Accounting for Share Capital

Meaning and Features of a Company

Objective

After going through this lesson, you shall be understand the following concepts.

- Meaning of a Company
- Features of a Company
- Distinction between Partnership and Company
- Kinds of Company

Meaning of a Company

A company is an association of different persons that is formed to carry out some business activities. The Section 2 (20) of the Companies Act, 2013 defines a company as "*Company means a company incorporated under this act or any previous company law*". A company is an artificial person created by law. It has a separate legal entity, perpetual succession, common seal and also has limited liability. A company has unlimited life, that is, the life of a company is independent of the life of its owners. In other words, a company is distinct from its members and its life or existence is not affected by the death or insolvency of its members. It is a voluntary association of persons who together contributes in the capital of the company to carry a business.

Features of a Company

The discussed below are the important features of a company that distinguish it from other forms of organisations.

i. ***Association of Persons-*** A company is an association of persons. It is voluntarily formed by a group of persons to perform common business activities. There should be at least two members to form a private company and at least seven members for formation of a public company.
ii. ***Separate Legal Entity-*** A company is an artificial person created by law. It has a separate legal entity. It implies that, it is different from its members (or shareholders) and directors. For example, a company can open a bank account, enter into a contract, can own a property and can or be sued in its own name.
iii. ***Limited Liability-*** The liability of the members of a company is limited up to the nominal or face value of the share subscribed by them. Unlike a partnership firm, the members and the shareholders of a company are not liable to pay the amount due to its creditors on its insolvency. In fact, the members and the shareholders of a company are liable to pay only unpaid amount of the shares held by them. For example, if the value of share is Rs 10 and Rs 6 is paid by the member, then the member is liable to pay only Rs 4. However, Unlimited Companies are an exception to this feature.
iv. ***Perpetual Existence-*** The existence of a company does not affected by the death, retirement, insolvency or lunacy of its members. In other words, the life of a company remains unaffected by the life and tenure of its members. The members of a company may keep on changing but the company remains the same. The company does not die and its life is infinite until it properly wound up as per the Company Act or where the objective for which the company was formed has been achieved.
v. ***Common Seal-*** A company is an artificial person and has no physical existence; hence it cannot put its signature. Thus, the Common Seal acts as an official signature of a company that validates the official documents. All the acts of a company are done through its Board of Directors. The common seal acts as an official signature of a company that validates its all the official documents. Thus, all the documents of a company must be under its common seal. Any document prepared by the director of a company not bearing its common seal may not be presented in the court of law as evidence.

vi. ***Transferability of Shares-*** The shares of a public company is easily and freely transferable. It can be transferred without obtaining the consent of the other members of the company. But the shares of a private company are not transferable without obtaining the consent of the other members of company.

Difference Between Partnership and Company

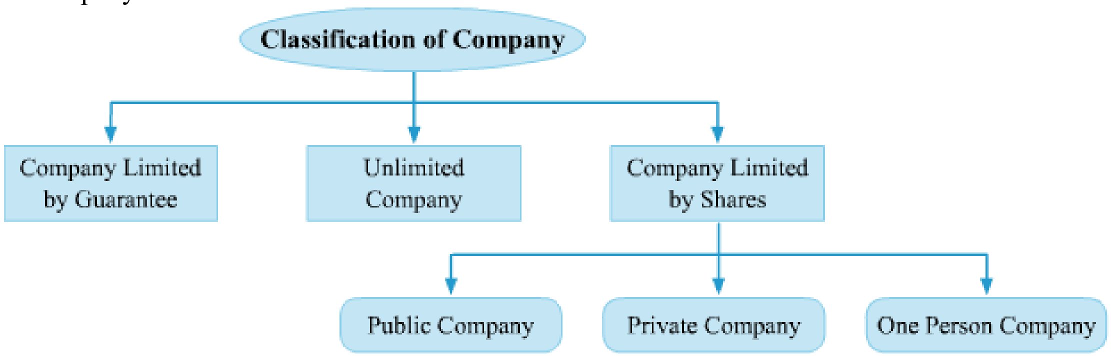
The following are the points of difference between partnership and company:

Basis of Difference	Partnership	Company
Meaning	It is an association of persons to carry out some business activities and to share the associated profits and losses. It does not have a separate legal entity.	It is an association of persons who have come together for a specific purpose. It has a separate legal entity distinct from its members.
Act	It is governed by the Indian Partnership Act, 1932.	It is regulated by the Companies Act, 2013.
Liability	Partners of a partnership firm have unlimited liability.	Shareholders of a company have limited liability, generally, up to the unpaid amount of shares held by them.
Property	All the partners of a partnership firm are entitled to share the property of the firm.	In case of company, the property belongs to the company and members cannot claim to be the owner of the company's property.
Minimum Number of Members	There should be at least two members to form a partnership business.	There should be at least two members in case of a private company and seven members in case of a public company.
Maximum Number of Members	Maximum number of members as per Rule (10) of the Companies (Miscellaneous) Rules Act 2014 is 50.	The maximum number of members in case of a private company is 200 (except for One Person Company) and there is no maximum limit on the number of members in case of a public company.
Transferability of Shares	A partner cannot transfer his/her share to any other person without the consent of all other partners.	The members of a public company can freely transfer their share. However; it is not possible in case of a private company.
Audit	Audit is not compulsory unless, it is clearly	Audit of company accounts is compulsory

	mentioned in the partnership deed.	under the Companies Act, 2013.
Existence	Partnership is dissolved on the death or insolvency of its partners.	Death or insolvency of shareholder does not affect the company's existence.

Kinds of a Company

A company can be classified as follows.



Company Limited by Guarantee- It is a type of company in which liability of the members is limited up to the guaranteed amount which the members have undertaken to contribute on the liquidation of the company. This liability of the members will arise only on the event of liquidation of the company. The same has been provided in Section 2 (21) of the Companies Act, 2013.

I. ***Unlimited Company***- As per section 2(92) of the Companies Act, 2013, an unlimited company is a company in which the liability of its members is unlimited. In this kind of a company, liability of its members is same as that of the liability of the partners in case of a partnership firm. This is the reason, these companies are sometimes referred to as 'hybrid companies'. Thus, in case of any deficiency or loss, the private property of the members can be applied if the company's property falls short to pay-off the debts.
II. ***Company Limited by Shares***- Section 2(22) of Companies Act, 2013 defines a company limited by shares as, 'a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on which shares respectively held by them. In other words, it is a type of company in which the liability of its members is limited up to the nominal or the face value of the shares. In case of partly paid-up shares, the members are liable to pay only the unpaid amount of shares held by them. It implies that members of a company has no liability to pay any amount in case they have paid the full amount of the shares. So it can be said in such companies the members cannot be asked to pay the amount more than the nominal or face value of their shares. Company limited by shares can be further classified as (i) Public Company (ii) Private Company.

   i. **Public Company-** A public company is defined as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities, etc. to the general public through stock market. There must be at least seven members to form a public company. As per the Section 2 (71) of the Companies Act, 2013, Public Company means a company which

      a. is not a private company
      b. has a minimum paid up capital of Rs 5,00,000 or such higher paid up capital, as may be prescribed.
      c. is a private company, being a subsidiary of a company which is not a private company.

A *public company* should not be mistakenly understood as a *publicly-owned company*, as the latter is exclusively owned and controlled by the government. A public company issues its share to general public without any restriction on maximum number of persons. A public company can be segmented into two types:

1. ***Listed Company* (*Quota Company*) -** A company whose shares are listed and traded in the stock exchange like, Tata Motors, Reliance, etc. are called Listed Company.
2. ***Unlisted Company*-** A company whose shares are not listed in the stock exchange and thereby these shares cannot be traded in the stock exchange are called Unlisted Company.

ii. **Private Company-** A private company is a company that is limited by shares or by guarantee by its members. A private limited company is defined as a company that has a minimum paid up share capital of Rs 1,00,000. As defined by the Section 2(68) of Companies Act, 2013, Private Limited Company is defined by the following characteristics:

a. It restricts to transfer its shares.
b. There must be at least two and a maximum 200 members (excluding current and former employees) to form a private company.
c. It can not invite application from the general public to subscribe its shares or debentures.
d. It can not invite or accept deposits from persons other than its members, directors and their relatives.

Unlike a public company, a private company cannot issue its shares or debentures to general public at large, as the shares of these companies are not traded in the stock exchange.

iii. **One Person Company (OPC)-** As per Section 2 (62) of the Companies Act, 2013, a company which has only one person as a member in known as One Person Company. This company is formed with only one person as its member; with minimum paid-up capital of not more than Rs 50,00,000. Their average annual turnover should not exceed Rs 2 crores. These companies can be incorporated only by a citizen and resident in India, who shall be a nominee to become the only member of a one person company. Such companies cannot conduct non-banking financial investment activities. Moreover, they cannot indulge in investments of securities of any other entity.

Note: Here, 'resident in India' means any person who has stayed in India for not less than 182 days in the immediate preceding calendar year.

