

Accounting for Share Capital

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1. Introduction

Company form came into existence after industrial revolution due to limitations of proprietorship and partnership firms in carrying out business on a large scale.

In the modern age capital is required for the business. So, company collects its own capital from several persons. Joint stock company is an association of persons and has an objective of carrying out some business for profit.

Company has a separate legal existence by law. Incorporation, management and winding up of company are governed by the provisions of companies Act.

In India, first time a separate act for company was made in 1956, it's known as Companies Act, 1956. Recently Indian Government has incorporated New **Companies Act, 2013** after necessary amendments in previous Act.

This chapter deals how a company raises the capital, it discusses several points in this reference and their accounting effects in the company's books as per Companies Act, 2013.

2. Types of Companies

Based on establishment, the companies are mainly of two types :

(1) **Statutory Companies or Corporations** : These companies or corporations are created by the special act of state or central legislature. For example, Life Insurance Corporation of India, The New India Assurance Company Limited, Gujarat State Finance Corporation, Gujarat State Civil Supplies Corporation etc.

(2) **Registered Companies** : The companies which are registered and formed under the companies act are called registered companies. Most of the companies are formed under this type.

As per the Indian Companies Act, 2013, there are two main types of companies : Private Company and Public Company.

Private Company : A private company is one which by its Articles of Association (i) restricts the right to transfer its shares; (ii) limits the number of its members to 200; (iii) prohibits any invitations to the public to subscribe for any securities i.e. shares or debentures of the company (iv) must have at least 2 members.

The name of a private company ends with the words, 'Private Limited'. e.g. Panchvilla Cotton Private Limited, Apex Hydro Private Limited.

As per new Companies Act one person can form a company, under the necessary legal provisions any one person can form a One Person Company – OPC which has only one member. It is a company incorporated as a private company.

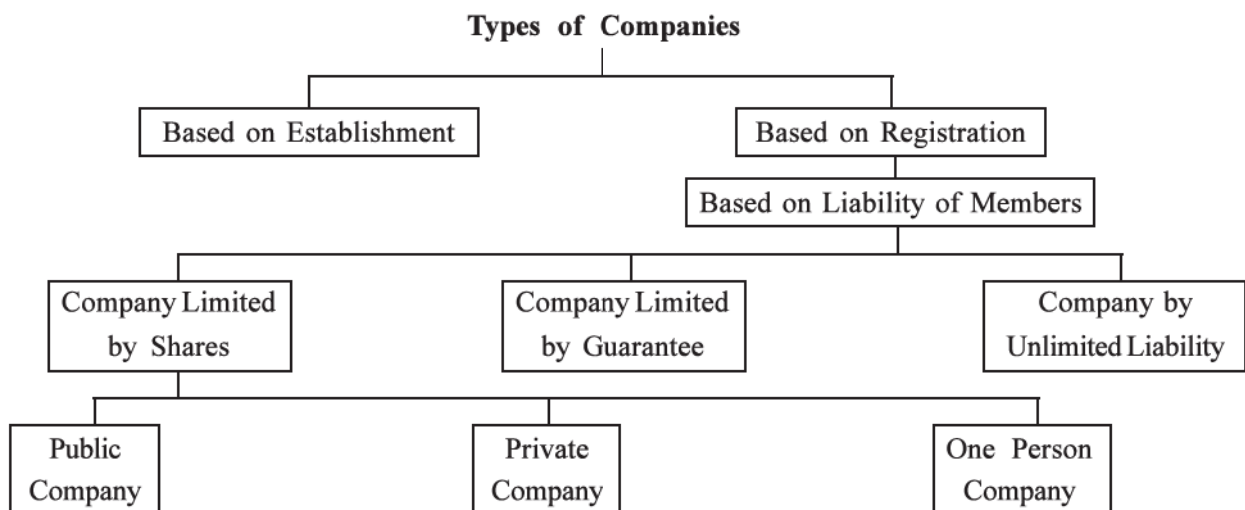
Public Company : A company which is not a private company is called public company. A public company must have at least 7 members. There is no restriction on the maximum number of members. The name of a public company ends with the word 'Limited'. e.g. Karnavati Textiles Limited, Infosys Technologies Limited.

Based on liability of members or shareholders, the companies are mainly of three types :

(1) **Company Limited by Shares :** In these companies, liability of the shareholders is limited upto the extent of the face value of shares held by them. Most of the companies are of this kind.

(2) **Company Limited by Guarantee :** In such companies, at the time of liquidation, the liability of shareholders is limited to a specified amount as guaranteed. Usually, such companies are not for the purpose of earning profit but it is formed for the purpose of promoting different activities like arts, science, sports, culture, social welfare etc. e.g. Board of control for cricket in India.

(3) **Company by Unlimited Liability :** In this type of company there is no limit on the liability of its members. It means, when a company suffers loss and the company's property is not sufficient to pay off its debts, the private property of its members will be used to meet the claims of creditors. As the risk involved in such companies is too high, such companies are not found in India even though permitted by the companies act.



3. Share and Share Capital : Meaning, Nature and Types

Capital of company is called Share Capital, which can be divided into transferable small denominations. Each such unit of denomination is known as Share.

To raise capital, company issues prospectus as required by law and invites public to purchase its shares. Those who purchase shares of company are called members or shareholders of company. As long as the share(s) are held by this person, he is called shareholder or co-owner of the company. For shareholders, who has purchased or is in possession of the shares, indicate the proportion (ratio) of his ownership in the company. Each share is allotted a distinctive number. Share is an asset which is movable and transferable.

According to the companies act, a company may issue two types of shares : (1) Preference share and (2) Equity share.

(1) Preference Share : Preference share is one which gives preferential right to its holder for receiving the dividend at a specified rate before any dividend paid to equity share holder. When the company goes into liquidation the preference share holder has the preferential right for repayment of capital before the equity shareholder.

Types of preference shares are as under :

(i) Cumulative and Non-cumulative Preference Share : In case of cumulative preference shares, if in any year the dividend on preference shares is not paid due to insufficient profit, such arrears of dividend shall be paid together with current year dividend in the year when there is sufficient profit.

As against this, in case of non-cumulative preference shares, such arrears of dividend are not accumulated and are not paid in future.

(ii) Redeemable and Irredeemable Preference Share : If the amount of preference share is to be repaid (redeemed) by the company at the end of the stipulated period or after giving proper notice to the holder of the preference shares, such shares are called redeemable preference shares.

A preference share which are redeemed only at the time of liquidation of company are called Irredeemable preference shares. After the implementation of Companies Act, 2013, company limited by share does not issue irredeemable preference shares.

(iii) Participating and Non-participating Preference Share : Preference shareholders who hold participating preference shares get fixed rate of dividend as decided by the company. In addition to this, they also have a right to participate in surplus profit remaining after distribution of specified dividend to equity shareholders subject to terms of participation. In the event of winding up of the company, if after paying the capital amount of both the preference and equity shareholders, there is still some surplus left, such shareholders are entitled to receive a proportion of surplus. This type of preference shares are called participating preference shares.

Preference shareholder's of non-participating preference shares get only a fixed rate of dividend and do not carry a right to participate in the surplus profits or in any surplus capital.

(iv) Convertible and Non-convertible Preference Share : The preference shares which can be converted partly or fully into equity shares as per agreed terms at the time of issue are known as convertible preference shares.

The preference shares which are not convertible into equity shares are known as non-convertible preference shares. Usually, the preference shares are non-convertible.

(2) Equity Share or Ordinary Share : The shares, which are not preference shares, are known as equity shares. Equity shareholders have voting rights in the company's meeting. Dividend on equity shares which is decided by the board of directors and approved by the shareholders in the general meeting is given only out of the profit remaining after distribution of dividend on preference shares at fixed rate.

Company gives a dividend on equity shares every year on the basis of current year's profit, profit of the previous years, accumulated reserves, possibilities of future profits and also management policy of the company.

At the time of liquidation of company, from the balance funds equity shareholders have right of repayment of capital only after returning preference share capital.

Equity share capital is known as principal share capital of the company. According to current provisions of the companies act, the equity share should have a minimum face value of ₹ 1. In the present scenario, most of the company have face value of each share is ₹ 1 or ₹ 10 or ₹ 100.

Distinction Between Preference Share and Equity Share :

	Basis of Distinction	Preference Shares	Equity Shares
(1)	Rate of dividend	Dividend on preference shares are paid at a fixed rate.	The rate of dividend on equity shares is not fixed. It may vary from year to year depending upon the availability of profits.
(2)	Arrears of dividend	If dividend is not paid on cumulative shares in any year, the arrears of dividend is paid against company's profit in future.	Arrears of dividend on equity shares can not be accumulated and so it is not paid against company's profit in future.
(3)	Preferential right as to the payment of dividend	They have a right to receive dividend before any dividend is paid on equity shares.	Payment of dividend on equity shares is made after the payment of preference dividend.
(4)	Preferential right as to the payment of capital	Preference shareholders have a right to return of preference share-capital in the case of winding up, before any capital is returned to equity shareholders.	Equity share capital is paid only when preference share capital is paid out fully.
(5)	Voting rights	Preference shareholders do not have any voting rights.	Equity shareholders have voting rights.
(6)	Right to participate in management	They do not have a right to participate in management of the company.	They have full right to participate in management of the company.

Types of Share Capital :

(i) **Authorised/Nominal/Registered Capital** : The maximum amount which a company can accumulate by share capital during its lifetime, is called authorised share capital. It is stated in the memorandum of association and also stated at the time of registration. Hence, it's called registered capital. If there is a need to increase the authorised capital of a company in future, the same can be increased by passing a resolution in the general meeting of shareholders of company and also as per provisions of companies act.

Authorised capital is also called nominal capital. For example, authorised capital of ABC limited is ₹ 1,00,00,000 (one crore) divided into 10,00,000 equity shares of ₹ 10 each.

(ii) **Issued Capital** : The share capital issued by issue of shares out of authorised capital based on the need of the company in full or part is known as issued capital. For example, if 7,00,000 shares are issued out of authorised capital of 10,00,000 shares of ₹ 10 each, ₹ 70,00,000 is known as issued capital of the company, being 7,00,000 shares of ₹ 10 each. Issued capital should not be more than authorised capital.

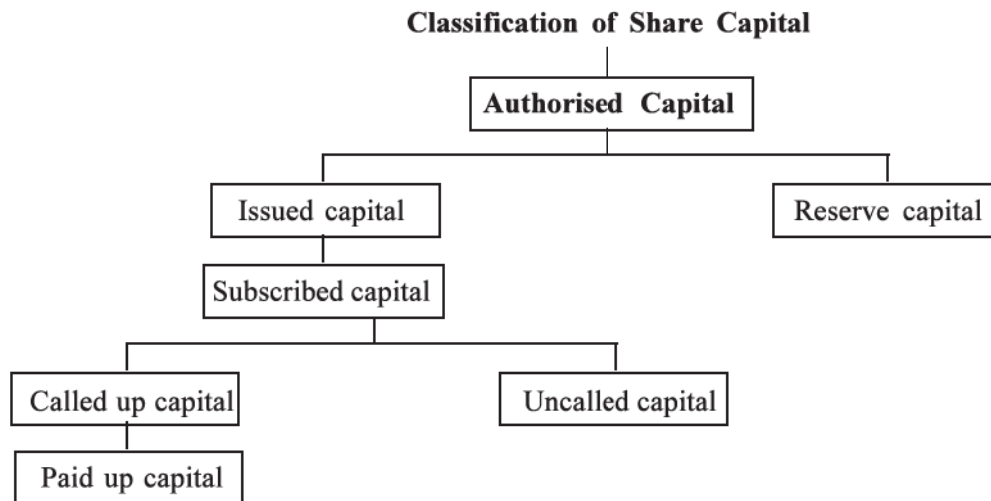
(iii) **Subscribed Capital** : The value of shares for which applications are received out of issued share capital is known as subscribed capital. Subscribed share capital can be equal to or less than the issued capital. Even if share applications are received for more number of shares than the issued shares, company can allot shares only to the extent of share issued.

(iv) **Called up Capital** : Company can call up an amount equal to face value of shares or lesser amount from the applicants to whom the share are allotted. When company calls for lesser amount of the share, the balance amount can be called in future from the shareholders. Such amount called up on shares is known as called-up capital. For example, if company has called up ₹ 6 per share on 7,00,000 share of ₹ 10 each, the called up capital will be ₹ 42,00,000.

(v) **Uncalled Capital** : It is a part of subscribed capital. A capital which is not yet called from the shareholders by the board of directors of the company is called uncalled capital. Uncalled capital is difference between subscribed capital and called up capital. E.g. If the company has called for ₹ 6 per share on a share of face value of ₹ 10 each than ₹ 4 per share is considered as uncalled capital.

(vi) **Paid up Capital** : The amount received by the company from shareholders out of called up capital is known as paid up capital. If shareholder does not pay the amount called for any reason, there will be difference between the called up capital and paid up capital. For example, called up capital is ₹ 42,00,000 (7,00,000 share × ₹ 6 per share). If a shareholder holding 1000 shares could not pay first called money of ₹ 2 per share, than paid up capital shall be ₹ 41,98,000 (₹ 42,00,000 – ₹ 2000).

(vii) **Reserve Capital** : When management of the company feels that the called up capital is sufficient for the business requirement of the company and no further capital is required in future, the uncalled capital is converted into reserve capital by passing special resolution in the meeting of shareholders. Capital so reserved is known as **Reserve capital**. Such reserved capital can be called up from shareholders only when the company goes into liquidation. Special resolution passed to this effect can not be cancelled.



