

Underwriting of shares & debentures



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Introduction



- Underwriting means an agreement with or without conditions to subscribe to the securities of body corporate when the existing shareholders of such body corporate or the public do not subscribe to the securities offered to them.
- Need for under writing due to possible under subscription
- Regulatory frame work
 - Companies Act 2013
 - SEBI Regulations

Certain terms in underwriting



- Underwriter , sub-underwriter , brokers , issue managers
- Underwriting commission (as per SEBI rules)

Nature of issue	On amount devolving on UW	On amount subscribed by public
Equity shares	2.5%	2.5%
Pref shares/debentures		
Issue amount upto five lakhs	2.5%	1.5%
Issue amount exceeding five lakhs	2%	1%

Types of Under writing



- Open or conditional UW – conditional liability arises only if issue is under subscribed
- Firm under writing – absolute liability to take up specified number of shares
- Full under writing
- Partial under writing
- Sole under writing
- Joint under writing
- Marked applications
- Un marked applications

Liability of Underwriters



- Gross liability – contract to sell a specified number of shares
- Net liability – Number of shares to be taken by each under writer in case of under subscription

- References
- [ILLUSTRATIONS.docx](#)
- [UW PROBLEMS.xlsx](#)

Accounting Entries in books of company



When application money is received

Bank a/c Dr

To Equity share application money account

When shares are allotted

Equity share application money account Dr

To Equity share capital a/c

To Securities premium a/c

Accounting Entries in books of company



When shares are allotted to under writers towards their obligation

Underwriter's a/c Dr

To Equity share capital a/c

To Securities premium a/c

When commission is due

Underwriting commission a/c Dr

To Underwriter's a/c

Accounting Entries in books of company



When payment is received from underwriter

Bank a/c Dr

To Underwriter's a/c

When payment is made to underwriter

Underwriter's a/c Dr

To Bank a/c