Share Capital and its Categories

Objective

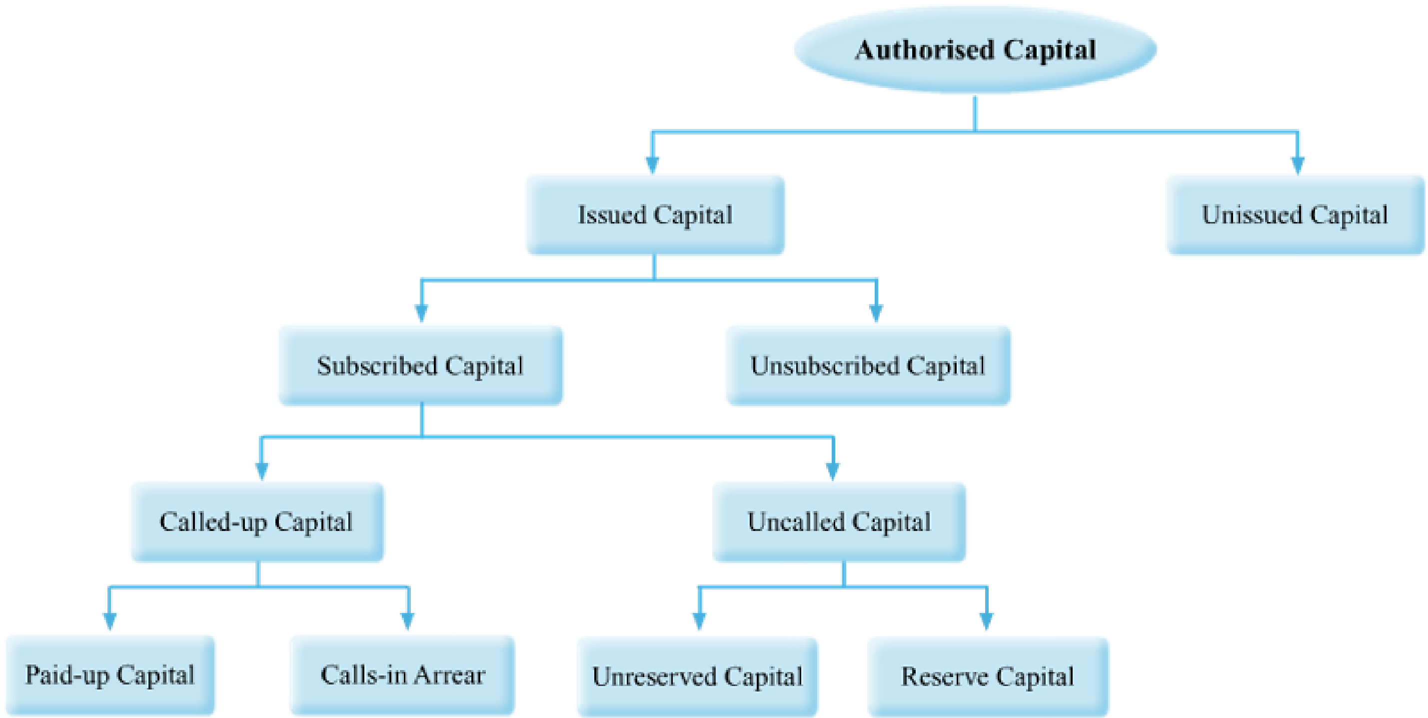
After going through this lesson, you shall be understand the following concepts.

- Meaning of Share Capital and its Categories
- Difference between Reserve Capital and Capital Reserve
- Meaning of Shares and its Types
- Buy-back of Shares
- Private Placement of Shares
- Sweat Equity Shares
- Rights Issue
- Employee Stock Option Plan (ESOP)

Share Capital and its Categories

Share Capital

The amount that has been raised or can be raised through the issue of shares by a company is called Share Capital. It can also be defined as an investment made in a company by the shareholders. The entire capital of a company is represented through a single account known as Share Capital Account. The division of the share capital of a company into main categories is diagrammatically explained below.



i) Authorised Share Capital- As per Section 2(8) of Companies Act, 2013, "authorised capital" or "nominal capital" means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of the company. In other words, it is an amount of capital which is stated in the Memorandum of Association. It is the maximum amount that a company can raise by issuing its shares. This maximum amount can be increased or reduced as per the procedures laid down in the Companies Act. Authorised Share Capital of a company is also referred as Registered Capital. It is not compulsory for a company to issue its entire Authorised Capital at one time. It can be issued as per the requirement of a company.

ii) Issued Share Capital- As per Section 2(50) of Companies Act, 2013, "issued capital" means such capital as the company issues from time to time for subscription. It is that part of the Authorised Capital which is offered by a company to the general public for its subscription. The total Issued Capital of a company should not exceed the Authorised Capital. For example, if a company has a Authorised Capital of Rs 2,00,000 divided into Rs 20 per share, then the company cannot issue more than Rs 2,00,000.

iii) Unissued Share Capital- It is that part of Authorised Capital which has not been offered to the general public for its subscription but can be offered to the public in the future. For example, a company has a Authorised Capital of Rs 2,00,000 divided into Rs 20 per share out of which the company issued a capital of Rs 1,40,000. In this case Rs 60,000 is a amount of Unissued Share Capital.

iv) Subscribed Share Capital- As per Section 2(86) of Companies Act, 2013, "subscribed capital" means such part of the capital which is for the time being subscribed by the members of a company. It is that part of Issued Capital that is actually subscribed by the general public. For example, if the company has issued 15,000 shares of Rs 10 each and the public has subscribed for 13,500 shares, then the Subscribed Share Capital of the company amounts to Rs 1,35,000.

v) Unsubscribed Capital- It is that part of Issued Capital that is not subscribed by the public. In the above example, 1,500 shares were left unsubscribed, making an Unsubscribed Share Capital of Rs 15,000.

vi) Called-up Share Capital- As per Section 2(15) of Companies Act, 2013, "called-up capital" means such part of the capital, which has been called for payment. It is a part of Subscribed Capital that is called-up on the shares by the Directors of a company from its shareholders. For example, if the face value of a share is Rs 10 out of which Rs 4 has been called-up from the shareholders of 8,000 shares, then Rs 32,000 is regarded as Called-up Share Capital.

vii) Uncalled Share Capital- It is that part of Subscribed Capital that has not been called-up by the company till now but can be called-up in the future as per the need of the company. In the above example, Rs 6 per share was left uncalled by the company from the shareholders holding 8,000 shares, so Rs 48,000 (8,000 × Rs 6) is the amount of Uncalled Share Capital.

viii) Paid-up Share Capital- As per Section 2(64) of Companies Act, 2013, "paid-up share capital" or "share capital paid-up" means such aggregate amount of money credited as paid-up as is equivalent to the amount received as paidup in respect of shares issued and also includes any amount credited as paid-up in respect of shares of the company, but does not include any other amount received in respect of such shares, by whatever name called. It is a part of Called-up Capital that has been actually received by the company from the shareholders. For example, a company called up Rs 5 from the shareholders of 5,000 shares. The entire amount has been received except from the shareholders of 800 shares. In this case, the Paid-up share capital is equal to Rs 21,000 (i.e. Rs 25,000 – Rs 4,000). The amount of Rs 4,000 is termed as Calls-in-arrears that has been called-up by the company but remains unpaid.

ix) Reserve Capital- As per Companies Act, 2013, a Limited Company may call-up any portion of its Uncalled Share Capital on the event of the winding-up of a company in order to pay its creditors. This amount of Uncalled Share Capital cannot be used for any other purpose and is reserved for paying back to the creditors of the company. Therefore, such portion of Share Capital is called Reserve Capital.

Difference between Reserve Capital and Capital Reserve

The following are the points of differences between Reserve Capital and Capital Reserve.

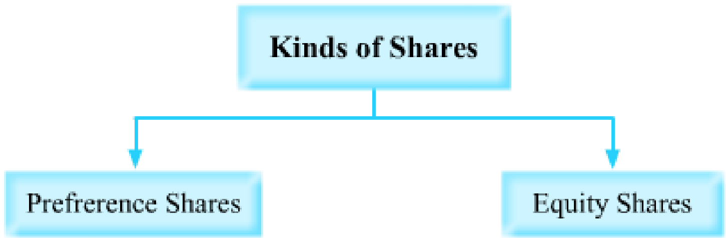
Basis of Difference	Reserve Capital	Capital Reserve
Meaning	It is a part of uncalled capital which can be called up only in the event of winding up of a company.	It is a part of capital profits which cannot be distributed as dividends. Profit on sale of fixed assets, premium on issue of shares and debentures, etc. are some example capital profits.
Compulsory	It is not compulsory for a company to create reserve capital.	It is compulsory for a company to create capital reserve in case the company is earning capital profits.

Creation	It is created out of uncalled capital.	It is created out of capital profits.
Usage	It can be utilised only at the time of liquidation or winding up of a company.	It can be utilised at any during the life of company.
Special Resolution	To create reserve capital, a special resolution is required to be passed.	No special resolution is required to create capital reserve.
Disclosure	Reserve Capital is is not shown in the company’s balance sheet.	Capital Reserve is shown in the company's balance sheet under the head ‘Reserves and Surplus’ on the liabilities side.
Realisation	It is the amount that has not been received.	It is the amount that has been already received.

Meaning of Shares and its Types

As per Section 2(84) of Companies Act, 2013, “share” means a share in the share capital of a company and includes stock. The total capital of a company is divided into equal units of small denomination termed as shares. The ownership of these shares is easily transferable, from one person to other, subject to certain conditions. The person who is contributing in the capital in the form of shares is known as shareholder. The ownership of a shareholder is limited to the value of the shares held by him/her.

