000	22,500	20,000	7,500	5,000		65,000
(-) Excess of (B+D) (1428-35:2)	18,000	1,500	-4,000	500	-2,600	1,600	15,000
(-) Excess of (C+E) (6,600*35:30:10:2)	3,000	2,571	-	857	-	172	-
(-) Excess of (B+D) (1428-35:2)	15,000	-1,071	-	-357	-	1,428	
(-) Excess of (B+D) (1428-35:2)	1,351	-	-	-	-	77	
Net Liability	13,649	-	-	-	-	1,351	15,000

7. A Public limited company with a capital of Rs.10,00,000 divided into equity share of Rs.10 each, places its entire issue in the market. The whole issue has been underwritten as follows: A-30,000 B-35,000 C-10,000, D-15,000 E-2,000 F-8,000. The application received on the forms marked by the underwriters are: A-25,000 B-23,500 C-6,500, D-1,000 E-2,000 F-7,000.

20,000 equity shares were received as unmarked applications calculate the liability of each underwriters.

→ **Statement showing net liability of underwriters**

Particular	A	B	C	D	E	F	Total
Gross Liability	30,000	35,000	10,000	15,000	2,000	8,000	1,00,000
(-) unmarked application (20,000*30:35:10:15:2:8)	6,000	7,000	2,000	3,000	400	1,600	20,000
(-) marked application	24,000	28,000	8,000	12,000	1,600	6,400	80,000
(-) Excess of (A+E+F) (2000*35:10:15)	25,000	23,500	6,500	1,000	2,000	7,000	65,000
(-) Excess of (A+E+F) (2000*35:10:15)	-1,000	4,500	1,500	11,000	-400	-600	15,000
(-) Excess of (A+E+F) (2000*35:10:15)	-	1,167	333	500	-	-	
Net Liability	-	3,333	1,167	10,500	-	-	15,000

8. A public issue of 10,000 shares of Rs.10 each were offered by a company. These shares were underwritten as follows: A-7,000 B-3,000 the public applied for 8,000 Shares which include marked applications of A-5,000 B-2,000 determine the liability of A & B if unmarked shares were apportioned to underwriters on the basis of (a) Gross Liability (b) Remaining Liability.

**i. Calculation of unmarked applications**

Total applications received	8,000
(-)Marked applications (5,000+2,000)	7,000
Unmarked application	<u>1,000</u>

**a. Statement showing Net Liability of underwriter**

Particulars	A	B	Total
Gross Liability	7,000	3,000	10,000
(-)unmarked application (1,000*7:3)	700	300	1,000
(-) marked application	6,300	2,700	9,000
	5,000	2,000	7,000
Net Liability	1,300	700	2,000

**b. Statement showing Net Liability of underwriter (remaining liability)**

Particulars	A	B	Total
Gross Liability	7,000	3,000	10,000
(-)marked application	5,000	2,000	7,000
(-) unmarked application (1,000*2:1)	2,000	1,000	3,000
	667	333	1,000
Net Liability	1,333	667	2,000

9. X company Ltd. Was incorporate with a capital of Rs.10,00,000 divided into shares of Rs.10 each. The whole issue was underwritten by the underwriters as follows : M-35,000 N-30,000 O-20,000 P-10,000 Q-3,000 R-2000.

All the marked application forms were to go in relief of the underwriters whose names choose. The following application forms were marked by the underwriters : M-10,000 N-22,500 O-20,000 P-7,500 Q-5,000 R-Nil.

Application for 20,000 shares were received as unmarked applications. prepare a statement showing the number of shares each underwriter had to take up.

→ **Statement showing underwriters liability**

Particular	M	N	O	P	Q	R	Total
Gross Liability	35,000	30,000	20,000	10,000	3,000	2,000	1,00,000
(-)marked application	10,000	22,500	20,000	7,500	5,000	-	65,000
	25,000	7,500	-	2,500	-2000	2,000	35,000
Excess of Q is diotr. Among (M,N,P,R) (2,000*35:30:10:2)	909	779	-	260	-	52	
	24,091	6,721	-	2,240	-	1,948	35,000
(-) unmarked application (20,000*35:30:10:2)	9,091	7,792	-	2,597	-	520	25,000
	15,000	-1,071	-	-357	-	1,428	15,000
(-)Excess of (N+P) (1,428*35:2)	1,351	-	-	-	-	77	
Net Liability	13,649					1,351	15,000

10. A company issued 80,000 shares of Rs.10each at a premium of 20% 'A' underwriter underwriters 80% of the issue. The company receives applications for 75% of the issue of which 40,000 application had the rubber stamp of Mr.A Underwriters commission in 4% of the issue price. Determine the liability of Mr.A and calculate the Underwriting commission.