Capital Reserve : Capital reserve are those reserves which are created out of capital profit. Capital profits are those profits which are not earned in the normal course of the business. These reserves can not be utilised for the distribution of dividends. Following transactions give rise to capital profit, which is to be transferred to capital reserved :

- (1) Profit on sale of fixed assets
- (2) Profit on revaluation of fixed assets
- (3) Profit prior to incorporation of company
- (4) Premium on issue of shares and debentures
- (5) Profit on redemption of debentures
- (6) Profit on re-issue of forfeited shares

4. Steps for Issue of Equity Shares

Company raises its capital by issuing equity share to public or by private placement. Detailed discussion/information about this is as under :

(A) For Shares Issued for Public :

(i) **Permission for Issue :** Government of India made an important amendment in 1991 by repealing capital issues (control) act, 1947 and established Securities and Exchange Board of India - SEBI. Earlier, the companies were required to seek prior approval of government for public issue of shares but now such company will have to prepare an offer document in accordance with SEBI guidelines and other legal requirements and submit the same to SEBI. Only after verification of the offer document by SEBI, they give permission for public issue of shares to the company.

(ii) **Details of Proposal to be sent to SEBI :** In the offer document or proposal, the company has to disclose the number of shares issued, type of the share issued and issue price of each share. In addition to this, details regarding full amount to be paid at the time of application or amount to be called up in installments is also provided.

(iii) **Offer to Public :** After complying with the formalities relating to public issue, the company invites public for subscription to shares by issue of prospectus. Company informs the details about subscription of shares to public by newspapers, by T.V. or by hoardings.

(iv) **Details Shown in Prospectus :** Normally following contents are shown in prospectus : Name and address of the registered office of the company, name and address of the directors, objects of the

company, risks involved in the company, consent from SEBI, authorised and issued capital of the company and the number of shares now offered for subscription, dates of opening and closing of the issue, name and address of the merchant's bank, guidelines about past year's and future working of the company, etc.

(v) For Share Application : After reading the prospectus, the public applies for shares in the company on a prescribed form. Each application must accompany the number of shares applied, name and address of applicant, their bank account number, their name and number of demat account and also amount of total application money.

The amount of share application money by cheque or draft with application form must be deposited by the applicant in the scheduled bank which is specified by the company. The name of the scheduled bank is mentioned in the prospectus.

Provision for amount to be called up on application are as under :

- (i) According to section 39 of Companies Act, 2013 application money on shares should be minimum 5 % of face value of shares.
- (ii) As per the present rules of SEBI, the amount to be paid with application of shares by applicant, should not be less than 25 % of issued price of the share.

As per section 24 of Companies Act, 2013 SEBI provisions are applicable for issue of any securities and its transfer, provision as per company law board has not been applicable.

In the present scenario, according to SEBI guidelines new arrangement has been established for share application in the public issue of the company. It's known as ASBA. To make the students familiar about this arrangement a detailed information is given at the end of the chapter.

(vi) When Shares are Allotted : When the company receives the application forms, the shares are either fully or partially allotted to the applicant. Those applicants who are allotted shares, are sent 'Letters of Allotment' by the company, in which number of shares allotted by the company to them are indicated. Those who are not allotted any single share by the company are sent 'Letter of Regret' along with a cheque for the refund of application money and now it is directly deposited in the applicant's bank account.

If company receives more or less number of share applicants than total number of issued shares from the applicant then provision for this has been discussed in the next point of this chapter.

(vii) Balance Amount by Instalments : Generally company calls for the full amount with share application or allotment. If company has not called up full amount with share application or allotment, the balance can be called up in one or more installments. Calls must be made strictly in accordance with the provisions of the Articles of Association. In the absence of the Articles of Association, the provisions of table F of schedule I of the companies act, 2013 shall apply.

(viii) Other Important Points : When shares are issued by company, the company has to necessarily contract with minimum one merchant bank or scheduled bank for its arrangement, for its transparency and also for financial transactions.

Before issue of shares, company has to compulsorily contract with depository for demat of shares. Sometimes company give an option to shareholders to get the shares in demat form or in physical form. In present circumstances it is compulsory to open demat account.

Any person can open or keep the demat account in any bank or any financial institution who holds legal permission to keep the demat accounts.

Demat account is just like saving account or current account in the bank. Entry for money transactions are kept in saving a/c or current a/c. In the same manner entry for purchase and sales transactions of the shares are kept in demat account.

When any person purchases the shares, then number of purchased shares are credited means added to his demat account and when any number of shares are sold then it is debited means deducted from his account.

(B) Shares Issued by Private Placement :

As per the Companies Act, 2013 a company may issue shares on private placement basis also. Sometimes the promoters of a public company are confident of raising capital through private sources and contacts. In such a case the company does not invite the public to subscribe for its shares, but make private placement of shares to promoters, their friends, their relatives, mutual funds, shareholders of group companies, non-resident indians, financial institutions like Life Insurance Corporation of India (LIC), Unit Trust of India (UTI), Industrial Credit and Investment Corporation of India (ICICI), etc.

When the shares are not offered to the public, the company need not issue a prospectus. Instead of issuing a prospectus, the promoters are required to prepare a draft prospectus known as a 'Statement in Lieu of Prospectus' and must file it with the registrar at least 3 days before the first allotment of either shares or debentures.

In case of private placement of shares, the allottees will not sell their shares for a certain minimum period from the date of allotment. This period is known as 'lock-in-period'.

5. Over Subscription and Under Subscription of Shares

If applications are received for more number of shares than the shares issued for public subscription, it is known as over subscription. As company cannot allot more shares than the shares issued, it has to refund excess application money to applicants of shares.

In these circumstances, company may (i) allot full number of shares or (ii) not allot any share or (iii) allot partially number of shares to the share applicants against their share application.

If applications are received for less number of shares than the shares issued, it is known as under subscription. According to the SEBI guidelines, company must get share application money for at least 90 % of the amount called up by public subscription. This minimum amount of subscription should be received within 30 days from the date of issue of prospectus. If company fails to get minimum subscription then company can not allot any share and within 15 days total amount should be returned to the applicants. If company fails to return this amount within 15 days then interest at the rate of 15 % p.a. has to be paid for each day.

6. I.P.O. and F.P.O.

An initial public offering (IPO) is the first time that the share/stock of a private company is offered for purchase to the public.

If a company has already issued the shares to the public through IPO process and wants to increase the capital fund, then "Follow-on Public Offer" (F.P.O.) is issued by the company to public or to investors.

7. Methods for Issue of Shares by Company

Company can issue its shares by three ways :

(1) **At par** : If the total amount payable by share subscribers to company is equal to the total face value of shares, the shares are said to be issued at par. For example, share of face value of ₹ 10 issued at a price of ₹ 10.

(2) **At premium** : If the total amount payable by share subscribers to company is more than the total face value of shares, the shares are said to be issued at premium. For example, if share of face value of ₹ 10 issued at a price of ₹ 14, the additional amount of ₹ 4 shall be considered as premium.

Present provisions as per Companies Act, 2013 and accounting effects of shares issued at premium has been discussed in detail in the following point in this chapter.

(3) **Issue of Shares at Discount** : If the total amount payable by share subscribers to a company is less than the total face value of shares, the shares are said to be issued at discount. For example, if share of face value of ₹ 10 is issued at a price of ₹ 9, the amount of ₹ 1 shall be considered as discount.

As per section 53 of Companies Act, 2013, companies would no longer be permitted to issue shares at a discount.

The only shares that could be issued at a discount are sweat equity wherein shares are issued to employees or directors in lieu of their services under section 54 of 2013 Act.

8. Share Capital Transactions and Its Accounting Effects

The following journal entries shall be passed in the books of the company in respect of share capital transactions :

● On Share Application :

(1) When share application money is received,

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share application A/c [Being receipt of share application money on shares at ₹ per share.]		.....	.....

(2) When applications are received for more shares than the shares issued and excess application money is to be refunded to share applicants,

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share application A/c Dr To Bank A/c [Being refund of share application money at ₹ per share on shares due to non-allotment of shares.]		.....	.....

(3) When board of directors of the company approves the allotment of shares, then share application money in respect of share allotted is transferred to share capital account.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share application A/c Dr To Share capital A/c [Being transfer of share application money at ₹ per share to share capital account in respect of shares allotted.]		.....	.....

● **On Share Allotment :**

- (4) The applicants who are allotted shares become shareholders of the company. When share allotment money is called from shareholders then...

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share allotment A/c Dr To Share capital A/c [Being amount due on allotment on shares at the rate of ₹ per share.]		.....	.....

- (5) When the amount due on allotment is received

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share allotment A/c [Being amount received on allotment on shares at the rate of ₹ per share.]		.....	.....

● **On Share First Call :**

- (6) When the first call is made after receiving the allotment money

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share first call A/c Dr To Share capital A/c [Being first call due on shares at the rate of ₹ per share.]		.....	.....

- (7) When the share first call money is received

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share first call A/c [Being first call money received.]		.....	.....

When the share second and third calls are made and when the call money is received, journal entries will be passed in the same manner as shown in entries (6) and (7) as above. In such case, in place of 'share first call', share second call or third call or final call shall be written.

Illustration 1 : Shailja company ltd. issued 2,40,000 equity shares of ₹ 10 each, on which the amounts called up was as under :

On application	₹ 3 per share
On allotment	₹ 3 per share
On first call	₹ 2 per share
On final call	₹ 2 per share

Amounts called on allotment and calls were received in full on time. Applications were received for all shares. Pass journal entries in the books of company.

Also prepare equity share capital account, equity share application account, equity share allotment account, equity share first call account and equity share final call account.

Ans. :

Journal Entries in the Books of Shailja Company Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being money received on application for 2,40,000 shares at ₹ 3 per share.]		7,20,000	7,20,000
2	Equity share application A/c Dr To Equity share capital A/c [Being transfer for share application money to share capital account in respect of share allotted.]		7,20,000	7,20,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money due on 2,40,000 equity shares at ₹ 3 per share.]		7,20,000	7,20,000
4	Bank A/c Dr To Equity share allotment A/c [Being allotment money received.]		7,20,000	7,20,000
5	Equity share first call A/c Dr To Equity share capital A/c [Being amount due on first call at ₹ 2 per share on 2,40,000 equity shares.]		4,80,000	4,80,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
6	Bank A/c Dr To Equity share first call A/c [Being amount received on first call.]		4,80,000	4,80,000
7	Equity share final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 2 per share on 2,40,000 equity shares.]		4,80,000	4,80,000
8	Bank A/c Dr To Equity share final call A/c [Being amount received on final call.]		4,80,000	4,80,000
	Total		48,00,000	48,00,000

Ledger of Shailja Company Ltd.
Equity Share Capital Account

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
				2	By Equity share application A/c		7,20,000
				3	By Equity share allotment A/c		7,20,000
				5	By Equity share first call A/c		4,80,000
				7	By Equity share final call A/c		4,80,000
	To balance b/f		24,00,000				
			24,00,000				24,00,000

Equity Share Application Account

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
2	To Equity share capital A/c		7,20,000	1	By Bank A/c		7,20,000
			7,20,000				7,20,000

Equity Share Allotment Account

Dr				Cr			
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
3	To Equity share capital A/c		7,20,000	4	By Bank A/c		7,20,000
			7,20,000				7,20,000

Equity Share First Call Account

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
5	To Equity share capital A/c		4,80,000	6	By Bank A/c		4,80,000
			4,80,000				4,80,000

Equity Share Final Call Account

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
7	To Equity share capital A/c		4,80,000	8	By Bank A/c		4,80,000
			4,80,000				4,80,000

Note : In the example dates are not given, so serial number is given to each transaction to understand the posting of each journal entry.

Illustration 2 : Authorised capital of a limited company is divided into 25,00,000 equity shares of ₹ 10 each. Out of this, the company offered 20,00,000 equity shares for public subscription. Company received applications for 19,00,000 equity shares against the public subscription. Company called up total ₹ 8 per share and all the called up amounts were duly received. From the above information, show classification of share capital.

Ans. :

Authorised capital :	₹
25,00,000 equity shares of ₹ 10 each	2,50,00,000
Issued capital :	
20,00,000 equity shares of ₹ 10 each	2,00,00,000
Subscribed capital :	
19,00,000 equity shares of ₹ 10 each	1,90,00,000
Called up and paid up capital :	
19,00,000 equity shares of ₹ 10 each,	
₹ 8 per share called up and paid up	1,52,00,000

* Friends, till now we have discussed simple transactions, relating to share capital, their accounting treatment and their illustrations. In the next part of this chapter, we shall study some special transactions, their accounting treatment and their illustrations.

9. Calls-in-Arrears

When company makes call for allotment money or call money and if some shareholder fails to pay such money on due date, such unpaid amount is transferred to "Calls-in-arrears" account. In such case, there are two methods to deal with accounting effect of calls-in-arrears.

(i) **Without opening calls-in-arrears account :** Under this method, there is no need to open calls-in-arrears account. When company calls for installment amount on any call, then the actual amount received from the shareholders is debited to bank account and is credited to relevant call account.

So, the respective call account will show a debit balance equal to the unpaid amount of the call. When the unpaid amount is received from shareholder in future, the bank account is debited and the relevant call A/c is credited.

(ii) By Opening Calls-in-Arrears Account : Under this method, 'Calls in Arrears Account' is opened. Any amount received from shareholders against any call is debited to bank account and amount which is not received from shareholders is debited to calls in arrears account.

On a later date, when the arrears amount on call is received, bank account is debited and the calls-in-arrears account is credited. So, at the end call-in-arrears is closed.

Now, let us understand the above two methods by following illustration.

Illustration 3 : Jay Limited, made a first call of ₹ 2 per share on its 50,000 shares. One shareholder holding 1000 shares did not pay the first call, but he paid due amount on first call after one month. Remaining all shareholders were paid all the amounts due on due dates.

Write journal entries in respect of above transactions in the books of company.