Types of Shares- As per the Section 43 of the Companies Act of 2013, there are two types of shares- Preference Shares and Equity Shares (also known as Ordinary Shares)



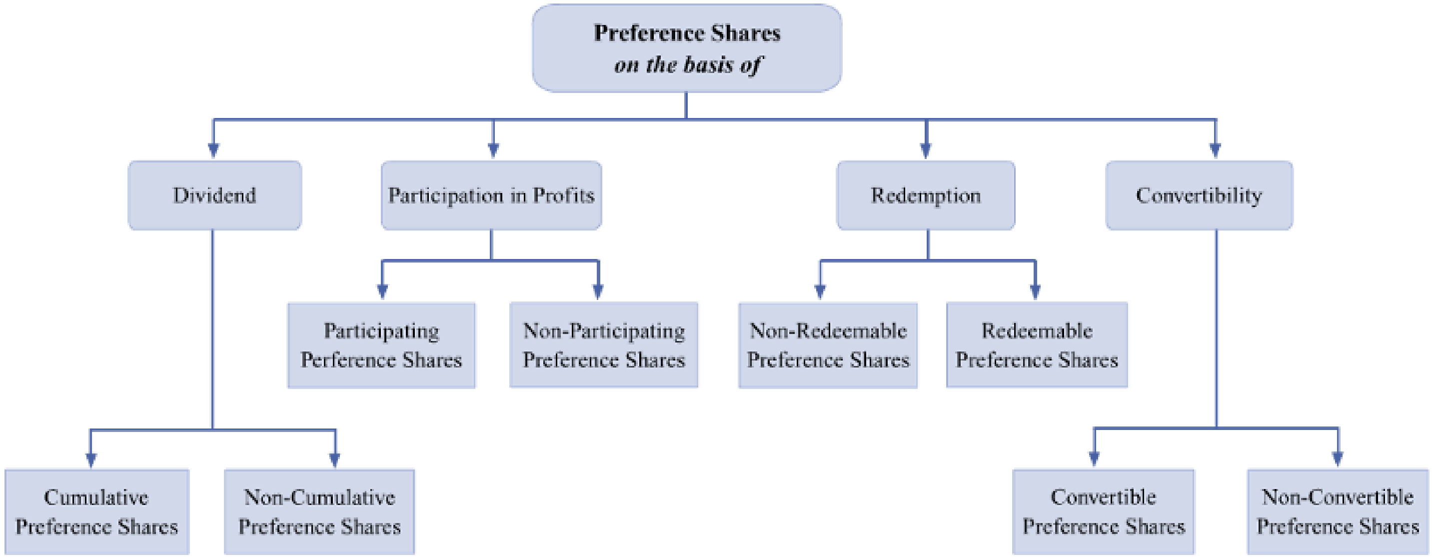
1. **Preference Shares-** The Section 43(b) of the Companies Act, 2013 defines Preferences shares to be featured by the following rights.

   a. Preference Shares entitle its holder the right to receive dividend at a fixed rate or of a fixed amount.
   b. Preference Shares entitle its holder the preferential right to receive repayment of capital invested by them before their equity counterparts at the time of winding up of the company.

   The Preference Shares of a company can be further classified into various categories as explained below.

   Types of Preferences Shares

   The various types of Preference shares are diagrammatically explained below.



A. *On the Basis of Dividend*

i. ***Cumulative Preference Shares-*** When a preference shareholder has a right to recover any arrears of dividend before any dividend is paid to the equity shareholders, then such kind of preference shares is known as Cumulative Preference Shares. In other words, the holder of cumulative preference shares enjoys a right to receive the dividend before the payment of any dividend to the equity shares. The cumulative preference shareholders can accumulate their dividend in case a company fails to pay dividend in any year due to the inadequate profits. For example, a company has 500 preference shares of Rs 50 each and the total amount of preference dividend to be paid by the company for one year is amounted to Rs 5,000. During the year 2011 the company fails to pay the dividend. In 2012, the company earned sufficient profits of Rs 42,000. In this case, the company is required to pay dividend of Rs 10,000 (Rs 5,000 + Rs 5,000) as dividend to the preference shareholders for the two years.

ii. ***Non-Cumulative Preference Shares-*** When a preference shareholders are entitled to receive dividend only in case of profits and do not have any right to recover the arrears of dividend, then such type of preference shares held by the shareholders is known as Non-Cumulative Preference Shares. In the above example, the company is entitled to pay only Rs 5,000 as dividend during the year 2012 to the preference shareholders. All the preference shares are cumulative preference shares unless otherwise expressly stated to be non-cumulative preference shares.

B. *On the Basis of Participation in Profits*

i. ***Participating Preference Shares-*** These are those preference shares the holder of which enjoys the right to participate in the surplus profit that is left after the payment of dividend to the equity shareholders in addition to their fixed dividend.

ii. ***Non-Participating Preference Shares-*** When a preference shareholder receives only a fixed rate of dividend every year and do not enjoy the additional participation is the surplus profit, then the type of shares held by the shareholder is known as Non-Participating Preference Shares. It may be noted that all the preference shares are Non-Participating Preference Shares until and unless expressly stated to be Participating Preference Shares.

C. *On the Basis of Redemption*

i. ***Redeemable Preference Shares-*** These are the preference shares the amount of which is repaid by the company after a certain specified period of time. Such repayment to the preference shareholders is made in accordance with the term specified in the Section 64 (1)(c) of Companies Act, 2013.
ii. ***Irredeemable Preference Shares-*** These are the preference shares that are not repaid by the company during its lifetime. As per Companies Act, 2013, no company can issue Non-Redeemable Preference Shares. It is merely a theoretical concept.

D. *On the Basis of Convertibility*

i. ***Convertible Preference Shares-*** These are the preference shares the holder of which have a right to convert their shares into equity shares.
ii. ***Non Convertible Preference Shares-*** Unlike Convertible Preference Shares, the holders holding Non-Convertible Preference Shares do not enjoy the right to convert their shares into equity shares.

2. **Equity Shares-** As per Section 43 (a) of Companies Act 2013, equity share is a share that is not a preference share. It does not posses any preferential right of payment of dividend or repayment of capital. The rate of dividend is not fixed on equity shares and varies from year to year. The amount of dividend on equity shares depends on the amount of profit available for distribution after paying dividend to the preference shareholders. The equity shareholders have the voting rights and also control the affairs of a company.

Buy-Back of Shares

Buy-back of shares means repurchasing of its own shares by a company from the market for reducing the number of shares in the open market. As per the Section 68 of the Companies Act, 2013, a company can buy-back its own shares and debentures on the account of following reasons.

1. To improve EPS (Earnings per Share)
2. To return surplus cash to the shareholders that is not required by the business
3. To support value of its shares
4. To facilitate capital restructuring of the company
5. To prevent take-over bid

Methods of Buy-back of Shares

The following are the methods in which a company can buy-back its own shares.

1. By purchasing shares from existing shareholders on a proportionate basis, or
2. By purchasing shares in the open market, or
3. By purchasing shares from odd lots, viz, where the lot of securities listed in the recognised stock market is smaller than such marketable lot, or
4. By purchasing shares from the employees of the company.

Sources for Buy-back of Shares

The following are the various sources from which a company can buy-back its own shares.

1. Free Reserves
2. Securities Premium Account
3. Proceeds of any shares or other specified securities provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of the earlier issues of the similar kind of shares or other specified securities.

Private Placement of Shares

It refers to a situation when a company decides to offer and allot its shares to a small and particularly selected group of persons or individuals such as large banks, mutual funds, insurance companies, etc. In this case, the company does not offer its shares to the general public. For example, if Bhaarat India Ltd. offers its shares to the Film Stars of Hindi Films Fraternity, then such issue is regarded as private placement of shares as the shares are offered to this chosen group. Through privately placing the shares, a company can quickly raise funds to fulfill its capital requirements in a relatively easy manner. This is because unlike the general public issue, the company is well-familiar with these individuals or their group. Also, in this regard, the company need not to issue prospectus as these individuals are well-known with the terms and conditions of the company.

Sweat Equity Shares

Section 54 of the Companies Act 2013 permits a company to issue shares to its employees or directors at a discount or for consideration other than cash for providing them a sense of ownership of company's capital. Such shares are regarded as sweat equity shares.

Rights Issue

Section 62 of the Companies Act 2013 grants a special privilege to the existing shareholders to subscribe to the new issue of shares (before offer is made to the general public) in proportion to their existing shareholdings in the company. This is referred to as 'right issue of shares'.

Employee Stock Option Plan/Employee Stock Option Scheme (ESOP/ESOS)

Employee Stock Option is a plan where the company's whole-time directors, officers and employees get an opportunity of purchasing their own company's shares at a predetermined price in future. The price at which these shares are offered is usually lower than the market price. Employee Stock Option Plan is a right and not an obligation. These shares are offered to employees as a part of compensation. However, there is locking period of minimum one year, i.e. shares issued under this scheme cannot be disposed-off within one year from the date of allotment.
Advantages:

1. To reduce the employee turnover ratio
2. To motivate the employees to work harder

Issue of Shares for Cash- At Par

Objective

After going through this lesson, you shall be understand the following concepts.