i. Calculation of Co's share

$$\begin{aligned}
 \text{Co's share} &= \text{Total issue} - \text{underwriters share} \\
 &= 80,000 - (80,000 * 80\%) \\
 &= 80,000 - 64,000 \\
 &= 16,000
 \end{aligned}$$

ii. **Calculation of unmarked applications**

Total applications received (75% of 80,000)	60,000
(-)Marked applications of 'A'	40,000
Unmarked application	<u>20,000</u>

iii. **Statement showing Net Liability of underwriter**

Particulars	A	Company	Total
Gross Liability	64,000	16,000	80,000
(-)unmarked application	-	20,000	20,000
	64,000	-4,000	60,000
(-) surplus of company distributed to underwriter 'A'	4,000	-	-
	60,000	-	60,000
(-) marked application	40,000	-	60,000
		-	40,000
Net Liability	20,000		20,000



**iv. Calculation of underwriters commission.**

Gross liability of 'A' \* issue price \* Roc issue price = Rs.10 + 20% of premium  
= 10 + 2 = 12

$$64,000 * 12 - 4\% = 30,720$$

11. 'H' Ltd issued 20,000 equity shares of Rs.100 each 80% of the issue was underwritten star brother's. Applications for 15,000 shares were received in all out of which 10,000 shares were marked. Determine the liability of Tsar Brother's and also the commission as per law (Act of 1956)

→ **i. Calculation of Co's share**

Co's share = Total issue - underwriters share  
= 20,000 - (20,000 \* 80%)  
= 20,000 - 16,000  
= 4,000

**ii. Calculation of unmarked application**

Total application received 15,000  
(-) Marked application      10,000  
Unmarked shares              5,000

**iii. Calculation of star brothers commission**

Issue price = 100 share  
Gross liability \* issue price \* Roc (as per Co's act 1950)  
= 16,000 \* 100 \* 5%  
= Rs. 80,000

**iv. Statement showing Net liability**

Particulars	Star brother	Company	Total
Gross Liability	16,000	4,000	20,000
(-) unmarked application	-	5,000	5,000
	16,000	-1,000	15,000
(-) surplus of company distributed to star brothers	1,000	-	-
	15,000	-	15,000
(-) marked application	10,000	-	10,000
Net Liability	5,000		5,000

12. X company Ltd. Issued 1,00,000 shares of Rs.10 each. 60% of the issue was underwritten by A & B in the ration of 3:2 application for 80,000 shares were received in all out of which marked applications were A-25,000 B-12,000 determine the liability of underwriters and also commission payable as per SEBI (25%)

→ **i. Calculation of Co's share**

Co's share = Total - underwriters share  
= 1,00,000 - (60% \* 1,00,000)  
= 1,00,000 - 60,000  
= 40,000/-

**ii. Calculation of unmarked application**

Total application received	80,000
(-) Marked application (25,000+12,000)	<u>37,000</u>
Unmarked shares	<u>43,000</u>

**iii. Statement showing Net liability**

Particulars	A	B	Company	Total
Gross Liability	36,000	24,000	40,000	1,00,000
(-) unmarked application	-	-	43,000	43,000
(-) surplus of company distributed to underwriters (3,000*3:2)	36,000 1,800	24,000 1,200	-3,000 -	57,000
(-) marked application	34,200 25,000	22,800 12,000	- -	57,000 37,000
Net Liability	9,200	10,800		20,000

**iv. Calculation of underwriters commission as per SEBI**

A-  $36,000 \times 10 \times 2.5\% = 9,000$

B-  $24,000 \times 10 \times 2.5\% = 6,000$

13. A company issued 40,000 shares of Rs.10 each for public subscription.

Underwriters	% of Shares underwritten	Marked application
P	25% of issue	5,000
Q	30% of issue	6,000
R	40% of Issue	4,000

The company received application for 30,000 shares ascertain the net liability of each underwriters.

→ P-  $40,000 \times 25\% = 10,000$

Q-  $40,000 \times 30\% = 12,000$

R-  $40,000 \times 40\% = 16,000$

38,000

**i. Calculation of Co's share**

Co's share = Total share - underwriters share  
 $= 40,000 - 38,000$   
 $= 2,000$

**ii. Calculation of unmarked applications:**

Total application received	30,000
(-) Marked application (5,000+6,000+4,000)	<u>15,000</u>
Unmarked shares	<u>15,000</u>

**iii. Statement showing Net liability**

Particulars	P	Q	R	Company	Total
Gross Liability	10,000	12,000	16,000	2,000	40,000
(-) unmarked application	-	-	-	15,000	15,000
(-) surplus is distributed among P,Q & R (13,000*5:6:8)	10,000	12,000	16,000	-13,000	25,000
	3,421	4,105	5,474	-	
(-) marked application	6,579	7,895	10,526	-	25,000
	5,000	6,000	4,000		15,000
Net Liability	1,579	1,895	6,526		10,000

14. A company issued 1,00,000 shares of Rs.10 each. These shares were underwriters as follows X-30,000 Y-50,00 the public applied for 70,000 shares Determine the liability of X & Y .