Ans. :

Any one method can be adopted from the following :

(i) Without Opening Calls-in-Arrears A/c	(ii) By Opening Calls-in-Arrears A/c
(1) When amount due on first call, Share first call A/c ...Dr 1,00,000 To Share capital A/c 1,00,000	(1) When amount due on first call, Share first call A/c ...Dr 1,00,000 To Share capital A/c 1,00,000
(2) On receipt of first call, Bank A/c ...Dr 98,000 To Share first call A/c 98,000	(2) On receipt of first call, Bank A/c ...Dr 98,000 Call-in-arrear A/c ...Dr 2000 To Share first call A/c 1,00,000
(3) On receipt of arrears of call money from shareholders, Bank A/c ...Dr 2000 To Share first call A/c 2000	(3) On receipt of arrears of call money from shareholders, Bank A/c ...Dr 2000 To Call-in-arrear A/c 2000

Note : (1) Balance of call-in-arrears account is shown in the balancesheet as a deduction from the amount of 'subscribed but not fully paid up' under 'subscribed share capital'.

(2) The company if authorised by its Articles of Association may charge interest at the specified rate on calls-in-arrears from the due date to the date of payment.

(3) In case, the Articles of Association of the company is silent, table F of the companies act, 2013 shall apply which provides for interest at 10 % p.a. However, the directors have the right to waive the interest on calls-in-arrears.

● **Calculation and Accounting Effects of Interest on Calls-in-Arrears is not in syllabus.**

Illustration 4 : Pranav Limited of Bhavnagar issued 18,00,000 equity shares of ₹ 10 each. The company received applications for 20,00,000 shares. Shares were allotted at meeting of board of directors.

Excess shares applications were rejected and the application money thereon was refunded to the applicants. Amount on shares was called up as under :

On application	₹ 3 per share
On allotment	₹ 2.50 per share
On first call	₹ 2 per share
On final call	₹ 2.50 per share

Yogesh who was allotted 1600 shares, could not pay first and final call money. Where, Nilam who was allotted 1400 shares could not pay final call money. Except this, all the amounts due from all the shareholders were received on due dates. Yogesh and Nilam paid calls-in-arrears amounts at a later date.

Pass necessary journal entries relating to above transactions in the books of the company.

Ans. :

Journal Entries in Books of Pranav Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being the application money received for 20,00,000 equity shares at ₹ 3 per share.]		60,00,000	60,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being transfer of share application money in respect of 18,00,000 equity shares allotted to equity share capital account and refund of share application money in respect of 2,00,000 equity shares for rejected applications.]		60,00,000	54,00,000 6,00,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money due on 18,00,000 allotted equity shares at ₹ 2.50 per share.]		45,00,000	45,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being full amount received of equity share allotment money.]		45,00,000	45,00,000
5	Equity share first call A/c Dr To Equity share capital A/c [Being the amount due on first call at ₹ 2 per share on 18,00,000 equity shares.]		36,00,000	36,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
6	Bank A/c (17,98,400 shares × ₹ 2) Dr Calls-in-arrears A/c (1600 shares × ₹ 2) Dr To Equity share first call A/c [Being full amount received on equity share first call money except on 1600 shares of Yogesh.]		35,96,800 3200	36,00,000
7	Equity share final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 2.50 per share on 18,00,000 equity shares.]		45,00,000	45,00,000
8	Bank A/c (17,97,000 shares × ₹ 2.50) Dr Calls-in-arrears A/c Dr (3000 shares × ₹ 2.50) To Equity share final call A/c [Being full amount received of equity share final call money on all shares except on 1600 shares of Yogesh and 1400 shares of Nilam.]		44,92,500 7500	45,00,000
9	Bank A/c Dr To Calls-in-arrears A/c [Being receipt of arrears of call money from Yogesh and Nilam.]		10,700	10,700
	Total		3,72,10,700	3,72,10,700

10. Calls-in-Advance

If there is provision in the Articles of Association, a company can receive in advance a part or whole of the uncalled amount. In such cases, since the uncalled amount is received by company in advance from shareholders, the same is credited to "calls-in-advance" account.

When amount is received with application as advance of allotment or call money, the journal entry shall be as under :

Share application A/c ...Dr	[Number of shares application × Amount called per share on application]
To share capital A/c	[Number of shares allotted × Amount called per share on application]
To share allotment A/c	[Amount of allotment money received in advance]
To calls-in-advance A/c	[Amount of call money received in advance]

When share call money is received in advance with share allotment money, the following entry shall be passed :

	Bank A/c	Dr	.....
	To Share allotment A/c			.....
	To Calls-in-advance A/c			.....

When the respective call is made due, then entry for calls-in-advance shall be passed as under :

	Calls-in-advance A/c	Dr	.....
	To Respective call A/c			.....

Note : (1) Calls-in-advance is not share capital of the company, hence dividend can not be given on it.

(2) Balance of calls-in-advance account is shown in the equity and liabilities part of the balance sheet under the head current liabilities and sub-head other current liabilities.

(3) It is compulsory to pay interest on calls-in-advance from the date of receipt till the date when the call is due for payment as per rate specified in the articles of the company. However, if the articles do not contain such rate, table F of schedule I of the Companies Act, 2013 shall be applicable, which leaves the matter to directors of company subject to a maximum rate of 12 % p.a. The interest on calls-in-advance is payable compulsorily even if there are no profits.

Interest calculation and its accounting effects is not in syllabus.

Illustration 5 : Kena Chemical Company of Vadodara issued for public subscription 3,00,000 equity shares of ₹ 100 each. The company decided to collect ₹ 40 per share with application, ₹ 35 per share on allotment and ₹ 25 per share on first and final call.

Company received applications for total 3,20,000 equity shares. Out of the applications, the company rejected applications for 20,000 equity shares and refunded application money thereof. Pranav, a shareholder of the company who was allotted 3000 equity shares by the company, had paid amount due on first and final call in advance along with allotment money.

Except this, allotment money and call money were called up at appropriate times and were all paid on due dates. Show journal entries in respect of above transactions in books of the company.

Ans. :

Journal Entries in the Books of Kena Chemicals Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being receipt of share application money for 3,20,000 equity shares at ₹ 40 per share.]		1,28,00,000	1,28,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being transfer of share application money in respect of 3,00,000 equity shares allotted to equity shares capital account and refund the money to applicants in respect of 20,000 equity shares for rejected applications.]		1,28,00,000	1,20,00,000 8,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money of ₹ 35 per share due on 3,00,000 equity shares allotted.]		1,05,00,000	1,05,00,000
4	Bank A/c Dr To Equity share allotment A/c To Calls-in-advance A/c [Being receipt of full amount of 3,00,000 equity share allotment money and advance money from Pranav for first and final call at ₹ 25 per share on his 3000 equity shares.]		1,05,75,000	1,05,00,000 75,000
5	Equity share first and final call A/c Dr To Equity share capital A/c [Being amount due on first and final call at ₹ 25 per share on 3,00,000 equity shares.]		75,00,000	75,00,000
6	Bank A/c Dr Calls-in-advance A/c Dr To Equity first and final call A/c [Being receipt of amount called up on first and final call except the amount received in advance from Pranav.]		74,25,000 75,000	75,00,000
	Total		6,16,75,000	6,16,75,000

Illustration 6 : Paresh Company of Palanpur issued 2,00,000 equity shares of ₹ 10 each for public subscription. Company decided to call ₹ 3.50 per share on application, ₹ 4 per share on allotment and ₹ 2.50 per share on first and final call.

Applications were received from public for 2,30,000 equity shares, of which applications for 30,000 equity shares were rejected and their application money was refunded to applicants.

Nitin who had applied for 2500 shares had paid entire amount of ₹ 10 per share at the time of applications. Company has allotted him all the shares applied by him. Piyush, who was allotted 1500 shares had paid his first and final call money in advance along with the share allotment money.

Except this, all the amounts due on allotment and call were received on due dates. Write journal entries for above transactions in the books of company.

Ans. :

Journal Entries in the Books of Paresh Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity Share application A/c [Being receipt of share application money for 2,30,000 equity shares at ₹ 3.50 per share and advance payment from Nitin at ₹ 6.50 per share on 2500 equity shares.]		8,21,250	8,21,250
2	Equity share application A/c Dr To Equity share capital A/c (2,00,000 shares × ₹ 3.50) To Equity share allotment A/c (2500 shares × ₹ 4) To Call-in-advance A/c (2500 shares × ₹ 2.50) To Bank A/c (30,000 shares × ₹ 3.50) [Being transfer of share application money in respect of allotted 2,00,000 equity shares and amount paid in advance by Nitin to respective amount, where refund of share application money in respect of 30,000 shares for rejected applications.]		8,21,250	7,00,000 10,000 6250 1,05,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money of ₹ 4 per share due on 2,00,000 equity shares.]		8,00,000	8,00,000
4	Bank A/c Dr (Called up on allotment ₹ 8,00,000 – ₹ 10,000 (Advance of Nitin) + ₹ 3750 (First and final call received in advance from Piyush.) To Equity share allotment A/c To Call-in-advance A/c (1500 shares × ₹ 2.50) [Being receipt of full amount of equity share allotment money due less advance of ₹ 10,000 from Nitin plus call money of ₹ 3750 received in advance from Piyush.]		7,93,750	7,90,000 3750

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	Equity share first and final call A/c Dr To Equity share capital A/c [Being amount due on first and final call at ₹ 2.50 per share on 2,00,000 equity shares.]		5,00,000	5,00,000
6	Bank A/c Dr (₹ 5,00,000 called – ₹ 10,000 received in advance) Calls-in-advance A/c Dr (₹ 6250 of Nitin + ₹ 3750 of Piyush) To Equity share first and final call A/c [Being receipt remaining money of first and final call on all shares except advance paid by Nitin and Piyush towards call.]		4,90,000 10,000	 5,00,000
	Total		42,36,250	42,36,250

11. For Issue of Shares at Premium

When company has good reputation in market, has high profitability, internal and external factors are favourable and also if company has already issued shares in the past and the market price of its shares was more than the face value of shares, then company can issue shares at a price more than its face value or nominal value. When company issues shares at a price higher than the face value, the shares are said to be issued at premium.

When shares are issued at premium, the amount received in excess of face value of shares is credited to a separate account. As per companies act, such amount is carried to '**Securities Premium Account**' or '**Securities Premium Reserve Account**'.

● Points to be kept in mind relating to securities premium :

- (1) Amount of premium on share can be called along with share application or at the time of share allotment or at the time of application and allotment or at the time of share call separately or all together.
- (2) There is no legal restriction on issue of shares at a premium.
- (3) The premium on issue of shares is a capital profit and not a revenue profit.
- (4) The balance of securities premium account is shown in the equity and liabilities part of balance sheet under the head 'Reserve and Surplus' as 'Securities Premium Reserve'.
- (5) Amount of securities premium cannot be utilised for payment of dividend in cash.

● Under section 52(2) of the Companies Act, 2013, the amount of securities premium reserve may be used only for the following purposes :

- (1) In writing off the preliminary expenses of the company;
- (2) For writing off the expenses, commission or discount allowed on issue of shares or debentures of the company;
- (3) For issuing fully paid bonus shares to the shareholders of the company;
- (4) For providing the premium payable on redemption of redeemable preference share
- (5) For buy back of its own shares.

- When shares are issued at premium, the accounting entries in the books of company will be as under :

(I) With application :

- (1) When amount of share premium is called with application money,

Bank A/c ...Dr To Share application A/c	Amount called per share (including share premium amount)
--------------------------------------------	-------------------------------------------------------------

- (2) When allotment is made against applications received,

Share application A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares allotted × Amount of premium per share called with application)
----------------------------------------------------------------------------------	-----------------------------------------------------------------------------------

(II) On allotment :

- (1) When amount of share premium is called with allotment money,

Share allotment A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares allotted × Amount of premium per share called with allotment)
--------------------------------------------------------------------------------	---------------------------------------------------------------------------------

- (2) When allotment money is received,

Bank A/c ...Dr To Share allotment A/c	Amount called on allotment (with premium) × Number of shares allotted
------------------------------------------	-----------------------------------------------------------------------

(III) On share call :

- (1) When amount of share premium is called with share call money,

Share call A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares allotted × Amount called per share towards premium at the time of call.)
---------------------------------------------------------------------------	--------------------------------------------------------------------------------------------

- (2) When call money is received,

Bank A/c ...Dr To Share call A/c	Amount called up (with premium) × Number of allotted shares
-------------------------------------	-------------------------------------------------------------

Illustration 7 : Nisarg Pharma Ltd. of Gandhinagar issued 80,000 equity shares of ₹ 10 each at a premium of ₹ 40 per share. The amount was called up as under :

With application ₹ 14 per share (Including premium of ₹ 10)

With allotment of ₹ 33 per share (Including premium ₹ 30)

With final call ₹ 3 per share

Company received applications for 85,000 equity shares. Excess applications received were rejected and amount received with applications on this was refunded.

Amount due on allotment and final call were duly called up. All the amount due on all the shares were duly received except allotment money and final call money on 2000 shares held by Devami.

Pass necessary journal entries in the books of company for above transactions.

Ans. :

Journal Entries in the Books of Nisarg Pharma Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being share application money received for 85,000 shares at ₹ 14 per share.]		11,90,000	11,90,000
2	Equity share application A/c Dr To Equity share capital A/c (80,000 shares × ₹ 4) To Securities premium A/c (80,000 shares × ₹ 10) To Bank A/c (5000 shares × ₹ 14) [Being transfer for share application money in respect of 80,000 equity shares allotted to share capital account and securities premium account and refund of application money in respect of rejected application to applicants.]		11,90,000	3,20,000 8,00,000 70,000
3	Equity share allotment A/c Dr To Equity share capital A/c To Securities premium A/c [Being allotment money of ₹ 3 per share on share capital and ₹ 30 per share on premium is due on 80,000 equity shares allotted.]		26,40,000	2,40,000 24,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being receipt of amount of equity share allotment money on 78,000 shares, except ₹ 66,000 on 2000 shares of Devami at ₹ 33 per share]		25,74,000	25,74,000
5	Equity share final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 3 per share on 80,000 equity shares.]		2,40,000	2,40,000
6	Bank A/c Dr To Equity share final call A/c [Being receipt of call money on 78,000 equity shares except non-receipt of call money of ₹ 6000 on 2000 shares of Devami at ₹ 3 per share.]		2,34,000	2,34,000
	Total		80,68,000	80,68,000

Note : Devami has not paid allotment money and final call money on her 2000 equity shares. Such amount not received can be recorded by debiting to calls-in-arrears account in entry number 4 and 6 above. Alternatively, journal entries can also be made as shown above without creating calls-in-arrears account.