- Procedure for Issue of Shares
- Issue of Shares for Cash
- Terms of Issue of Shares

Procedure for Issue of Shares

We all know that a company requires huge amount of capital. To meet its capital requirements, a company issues shares to the general public. There are numerous steps involved in making offer to the public to subscribe to the share capital of a company. Let us see the various steps involved in the issue of shares.

Stage I- Issue of Prospectus: The very first step in making a public issue is to make offers. A company by issuing a prospectus invites the general public to purchase or subscribe to its shares. A prospectus is basically a document that contains all the necessary information required by the potential investors for taking investment decision. The potential investors refer to this document and evaluate the financial health of a company. If they feel there are significant growth prospects and high probable returns on their investment, then they may consider investing their funds in the company via subscribing to the shares of the company.

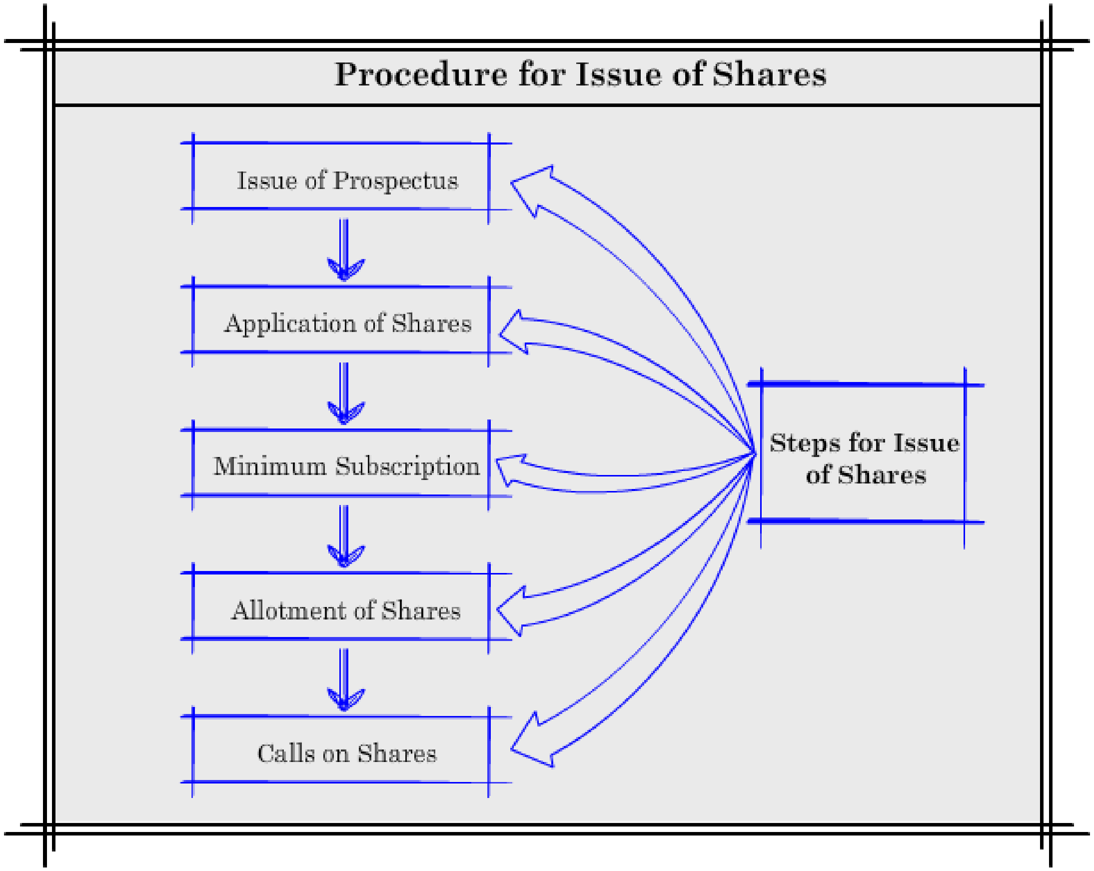
Stage II- Application of Shares: Once the potential investors have made their minds to invest in shares, then they approach the brokers. These brokers (also referred to as middlemen) are appointed by the companies to help out the potential investors to purchase shares. In this manner, we can say that brokers act as a connecting link between the company and the potential investors. After this, the potential investors fill-in their respective application forms, wherein, they provide relevant information such as their names, addresses, number of shares they want to apply and other vital information. These filled-in application forms are then routed to the concerned company via post, courier or through internet.

Stage III- Minimum Subscription: Once the company has received the applications from all the potential investors, then it may happen that the actual number of applications so received is either more than what it has offered or it might be equal to or even less than the offered shares. For instance, suppose a company offered 1,00,000 shares, now the actual applications for shares from the potential investors might be say 1,20,000 or 1,00,000 or it can be even 75,000. The term minimum subscription defines its role in this context. As per the Section 39 of the Companies Act, 2013, "No allotment of any securities of a company offered to the public for subscription shall be made unless the amount stated in the prospectus as the minimum amount has been subscribed and the sum payable on application for the amount stated have been paid to and received by the company by cheque or other instrument". However, the Companies Act of 2013 does not specify the quantum of minimum subscription needed in case of public issues (for both equity and debt). Accordingly, as per SEBI guidelines no allotment shall be made of any share capital if minimum subscription of 90% of issue size is not received as per Section 69 of Companies Act, 1956. Thus, in the above example, the company can only proceed with the process, if it has received 90,000 applications (i.e. 90% of 1,00,000). If it would have received anything lesser than this number, then the company cannot make allotment, thereby, the application money so received must be refunded back to the potential investors.

Stage IV- Allotment of Shares: Once the criterion of minimum subscription is fulfilled, the company moves on to the next step, known as ‘allotment’. In this stage, the received applications are scrutinized by the company. If the application forms are properly filled and the details as furnished by the investors are believed to be sufficiently accurate, then the company allots shares to them. The number of shares allotted to an individual investor may be equal to, more than or less than the number of shares he/she might have actually applied for. Generally, when the issue is over-subscribed (applications received > applications invited), then the allotment is made proportionately. We will be learning about allotment made on proportionate basis later in this chapter. Once the shares are allotted, then the applicants are regarded as the shareholders or the owners of the company.

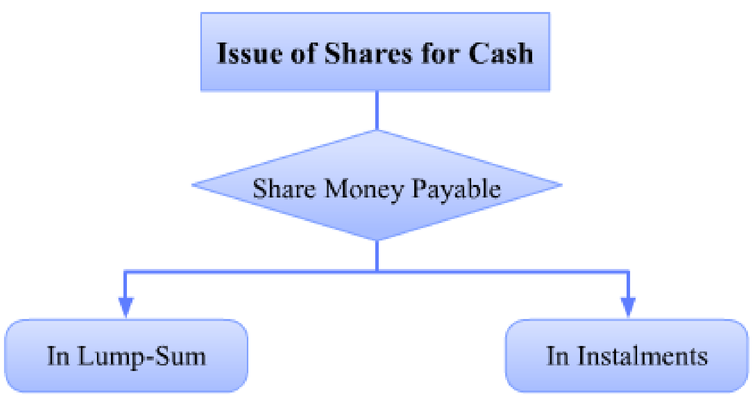
Stage V- Calls on Shares: A company has an option to either call the entire face value of the share in one-single shot (lump-sum) or in parts (instalments). For example, if Rs 10 (face value of a share) is called on application itself, then it is regarded as issue of shares for cash in lump-sum. On the other hand, if the face value of a share (Rs 10) is called in instalments, then it is known as issue of shares for cash in instalments. Generally, the share money is called in instalments. Suppose, a share with face value of Rs 10 is called as: Rs 2 on application, Rs 2 on allotment, Rs 3 on first call and Rs 3 on second call. Here, Rs 6 per share will be regarded as call money [First call (Rs 3) + Second call (Rs 3)]. The amount of face value called after allotment is termed as call money or regarded as calls on shares.

The procedure for issue of shares has been presented below diagrammatically.



Issue of Shares for Cash

The shares of a company can be either issued for cash or for consideration other than cash. When a company raises its capital in the form of cash, then it is known as Issue of Shares for Cash. The company may call the share money either in lump-sum along with the application or in instalments.



Share Money Payable in Lump-Sum

When a company issuing shares to the general public calls the entire share money in a single instalment, then it such issue of shares is known as issue of shares for cash in lump-sum. In this case, the shareholders have to pay the whole share money in just one instalment. For example, a company issued 2,000 shares of Rs 10 each and called for Rs 10 on the application. In this case, the following Journal entries are passed.

On Receipt of Application Money
Bank A/c Dr. To Share Application A/c (Amount received on application)
On Transferring the Application Money
Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital account)

Example: A company issued 20,000 equity shares of Rs 20 each. The entire share money is payable at the time of application. Pass the necessary Journal entries.