→ **i. Calculation of Co's share**

$$\begin{aligned}
 \text{Co's share} &= \text{Total issue} - \text{underwriters share} \\
 &= 1,00,000 - (30,000 + 50,000) \\
 &= 1,00,000 - 80,000 \\
 &= 20,000
 \end{aligned}$$

**ii. Calculation of marked & unmarked applications.**

$$\begin{aligned}
 \text{Marked application of X} &= 70,000 * 3/10 \\
 &= 21,000
 \end{aligned}$$

$$\begin{aligned}
 \text{Marked application of Y} &= 70,000 * 5/10 \\
 &= 35,000
 \end{aligned}$$

$$\begin{aligned}
 \text{(-) unmarked application Co} &= 70,000 * 2/10 \\
 &= 14,000
 \end{aligned}$$

Note: in the absence of marked application the total subscription is divided among the underwriters & the Co's in their gross liability ration. The co's share is treated as unmarked applications.

**iii. Statement showing underwriters liability**

Particulars	X	Y	Company	Total
Gross Liability	30,000	50,000	20,000	1,00,000
(-) unmarked application	-	-	14,000	14,000
(-) marked application	30,000	50,000	6,000	86,000
	21,000	35,000	-	56,000
Net Liability	7,000	15,000	6,000	30,000

15. Popular Ltd issued 40,000 shares of Rs.10 each for Public Subscription. The issue was underwritten as follows: Sriram – 25%, Raghu-30%, Tilak-25% the company received a total of 28,000 application of which marked application are follows : Sriram -8,000, Raghu-6,000 and Tilak-8,000. Determine the net liability of each underwriter.

### i. Calculation of Co's share

$$\begin{aligned}\text{Co's share} &= \text{Total issue} - \text{underwriters share} \\ &= 40,000 - (10,000 + 12,000 + 10,000) \\ &= 40,000 - 32,000 \\ &= 8,000\end{aligned}$$

### ii. Calculation of unmarked application

Total application received	28,000
(-) marked application (8,000+6,000+8,000)	<u>22,000</u>
	<u>6,000</u>

### iii. Statement showing Net liability

Particulars	S	R	T	Company	Total
Gross Liability	10,000	12,000	10,000	8,000	40,000
(-) unmarked application	-	-	-	6,000	6,000
(-) marked application	10,000	12,000	10,000	2,000	34,000
Net Liability	8,000	6,000	8,000	-	22,000
	2,000	6,000	2,000	2,000	12,000

16. Neeraj Ltd issued 10,000 shares of rs.10 each at a premium of 10% these shares were underwritten by the underwriters as follows: J-5000 K-3000. The applications received by the company were 8000 shares of which the marked applications were J-3600 K-900 shares calculate underwriters commission as per law and also prepare statement of underwriters Net liability.

### → i. Calculation of Co's share

$$\begin{aligned}\text{Co's share} &= \text{Total issue} - \text{underwriters share} \\ &= 10,000 - (5,000 + 3,000) \\ &= 10,000 - 8,000 \\ &= 2,000\end{aligned}$$

### ii. Calculation of unmarked applications:

Total application received	8,000
(-) marked application (3,600+900)	<u>4,500</u>
	<u>3,500</u>

### iii. Statement showing Net liability

Particulars	J	K	Company	Total
Gross Liability	5,000	3,000	2,000	10,000
(-) unmarked application	-	-	3,500	3,500
(-) surplus is distributed to J&K (1,500*5:3)	5,000	3,000	-1,500	6,500
	937	563	-	
(-) marked application	4,063	2,437	-	6,500
Net Liability	3,600	900	-	4,500
	463	1,537		2,000

**iv. Calculation of commission of underwriters as per law:-**

$$J=5,000*5\%*11$$
$$= 2,750$$

$$K=3,000*5\%*11$$
$$= 1,650$$

**FIRM UNDERWRITING.**

- a) When a firm underwriting (included in total subscription) is treated on part with unmarked applications. The format for calculating total liability for each underwriter will be as follows.

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>Total</b>
Gross Liability	XXX	XXX	XXX
(-) unmarked applications (Total application received –marked application)	XXX	XXX	XXX
Balance	XXX	XXX	XXX
(-) Marked applications	XXX	XXX	XXX
Net Liability	XXX	XXX	XXX
(+) Firm Underwriting	XXX	XXX	XXX
<b>Total Liability</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

- b) When Firm underwriting (included in total subscription) is treated on part with marked application the format for calculating total liability will be as follows.

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>Total</b>
Gross Liability	XXX	XXX	XXX
(-) unmarked applications (Total application received –marked application + Firm Underwriting)	XXX	XXX	XXX
Balance	XXX	XXX	XXX
(-) Marked applications (Marked application + Firm Underwriting)	XXX	XXX	XXX
Net Liability	XXX	XXX	XXX
(+) Firm Underwriting	XXX	XXX	XXX
<b>Total Liability</b>	<b>XXX</b>	<b>XXX</b>	<b>XXX</b>

17. A company issued 1,00,000 shares these shares were underwritten as follows: X-60,000 , Y-25,000 , Z-15,000. In addition their is firm underwriting X-8,000, Y-3,000, Z-10,000 shares. The total subscription including the firm underwriting was 71,000 shares and the firms included the following marked application: X-10,000 , Y-20,000 , Z-5,000. Determine the liability of underwriters.