Illustration 8 : Authorised capital of Dishita plastic company is 5,00,000 equity shares of ₹ 10 each. On 11th July, 2017, company issued 4,00,000 equity shares at a premium of ₹ 80 per share for public subscription. Share amount was called up as under :

On 11th July, 2017 with application ₹ 84 per share (including premium of ₹ 80 per share)

On 11th September, 2017 with allotment ₹ 3 per share

On 11th November, 2017 with final call ₹ 3 per share

The subscription was closed after receiving full subscription of shares on 11th July, 2017. On 21st July, 2017 directors made allotment of all the shares applied for. Sum due on allotment, except on 4000 shares was received on 21st September, 2017. Where amount due on final call was fully received by 21st November, 2017 except additional 2000 shares.

Pass necessary journal entries in respect of above transactions except bank transactions and prepare bank account only.

Ans. :

Journal Entries in the Books of Dishita Plastic Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 July, 21	Equity share application A/c Dr To Equity share capital A/c To Securities premium A/c [Being transfer of ₹ 4 per share to equity share capital account and ₹ 80 per share to securities premium in respect of 4,00,000 equity shares allotted.]		3,36,00,000	16,00,000 3,20,00,000
Sept., 11	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money of ₹ 3 per share due on 4,00,000 equity shares.]		12,00,000	12,00,000
Sept., 21	Calls-in-arrears A/c Dr To Equity share allotment A/c [Being amount not received on allotment on 4000 equity share at ₹ 3 per share.]		12,000	12,000
Nov., 11	Equity share final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 3 per share on 4,00,000 equity shares.]		12,00,000	12,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Nov., 21	Calls-in-arrears A/c Dr To Equity share final call A/c [Being amount not received on final call on 6000 (4000 + 2000) equity shares at ₹ 3 per share]		18,000	18,000
	Total		3,60,30,000	3,60,30,000

Bank Account in the Books of Dishita Plastic Company

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
2017 July, 11	To Equity share application A/c (Receipt of application money at ₹ 84 per share on 4,00,000 shares)		3,36,00,000				
Sept., 21	To Equity share allotment A/c (Receipt of allotment money on 3,96,000 shares except 4000 shares at ₹ 3 per share)		11,88,000				
Nov., 21	To Equity share final call A/c (Receipt of final call money on 3,94,000 shares except 6000 shares at ₹ 3 per share)		11,82,000				

12. Forfeiture of Shares

Due to any reason, if any shareholder fails to pay the amount due on allotment or on any call within the informed specified period by company, then company can forfeit his share by completing due formalities.

In normal situation (usually), directors of the company are empowered by articles of association of company to forfeit the shares. Follow the rules laid down in the Articles of Association for the procedure of forfeiture of shares or if no rules are given in Articles for this the provisions of table F of schedule I of the Companies Act, 2013 shall apply. So, a process of forfeiture or cancelation of shares by directors of company is called Forfeiture of shares.

After the forfeiture, the name of shareholder is removed from the register of members. It means now this person is not called a shareholder of the company.

For forfeited shares, the amount already paid by the shareholder to the company, is forfeited by the company it means this amount is not returned to the shareholders.

Number of shares decreases due to forfeiture of shares and hence 'Share Capital Account' is debited. The amount already paid by shareholder in the company also gets forfeited with forfeiture of share and the same is credited to 'Share Forfeiture Account'.

- **When shares are forfeited, the following entries are passed in the books of company under different situations :**

(I) When shares are issued at par or at premium and full amount of premium is received,

Share capital A/c ...Dr	[Number of shares forfeited × Amount called up per share on capital account]
To Forfeited shares A/c	[Amount received on forfeited shares towards capital account excluding premium]
To Share allotment A/c	[Amount called on allotment but not received]
To First and final share call A/c	[Amount called on call but not received]

(II) When shares are issued at premium and share premium amount is not received,

Share capital A/c ...Dr	[Number of shares forfeited × Amount called up per share on capital account]
Securities premium A/c ...Dr	[Number of shares forfeited × Amount of premium called up but not received]
To Forfeited shares A/c	[Total amount received]
To Share allotment A/c	[Amount called on allotment but not received]
To Share call or calls-in-arrears A/c	[Amount called on call but not received]

Let us understand above transactions with the following illustrations :

Illustration 9 :

- (1) M Ltd. forfeited 600 equity shares of one shareholder Govind for non-payment of final call of ₹ 3 per share. Company had called up ₹ 10 per share as face value of share from shareholders. Govind had paid ₹ 4 per share on application and ₹ 3 per share on allotment. Pass journal entry for forfeiture of shares.
- (2) N Ltd. forfeited 2400 equity shares of ₹ 10 each of Shri Premabhai for non-payment of ₹ 2 per share on share first call. An amount of ₹ 3 per share on application and ₹ 3 per share on allotment is received by company from Shri Premabhai. The company has called up ₹ 8 per share till date. Pass journal entry for forfeiture of shares in the books of company.
- (3) Q Ltd. had called total ₹ 22 per share (including premium of ₹ 12 per share) from the shareholders. Kinjal had paid ₹ 15 per share (including premium of ₹ 12 per share) on application and ₹ 4 per share on allotment on her 500 shares. Kinjal failed to pay ₹ 3 per share on final call on her 500 shares, so company forfeited her shares. Pass the journal entries in the books of company for forfeiture of shares.
- (4) P Ltd., had issued shares of ₹ 10 each at 50 % premium. Company had called ₹ 4 with application, ₹ 8 (including premium) on allotment and ₹ 3 on first and final call. Shri Jigar who holds 600 shares, paid only application money to company. The company forfeited his shares after first and final call.

Give a journal entry in books of company for forfeiture of shares.

Ans. :

(1) Journal Entry in the Books of M Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr (600 shares × ₹ 10)		6000	
	To Share forfeiture A/c (600 share × ₹ 7)			4200
	To Share final call A/c (600 share × ₹ 3)			1800
	[Being forfeiture of 600 shares of Govind.]			

Explanation : Company forfeited shares of Govind, so his shares are cancelled. Amount called up per share on capital account ₹ 10 per share will be debited to share capital account. Amount of ₹ 7 per share paid by Govind will be credited to share forfeiture account and amount not paid towards capital account for final call at ₹ 3 per share will be credited to share final call account.

(2) Journal Entry in the Books of N Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr (2400 shares × ₹ 8)		19,200	
	To Forfeiture A/c (2400 shares × ₹ 6)			14,400
	To Share first call A/c or call-in-arrears A/c (2400 shares × ₹ 2)			4800
	[Being non-payment of first call money on 2400 shares by Premabhai, his shares forfeited after first call.]			

Explanation : Company forfeited Premabhai's shares immediately after first call. So, in above journal entry, equity share capital account is debited with ₹ 19,200 (Number of share forfeited 2400 shares × ₹ 8 per share called up on capital account).

(3) Journal Entry in the Books of Q Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr (500 shares × ₹ 10)		5000	
	To Share forfeiture A/c (500 shares × ₹ 7)			3500
	To Share final call A/c (500 shares × ₹ 3)			1500
	[Being non-payment of final call amount by Kinjal, her shares are forfeited.]			

Explanation : Kinjal has already paid premium amount at the time of application, so that would not be given any effect of securities premium on forfeiture. Amount paid on application ₹ 3 per share and on allotment ₹ 4 per share, total ₹ 7 per share for face value of share will be credited to share forfeiture account.

(4) Journal Entries in the Books of P Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr (600 shares × ₹ 10)		6000	
	Securities premium account A/c Dr (600 shares × ₹ 5)		3000	
	To Share forfeiture A/c (600 shares × ₹ 4)			2400
	To Share allotment A/c (600 shares × ₹ 8)			4800
	To Share first and final call A/c (600 shares × ₹ 3)			1800
	[Being forfeiture of 600 shares of Jigar for non-payment of allotment money and call money after paying share application money.]			

Explanation : Shri Jigar has not paid total ₹ 8 per share on allotment with premium. So here, total amount of ₹ 3000 (600 shares × ₹ 5) debited to securities premium A/c, where total amount ₹ 4800 (600 shares × ₹ 8) has been credited to share allotment A/c.

13. For Reissue of Forfeited Shares

Company can reissue forfeited shares. For this, directors of the company have the full authority by law. Directors can reissue these shares at par, at premium or at discount.

On reissue of shares, the company must get at least an amount equal to the amount not received on capital account on forfeited shares. It means, at the time of reissue of forfeited shares, company can give maximum discount to new shareholders upto the amount forfeited.

So, the maximum discount that can be given on reissue of forfeited shares is equal to the amount forfeited on capital account which was received on these shares. In such case, there is no need for any sanction for the discount amount. e.g. a shareholder has paid ₹ 7 per share on face value of ₹ 10 per share and has not paid ₹ 3 per share. If his shares are forfeited and reissued thereafter, maximum discount upto ₹ 7 per share can be given on reissue thereof.

On reissue of forfeited shares, amount received from new shareholder (purchaser) is debited to 'Bank account'. If these shares are issued at discount then amount of discount is debited to 'Share Forfeiture Account'. Here, due to reissue of shares, amount of face value of shares is credited to 'Share Capital Account'.

- **Following journal entries are passed for reissue of forfeited shares under different situations :**

(I) If the forfeited shares are reissued at par,

	Bank A/c	Dr	.....
	To Share capital A/c			.....

(II) If the forfeited shares are reissued at premium,

	Bank A/c	Dr	.....
	To Share capital A/c			.....
	To Securities premium A/c			.....

(III) If the forfeited shares are reissued at discount,

Bank A/c ...Dr	[Number of share reissued × Amount per share at which shares are issued.]
Share forfeited A/c ...Dr	[Number of shares reissued × Discount amount per share]
To Share capital A/c	[Number of shares reissued × paid up amount per share]

- **Balance of share forfeiture account :**

After the reissue of forfeited shares, the credit balance left in the share forfeiture account for those shares is transferred to 'Capital Reserve Account'.

Share forfeiture is not day-to-day business transaction of a company. Any surplus or profit on account of forfeiture of share is a capital profit. Therefore, the amount of forfeited shares is transferred to capital reserve account. The following entry will be passed in the book of company.

Share forfeiture A/c	Dr	.....
To Capital reserve A/c			.....
[Being transfer of balance of forfeited share account in respect of reissued shares to capital reserve account.]			

- **Other points to be kept in mind while reissuing forfeited shares :**

- (I) Unless the forfeited shares are reissued, the balance of the forfeited shares' account is added to paid-up capital under subscribed share capital in the note to accounts on 'share capital'.
- (II) When a part of forfeited shares is only reissued, the proportionate amount only in respect of forfeited shares which are reissued, will be transferred to capital reserve account. Credit balance of forfeited shares will continue on other shares which are not yet reissued.
- (III) Shares in respect of which any amount is not paid can be forfeited by board of directors by passing a resolution at any time after allotment or first call or final call. Such forfeited shares can be reissued immediately after forfeiture that means after allotment or after first call or after final call.

- Let us understand journal entries for forfeiture and reissue of forfeited shares in the books of company under different situations with the help of following illustration.

Illustration 10 : Pass necessary journal entries in the books of company relating to forfeiture and reissue of shares in respect of following transactions :

- (A) On 1-3-2017, company forfeited 500 equity shares of ₹ 10 each of Harnish. Harnish did not pay ₹ 3 per share in respect of share final call. On 2-4-2017, company reissued forfeited shares at ₹ 8 per share, which were purchased by Sanjay.
- (B) On 10-7-2017, company forfeited 350 equity share of Avadh of face value of ₹ 10 each for non-payment of ₹ 3 per share on first call and ₹ 2 per share on second and final call. On 12-8-2017, all 350 forfeited shares are reissued at ₹ 7 per share which were bought by Dharmesh.
- (C) On 14-9-2017, company forfeited 1200 equity share of Dhrumal of face value of ₹ 10 each for non payment of ₹ 3 per share on final call. Dhrumal had paid ₹ 4 per share on application and ₹ 8 per share (including premium of ₹ 5 per share) on allotment. Out of forfeited shares, company reissued 800 equity shares to Minesh on 16-10-2017 at a discount of ₹ 5 per share.
- (D) On 1-8-2017 company forfeited 700 equity shares of ₹ 10 each of Hetansh for non-payment of share allotment money of ₹ 54 per share (including premium of ₹ 50 per share) and ₹ 3 per share on final call money. Out of forfeited shares, company reissued 500 equity shares on 10-9-2017 at ₹ 35 per share (including premium of ₹ 25 for each share) to Hiren.
- (E) Company forfeited 2000 equity shares of Girish on 11-10-2017 for non-payment of ₹ 3 per share on first call and ₹ 2 per share on final call. Company had originally issued this share at face value of ₹ 10 per share.
- Out of forfeited shares, company reissued 1200 equity shares to Neel on 4-11-2017 at ₹ 8 per share and remaining equity shares were reissued on 22-11-2017 to Harsh at ₹ 7 per share.