Solution

Bank A/c Dr. To Share Application A/c (Amount received on applications for 20,000 equity shares at 20 each)	4,00,000	 4,00,000
Share Application A/c Dr. To Share Capital A/c (Share application money transferred to share capital account)	4,00,000	 4,00,000

Share Money Payable in Instalments

When a company issue its shares and calls for the entire money in instalments, then it is known as issue of shares for cash in instalments. In this case, the entire face-value of the share is received at different stages such as, on application, on allotment, on first call, on second call and final call. The first instalment amount is paid at the time of application which is known as Share Application Money. This money is paid by those applicants who have applied for shares. The second instalment is known as Share Allotment Money because it is received by the company at the time of allotment of shares from the allottees (those who were allotted shares). The remaining share money is called in next instalments or in subsequent calls such as first call, second call and final call. These instalments are collectively known as Call Money.

The following Journal entries are to be passed when share money is called in instalments.

At the time of Application

On Receipt of Application Money

Bank A/c Dr. To Share Application A/c (Amount received on application)
On Transferring the Application Money
Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital account)

At the time of Allotment

When the amount becomes Due on Allotment
Share Allotment A/c Dr. To Share Capital A/c (Amount due on allotment)
On the Receipt of the Share Allotment Money
Bank A/c Dr. To Share Allotment A/c (Receipt of the amount due on allotment of shares)

At the time of Call

When the amount becomes Due on First Call or Second Call
Share First Call or Second Call A/c Dr. To Share Capital A/c (Call money due)
On Receipt of Call Money
Bank A/c Dr. To Share First/Second Call A/c (Receipt of the amount due on call)

***<u>Example</u>*: *ABC* Ltd. issued 30,000 shares of Rs 10 each. The amount on these shares is payable as follows.

On Application- Rs 3 per share
On Allotment- Rs 3 per share
On First and Final Call- Rs 4 per share

Pass the necessary Journal entries.

Solution

ABC Ltd.
Journal

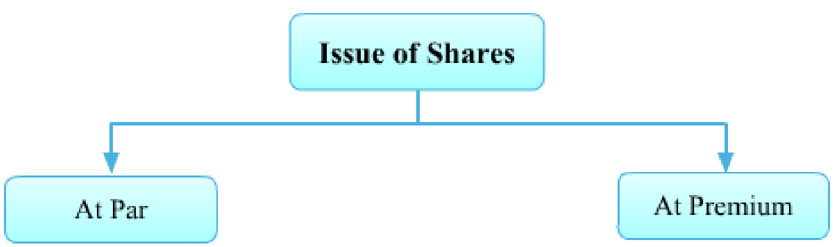
Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs

(1)	Bank A/c Dr. To Share Application A/c (Money received on application for 30,000 shares at Rs 3 per share)		90,000	90,000
(2)	Share Application A/c Dr. To Share Capital A/c (Share application money transferred to share capital account)		90,000	90,000
(3)	Share Allotment A/c Dr. To Share Capital A/c (Amount due on allotment of 30,000 shares at Rs 3 per share)		90,000	90,000
(4)	Bank A/c Dr. To Share Allotment A/c (Amount received on allotment of shares)		90,000	90,000
(5)	Share First and Final Call A/c Dr. To Share Capital A/c (Call money due on 30,000 shares at Rs 4 per share)		1,20,000	1,20,000
(6)	Bank A/c Dr. To Share First and Final Call A/c (Call money received)		1,20,000	1,20,000

Terms of Issue of Shares

There are following two ways in which a company can issue its shares. These are:

i. Issue of Shares at ***Par***
ii. Issue of Shares at **Premium**



Note: Section 53 of the Companies Act of 2013 prohibits issuing of shares at discount. However, Section 54 of the Act permits a company to issue shares at discount (commonly known as sweat equity shares)'. For details related to 'sweat equity shares' refer the previous lesson 'Share Capital and its Categories'.

Issue of Shares 'At Par'

When a company issue shares at a price equal to the nominal or face value of the share, then it is known as Issue of Shares at Par. For example, share having a face value of Rs 15 is issued at the same value i.e. Rs 15. In this case the issue price of share is equal to the face value of share. Therefore, it is a case of issue of share at par. In the above example, as the shares were issued at Rs 10, which is the face-value of the shares, so it is a case of issue of shares at par.

Example: Z Ltd. issued 3,500 shares of Rs 20 each at a par payable as follows.
On application- Rs 8
On allotment- Rs 7
On first and final call- Rs 5
Pass the necessary Journal entries in the books of Z Ltd.
Solution

Books of Z Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share application money received for 3,500 shares at Rs 8 per share)		28,000	28,000
	Share Application A/c Dr. To Share Capital A/c (Share application money transferred to share capital account)		28,000	28,000
	Share Allotment A/c Dr. To Share Capital A/c (Share allotment due on 3,500 shares at Rs 7)		24,500	24,500
	Bank A/c Dr. To Share Allotment A/c (Share allotment money received)		21,000	21,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Share first and final call due on 3,500 shares at Rs 5 per share)		17,500	17,500
	Bank A/c Dr. To Share First and Final Call A/c (Share first and final call received)		17,500	17,500

Issue of Shares for Cash at Premium

Objective

After going through this lesson, you shall be able to understand the following concepts related to issue of shares at premium.

- Introduction to Issue of Share at Premium
- Utilisation of Securities Premium
- Accounting Treatment of Issue of Shares at Premium

Meaning of Issue of Shares 'At Premium'

When a company issue shares at a price more than the face value of the share, then it is known as Issue of Shares at Premium. For example, share having a face value of Rs 10 is issued at Rs 15. In this case, the issue price of Rs 15 is more than the face value of Rs 10. The difference between the issue price and the face value of share (i.e. Rs 15 – Rs 10) of Rs 5 is considered as Premium. The amount of premium received is a capital gain for a company. This premium amount is transferred to a separate account called Securities Premium Account. Therefore, whenever a company issues its shares at premium, the amount received as premium is credited to the Securities Premium Account.

Accounting Treatment of Premium on Shares

When Premium Amount is paid in 'Lump-sum'- In this case, the entire amount of premium can either be called-up at the time of application or allotment or in subsequent calls. The following are the Journal entries.

Share Application Account/ Share Allotment Account/ Share Calls Account	Dr.
To Share Capital Account	
To Securities Premium Account	

Word of Caution

Premium on shares is generally called-up by company at the time of allotment of shares.Therefore, if in the question no information regarding the time of premium is mentioned, then it should be assumed that the premium is called at the time of allotment of shares (i.e. in the Journal entry of making the share allotment money due).

Utilisation of Securities Premium

The Companies Act of 2013 imposes certain conditions on the utilisation of amount of premium by the company. As per the Section 52(2) of the Companies Act of 2013, the amount of securities premium can be used by the company for the following purposes.

a. For paying up unissued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share
b. For writing off the preliminary expenses of the company.
c. For writing off the expenses of, or the commission paid or discount allowed on, any issue of securities or debentures of the company.
d. For paying up the premium payable on redemption of redeemable preference shares or debentures of the company.
e. Further, as per the section 68, the securities premium amount can also be utilised by the company to buy-back of its own shares.

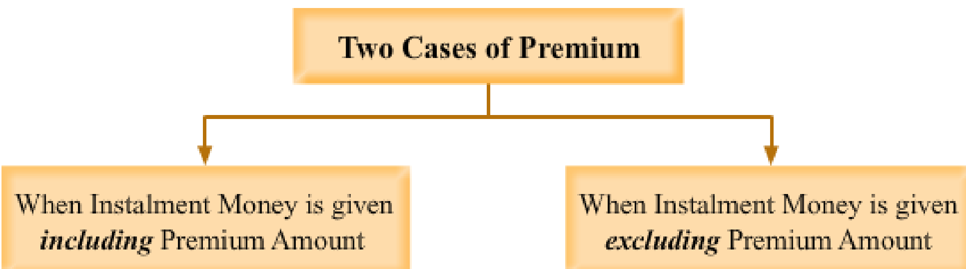
The company can receive the premium on shares either at the time of application or on allotment or on calls. The company may decide to receive the entire premium amount either in lump sum or in instalments. In case the question does not specify when the amount of securities premium is payable by the shareholders, then it is assumed to be paid along with allotment money.

Note: As per Section 52(1) of the Companies Act, 2013, the amount received on account of premium has to be credited to 'Securities Premium Account'. While, Schedule III of the Companies Act, 2013 prescribes it to be recorded under the head of 'Securities Premium Reserve'.
Students can follow either of the two ways for recording the Premium amount, that is, either by crediting 'Securities Premium Account' or 'Securities Premium Reserve'.

Presentation of Securities Premium Account in the Company's Balance Sheet
As per the Schedule III of Companies Act, 2013, Securities Premium Account is shown in the Notes to Accounts of 'Reserves and Surplus'. The final balance of Reserves and Surplus is shown on the Equity and Liabilities side of the Company's Balance Sheet under the main head of 'Shareholders' Funds'.

Two Aspects of Issue of Shares at Premium- Excluding and Including

As we know that premium amount is generally allowed at the time of allotment (unless it is specified). In case of issue of shares at premium, usually, the allotment money is presented in two different styles, namely- excluding or including the premium amount.



The Journal entries in both these cases remain exactly the same as given above. The only difference will be in the amount of Share Allotment Account and Share Capital Account. ***It should be noted that Share Allotment Account is always debited with the amount inclusive of premium (that is adding the premium amount). On the other hand, Share Capital Account is always credited with the amount net of premium. That is, the amount for this account is calculated by deducting the amount of premium.***

Example- A company called Rs 25 on allotment say, for one share (that was issued at premium of Rs 5). In this case, the allotment money can be given as:
Case I: Rs 25 (including premium of Rs 5) or,
Case II: Rs 25 (excluding premium of Rs 5)
The following are the Journal entries at the time of allotment.