→ **i. Calculation of unmarked application:**

Total application received	71,000
(-) marked application (10,000+20,000+5,000)	<u>35,000</u>
	<u>36,000</u>

**ii. Calculation showing underwriters liability**

Particulars	X	Y	Z	Total
Gross Liability	60,000	25,000	15,000	1,00,000
(-) unmarked application	21,600	9,000	5,400	36,000
(-) marked application	38,400	16,000	9,600	64,000
(-) surplus of Y's distributer to X & Z (4,000*12:3)	10,000	20,000	5,000	35,000
Net Liability	28,400	-4,000	4,600	29,000
(+) Firm underwriting	3,200	-	800	-
Total liability	25,200	-	3,800	29,000
	8,000	3,000	10,000	21,000
	33,200	3,000	13,800	50,000

18. Meena Ltd has authorised company of Rs.50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The Company issued for subscription 50,000 shares at a premium of Rs.10 each. The entire issue was underwritten as follows : A-30,000 (firm underwriting 5,000), B-15,000 (firm Underwriting 2,000), C-5,000(Firm Underwriting 500).

Out of the total issue 45,000 shares including firm underwriting were subscribed. The following were the marked applications: A-16,000 , B-10,000 , C-4,000. Calculate the liability of each underwriters.

→ **i. Calculation of unmarked application:**

Total subscription received	45,000
(-) marked application (16,000+10,000+4,000)	<u>30,000</u>
	<u>15,000</u>

**ii. Calculation showing underwriters liability**

Particulars	A	B	C	Total
Gross Liability	30,000	15,000	5,000	50,000
(-) unmarked application (15,000*6:3:1)	9,000	4,500	1,500	15,000
(-) marked application	21,000	10,500	3,500	35,000
(-) surplus of 'C' distributer to A & B (500*6:3)	16,000	10,000	4,000	30,000
Net Liability	5,000	500	-500	5,000
(+) Firm underwriting	333	167	-	-
Total liability	4,667	333	-	5,000
	5,000	2,000	500	7,500
	9,667	2,333	500	12,500

19. ABC company issued 20,000 shares which were underwritten by X,Y & Z as follows : X-10,000 , Y-6,000 , Z-4,000. In addition there was firm underwriting by X-1,000 , Y-500 , Z-1,500. A company received applications for 15,200 shares including firm underwriting and the Number of marked applications were as follows: X-3,000 , Y-4,500 , Z-1,700. Calculate the liability of each underwriters.

→ **i. Calculation of unmarked application:**

Total share received	15,200
(-) marked application (3,000+4,500+1,700)	<u>9,200</u>
	<u>6,000</u>

**ii. Calculation showing underwriters liability**

Particulars	X	Y	Z	Total
Gross Liability	10,000	6,000	4,000	20,000
(-) unmarked application	3,000	1,800	1,200	6,000
(6,000*5:3:2)	7,000	4,200	2,800	14,000
(-) marked application	3,000	4,500	1,700	9,200
	4,000	-300	1,100	4,800
(-) surplus of Y's distributer to X & Z (300*5:2)	214	-	86	-
Net Liability	3,786	-	1,014	4,800
(+) Firm underwriting	1,000	500	1,500	3,000
Total liability	4,786	500	2,514	7,800

20. X Ltd issued 4,00,000 shares of Rs.10 each the entire issue was underwritten as follows. A-2,00,000(firm underwriting 40,000), B - 1,20,000 (Firm Underwriting 20,000), C-80,000 (firm underwriting 20,000). Shares applied for were 3,60,000. The following being the marked forms including Firm underwriting A-1,40,000 , B-56,000 , C-64,000. Calculate the liability of each Underwriter.

**i. Calculation of unmarked application:**

Total share received	3,60,000
(-) marked application (1, 40,000+56,000+64,000)	<u>2,60,000</u>
	<u>1,00,000</u>

**ii. Calculation showing underwriters liability**

Particulars	A	B	C	Total
Gross Liability	2,00,000	1,20,000	80,000	4,00,000
(-) unmarked application	50,000	30,000	20,000	1,00,000
(1,00,000*5:3:2)	1,50,000	90,000	60,000	3,00,000
(-) marked application	1,40,000	56,000	69,000	2,60,000
	10,000	34,000	-4,000	40,000
(-) surplus of 'C' distributer to A&B (4,000*5:3)	2,500	1,500	-	
Net Liability	7,500	32,500	-	40,000
(+) Firm underwriting	40,000	20,000	20,000	80,000
Total liability	47,500	52,500	20,000	1,20,000

21. Embassy Ltd issued 10,000 Shares of Rs.100 each a premium of Rs.20 per share. The entire issue was underwritten by A, B & C as follows. A-5,000 (firm Underwriting-1000),B-3,000(firmUnderwriting-500),C-2,000(firmUnderwriting-500). Public have applied for 9,000 shares. The following are the marked forms including Firm Underwriting A-3,500, B-1,400 , C-1,600.