Ans. :

Journal Entries in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(A) 1-3-2017	Equity share capital A/c Dr (500 shares × ₹ 10) To Share forfeiture A/c (500 shares × ₹ 7) To Share final call A/c (500 shares × ₹ 3) [Being forfeited 500 shares of Harnish due to non-payment of share final call amount.]		5000	3500 1500

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2-4-2017	Bank A/c Dr (500 shares × ₹ 8) Share forfeiture A/c Dr (500 shares × ₹ 2) To Equity share capital A/c (500 shares × ₹ 10) [Being reissue of 500 forfeited shares at ₹ 8 per share.]		4000 1000	5000
2-4-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture A/c ₹ 3500 credit – ₹ 1000 debit = ₹ 2500 transfer to capital reserve A/c.]		2500	2500
10(B) 10-7-2017	Equity share capital A/c Dr (350 shares × ₹ 10) To Share forfeiture A/c (350 shares × ₹ 5) To Shares' first call A/c (350 shares × ₹ 3) To Shares' second and final call A/c (350 shares × ₹ 2) [Being forfeiture of 350 shares of Avadh for non-payment of share first call and share second and final call.]		3500	1750 1050 700
12-8-2017	Bank A/c Dr (350 shares × ₹ 7) Share forfeiture A/c Dr (350 shares × ₹ 3) To Equity share capital A/c (350 shares × ₹ 10) [Being reissue of 350 forfeited shares at ₹ 7 per share.]		2450 1050	3500

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
12-8-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture account ₹ 700 (₹ 1750 credit – ₹ 1050 debit) transfer to capital reserve A/c]		700	700
10(C) 14-9-2017	Equity share capital A/c Dr (1200 shares × ₹ 10) To Share forfeiture A/c (1200 shares × ₹ 7) To Shares final call A/c (1200 shares × ₹ 3) [Being forfeiture of 1200 shares of Dharmal for non-payment of final call amount.]		12,000	8400 3600
16-10-2017	Bank A/c Dr (800 shares × ₹ 5) Share forfeiture A/c Dr (800 shares × ₹ 5) To Equity share capital A/c (800 shares × ₹ 10) [Being reissue of 800 shares at a discount of ₹ 5 per share out of 1200 forfeited shares.]		4000 4000	8000
16-10-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being transfer of proportionate credit balance of share forfeiture account in respect of 800 shares out of 1200 shares of Dharmal to capital reserve A/c.] *Credit balance of share forfeiture is ₹ 8400 for 1200 shares. Out of this 800 shares are reissued, so proportionate credit balance of share forfeiture is ₹ 5600. From this subtract debit balance of share forfeiture ₹ 4000, credit balance of share forfeiture of ₹ 1600 transfer to capital reserve account. Credit balance of share forfeiture a/c of ₹ 2800 will continue on 400 shares, which are not reissued.		1600	1600

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(D)				
1-8-2017	Equity share capital A/c Dr (700 shares × ₹ 10)		7000	
	Securities premium A/c Dr (700 shares × ₹ 50)		35,000	
	To Share forfeiture A/c (700 shares × ₹ 3)			2100
	To Share allotment A/c (700 shares × ₹ 54)			37,800
	To Shares final call A/c (700 shares × ₹ 3)			2100
	[Being forfeited 700 shares of Hetansh for non-payment of amount on share allotment and share final call.]			
10-9-2017	Bank A/c Dr (500 shares × ₹ 35)		17,500	
	To Equity share capital A/c (500 shares × ₹ 10)			5000
	To Securities premium A/c (500 shares × ₹ 25)			12,500
	[Being reissue of 500 share at ₹ 35 per share (including premium of ₹ 25) out of 700 forfeited shares.]			
10-9-2017	Share forfeiture A/c Dr		1500	
	To Capital reserve A/c			1500
	[Being transfer of proportionate amount of ₹ 1500 to capital reserve account on reissued 500 shares against credit balance of share forfeiture a/c of ₹ 2100 on 700 forfeiture shares.]			
	* Credit balance of share forfeiture account (700 shares × ₹ 3) = ₹ 2100			
	Less : Credit balance of share forfeiture a/c on reissued forfeited shares (500 shares × ₹ 3) = ₹ 1500			
	Balance of share forfeiture account			
	will continue of balance 200 shares = ₹ 600			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(E) 11-10-2017	Equity share capital A/c Dr (2000 shares × ₹ 10) To Share forfeiture A/c (2000 shares × ₹ 5) To Shares' first call A/c (2000 shares × ₹ 3) To Shares' final call A/c (2000 shares × ₹ 2) [Being forfeiture of 2000 shares of Girish for non-payment of share first call and share final call.]		20,000	10,000 6000 4000
4-11-2017	Bank A/c Dr (1200 shares × ₹ 8) Share forfeiture A/c Dr (1200 shares × ₹ 2) To Equity share capital A/c (1200 shares × ₹ 10) [Being reissue of 1200 shares to Neel at ₹ 8 per share out of 2000 forfeited shares.]		9600 2400	12,000
4-11-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture for 1200 equity shares transfer to capital reserve A/c.] Calculation : Proportional amount of share forfeiture for 1200 shares ₹ 6000 Less : Amt. debited to share forfeiture A/c ₹ 2400 Capital reserve A/c ₹ 3600		3600	3600
22-11-2017	Bank A/c Dr (800 shares × ₹ 7) Share forfeiture A/c Dr (800 shares × ₹ 3) To Equity share capital A/c (800 shares × ₹ 10) [Being reissue of balance 800 shares to Harsh at ₹ 7 per share out of 2000 forfeited shares.]		5600 2400	8000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
22-11-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture A/c of 800 equity shares' transfer to capital reserve A/c.] Calculation : Proportional amount of share forfeiture for 800 shares ₹ 4000 Less : Amt. debited to share forfeiture A/c ₹ 2400 To capital reserve A/c ₹ 1600		1600	1600

Illustration 11 : Naznin Textiles Limited issued 12,00,000 equity shares of ₹ 10 each. On which amount was payable as under :

On application ₹ 4 per share

On allotment ₹ 4 per share and

On final call ₹ 2 per share

Company received application for 15,50,000 equity shares from public. Excess applications were rejected and amount paid on application thereon was refunded.

Harun, who was allotted 8000 shares, had not paid allotment and final call amount.

Salim, who was allotted 2000 shares, had not paid amount on final call. Company forfeited shares of Harun and Salim and all the forfeited shares were reissued at ₹ 7.50 per share as fully paid up. All these shares were purchased by Shahrukh.

Pass necessary journal entries in the books of company to record above transactions and also prepare share forfeiture account.

Ans. :

Journal Entries in the Book of Naznin Textiles Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being amount received on 15,50,000 equity shares' application at ₹ 4 per share.]		62,00,000	62,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being application money on rejected 3,50,000 shares at ₹ 4 per share refunded to share applicants after allotting 12,00,000 shares.]		62,00,000	48,00,000 14,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
9	Share forfeiture A/c Dr To Capital reserve A/c [Being credit balance of share forfeiture account transfer to capital reserve account.] * Credit balance of share forfeiture account ₹ 48,000 less debit balance ₹ 25,000 = ₹ 23,000 credit balance		23,000	23,000
	Total		2,70,23,000	2,70,23,000

Note : Sometimes, when amount is not received on called amount on allotment or calls for shares, then amount which was not received, is transferred to 'Calls-in-Arrears A/c.' In case 'Calls-in-Arrears' account is maintained by a company, then at the time of forfeiture of shares, 'Calls-in-Arrears A/c' would be credited instead of respective calls account. Same effect is given in above illustration.

Share Forfeiture Account

Dr

Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
8	To Equity share capital A/c		25,000	7	By Equity share capital A/c		48,000
9	To Capital reserve A/c		23,000				
			48,000				48,000

Illustration 12 : Dhyani Ceramic Limited issued 3,00,000 equity shares of ₹ 10 each at a premium of ₹ 150 per share. Amount called up per share was as under :

On application ₹ 74 (Including ₹ 70 for premium)

On allotment ₹ 44 and (Including ₹ 40 for premium)

On final call ₹ 42 (Including ₹ 40 for premium)

Company received application for 3,00,000 shares. All amounts due were received except final call on 2000 shares held by Vishal. Company forfeited Vishal's shares after carrying out necessary formalities and reissued those shares to Avani as full paid up at ₹ 80 per share.

Pass necessary journal entries for above transaction in the books of company and also prepare securities premium account.

Ans. :

Journal Entries in the Books of Dhyani Ceramic Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being receipt of share application money on 3,00,000 equity shares at ₹ 74 per share.]		2,22,00,000	2,22,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Equity share application A/c Dr To Equity share capital A/c To Securities premium A/c [Being transfer of ₹ 4 per share to share capital account and ₹ 70 per share to securities premium account out of total share application money on 3,00,000 allotted shares.]		2,22,00,000	12,00,000 2,10,00,000
3	Equity share allotment A/c Dr To Equity share capital A/c To Securities premium A/c [Being allotment money of ₹ 44 per share (including premium of ₹ 40) due on 3,00,000 shares.]		1,32,00,000	12,00,000 1,20,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being receipt of full amount of share allotment.]		1,32,00,000	1,32,00,000
5	Equity shares final call A/c Dr To Equity share capital A/c To Securities premium A/c [Being final call of ₹ 42 (including premium of ₹ 40) per share due on 3,00,000 shares.]		1,26,00,000	6,00,000 1,20,00,000
6	Bank A/c Dr To Equity shares' final call A/c [Being receipt of share final call amount on 2,98,000 shares except 2000 shares of Vishal.]		1,25,16,000	1,25,16,000
7	Equity share capital A/c Dr (2000 shares × ₹ 10) Securities premium A/c Dr (2000 shares × ₹ 40) To Share forfeiture A/c (2000 shares × ₹ 8) To Equity shares final call A/c (2000 shares × ₹ 42) [Being forfeiture of 2000 shares of Vishal for non-receipt of final call.]		20,000 80,000	16,000 84,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
8	Bank A/c Dr To Equity share capital A/c (2000 shares × ₹ 10) To Securities premium A/c (2000 shares × ₹ 70) [Being reissue of 2000 shares at ₹ 80 per share.]		1,60,000	20,000 1,40,000
9	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture account transfer to capital reserve account.]		16,000	16,000
	Total		9,61,92,000	9,61,92,000

**In the Ledger of Dhyani Ceramic Limited
Securities Premium Account**

Debit

Credit

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
7	To Equity shares final call A/c To Balance c/d		80,000 4,50,60,000	2	By Equity share application A/c		2,10,00,000
				3	By Equity shares allotment A/c		1,20,00,000
				5	By Equity shares' final call A/c		1,20,00,000
				8	By Bank A/c		1,40,000
			4,51,40,000				4,51,40,000

Illustration 13 : A limited company issued 18,00,000 equity shares of ₹ 10 each. Amount called up per share was as under :

₹ 3 per share on application

₹ 3 per share on first call

₹ 2 per share on allotment

₹ 2 per share on final call

All amounts due were received on due dates except from the following persons.

Ami, who was holding 1200 shares did not pay money due on allotment, first call and final call.

Rami, who was holding 800 shares did not pay money due on first call and final call.

Gami, who was holding 1600 shares did not pay amount due on final call.

After necessary formalities, all the shares of these three persons were forfeited and were reissued at ₹ 8 per share.

Write journal entries in the books of company for forfeiture and reissue of forfeited shares.

Ans. : Calculation of amount which is received and which is not received on shares forfeited.

(Note : Amount not received is shown in brackets.)

	No. of shares	On application ₹ 3 per share	On allotment ₹ 2 per share	On first call ₹ 3 per share	On final call ₹ 2 per share	Total Amt. Received (₹)
Ami	1200	3600	(2400)	(3600)	(2400)	3600
Rami	800	2400	1600	(2400)	(1600)	4000
Gami	1600	4800	3200	4800	(3200)	12,800
Amt. not received		—	(2400)	(6000)	(7200)	—
Amt. received →		10,800	4800	4800	—	20,400
Total no.of shares	3600					

Journal Entries in Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Equity share capital A/c Dr (3600 shares × ₹ 10) To Forfeited shares' A/c (Total amount received) To Share allotment A/c To Shares first call A/c To Shares final call A/c [Being total 3600 shares of Ami, Rami and Gami which were forfeited because of non-receipt of full amount due on shares.]		36,000	20,400 2400 6000 7200
2	Bank A/c Dr (3600 shares × ₹ 8) Forfeited shares' A/c Dr (3600 shares × ₹ 2) To Equity share capital A/c (3600 shares × ₹ 10) [Being reissue of forfeited shares at ₹ 8 per shares.]		28,800 7200	36,000
3	Forfeited share' A/c Dr To Capital reserve A/c [Being balance of forfeited share a/c ₹ 13,200 (₹ 20,400 — ₹ 7200) transferred to capital reserve account.]		13,200	13,200

Illustration 14 : Dipak Limited issued 5,00,000 equity shares of ₹ 10 each at a premium of ₹ 25 per share. Amount payable on shares was as under :

On application ₹ 13 per share (Including premium ₹ 10)

On allotment ₹ 17 per share (Including premium ₹ 15)

On first call ₹ 2 per share

On final call ₹ 3 per share

Applications were received for total 5,80,000 shares. Excess applications were rejected and amount paid thereon was refunded.

Anup, who was allotted 4000 shares, could not pay allotment money hence shares were forfeited after allotment.

Purvi, who was allotted 3000 shares, could not pay first call money and hence her shares were forfeited after first call.

Amount due on final call on remaining shares was received in full.

Pass necessary journal entries in books of company for recording above transactions.