Case I: Including Premium	***Case II: Excluding Premium***

Share Allotment A/c (25 × 1) Dr. To Securities Premium A/c (5 × 1) To Share Capital A/c (20 × 1)	25	 5 20	Share Allotment A/c (30 × 1) Dr. To Securities Premium A/c (5 × 1) To Share Capital A/c (25 × 1)	30	 5 25
Explanation			***Explanation***		
In this case, allotment money is given inclusive of the premium amount. Therefore, Share Allotment Account is debited with Rs 25. Securities Premium Account is credited with premium amount i.e. Rs 5 and Share Capital Account is credited with the amount net of premium i.e. Rs 20 (25 – 5).			In this case, allotment money is given excluding the premium amount. So, here amount for Share Allotment Account is debited with Rs 30 (i.e. 25 + 5). Securities Premium Account is credited with premium amount i.e. Rs 5 and Share Capital Account is credited with Rs 25 as this excludes the amount of premium.		

NOTE: If nothing is mentioned whether allotment money is inclusive or exclusive of premium amount, it is generally assumed to be inclusive of the premium amount.

Example: Sonal Ltd. issued 5,000 shares of Rs 50 each at a premium of 20% payable as follows.

On application- Rs 22
On allotment- Rs 20 (***including premium***)
On first call - Rs 10
On final call- Rs 8

Pass the necessary Journal entries in the books of Sonal Ltd.

Solution

Face Value of a Share = Rs 50
Premium on Issue (Rs 50 × 20%) = Rs 10

Books of Sonal Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share application money received for 5,000 shares at Rs 22 per share)		1,10,000	 1,10,000
	Share Application A/c Dr. To Share Capital A/c (Share application money transferred to share capital account)		1,10,000	 1,10,000
	Share Allotment A/c Dr. To Securities Premium A/c To Share Capital A/c (Share allotment due on 5,000 shares at Rs 20 including premium of Rs 10)		1,00,000	 50,000 50,000

	Bank A/c Dr. To Share Allotment A/c (Share allotment money received)		1,00,000	1,00,000
	Share First Call A/c Dr. To Share Capital A/c (Share first call due on 5,000 shares at Rs 10 per share)		50,000	50,000
	Bank A/c Dr. To Share First call A/c (Share first call received)		50,000	50,000
	Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 5,000 shares at Rs 8 per share)		40,000	40,000
	Bank A/c Dr. To Share Final call A/c (Share final call received)		40,000	40,000

Example: Jain Ltd. issued 1,00,000 shares of Rs 10 each at a premium of Rs 2 payable as follows.

On application- Rs 4

On allotment- Rs 4 (***excluding premium***)

On first and final call- Rs 2

Pass the necessary Journal entries in the books of Jain Ltd.

Solution

Books of Jain Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share application money received for 1,00,000 shares at Rs 4 per share)		4,00,000	4,00,000
	Share Application A/c Dr. To Share Capital A/c (Share application money transferred to share capital account)		4,00,000	4,00,000
	Share Allotment A/c Dr.		6,00,000	

	To Securities Premium A/c To Share Capital A/c (Share allotment due on 1,00,000 shares at Rs 4, on which premium is Rs 2)			2,00,000 4,00,000
	Bank A/c Dr. To Share Allotment A/c (Share allotment money received)		6,00,000	 6,00,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Share first and final call due on 1,00,000 shares at Rs 2 per share)		2,00,000	 2,00,000
	Bank A/c Dr. To Share First and Final Call A/c (Share first and final call received)		2,00,000	 2,00,000

Example: XYZ Ltd. issued 5,000 shares at Rs 10 each at a premium of Rs 5 per share payable as follows.

Rs 7 on application **(*including premium*)**

Rs 5 on allotment

Rs 3 on first and final call

All the shares were allotted and all the money was duly received by the company. Pass the necessary journal entries.

Solution

XYZ Ltd.
Journal

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
(1)	Bank A/c Dr. To Share Application A/c (Application money received on 5,000 shares at Rs 7 including premium of Rs 5 per share)		35,000	 35,000
(2)	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c (Application money of Rs 2 per share transferred to share capital account and Rs 5 per share transferred to secorities premium account)		35,000	 10,000 25,000

(3)	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 5,000 shares at Rs 5 per share)		25,000	25,000
(4)	Bank A/c Dr. To Share allotment (Allotment money received)		25,000	25,000
(5)	Share First and Final Call A/c Dr. To Share Capital A/c (First and final call money due on 5,000 shares at Rs 3 per share)		15,000	15,000
(6)	Bank A/c Dr. To Share First and Final Call A/c (First and final call money received)		15,000	15,000

Example: XYZ Ltd. issued 5,000 shares at Rs 10 each at a premium of Rs 5 per share payable as: Rs 4 on application, Rs 8 on allotment **(*including premium*)** and Rs 3 on first and final call. Pass the necessary Journal entries.

Solution

XYZ Ltd.
Journal

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
(1)	Bank A/c Dr. To Share Application A/c (Application money received on 5,000 shares at Rs 4 per share)		20,000	20,000
(2)	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital account)		20,000	20,000
(3)	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Allotment money due on 5,000 shares at Rs 3 towards share capital and Rs 5		40,000	15,000 25,000

	towards securities premium account)			
(4)	Bank A/c Dr. To Share Allotment A/c (Allotment money received including premium money)		40,000	40,000
(5)	Share First and Final Call A/c Dr. To Share Capital A/c (Call money due on 5,000 shares at Rs 3 per share)		15,000	15,000
(6)	Bank A/c Dr. To Share First and Final Call A/c (Call money received)		15,000	15,000

When Premium Amount is paid in Instalments

In this case premium amount is not payable in lump sum. It is paid in instalments such as at the time of application and on allotment and sometimes even on the calls. It depends upon the terms of issue of shares by the company. In other words, the premium is partly payable at the time of application and partly payable at the time of allotment or call.

***Example*:** Lava Ltd. issued 80,000 shares of Rs 10 each at a premium of Rs 5 per share payable as follows.

Rs 5 per share (including Rs 3 premium)- on application
Rs 8 per share (including Rs 2 premium)- on allotment
Rs 2 per share- on first call

All the application were received and full allotment is made by the company. Pass the necessary Journal entries.

Solution

Lava Ltd.
Journal

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
(1)	Bank A/c Dr. To Share Application A/c (Application money received on 80,000 shares at Rs 5 per share including premium of Rs 3 per share)		4,00,000	4,00,000
(2)	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c		4,00,000	1,60,000 2,40,000

	(Application money transferred to share capital and securities premium account)				
(3)	Share Allotment A/c	Dr.		6,40,000	
	To Share Capital A/c				4,80,000
	To Securities Premium A/c				1,60,000
	(Allotment money due on 80,000 shares at Rs 8 per share, Rs 6 towards share capital and Rs 2 towards securities premium account)				
(4)	Bank A/c	Dr.		6,40,000	
	To Share Allotment A/c				6,40,000
	(Allotment money received including premium amount)				
(5)	Share First and Final Call A/c	Dr.		1,60,000	
	To Share Capital A/c				1,60,000
	(Call money due)				
(6)	Bank A/c	Dr.		1,60,000	
	To Share First and Final Call A/c				1,60,000
	(Call money received)				

Example: Vikas & Co. Ltd. issued 65,000 shares of Rs 50 each at a premium of Rs 10 payable as follows.
On application- Rs 15 (excluding premium of Rs 4)
On allotment- Rs 17 (excluding premium of Rs 6)
On first call- Rs 10
On final call- Balance

Pass the necessary Journal entries in the books of the company.

Solution

Application	Rs 15 (+ premium of Rs 4)
Allotment	Rs 17 (+ premium of Rs 6)
First Call	Rs 10
Second and Final Call ***(Balance)***	**Rs 8**
Total	Rs 60

Books of Vikas & Co.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		12,35,000	
	To Share Application A/c			12,35,000
	(Share application money received for 65,000 shares at Rs 15, on which premium is Rs 4)			
	Share Application A/c Dr.		12,35,000	
	To Securities Premium A/c			2,60,000
	To Share Capital A/c			9,75,000
	(Share application money transferred to share capital account)			
	Share Allotment A/c Dr.		14,95,000	
	To Securities Premium A/c			3,90,000
	To Share Capital A/c			11,05,000
	(Share allotment due on 65,000 shares at Rs 17, on which premium is Rs 6)			
	Bank A/c Dr.		14,95,000	
	To Share Allotment A/c			14,95,000
	(Share allotment money received)			
	Share First Call A/c Dr.		6,50,000	
	To Share Capital A/c			6,50,000
	(Share first call due)			
	Bank A/c Dr.		6,50,000	
	To Share First Call A/c			6,50,000
	(Share first call received)			
	Share Second and Final Call A/c Dr.		5,20,000	
	To Share Capital A/c			5,20,000
	(Share second and final call amount due)			
	Bank A/c Dr.		5,20,000	
	To Share Second and Final Call A/c			5,20,000
	(Share second and final call amount received)			

Issue of Shares for Consideration other than Cash

Objective

After going through this lesson, you shall be able to understand the following concepts of Issue of Shares for Consideration other than Cash.