**i. Calculation of unmarked application:**

Total subscription received	9,000
(-) marked application including u/w (3,500+1,400+1,600)	<u>6,500</u> <u>2,500</u>

**ii. Calculation showing underwriters liability**

Particulars	X	Y	Z	Total
Gross Liability	5,000	3,000	2,000	10,000
(-)unmarked application (2,500*5:3:2)	1,250	750	500	2,500
(-) marked application	3,750	2,250	1,500	1,500
(-) surplus of 'C' distributer to A & B (100*5:3)	3,500	1,400	1,600	6,500
	250	850	-100	1,000
Net Liability	63	37	-	-
(+) Firm underwriting	187	813	-	1,000
Total liability	1,000	500	500	21,000
	1,187	1,313	500	3,000

22. Bangalore House building Association Ltd. Issued 1,00,000 equity shares of Rs.100 each. P, Q, R & S underwriters the entire issue in the proportion of 40% , 30%, 20% & 10% respectively . In consideration of commission in cash at 4% they also applied for Firm Underwriting : P-3,000 , Q-2,000 , R-2,000 , S-3,000 exclusive of Firm Underwriting Besides the firm applications from the underwrite the public apply for 60,000 shares of which marked applications were as follows: P-10,000 , Q-6,000 , R-8,000 & S-16,000 show the number of shares to be taken up by each of the underwriting and also the commission receivable in cash.

→ **i. Calculation of Total Subscription**

$$\begin{aligned}
 \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} \\
 &= 60,000 + (3,000 + 2,000 + 2,000 + 3,000) \\
 &= 60,000 + 10,000 \\
 &= 70,000
 \end{aligned}$$

**ii. Calculation of unmarked application:**

Total subscription received	70,000
(-) marked application Ex (10,000+6,000+8,000+16,000)	<u>40,000</u> <u>30,000</u>

Note: Firm underwriting treated as unmarked applications



### **iii. Calculation showing underwriters total liability**

Particulars	P	Q	R	S	Total
Gross Liability	40,000	30,000	20,000	10,000	1,00,000
(-) unmarked application (30,000*4:3:2:1)	12,000	9,000	6,000	3,000	30,000
(-) marked application	28,000	21,000	14,000	7,000	70,000
(-) surplus of 'S' distributer to P,Q & R (9,000*4:3:2)	10,000	6,000	8,000	16,000	30,000
Net Liability	18,000	15,000	6,000	-9,000	40,000
(+) Firm underwriting	4,000	3,000	2,000	-	9,000
Total liability	14,000	12,000	4,000	-	30,000
	3,000	2,000	2,000	3,000	10,000
	17,000	14,000	6,000	3,000	40,000

#### iv. Calculation of underwriters commission

$$P = 40,000 \times 100 \times 4\% = \text{Rs. } 1,60,000$$

$$Q = 30,000 \times 100 \times 4\% = \text{Rs. } 1,20,000$$

$$R = 20,000 \times 100 \times 4\% = \text{Rs. } 80,000$$

$$S = 10,000 \times 100 \times 4\% = \text{Rs. } 40,000$$

23. A company issued 30,000 shares of Rs.10 each. These shares were underwritten as follows. X-18,000 , Y-7,500 , Z-4,500 I addition there was Firm Underwriting: X-2,400 , Y- 900 , Z-3,000 . Total applications received by the company (excluding firm underwriting & marked applications) were 4,500 shares.

Marked applications were X-3,000 Y-6,000 , Z-1,500. Determine the liability of the underwriter.

#### → **i. Calculation of Total Subscription**

$$\begin{aligned} \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} + \text{marked application} \\ &= 4,500 + 6,300 + 10,500 \\ &= 21,300 \end{aligned}$$

#### **ii. Calculation of unmarked application:**

Total subscription received	21,300
(-) marked application Ex (3,000+6,000+1,500)	10,500
	<u>10,800</u>

$$\begin{aligned} \text{Firm underwriting} &= 2,400 + 900 + 3,000 \\ &= 6,300 \end{aligned}$$

### **iii. Statement showing total liability**

Particulars	X	Y	Z	Total
Gross Liability	18,000	7,500	4,500	30,000
(-) unmarked application (10,800*12:5:3)	6,480	2,700	1,620	10,800
(-) marked application	11,520	4,800	2,880	19,200
(-) surplus of 'Y' distributer to X & Z (1,200*12:3)	3,000	6,000	1,500	10,500
Net Liability	8,520	-1,200	1,380	8,700
(+) Firm underwriting	900	-	240	
Total liability	7,560	-	1,140	8,700
	2,400	900	3,000	6,300
	9,960	-900	4,140	15,000

24. A company a public issue of 1,25,000 equity shares of Rs.100 each the entire issue was underwritten by A, B, C & D in a proportion of 30% , 25% , 25% & 20% respectively. Under the terms agreed upon a commission of 2% was payable to the underwriters.