Ans. :

Journal Entries in Books of Dipak Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Share application A/c [Being share application money received on 5,80,000 shares at ₹ 13 per share.]		75,40,000	75,40,000
2	Share application A/c Dr To Equity share capital A/c To Securities premium A/c To Bank A/c [Being ₹ 3 per share to share capital account and ₹ 10 per share to securities premium account on 5,00,000 allotted shares and refund ₹ 13 per shares on rejected 80,000 shares.]		75,40,000	15,00,000 50,00,000 10,40,000
3	Share allotment A/c Dr To Equity share capital A/c To Securities premium A/c [Being allotment money due on 5,00,000 shares at ₹ 17 per share (including ₹ 15 for premium)]		85,00,000	10,00,000 75,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Bank A/c Dr To Share allotment A/c [Being receipt of full amount of share allotment money on balance 4,96,000 shares except 4000 shares of Anup.]		84,32,000	84,32,000
5	Equity share capital A/c Dr (4000 shares × ₹ 5) Securities premium A/c Dr (4000 shares × ₹ 15) To Share forfeiture A/c (4000 shares × ₹ 3) To Share allotment A/c (4000 shares × ₹ 17) [Being non receipt of allotment amount on 4000 shares of Anup, these shares were forfeited after allotment.]		20,000 60,000	12,000 68,000
6	Shares first call A/c Dr To Equity share capital A/c [Being amount called on first call on 4,96,000 shares at ₹ 2 per share.] * Due to forfeited 4000 shares of Anup, first call has not been called.		9,92,000	9,92,000
7	Bank A/c Dr To Shares' first call A/c [Being receipt of full amount on share first call on balance 4,93,000 shares except 3000 shares of Purvi.]		9,86,000	9,86,000
8	Equity share capital A/c Dr (3000 shares × ₹ 7) To Share forfeiture A/c (3000 shares × ₹ 5) To Shares first call A/c (3000 shares × ₹ 2) [Being non-receipt of first call amount on 3000 shares of Purvi, these shares were forfeited after first call.]		21,000	15,000 6000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
9	Shares final call A/c Dr To Equity share capital A/c [Being amount due on final call on 4,93,000 shares at ₹ 3 per share.]		14,79,000	14,79,000
10	Bank A/c Dr To Shares final call A/c [Being receipt of full amount called on share final call.]		14,79,000	14,79,000
	Total		3,70,49,000	3,70,49,000

Note : In transaction no. 9, final call on 4000 forfeited shares of Anup and 3000 shares of Purvi has not called.

14. Pro-rata Allotment of Shares

We have seen in previous point that, when the number of shares applied for is more than the number of shares offered for subscription by company is said to be over subscribed. In this situation, shares can be allotted by the company by any of the following alternatives :

- Full allotment of shares against shares applied by applicants. e.g. allotment of 500 shares to applicants of 500 shares.
- Not a single share allotted to shares applicants against their application. e.g. not to allot single share to applicants of 200 shares.
- Allotted shares in proportion to share applicants against their application. e.g. Allotment to 300 shares to applicants of 500 shares.

So, as per (iii) situation, some shares are allotted on pro-rata basis to share applicants against their share application.

In this situation, the excess amount received on application from applicants is utilised towards the even amount due on allotment. After this, even if there is any surplus amount, then it will be adjusted towards share calls. If still any surplus amount remains, then it will be refunded to share applicants. Let us understand the above points by following illustration.

Illustration 15 : Bharti Food Products Ltd. issued 80,000 equity shares to the public at ₹ 10 per share.

Company called up the amount as under :

On application ₹ 4 per share, on allotment ₹ 3 per share and on final call ₹ 3 per share.

Applications were received from public for 1,20,000 shares, its allotment was made by company as under :

Full allotment was made to applicants of 32,000 shares.

Not a single share was allotted to applicants of 24,000 shares.

48,000 shares were allotted to applicants of 64,000 shares.

All amounts were received in time. Pass journal entries in book of the company from above information.

Ans. :

Journal Entries in the Books of Bharti Food Product Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being application money received on 1,20,000 shares at ₹ 4 per share.]		4,80,000	4,80,000
2	Equity share application A/c Dr To Equity share capital A/c (80,000 shares × ₹ 4) To Equity allotment A/c (16,000 shares × ₹ 4) To Bank A/c (24,000 shares × ₹ 4) [Being transfer share application money to equity share capital account for 80,000 allotted shares at ₹ 4 per share, refund money on 24,000 shares at ₹ 4 per share and excess amount of applicants of 16,000 shares to share allotment account at ₹ 4 per share.]		4,80,000	3,20,000 64,000 96,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money due on 80,000 shares at ₹ 3 per share.]		2,40,000	2,40,000
4	Bank A/c Dr To Equity share allotment A/c [Being after deducting ₹ 64,000 of advance allotment money, balance amount fully received on allotment.]		1,76,000	1,76,000
5	Shares' final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 3 per share.]		2,40,000	2,40,000
6	Bank A/c Dr To Shares final call A/c [Being full amount is received on final call..]		2,40,000	2,40,000
	Total		18,56,000	18,56,000

Calculation :

	Number of share application	Amount paid on application (₹)	Share allotted	Transfer to share application (₹)	Transfer to share allotment (₹)	Transfer to share final call (₹)	Amount refunded (₹)
	32,000	1,28,000	32,000	1,28,000	—	—	—
	24,000	96,000	—	—	—	—	96,000
	64,000	2,56,000	48,000	1,92,000	64,000	—	—
Total	1,20,000	4,80,000	80,000	3,20,000	64,000	—	96,000

Illustration 16 : Bhadresh Diamond Ltd. of Surat issued 3,00,000 equity shares of ₹ 10 per share.

Amount called up on application at ₹ 3 per share, on allotment ₹ 2.50 per share, on first call at ₹ 2.50 per share and on final call at ₹ 2 per share.

Applications were received from public of 4,56,000 shares. Allotment of 3,00,000 shares was made pro-rata to 4,50,000 applicants. Application for 6000 shares were rejected. Full amounts were received from all shareholders except from a shareholder named Daxa. Daxa who was allotted 600 shares, did not pay final call money. Her shares were forfeited. Total shares of Daxa were reissued as fully paid up at ₹ 9 per share.

Pass journal entries in the books of company for the above transactions.

Ans. :

Journal Entries in the Book of Bhadresh Diamond Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being application money received on 4,56,000 shares at ₹ 3 per share.]		13,68,000	13,68,000
2	Equity share application A/c Dr To Equity share capital A/c (3,00,000 shares × ₹ 3) To Equity share allotment A/c (1,50,000 shares × ₹ 3) To Bank A/c (6000 shares × ₹ 3) [Being from application money, amount transfer to share capital account of allotted shares, excess amount of share application transfer to share allotment account and amount refunded to applicants of 6000 shares.]		13,68,000	9,00,000 4,50,000 18,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment amount due on 3,00,000 shares at ₹ 2.50 per share.]		7,50,000	7,50,000
4	Bank A/c Dr To Equity share allotment A/c [Being amount received on share allotment.]		3,00,000	3,00,000
5	Equity shares first call A/c Dr To Equity share capital A/c [Being first call amount due on 3,00,000 shares at ₹ 2.50 per share.]		7,50,000	7,50,000
6	Bank A/c Dr To Equity shares first call A/c [Being full amount received on amount due on first call.]		7,50,000	7,50,000
7	Equity shares final call A/c Dr To Equity share capital A/c [Being final call amount due on 3,00,000 shares at ₹ 2 per share.]		6,00,000	6,00,000
8	Bank A/c Dr To Shares' equity shares final call A/c [Being amount received on final call except 600 shares of Daxa at ₹ 2 per shares total ₹ 1200.]		5,98,800	5,98,800
9	Equity share capital A/c Dr (600 shares × ₹ 10) To Share forfeiture A/c (600 shares × ₹ 8) To Final call A/c (600 shares × ₹ 2) [Being forfeited 600 shares of Daxa.]		6000	4800 1200
10	Bank A/c (600 shares × ₹ 9) Dr Share forfeiture A/c (600 shares × ₹ 1) Dr To Equity share capital A/c [Being reissue of 600 forfeited shares of Daxa.]		5400 600	6000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
11	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture account transfer to capital reserve account.]		4200	4200
	Total		65,01,000	65,01,000

Illustration 17 : Nupur Limited issued 5,00,000 equity shares of ₹ 10 each at a premium of 100 %.

Amount called up per share is as under :

On application ₹ 5

On allotment ₹ 2 + premium

On first and final call ₹ 3

Applications were received two and half times. Out of which $\frac{2}{5}$ th share applications were rejected fully and pro-rata allotment was made to the remaining applications. Excess application money were credited to allotment money and still if any surplus then credited to share calls.

Write necessary journal entries in the books of Nupur Limited.

Ans. :

Calculation : 100 % premium on ₹ 10 per share means ₹ 10.

Total application received	Share allotment
$12,50,000 \times \frac{2}{5} = 5,00,000$	—
7,50,000	5,00,000 (3:2 ratio)
<u>12,50,000</u>	<u>5,00,000</u>

Working of amount received by company on allotment :

Amount received on application = ₹ 37,50,000

[7,50,000 shares × ₹ 5]

Less : Application amount of
allotted shares

Amt. [5,00,000 shares × ₹ 5] = ₹ 25,00,000

Surplus amount transfer to
share allotment

= ₹ 12,50,000

• Amount called on share allotment = ₹ 60,00,000

[5,00,000 shares × ₹ 12]

Less : Advance amount received

on share allotment

= ₹ 12,50,000

Amount received on share allotment = ₹ 47,50,000

Journal Entries in the Books of Nupur Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being amount received on 12,50,000 shares at ₹ 5 per share for application.]		62,50,000	62,50,000
2	Equity share application A/c Dr To Equity share capital A/c (5,00,000 shares × ₹ 5) To Equity share allotment A/c (Surplus amount) To Bank A/c (Refund to applicants) [Being amount on 5,00,000 allotted shares to share capital account, surplus amount to share allotment account where amount refunded on 5,00,000 rejected shares to applicants.]		62,50,000	25,00,000 12,50,000 25,00,000
3	Equity share allotment A/c Dr To Equity share capital A/c To Securities premium A/c [Being amount called on 5,00,000 shares at ₹ 12 per share (including premium of ₹ 10.)]		60,00,000	10,00,000 50,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being amount received for share allotment.]		47,50,000	47,50,000
5	Equity first and final call A/c Dr To Equity share capital A/c [Being amount called on 5,00,000 shares at ₹ 3 per share.]		15,00,000	15,00,000
6	Bank A/c Dr To Equity first and final call A/c [Being amount received on call.]		15,00,000	15,00,000
	Total		2,62,50,000	2,62,50,000

● **For Opening Share Application and Allotment Account :**

Now-a-days it is a practice to keep a common account for application and allotment instead of two separate accounts. In such a case a joint account named "Share Application and Allotment Account" is opened. Then all entries relating to application and allotment are made in this account.

When a joint account is maintained, the journal entries are recorded in the following manner :

(i) **On receipt of application money :**

Bank A/c ...Dr	[No. of shares applied × Application money
To share application and allotment A/c	per share]

(ii) **On transfer of application money to share capital and allotment money due :**

Share application and allotment A/c ...Dr	[No. of shares allotted × (Application
To share capital A/c	money per share + Allotment money per share)]

(iii) **On refund of money to applicants on rejected applications :**

Share application and allotment A/c ...Dr	[No. of shares rejected × Application
To bank A/c	money per share]

(iv) **On receipt of allotment money :**

Bank A/c ...Dr	[Actual amount received from
To share application and allotment A/c	shareholders on allotment.]

Illustration 18 : The authorised capital of Sanjay Limited of Patan is 1,60,000 shares of ₹ 5 each. On April 3, 2017, company issued 1,20,000 shares at a premium of ₹ 200 per share to public. Amount payable per share was as follows :

On application	₹ 102 per share (including premium of ₹ 100)
On allotment	₹ 103 per share (including premium ₹ 100) (As on May 1, 2017)

Upto April 5, 2017, company received application for 1,84,000 shares from public, from these applications 4000 shares were rejected and on balance share application 1,20,000 shares were allotted.

All called up amount were received in proper time. Company maintains the combined 'Share application and allotment account'.

Journalise the above mentioned transactions.

Ans. : Calculation :

	(₹)
Total amount received on share application (1,84,000 shares × ₹ 102)	1,87,68,000
Less : Amount on rejected share application (4000 shares × ₹ 102)	4,08,000
	<hr/> 1,83,60,000
Less : Amount of share application on allotted shares (1,20,000 shares × ₹ 102)	1,22,40,000
	<hr/> 61,20,000
Amount due on share allotment (1,20,000 shares × ₹ 103)	1,23,60,000
Less : Advance of allotment	61,20,000
Amount received on allotment	62,40,000

Journal Entries in the Books of Sanjay Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 April, 5	Bank A/c Dr To Share application and allotment A/c [Being application money received on 1,84,000 shares at ₹ 102 per share.]		1,87,68,000	1,87,68,000
May, 1	Share application and allotment A/c Dr To Share capital A/c (1,20,000 shares × ₹ 5) To Securities premium A/c (1,20,000 shares × ₹ 200) [Being application amount on allotted shares at ₹ 2 per share and amount called on allotment at ₹ 3 per share transfer to share capital account, where amount on application ₹ 100 per share and called up amount on allotment ₹ 100 per share transfer to securities premium account.]		2,46,00,000	6,00,000 2,40,00,000
May, 1	Share application and allotment A/c Dr To Bank A/c [Being amount refunded on rejected application of 4000 shares at ₹ 102 per share.]		4,08,000	4,08,000
May, 1	Bank A/c Dr To Share application and allotment A/c [Being balance amount received on amount due on allotment (as per working).]		62,40,000	62,40,000
	Total		5,00,16,000	5,00,16,000

15. Issue of Shares for Consideration Other Than Cash

Usually, when company issue shares, it gets cash against such issue of shares. However, in some circumstances, company does not get cash against issue of shares. Such situations could be as under :

- (i) When company does not pay cash and issues shares for purchases of any assets or business.
- (ii) When company issues shares in lieu of remuneration payable to promoters.
- (iii) When company issues shares towards under-writing commission to underwriters.
- (iv) When company issues bonus shares to existing shareholders.

Note : Shares issued for consideration other than cash has to be shown separately in balance sheet of company under the heading 'Share capital'.