- Issue of Shares for Purchase of Assets
- Issue of Shares for Purchase of Business
- Issue of Shares for Purchase of Services

Issue of Shares for Consideration other than Cash

Generally, the shares of a company are issued against cash consideration. It implies that the shares are issued by a company for raising its capital in the form of cash. But, it is not always necessary that a company issues its shares for cash. It can also be issued for consideration other than cash. Sometimes, when a company purchases assets from its suppliers or vendors it issues shares to them instead of making payment in cash. In such a situation, the shares are said to be issued against the purchase of assets. Also, there are times, when a company purchases the whole business of some other firm. For example, Company A Ltd. purchased the business of Company B Ltd. The purchase of business implies purchase of all the assets and liabilities. In this case, the company can issue shares in return rather than making payment in cash. In such a situation, the shares are said to be issued against the purchase of business.

Thus, in the above mentioned cases, we learnt that there are times when the shares are issued not merely in exchange of cash. In fact, these can be issued for settlement of payments against purchase of assets, purchase of business and purchase of services. As in these cases, the shares are not issued in exchange of cash, so such instances are termed as Issue of Shares for Consideration other than Cash. In such instances, the shares can be either issued at par or premium.

In the following part of the lesson, we will learn the accounting treatment of Issue of Shares for Consideration other than Cash for each of these cases.

Case-1: When Assets are Purchased

<table>
<tr><th colspan="2">On Purchase of Assets</th></tr>
<tr><td>Sundry Assets A/c Dr.
To Vendor A/c</td><td>(With the amount of purchase consideration)</td></tr>
</table>

<table>
<tr><th colspan="4">On Issue of Shares</th></tr>
<tr><th colspan="2">Issued at Par</th><th colspan="2">Issued at Premium</th></tr>
<tr><td>Vendor A/c Dr.
To Share Capital A/c</td><td>(With face value of share allotted)</td><td>Vendor A/c Dr.
To Share Capital A/c
To Securities Premium A/c</td><td>(with purchase price)
(with face value of share)
(with the premium amount)</td></tr>
</table>

*<u>Calculation of Number of Shares to be Issued at **Par**</u>*

$$\text{Number of Shares to be issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of Share}} = \frac{\text{Purchase Consideration}}{\text{Face Value of Share}}$$

*<u>Calculation of Number of Shares to be Issued at **Premium**</u>*

$$\text{Number of Shares to be issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of Share}} = \frac{\text{Purchase Consideration}}{\text{Face Value + Premium}}$$

Example: Meena Ltd. purchased a building of Rs 5,40,000 from Sunil & Co. It issued shares of Rs 100 each for making payment to them. Pass the necessary Journal entries, if such shares are issued

i. at par

ii. at premium of Rs 20

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Building A/c	Dr.		5,40,000	
	To Sunil & Co. A/c				5,40,000
	(Building purchased from Sunil & Co. for Rs 5,40,000)				
	When Shares Issued at Par				
	Sunil & Co. A/c	Dr.		5,40,000	
	To Share Capital A/c				5,40,000
	(Issue of 5,400 shares at Rs 100 per share to Sunil & Co.)				
	When Shares Issued at Premium				
	Sunil & Co. A/c	Dr.		5,40,000	
	To Share Capital A/c				4,50,000
	To Securities Premium A/c				90,000
	(Issue of 4,500 shares at Rs 100 each at a Premium of Rs 20 per share)				

Working Notes:

WN1 *Calculation of Number of Shares to be Issued (at premium of Rs 20)*

$$\text{No. of Shares} = \frac{\text{Purchase Price}}{\text{Issue Price}} = \frac{5{,}40{,}000}{100+20} = \frac{5{,}40{,}000}{120} = 4{,}500 \text{ shares}$$

Case-2 When Business is Purchased

Purchase of a business implies that a company is completely taking-over another company. It implicitly implies that the company is purchasing all the assets and liabilities of the another company. In this case, the purchasing company may settle the purchase consideration by issuing shares to the vendor (company that is being purchased) rather than payment in cash. These shares can be issued either at par or at premium. The following Journal entry records the purchase of business by issue of shares.

On Purchase of Business	
Assets A/c	Dr.
Goodwill A/c*	Dr.
To Liabilities A/c	
To Vendor A/c ♣	
To Capital Reserve A/c #	

* Goodwill will appear when Purchase Consideration is more than Net Assets.

Capital Reserve will appear when Purchase Consideration is less than Net Assets.

♣ Vendor is credited with the amount of purchase consideration. If it is not given in the question, then vendor is to be credited with the value of net assets (i.e. total assets minus total liabilities).

The assets taken over by the company are debited and the liabilities are credited. The vendor is credited with the amount of purchase consideration. The difference between the value of ***net assets*** (i.e. total assets minus total liabilities) and the ***purchase consideration*** (vendor's amount) is treated either as ***Goodwill*** or ***as Capital Reserve***. If the purchase consideration is ***more than*** the value of net assets, then the difference is considered as 'Goodwill' and is debited as ***Goodwill Account***. On the other hand, if the purchase consideration is ***less than*** the value of net assets, then it is considered as 'Capital Reserve' and is credited as ***Capital Reserve Account***.

On Issue of Shares			
Issued at ***Par***		Issued at ***Premium***	
Vendor A/c Dr. To Share Capital A/c	(With face value of share allotted)	Vendor A/c Dr. To Share Capital A/c To Securities Premium A/c	(with purchase price) (with face value of share) (with the premium amount)

<u>Calculation of Number of Shares to be Issued</u>

$$\text{Number of Shares to be issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price of Share}}$$

<u>Example</u>: Mahima & Co. Ltd. purchased the following assets and liabilities from Ahuja Bros.

Machinery Rs 3,00,000

Stock Rs 80,000

Plant Rs 1,20,000

Land Rs 5,00,000

Creditors Rs 2,00,000

Mahima & Co. Ltd. issued 50,000 shares of Rs 10 each fully paid-up for the purchase of above assets and liabilities. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		LF	Debit Amount Rs	Credit Amount Rs
	Machinery A/c	Dr.		3,00,000	
	Stock A/c	Dr.		80,000	
	Plant A/c	Dr.		1,20,000	
	Land A/c	Dr.		5,00,000	
	To Creditors A/c				2,00,000
	To Ahuja Bros.				5,00,000
	To Capital Reserve A/c (*Balance Figure*)				3,00,000
	(Purchase of business from Ahuja Bros.)				
	Ahuja Bros.	Dr.		5,00,000	
	To Share Capital A/c				5,00,000
	(Issue of 50,000 shares of Rs 10 each as payment of the price of business)				

***Example*:**

A Ltd. took over following assets and liabilities of B Ltd. for the sum of Rs 8,00,000. The purchase consideration is to be paid by the company by issuing equity shares of Rs 100 each at a premium of Rs 25 per share.

The assets and liabilities of B Ltd were as follows:

Particulars	Rs
Machinery	4,00,000
Patents	50,000
Land and Building	1,00,000
Stock	2,00,000
Sundry Debtors	1,20,000
Sundry Creditors	1,50,000

Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Machinery A/c	Dr.		4,00,000	
	Patents A/c	Dr.		50,000	

	Land and Building A/c Dr.		1,00,000	
	Stock A/c Dr.		2,00,000	
	Sundry Debtors A/c Dr.		1,20,000	
	Goodwill A/c (*Balancing Figure*)* Dr.		80,000	
	To B Ltd.			8,00,000
	To Sundry Creditors A/c			1,50,000
	(Taken over assets and liabilities from B Ltd.)			
	B Ltd. Dr.		8,00,000	
	To Equity Share Capital A/c			6,40,000
	To Securities Premium A/c			1,60,000
	(Issue of 6,400 equity shares at a premium of Rs 25 per share)			

Calculation of Number of Shares to be Issued

$$\text{No. of Shares to be issued} = \frac{\text{Purchase Price}}{\text{Issue Price}} = \frac{8,00,000}{125} = 6,400 \text{ shares}$$

* Goodwill is debited with Rs 80,000. This is calculated as

Goodwill = Purchase Consideration – Net Assets

= Purchase Consideration – (Total Assets – Total Liabilities)

= 8,00,000 – (4,00,000 + 50,000 +1,00,000 + 2,00,000 +1,20,000 – 1,50,000) = Rs 80,000

Case-3: When Services are Purchased

A company may sometimes issue shares to the promoters or the underwriters who render their services to the company. Such issue of shares does not result in any cash inflows, since the shares are allotted against the services provided by them.

The accounting entries for issue of shares in such a situation are given below.

(A) **Issue of Shares to Promoters**

On Issue of Shares at Par	
Incorporation Expenses A/c	Dr.
To Share Capital A/c	

On Issue of Shares at Premium	
Incorporation Expenses A/c	Dr.