A, B, C & D also agreed upon firm Underwriting of 4,000 ; 6,000; Nil ; 15,000 shares respectively. The total subscription excluding firm underwriting but including marked applications 90,000 shares marked applications received were ; A-24,000 ; B-20,000; C-12,000 & D-24,0001 shares . determine the liability of the underwriters.

#### → **i. Calculation of Total Subscription**

$$\begin{aligned}\text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} \\ &= 90,000 + (4,000 + 6,000 + 0 + 15,000) \\ &= 90,000 + 25,000 \\ &= 1,15,000\end{aligned}$$

#### **ii. Calculation of unmarked application:**

Total subscription received	1,15,000
(-) marked application (24,000+20,000+12,000+24,000)	80,000
	<u>35,000</u>

**iii. Calculation showing underwriters total liability**

Particulars	A	B	C	D	Total
Gross Liability	37,500	31,250	31,250	25,000	1,25,000
(-) unmarked application (35,000*6:5:5:4)	10,500	8,750	8,750	7,000	35,000
(-) marked application	27,000	22,500	22,500	18,000	90,000
(-) surplus of 'D' distributer to A,B & C (6,000*6:5:5)	24,000	20,000	12,000	24,000	80,000
	3,000	12,500	10,500	-6,000	10,000
	2,250	1,875	1,875	-	
Net Liability	750	125	8,625		10,000
(+) Firm underwriting	4,000	6,000	-	15,000	25,000
Total liability	4,750	6,125	8,625	15,000	35,000

**iv. Calculation of underwriters commission**

$$P = 37,500 \times 100 \times 2\% = \text{Rs.} 75,000$$

$$Q = 31,250 \times 100 \times 2\% = \text{Rs.} 62,500$$

$$R = 31,250 \times 100 \times 2\% = \text{Rs.} 62,500$$

$$S = 25,000 \times 100 \times 2\% = \text{Rs.} 50,000$$

25. A company issued 24,000 shares of Rs.10 each. these shares were underwritten as follows : X-14,400 ; Y-6,000 ; Z-3,600 shares. Firm underwriting X-1,920 ; Y-720 ; Z-2,400. The total subscriptions received except of firm underwriting and marked application were 3,600 shares. Marked applications were X-2,400; Y-4,800; X-1,200. Determine the liability of Underwriters.

**i. Calculation of Total Subscription**

$$\begin{aligned} \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} + \text{marked application} \\ &= 3,600 + 8,400 + 5,040 \\ &= 17,040 \end{aligned}$$

**ii. Calculation of unmarked application:**

Total subscription received	17,040
(-) marked application (2,400+4,800+1,200)	8,400
	<del>8,640</del>
	<hr style="width: 100%;"/>

$$\begin{aligned} \text{Marked application} &= 2,400 + 4,800 + 1,200 \\ &= 8,400 \end{aligned}$$

$$\begin{aligned} \text{Firm underwriting} &= 1,920 + 720 + 2,400 \\ &= 5,040 \end{aligned}$$

**iii. Statement showing total liability**

Particulars	X	Y	Z	Total
Gross Liability	14,400	6,000	3,600	24,000
(-) unmarked application (8,640*12:5:3)	5,184	2,160	1,296	8,640
(-) marked application	9,216	3,840	2,304	15,360
(-) surplus of 'Y' distributer to X & Z (960*12:3)	2,400	4,800	1,200	8,400
Net Liability	6,816	-960	1,104	6,960
(+) Firm underwriting	768	-	912	-
	6,048	-	912	6,960
	1,920	720	2,400	5,040
Total liability	7,968	720	3,312	5,040

26. Nischal Ltd 2,50,000 shares of Rs.10 each which was underwritten as follows:  
Mr. A 75,000 (firm underwriting -8,000) Mr.B - 62,500 (firm underwriting - 12,000) Mr.C - 62,500 (firm underwriting -Nil), Mr.D-50,000 (firm underwriting -30,000).

The total applications excluding firm underwriting but including marked applications were for 1,80,000 shares. The marked applications were as follows ; Mr.A-40,000 ; Mr.B - 36,000 ; Mr.C-24,000 & Mr.D+48,000. Calculate the Net liability of each underwriter treating (a) Firm underwriter as marked applications (b) Firm underwriter as unmarked applications.

→ **i. Calculation of Total Subscription**

$$\begin{aligned}
 \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} \\
 &= 1,80,000 + (8,000 + 12,000 + 30,000) \\
 &= 1,80,000 + 50,000 \\
 &= 2,30,000
 \end{aligned}$$

- a) Firm underwriting as marked application

**ii. Calculation of unmarked application:**

Total subscription received	2,30,000
(-) marked application (including Firm U/w (48,000+48,000+24,000+78,000))	1,98,000
	<u>32,000</u>