(i) **Shares issued against purchase of assets or business :**

When company purchases any assets or purchases any business, it may issue shares against consideration instead of giving cash. e.g. company issued some of equity shares in consideration of machinery purchased of ₹ 2,00,000. Here, following journal entries are made.

(I)	Machinery A/c ...Dr	2,00,000	
	To Vendor's A/c		2,00,000

(II)	Vendor's A/c ...Dr	2,00,000	
	To Equity share capital A/c		2,00,000

If company issues equity shares of ₹ 1,50,000 and balance amount by cheque in consideration of machinery purchased of ₹ 2,00,000, the entry will be as under :

Vendor's A/c ...Dr	2,00,000	
To Equity share capital A/c		1,50,000
To Bank A/c		50,000

When company purchases any business and shares are issued for consideration then, if value of issued shares is higher than the net assets of business, the amount of difference is transferred to 'Goodwill account', but if the value of issued shares is less than the net assets of business, the difference is transferred to 'Capital Reserve Account'.

Illustration 19 : Aakash Limited issued 8,00,000 equity shares of ₹ 10 each towards purchase of business of Patel Brothers. Company purchased following assets and liabilities of the firm.

	(₹)		(₹)
Land and building	28,00,000	Creditors	8,00,000
Plant and machinery	16,00,000	Stock	8,00,000
Vehicles and furniture	20,00,000	Bills receivable	8,00,000
Debtors	4,00,000		

Write journal entries in the books of company.

If company issue 3,50,000 shares of ₹ 10 each at a premium of ₹ 10 per share towards purchase of business of Patel Brother, then pass journal entries in the books of company.

Ans. : Net assets of business purchased by the company shall be calculated as under :

	(₹)
Land and building	28,00,000
Plant and machinery	16,00,000
Vehicles and furniture	20,00,000
Debtors	4,00,000
Stock	8,00,000
Bills receivable	8,00,000
	<u>84,00,000</u>
Less : Creditors	8,00,000
Net assets	<u>76,00,000</u>

Purchase consideration = 8,00,000 equity shares × ₹ 10 = ₹ 80,00,000

Purchase consideration – Net assets = Goodwill

₹ 80,00,000 – ₹ 76,00,000 = ₹ 4,00,000

Journal Entries in the Books of Aakash Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Land and building A/c Dr Plant and machinery A/c Dr Vehicle and furniture A/c Dr Debtors A/c Dr Stock A/c Dr Bills receivable A/c Dr Goodwill A/c Dr To Creditors A/c To Patel Brothers A/c [Being purchase of business of Patel Brothers' firm.]		28,00,000 16,00,000 20,00,000 4,00,000 8,00,000 8,00,000 4,00,000 8,00,000 80,00,000	 8,00,000 80,00,000
2	Patel Brothers A/c Dr To Equity share capital A/c [Being issue of 8,00,000 equity shares of ₹ 10 each against purchase consideration.]		80,00,000	80,00,000

Here, if company issues 3,50,000 shares, face value of share is ₹ 10 at a premium of ₹ 10 per share to Patel Brother then,

$$\begin{aligned}
 \text{Purchase consideration} &= 3,50,000 \text{ shares} \times ₹ 10 = ₹ 35,00,000 \\
 &\quad (\text{share capital A/c}) \\
 3,50,000 \text{ shares} \times ₹ 10 &= ₹ 35,00,000 \\
 &\quad (\text{premium A/c}) \\
 \text{Total purchase consideration} &= ₹ 70,00,000
 \end{aligned}$$

$$\text{Net assets} = ₹ 76,00,000$$

$$\text{New assets} - \text{Purchase consideration} = \text{Capital reserve}$$

$$₹ 76,00,000 - ₹ 70,00,000 = ₹ 6,00,000$$

Journal Entries in the Books of Aakash Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Land and building A/c Dr Plant and machinery A/c Dr Vehicles and furnitue A/c Dr Debtors A/c Dr Stock A/c Dr Bills receivable A/c Dr To Creditors A/c To Capital reserve A/c To Patel Brothers A/c [Being purchase of business of Patel Brothers' firm.]		28,00,000 16,00,000 20,00,000 4,00,000 8,00,000 8,00,000 70,00,000	 8,00,000 6,00,000 70,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Patel Brothers A/c Dr To Equity share capital A/c To Securities premium A/c [Being issue of 3,50,000 shares of ₹ 10 each, with a premium of ₹ 10 per share against purchase consideration.]		70,00,000	35,00,000 35,00,000

(ii) Company may issue shares as remuneration to promoters or others who render their services :

Sometimes, company issues shares to its promoters for their services. Similarly, company may issue shares towards remuneration to other persons who render managerial services or any other services.

For example, company issue 12,000 equity shares of ₹ 10 each to its promoter for his services. In this case, the journal entry will be as under :

Incorporation or formation expenses A/c ...Dr	1,20,000
To Equity share capital A/c	1,20,000

For example, company issue equity shares of ₹ 80,000 towards remuneration to a person who render services for company, in such case the journal entry will be as under :

Remuneration to respective service A/c ...Dr	80,000
To Equity share capital A/c	80,000

(iii) Issue of shares to underwriters towards underwriting commission :

Public company issues their shares in the public after getting certificate of incorporation. As per company act, at least 90 % subscription should be received from the issued shares. It is known as minimum subscription.

If company does not receive minimum subscription, company can not commence business or total subscription would be cancelled. To avoid such situation, underwriting agreement is entered into so that if shares are not fully subscribed, the brokers underwriting the shares will purchase the remaining shares. For this work, underwriters are paid some fixed commission.

Sometimes, such commission is given by issue of shares instead of paying the same in cash. In such case, journal entry in the books of company shall be passed as under :

- (I) When liability to pay commission to underwriters has been decided,

Underwriting commission A/c ...Dr	.....
To Underwriters A/c	.....

- (II) When company pays such commission by issue of shares,

Underwriters A/c ...Dr	.....
To Equity share capital A/c	.....

(iv) Issue of bonus shares to existing shareholders :

Shares issued without any consideration by a company to its present shareholders out of accumulated profits are known as bonus shares. The following two journal entries are written when bonus shares are issued by company :

(I) For providing for bonus out of general reserve or profit and loss account,

General reserve A/c ...Dr	.....
Profit and loss A/c ...Dr	.....
To Bonus to shareholder's A/c	.....

(II) For issue of bonus shares,

Bonus to shareholder's A/c ...Dr	.....
To Equity share capital A/c	.....

Important notes : Following,

- (i) Point no. 16 is given here only for information for the students. Items related to share capital in balance-sheet of company is presented here. This point is not expected for examination.
- (ii) In point no. 17, some important issues are given here only with the object that students can know present scenario of this chapter. This point (information) is also not expected for examination.

16. Presentation of Share Capital in Company's Vertical Balance Sheet

As per schedule III of Companies Act, 2013, share capital is to be disclosed in a company's balance sheet in the following manner.

Company's Balance Sheet of Company as on

Particulars	Note No.	Amount current year (₹)	Amount previous year (₹)
1. Equity and Liabilities :			
Shareholder's Fund :			
(a) Share capital	1	.....	.....
(b) Reserve and surplus	2	.....	.....
(c) Money received against share warrants		.....	.....
Non-current Liabilities :			
Current Liabilities :			
Other Current Liabilities :			
Balance of calls-in-advance		.....	.....

As per schedule III disclosure requirements pertaining to share capital are to be provided in notes to accounts.

Notes to Accounts :

(1) Share Capital :

	(₹)	(₹)
Authorised Capital :		
..... equity shares of ₹ each	.....
..... preference shares of ₹ each	.....	.....
Issued Capital :		
..... equity shares of ₹ each	.....
..... preference shares of ₹ each	.....	.....
Subscribed Capital :		
Subscribed and Fully Paid Capital :		
..... equity shares of ₹ each	.....
..... preference shares of ₹ each	.....
(Of the above shares shares are allotted as fully paid up pursuant to a contract without payments being received in cash.)		
Subscribed But Not Fully Paid Capital :		
..... shares of ₹ each		
₹ per share called-up	₹	
Less : Calls in arrears :		
(i) By directors and officers of the company ₹		
(ii) By others	₹	
Add : Forfeited shares	₹ .....	.....

(2) Reserve and Surplus :

	(₹)	(₹)
Securities premium reserve	.....
Capital reserve	.....	.....

17. Some Important Issues

(1) Preferential Allotment : Preferential allotment means allotment of shares at a predetermined price to the pre-identified people. Here preferential people means who are interested in taking a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of company's products or its suppliers. The company is required to pass special resolution in the meeting of shareholders before proceeding with preferential allotment.

(2) Sweat Equity Shares : A company may issue sweat equity shares as per sec. 54 of Companies Act, 2013. Sweat equity shares means equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available intellectual property rights.

The issue of such shares is authorised by a special resolution passed by the company. The class of such shares should be of the class already issued earlier. The resolution so passed should specify the number of shares issued, what is current market price of it, how much consideration is decided against this issue, if any other matter and classes of directors or employees to whom such shares are to be issued.

If this type of shares are listed on a stock exchange then it should be issued in accordance with the regulations made by the SEBI. Company may issue this type of shares at a price lower than the nominal value of equity share. Such shares cannot be resold by their holders within a period of 3 years from the date of shares received, this is called lock-in-period.

The entries for issue of sweat equity shares are the same as for issue of other equity shares.

(3) Employees Stock Option Plan - ESOP : Employees Stock Option Plan means option granted by the company to its employees and to subscribe the shares at a price that is lower than the market price, i.e. fair value. It is option or right granted by the company in good faith but it is not an obligation on the employee to subscribe it. The employees may or may not exercise the option.

These shares are of the same class of shares already issued. It is authorised by a special resolution passed by the company. Employees stock option plan is a category of sweat equity shares.

(4) Applications Supported by Blocked Amount - ASBA : ASBA is a process developed by the Indian stock market regulator SEBI for applying to IPO. In ASBA, an IPO applicant's account doesn't get debited until shares are allotted to them.

Earlier Qualified Institutional Buyers (QIBs) were not allowed to participate in IPOs through ASBA facility.

Currently as per SEBI guidelines, non-retail investors i.e. Qualified Institutional Buyers and Non-institutional Investors, making application in public/rights issue shall mandatory make use of ASBA facility.

ASBA process facilitates retail individual investors bidding at a cut-off, with a single option, to apply through Self Certified Syndicate Banks (SCSBs), in which the investors have bank accounts. SCSBs are those banks which satisfy the conditions laid by SEBI. SCSBs would accept the applications, verify the application, block the fund to the extent of bid payment amount, upload the details in the web based bidding system of NSE, unblock once basis of allotment is finalized and transfer the amount for all shares to the issuer.

ASBA means "Applications Supported by Blocked Amount". ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money on allotted shares shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized or when shares is not allotted, then control on block amount is withdrawn.

ASBA is stipulated by SEBI and available from most of the banks operating in India. This allows the investors money to remain with the bank till the shares are allotted after the IPO. This amount cannot be utilised by applicants. When shares are allotted only then required amount is transferred out of the investors account to the company's account. This eliminates the need for refunds on shares not being allotted.

In present scenario, investors may submit their ASBA applications to these SCSBs in order to apply for public issues. The list of SCSBs include banks likes Axis Bank, HDFC Bank, ICICI Bank, State Bank of India, Punjab National Bank, IDBI Bank and others.

There is no difference in both the methods of application, by ASBA and without ASBA for allotment of shares.

EXERCISE

1. Select right answer for each question :

- (1) At what minimum price per share company can issue shares according to current provisions of Companies Act ?

(a) ₹ 100	(b) ₹ 1000
(c) ₹ 1	(d) ₹ 0.50
- (2) For public issue of shares company has to take a permission from whom ?

(a) Central government	(b) SEBI
(ca) State government	(d) Reserve Bank
- (3) As per SEBI guidelines, the minimum amount on each share called by company on application must be at least % of the issue price.

(a) 25	(b) 30
(c) 5	(d) 20
- (4) If the company does not receive subscription for at least of the public issue, then share issue would be cancelled.

(a) 50 %	(b) 75 %
(c) 90 %	(d) 100 %
- (5) At what maximum rate of percentage for premium on the face value of shares can be declared by the company on their issue shares ?

(a) 10 %	(b) 100 %
(c) 25 %	(d) No limit
- (6) When shares are forfeited then amount called up on forfeited shares is

(a) debited to share forfeiture A/c	(b) credited to share forfeiture A/c
(c) credited to share capital A/c	(d) debited to share capital A/c
- (7) What is the maximum rate of interest charged by company on calls-in-arrears as per schedule I of Table F ?

(a) at 15 % p.a.	(b) at 10 % p.a.
(c) at 2 % p.m.	(d) at 1 % p.m.

- (8) When all the forfeited shares are reissued then balance of share forfeiture account is transferred to account.
- (a) share capital (b) profit-loss
(c) capital reserve (d) general reserve
- (9) If premium amount has not been received on forfeited shares then proportionate amount of premium is
- (a) debited to securities premium account
(b) credited to securities premium account
(c) credited to capital reserve account
(d) debited to share capital account
- (10) Which of the following is not shown under the heading 'Share Capital' in a balance sheet ?
- (a) Authorised capital (b) Issued capital
(c) Reserve capital (d) Subscribed capital

2. Write answer in two or three sentences :

- (1) What is share and share capital ?
(2) What is securities premium ?
(3) What is meant by share forfeiture ?
(4) In which circumstances do companies issue shares for consideration other than cash ?
(5) Under which circumstances do companies issue shares for consideration other than cash ?
(6) What is under-subscription and over-subscription of shares ?
(7) What is pro-rata allotment of shares ?
(8) Give any two uses of amount of securities premium reserve.