**iii. Calculation showing underwriters total liability**

Particulars	Mr. A	Mr. B	Mr. C	Mr. D	Total
Gross Liability	75,000	62,500	62,500	50,000	2,50,000
(-) unmarked application (32,000*6:5:5:4)	9,600	8,000	8,000	6,400	32,000
(-) marked application	65,400	54,500	54,500	43,600	2,18,000
(-) surplus of 'D' distributor to A,B & C (34,000*6:5:5)	48,000	48,000	24,000	78,000	1,98,000
(-) surplus of 'D' distributor to A,B & C (4,250*6:5)	17,400	6,500	30,500	-34,400	20,000
Net Liability	12,900	10,750	10,750	-	
(+) Firm underwriting	4,500	-4,250	19,750	-	
Total liability	2318		1,932		
	1,932		17,818		20,000
	8,000	12,000	-	30,000	50,000
	10,182	12,000	17,818	30,000	70,000

b) Firm underwriting as unmarked application

**ii. Calculation of unmarked application:**

Total subscription received 2,30,000

(-) marked application (excluding Firm U/w) 1,48,000

(40,000+36,000+24,000+48,000) 82,000

**iii. Calculation showing underwriters total liability**

Particulars	Mr. A	Mr. B	Mr. C	Mr. D	Total
Gross Liability	75,000	62,500	62,500	50,000	2,50,000
(-) unmarked application (82,000*6:5:5:4)	24,600	20,500	20,500	16,400	82,000
(-) marked application	50,400	42,000	42,000	33,600	1,68,000
(-) surplus of 'D' distributor to A,B & C (14,400*6:5:5)	40,000	36,000	24,000	48,000	1,48,000
Net Liability	10,400	6,000	18,000	-14,400	20,000
(+) Firm underwriting	5,400	4,500	4,500	-	
Total liability	5,000	1,500	13,500	-	20,000
	8,000	12,000	-	30,000	50,000
	13,000	13,500	13,500	30,000	70,000

27. X Ltd invited applications from public for 2,50,000 shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by underwriters P, Q, R & S to the extent of 30%, 20%, 30% & 20% respectively with the provision of firm underwriting of 7,500; 2,500; 5,000 & 2,500 shares respectively. The underwriters were entitled to the maximum commission as per law in force and practise lay down by SEBI.

The co-received applications for 1,75,000 shares excluding firm underwriting. The marked applications were 47,000 ; 52,500 ; 25,000 & 20,000 respectively calculate the liability of each of the underwriters treating.

- a) Firm underwriting as marked applications  
 b) Firm Underwriting as unmarked applications .

Also calculate the underwriters commission payable to different underwriters.

→ **i. Calculation of Total Subscriptions**

Total subscriptions received	1,75,000
(-) firm underwriting (7,500+2,500+5000+2,500)	<u>17,500</u>
	<u>1,92,500</u>

- a) Firm underwriting as marked application

**i. Calculation of unmarked application**

Total subscriptions	1,92,500
(-) marked application (including firm U/w) (54,500+55,000+30,000+22,500)	<u>1,62,000</u>
	<u>30,500</u>

**ii. Statement of underwriters liability**

Particulars	P	Q	R	S	Total
Gross Liability	75,000	50,000	75,000	50,000	2,50,000
(-) unmarked application (30,500*3:2:3:2)	9,150	6,100	9,150	6,100	30,500
(-) marked application	65,850	43,900	65,850	43,900	2,19,500
(-) surplus of 'Q' distributer to P,R & S (11,100*3:3:2)	54,500	55,000	30,000	22,500	1,62,000
Net Liability	11,350	-11,100	35,850	21,400	57,500
(+) Firm underwriting	4,162		4,162	2,776	
	7,188		31,688	18,624	57,500
	7,500	2,500	5,000	2,500	17,500
Total liability	14,688	2,500	36,688	21,124	75,000

- b) Firm underwriting as unmarked applications

**i. calculation of unmarked application**

Total subscription	1,92,500
(-) marked application (excluding F U/w) (47,000+52,500+25,000+20,000)	<u>1,44,500</u>
	<u>48,000</u>

**i. Statement of underwriters liability**

Particulars	P	Q	R	S	Total
Gross Liability	75,000	50,000	75,000	50,000	2,50,000
(-) unmarked application (48,000*3:2:3:2)	14,400	90,600	14,400	9,600	48,000
(-) marked application	60,600	40,400	60,600	40,400	1,98,000
(-) surplus of 'Q' distributer to P,R & S (12,100*3:3:2)	47,000	52,500	25,000	20,000	1,44,500
Net Liability	13,600	-12,100	35,600	20,400	53,500
(+) Firm underwriting	4,537	-	4,537	3,026	-
Total liability	9,063	2,500	31,063	17,374	53,500
	7,500	2,500	5,000	2,500	17,500
	14,688	2,500	36,063	19,874	71,000

**iv. Calculation of commission underwriters**

$$P = 75,000 * 100 * 2.5\% = \text{Rs.} 28,125$$

$$Q = 50,000 * 100 * 2.5\% = \text{Rs.} 18,750$$

$$R = 75,000 * 100 * 2.5\% = \text{Rs.} 28,125$$

$$S = 50,000 * 100 * 2.5\% = \text{Rs.} 18,750$$

28. Apporva Ltd issued 5,00,000 equity shares of Rs.10 each at a premium of 20% the issue was underwritten by 3 persons A, B & C as follows: A-2,50,000 (firm Underwriting -25,000), B- 1,50,000 (firm Underwriting -15,000) & C-1,00,000 (firm Underwriting -10,000).

The underwriting commission % on the issue price and A Company agreed to create firm under writing applications as marked forms. The company received applications for 4,00,000 equity shares (excluding firm underwriting) of which marked forms were as follows : A-1,15,00 ; B-1,25,000 ; & C-1,30,000 you are required to show

- Net liability of underwriters in terms of Number of shares
- Commission due to each underwriter
- Net amount due from each underwriter to the company.

→ **i. Calculation of Total Subscription**

$$\begin{aligned} \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} \\ &= 4,00,000 + (25,000 + 15,000 + 10,000) \\ &= 4,00,000 + 50,000 \\ &= 4,50,000 \end{aligned}$$

**ii. Calculation of unmarked application:**

Total subscription received	4,50,000
(-) marked application	4,20,000
(1,40,000+1,40,000+1,40,000)	<u>30,000</u>

**iii. Calculation showing underwriters Net liability**

Particulars	A	B	C	Total
Gross Liability	2,50,000	1,50,000	1,00,000	5,00,000
(-) unmarked application (30,000*5:3:2)	15,000	9,000	6,000	30,000
(-) marked application	2,35,000	1,14,000	94,000	4,70,000
(-) surplus of 'C' distributer to A,B (46,000*5:3)	1,40,000	1,40,000	1,40,000	4,20,000
(-) surplus of 'B' distributer to A & C (16,250*5)	95,000	1,000	-46,000	50,000
Net Liability	28,750	17,250	-	50,000
(+) Firm underwriting	66,250	-16,250	-	
Total liability	16,250	-	-	50,000
	50,000			
	25,000	15,000	10,000	50,000
	75,000	15,000	10,000	1,00,000

**b) iii. Underwriters commission:**

$$A-2,50,000*12*5\%=Rs.1,50,000$$

$$B-1,50,000*12*5\%=Rs.90,000$$

$$C-1,00,000-12*5\%=Rs.60,000$$

**c) Calculation of Net amount due from each underwriter to the company**

$$A=75,000*12 = Rs.9,00,000$$

$$B=15,000*12=Rs.1,80,000$$

$$C=10,000*12=Rs. 1,20,000$$

**Net amount due - Net amount - commission**

$$A= 9,00,000-1,50,000=7,50,000$$

$$B=1,80,000-90,000= 90,000$$

$$C=1,20,000-60,000=60,000$$

29. Ram Ltd invited applications from public for 1,00,000 shares of Rs.10 each at a premium of Rs.5 per share. The entire issue was underwritten by underwriters P, Q, R & S to the extent of 30%, 30%, 20% & 20% respectively with the provision of firm underwriters of 3,000 ; 2,000 ; 1,000 ; 1,000 respectively. The underwriters are entitled to the maximum commission as per the provisions of the company's act of 1956. The company received applications for 70,000 shares (excluding firm Underwriters) out of which applications for 19,000 ; 10,000 ; 21,000 ; 8,000 were marked in favour of P, Q, R & S calculate the liability of each underwriter by providing relief for firm applications also ascertain the underwriting commission payable to different underwriters.



→ **i. Calculation of Total Subscription**

$$\begin{aligned} \text{Total Subscription} &= \text{No. of application received} + \text{Firm underwriting} \\ &= 70,000 + (3,000 + 2,000 + 1,000 + 1,000) \\ &= 70,000 + 7,000 \\ &= 77,000 \end{aligned}$$

**ii. Calculation of unmarked application:**

Total subscription received	77,000
(-) marked application	65,000
(22,000+12,000+22,000+9,000)	<u>12,000</u>

**iii. Statement of underwriters liability**

Particulars	P	Q	R	S	Total
Gross Liability	30,000	30,000	20,000	20,000	1,00,000
(-) unmarked application (12,000*3:3:2:2)	3,600	3,600	2,400	2,400	12,000
	26,400	26,400	17,600	17,600	88,000
(-) marked application	22,000	12,000	22,000	9,000	65,000
	4,400	14,400	-4,400	8,600	23,000
(-) surplus of 'R' distributer (4,400*3:3:2)	1,650	1,650	-	1,100	
Net Liability	2,750	12,750	-	7,500	23,000
(+) Firm underwriting	3,000	2,000	1,000	1,000	7,000
Total liability	5,750	14,750	1,000	8,500	30,000

**iv. Calculation of underwriters commission**

$$P = 30,000 * 15 * 5\% = \text{Rs.} 22,500$$

$$Q = 30,000 * 15 * 5\% = \text{Rs.} 22,500$$

$$R = 20,000 * 15 * 5\% = \text{Rs.} 15,000$$

$$S = 20,000 * 15 * 5\% = \text{Rs.} 15,000$$