3. Give differences :

- (1) Over-subscription and under-subscription
(2) Preference share and equity share
(3) Reserved capital and capital reserve

4. Give answer of the following questions in detail :

- (1) What do you mean by share capital ? State the types of share capital.
(2) What is a share ? State the types of shares.
(3) Explain in details the method of issuing shares by private placement.
(4) Write a short note on calls-in-arrears.
(5) What is meant by calls-in-advance ? State the provisions of it under companies act.
(6) What is meant by securities premium ? State the points to be kept in mind relating to securities premium.

5. Vaidya Limited of Nadiad company issued 7,50,000 equity shares of ₹ 10 each and the amount thereon was payable as under :
- ₹ 3 per share on application
 - ₹ 4 per share on allotment
 - ₹ 3 per share on first and final call
- Company received applications for 7,50,000 shares and all the applicants were allotted shares. Amounts due on allotment and calls were called at appropriate time and were all received on due dates.
- Pass journal entries for above transactions in the books of company.
6. Authorised capital of Mewada Ltd. of Himatnagar was divided into 4,00,000 equity shares of ₹ 10 each. Out of this, company issued 3,00,000 equity shares. Amount called up per share was as under :
- ₹ 4 on application
 - ₹ 3 on allotment
 - ₹ 3 on final call
- Company received applications for 3,60,000 shares. Excess applications were rejected and money paid thereon was refunded to applicants. All the sums due on allotment and final call were received in full except final call on 2000 equity shares held by Aasha.
- Pass journal entries in the books of company to record above transactions. Also prepare equity share capital account, equity share application account, equity share allotment account and equity share final call account.
7. Pagedar Sugar Limited of Nagpur issued 12,00,000 equity shares in the public of ₹ 10 each. Company received applications for 13,50,000 shares. Shares were allotted at a meeting of board of directors. Excess share applications were rejected and amount received thereon was refunded.
- Amount called up against shares was as under :
- On application ₹ 2.50 per share
 - On allotment ₹ 2.50 per share
 - On first call ₹ 2 per share
 - On final call ₹ 3 per share
- Aishwarya, who was allotted 960 shares, could not pay first call and final call money, where Vinay, who was allotted 1200 shares, could not pay final call money. Except this, all sums due from other shareholders were received. Aishwarya and Vinay had paid their arrears amount to company afterwards. Pass necessary journal entries to record above transactions in the books of company without giving effect of interest.
8. Chaudhari Agro Company of Vyara issued 5,00,000 equity shares of ₹ 10 each to public. Company called ₹ 3 per share on application, ₹ 4 per share on allotment and ₹ 3 per share on first and final call.

Company received application for 5,75,000 equity shares from public. Excess applications were rejected and money paid on them was refunded.

Viral, who had applied for 2000 shares, had paid full amount ₹ 10 per share along with application. Company had allotted him all the shares applied for. Yagnesh, who was allotted 2500 shares, had paid amount due on first and final call along with share allotment money. Except this, amount due on allotment and calls were duly received from time to time.

Pass necessary journal entries in the books of company for above transactions.

9. Nanavati Limited of Junagadh issued 3,00,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. Amount was called up as under :

On application ₹ 4 per share

On allotment ₹ 8 per share (including premium)

On final call ₹ 3 per share

Company received application for 3,50,000 shares. Excess applications were rejected and money paid thereon was refunded to applicants. All the sums due were received in full except allotment and final call on 3000 equity shares held by Ishira.

Pass journal entries in books of company.

10. Vala Manuf. Limited of Dhandhuka issued 4,00,000 equity shares of ₹ 10 each at a premium of ₹ 60 per share. Amount was called up per share as under :

On application ₹ 23 (including premium ₹ 20)

On allotment ₹ 34 (including premium ₹ 30)

On final call ₹ 13 (including premium ₹ 10)

Company received applications for 6,00,000 shares. Excess applications were rejected and money paid thereon was refunded. Amount due on allotment and final call were called up in time. All amounts due on allotment and call were received except allotment and final call money on 500 shares held by Himmatbhai and final call money on 300 shares held by Hima.

Pass necessary journal entries in books of company for above transactions.

11. Authorised capital of Mansuri Limited of Dahod was 7,00,000 equity shares of ₹ 10 each. On 4th July, 2017, company issued 4,50,000 equity shares at a premium of ₹ 16 per share for public subscription. Amount was called up for share as under.

On 4th July, 2017 ₹ 10 per share (including premium of ₹ 6 per share) with application.

On 4th August, 2017 ₹ 14 per share (including premium of ₹ 10 per share) with allotment.

On 4th September, 2017 ₹ 2 per share with first and final call.

The subscription was closed on 6th July, 2017 as it was fully subscribed. Board of directors allotted all the shares of share application.

Abdul holding 600 shares did not pay money due on allotment and first and final call. Where, Harun holding 400 shares had not paid first and final call money.

Except this, all the sums due were received by the following dates.

Share allotment money by 7th August, 2017.

Share first and final call money by 7th September, 2017.

Pass necessary journal entries except for cash in the books of company for above transactions and also prepare bank account.

12. Write journal entries in the books of company for forfeiture and reissue of forfeited shares from the following information :
- (i) Company forfeited 800 equity shares of ₹ 10 each of a shareholder for non-payment of allotment money of ₹ 4 per share and call money of ₹ 3 per share. This shareholder had paid ₹ 3 per share with application. Forfeited shares were reissued at ₹ 8 per share.
 - (ii) R. K. Company Limited forfeited 600 shares of ₹ 10 each of Sunil. Sunil had paid application and allotment money of ₹ 5 per share, but had not paid ₹ 3 per share and ₹ 2 per share on first call and second call respectively. Out of the forfeited shares, 400 shares were reissued at ₹ 6 per share to Mittal.
 - (iii) A shareholder holding 3000 equity shares of ₹ 10 each has paid application money at ₹ 13 per share (including premium ₹ 10) and allotment money at ₹ 13 per share (including premium ₹ 10), his shares were forfeited for non-payment of call of ₹ 4 per share. Forfeited shares were reissued at ₹ 7 per share.
13. Write journal entries in the books of company for forfeiture and reissue of forfeited shares from the following information :
- (i) Company forfeited 1200 equity shares of ₹ 10 each held by Katara for non-payment of allotment money of ₹ 14 per share (including premium ₹ 10) and first and final call money of ₹ 3 per share. Company reissued all the forfeited shares after giving maximum permissible discount. These shares were purchased by Kanu.
 - (ii) Ramesh holds 600 equity shares of ₹ 10 each in company. He had paid application money at ₹ 3 per share and allotment money at ₹ 2.50 per share but could not pay first call money of ₹ 2 per share. Company forfeited above shares before making final call after necessary formalities. Company reissued all these shares at a discount of ₹ 4 per share.
 - (iii) Company forfeited 400 equity shares of ₹ 100 each, issued at a premium of 20 % on face value. ₹ 80 per share (including premium) are called up on these shares. For non-payment of allotment money at ₹ 50 (including premium) these shares were forfeited before making share first and final call. These shares reissued before first and final call at ₹ 36,000 as fully paid up.
14. Raj Machine Limited issues 12,00,000 equity shares of ₹ 10 each on which amount was payable as under :
- ₹ 3 per share on application
 - ₹ 4 per share on allotment
 - ₹ 3 per share on first and final call
- Company received application for 14,70,000 shares from public. Excess applications were rejected and money paid on them was refunded.

Aakash, who was allotted 2000 shares, did not pay allotment and final call money. Sunny, who was allotted 1200 shares, did not pay final call money.

Company forfeited all the shares on which calls were unpaid and reissued all forfeited shares at ₹ 7 per share as fully paid up.

Pass necessary journal entries in the books of company for above transactions.

15. Rustom Limited of Valsad issued 2,40,000 equity shares of ₹ 10 each at a premium of ₹ 70 per share. Amount called up per share was as under :

₹ 38 on application (including premium of ₹ 35)

₹ 28 on allotment (including premium of ₹ 25)

₹ 14 on final call (including premium of ₹ 10)

All the sums due were duly received except money due on allotment and final call on 2000 shares held by Jahangir. After carrying out necessary formalities, company forfeited Jahangir's shares. These shares were reissued to Joshef at 40 % premium as fully paid up.

Pass journal entries for above transactions in the books of company.

16. Dharam Metals Ltd. of Jamnagar issued 8,00,000 equity shares of ₹ 10 each at a premium of ₹ 30 per share. The amount was payable as under :

₹ 13 (including premium of ₹ 10) per share on application

₹ 23 (including premium of ₹ 20) per share on allotment

₹ 4 per share on final call

Company received share application for 8,00,000 shares and all the applications were allotted shares. Vipul, who was allotted 1500 shares, did not pay money due on allotment and hence his shares were forfeited by company after allotment. Company reissued all these 1500 shares before final call at ₹ 5 per share.

Hema, who was allotted 500 shares, did not pay money due on final call and therefore her shares were forfeited by company. Company reissued these 500 shares at maximum permissible discount. Pass journal entries for above transactions in the books of company.

17. Siddhapur Isabgul Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 7 per share. The amount was payable as under :

₹ 10 per share on application (including premium)

₹ 4 per share on allotment

₹ 3 per share on final call

Applications were received for 9,00,000 shares. Excess applications were rejected and money paid thereon was refunded.

Siddharaj, who was allotted 6000 shares, did not pay money due on allotment and hence his shares were forfeited after allotment. Jaysinh, who was allotted 4000 shares, did not pay money due on final call and hence his shares were forfeited after final call. Allotment and final call amount was received on remaining shares.

Company reissued 6000 shares of Siddharaj at ₹ 7 per share to Minal and 4000 shares of Jaysinh at ₹ 6 per share to Rudra.

Pass necessary journal entries in the books of company to record above transactions and also prepare shares forfeiture account.

18. Kapoor Media Limited issued 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 80 per share for public subscription. Company called up the amount including share premium in four equal installments it means on application, on allotment, on first call and on final call. Company received application for 1,60,000 equity shares. Excess applications were rejected and money paid thereon was refunded. Shahid, who was holding 4000 shares, failed to pay first call and final call on shares held by him. His shares were forfeited after due formalities. These forfeited shares were issued to Ranbir at a premium of ₹ 70 per share and the amount on this was received by the company. Write necessary journal entries in the books of company to record above transactions and also prepare securities premium account.
19. Sheetal Electronics Limited issued 1,20,000 equity shares to the public at ₹ 10 per share. Company called up the amount as under :
On application ₹ 3 per share
On allotment ₹ 3 per share and on final call ₹ 4 per share
Applications were received from public for 1,80,000 shares, in this reference allocation was made by company as under :
Full allotment was made to applicants of 48,000 shares.
Not a single share was allotted to applicants of 36,000 shares.
72,000 shares were allotted to applicants of 96,000 shares.
All amounts were received in time. From the above information, pass necessary journal entries in the books of the company.
20. Gujarat Fertilizers Ltd. of Bharuch issued 4,50,000 shares of ₹ 10 per share. Amount called up on application ₹ 3 per share, on allotment ₹ 3 per share, on first call ₹ 2 per share and on final call ₹ 2 per share.
Applications were received from public of 6,20,000 shares. Allotment of 4,50,000 shares was made pro-rata to 5,40,000 share applicants. Amount paid on applications by remaining applicants were refunded by company.
Mahesh, to whom 1000 shares were allotted failed to pay the final call, his shares were forfeited and all these shares were reissued at ₹ 5 per share.
Pass journal entries for the above transactions in the books of company.
21. Sharda Limited issued 6,00,000 equity shares at ₹ 10 each, at a premium of ₹ 4 per share. Amount called up per share is as under :
On application ₹ 4
On allotment ₹ 3 + premium
On share first and final call ₹ 3
Subscription were received 3.5 times, out of which $\frac{4}{7}$ th the share applications were rejected fully and pro-rata allotment was made to the remaining applicants. Excess application money were credited to share allotment and share calls.
Write the necessary journal entries in the books of Sharda Limited.

22. The authorised capital of Shubha Limited of Mumbai is 18,00,000 shares of ₹ 1 each. Company issued 12,00,000 shares at a premium ₹ 580 per share to public. Amount payable on this was as under :

On application ₹ 290.50 per share (including premium of ₹ 290)

On allotment ₹ 290.50 per share (including premium of ₹ 290)

Company received 16,50,000 share application from public, out of this applications of 1,50,000 shares were rejected and on balance share application 12,00,000 shares were allotted.

All called up amount were received in proper time. Company maintains the combined 'Share Application and Allotment Account'.

Pass journal entries in the books of company for above transactions.

23. Panchvilla Manuf. Limited issued 7,50,000 equity shares at ₹ 10 each, at a premium of 20 % for public. Amount called up per share is as under :

With application ₹ 5

On allotment ₹ 4 (including premium)

On final call ₹ 3

Applications received for 11,25,000 shares. Applications for 75,000 shares were rejected and amount paid on them was refunded. Pro-rata allotment was made for 7,50,000 shares to the remaining applicants and excess application money were adjusted against the amount due on allotment.

A shareholder, Vishal could not pay final call money on his 7500 allotted shares.

Vishal's shares were forfeited by company and reissued at 10 % discount.

Pass necessary journal entries in the books of the company for the above transactions. **or**

Write journal entries in the books of the company for following :

- (i) For share forfeiture
- (ii) For reissue of shares
- (iii) For close of the share forfeiture account.

24. Ahmedabad Chemical Limited issue 1,50,000 equity shares of ₹ 100 each at a premium of ₹ 30 per share. Amount payable was as under :

On share application and allotment ₹ 85 per share (including premium)

On share first and final call - balance amount.

Applications were received for 2,55,000 shares. Applications for 55,000 shares were rejected and allotment was made pro-rata to the remaining applicants. The excess share application and allotment money was to be credited to share first and final call. Amount was called on calls. Entire called up amount was received in time.

Pass necessary journal entries for recording the above transactions in the books of Ahmedabad Chemical Ltd.