To Share Capital A/c
To Securities Premium A/c

(B) **Issue of Shares to Underwriters'**

On making underwriting commission due	
Underwriting Commission A/c	Dr.
To Underwriters' A/c	

On Issue of Shares at Par	
Underwriters' A/c	Dr.
To Share Capital A/c	

On Issue of Shares at Premium	
Underwriters' A/c	Dr.
To Share Capital A/c	
To Securities Premium A/c	

Some Important Cases

Case 1: When number of shares is not a whole number

There may be situations, where, number of shares are not in whole numbers. That is, the number of shares are in fraction or in decimals. For example, a company purchased an asset worth Rs 4,90,000 from a vendor and purchase consideration was settled by issuing shares of Rs 100 each at 10% premium.

$$\text{No. of Shares} = \frac{\text{Purchase Price}}{\text{Issue Price}} = \frac{4,90,000}{100+10} = 4,454.54 \text{ shares}$$

In this case, 4,454 shares are issued, whereas, the decimal portion of is paid in cash/bank.

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Vendor A/c	Dr.		4,90,000	
	To Share Capital A/c (4,454 × Rs 100)				4,45,400
	To Securities Premium A/c (4,45,400 × 10%)				44,540
	To Bank A/c *(balancing figure)*				60

	(Issue of 4,454 shares at Rs 100 each at a Premium of Rs 10 per share and Rs 60 paid in cash)			

Case 2: When part payment is made in cash/through bank

When a company purchases assets or business, it can opt to make a part payment in cash and the remaining payment by issuing shares. In such a situation, the payment made in cash (or through cheque) is credited to the Cash Account (or Bank Account) and the remaining payment is made by issuing shares.

Example: Namita & Co. Ltd. purchased assets for Rs 8,00,000 from Nandita Ltd. It paid Rs 2,50,000 in cash and the remaining balance was to be paid by issue of shares of Rs 10 each at a premium of 10%. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars	LF	Debit Amount Rs	Credit Amount Rs
	Assets A/c Dr.		8,00,000	
	To Nandita Ltd.			8,00,000
	(Purchase of assets from Nandita Ltd.)			
	Nandita Ltd. Dr.		2,50,000	
	To Cash A/c			2,50,000
	(Amount paid in cash to Nandita Ltd.)			
	Nandita Ltd. (8,00,000 - 2,50,000) Dr.		5,50,000	
	To Securities Premium A/c			50,000
	To Share Capital A/c			5,00,000
	(Issued 50,000 shares of Rs 10 each at a premium of 10%)			

Calculation of Number of Shares to be Issued

$$\text{No. of Shares to be issued} = \frac{\text{Remaining Purchase Consideration}}{\text{Issue Price of Share}} = \frac{5,50,000}{10+1} = 50,000 \text{ shares}$$

Full-Subscription, Under-Subscription and Over-Subscription

Objective

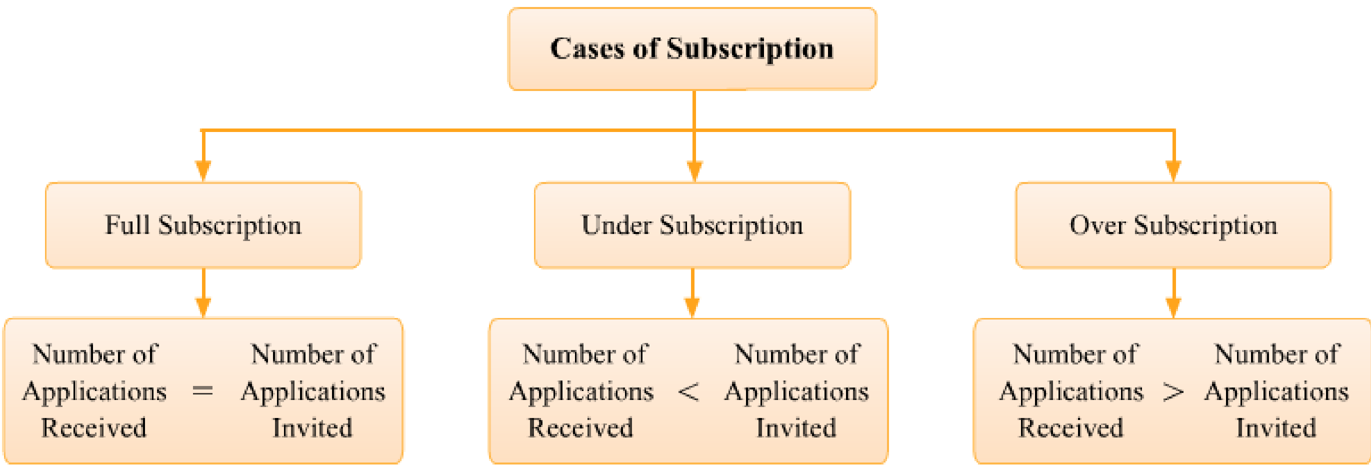
After going through this lesson, you shall be able to understand the following concepts.

- Full Subscription of Shares
- Under-Subscription of Shares
- Over-Subscription of Shares

Introduction

As we know that a company invites application from the general public to subscribe for its shares. However; it is not always possible that the total number of applications offered (or invited) by the company will be equal to the total number of applications received by it. That is, the total number of applications received may be either equal to, more or less than the number of applications offered. Based on the application received, there arises the following three situations.

1. Full Subscription
2. Under-Subscription
3. Over-Subscription



In the following part of the chapter, we will learn about all these cases in detail.

Full Subscription of Shares

The full subscription of shares refers to a situation when the number of application received by the company is *equal to* the number of applications offered for subscription. For example, a company invited applications for 2,000 shares of Rs 10 each from the general public. In response to this, 2,000 applications were received. That is, all the applications were fully subscribed by the applicants. This situation is known as Full Subscription of shares. In case of full subscription of shares, the following Journal entries are passed at the time of application.

Journal Entry

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

(Amount received on application) Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital account)

Example: Rohit Ltd. invited applications for 1,00,000 shares of Rs 10 each. The entire amount is payable at the time of application. All the shares were subscribed by the public and all the money was duly received. Pass the necessary Journal entries.

Solution

Bank A/c (1,00,000 × Rs 10)	Dr.	10,00,000	
To Share Application A/c (1,00,000 × Rs 10)			10,00,000
(Application money received on 1,00,000 shares at Rs 10 per share)			
Share Application A/c (1,00,000 × Rs 10)	Dr.	10,00,000	
To Share Capital A/c (1,00,000 × Rs 10)			10,00,000
(Application money transferred to Share Capital Account)			

Under-Subscription of Shares

This refers to a situation when the number of application received by the company is *less than* the number of applications offered (or invited). For example, a company invited application for 5,000 shares of Rs 10 each from the general public. Application were received only for 4,500 shares. In this situation, clearly the number of shares invited (i.e. 5,000 shares) is less than the number of shares applied (i.e. 4,500 shares). This situation is known as Under-Subscription of shares.

***Example*:** Janvi Ltd. invited applications for 1,00,000 shares of Rs 10 each. The share money is payable as follows:

Rs 4 on application, Rs 3 on allotment and Rs 3 on first and final call.

The applications were received only for 90,000 shares. All the money was received from the applicants. Pass the necessary Journal entries.

Solution

Bank A/c (90,000 × Rs 4) (*see note*)	Dr.	3,60,000	

To Share Application A/c (90,000 × Rs 4)			3,60,000
(Application money received on 90,000 shares at Rs 4 per share)			
Share Application A/c (90,000 × Rs 4)	Dr.	3,60,000	
To Share Capital A/c (90,000 × Rs 4)			3,60,000
(Application money transferred to Share Capital Account)			
Share Allotment A/c	Dr.	2,70,000	
To Share Capital A/c			2,70,000
(Allotment money due on 90,000 shares at Rs 3 per share)			
Bank A/c	Dr.	2,70,000	
To Share Allotment A/c			2,70,000
(Allotment money received)			
Share First and Final Call A/c	Dr.	2,70,000	
To Share Capital A/c			2,70,000
(Call money due on 90,000 shares at Rs 3 per share))			
Bank A/c	Dr.	2,70,000	
To Share First and Final call A/c			2,70,000
(Amount received on call)			

<u>Note</u>: The amount in the entry is Rs 3,60,000 (and not Rs 4,00,000) as the number of shares applied is only 90,000. This entry is not passed with the amount of the number of shares offered (or invited).

Minimum Subscription of Shares

In case of under-subscription, there exists an important concept of Minimum Subscription of Shares. *Minimum Subscription* refers to the minimum amount that must be subscribed by the general public so that the company can allot shares to the applicants.

Section 39 of the Companies Act of 2013
No allotment of any securities of a company offered to the public for subscription shall be made unless the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on application for the amount so stated have been paid to and received by the company by cheque or other instrument.

However, it should be noted that Companies Act of 2013 is silent in this regards. It does not specify the quantum of minimum subscription needed in case of public issues (for both equity and debt). The act only requires disclosure of same in the offer document. The Securities and Exchange Board of India (SEBI) has explicitly mentioned the quantum of minimum subscription in case of a public issue in one of its circulars (CIR/IMD/DF/12/2014 dated June 17, 2014). As per the circular, the following important conditions have been enlisted below.

(i) No allotment shall be made of any share capital if minimum subscription of 90% of issue size is not received as per Section 69 of Companies Act, 1956.
(ii) Minimum subscription for debt securities shall be specified as 75% of the base issue size for both NBFCs and Non-NBFC issuers.
(iii) No such limit of minimum subscription for the issuers of tax free bonds as specified by CBDT.

Thus, if the amount of minimum subscription is not received, then the company cannot allot shares to its applicants and shall immediately refund the entire application amount received to the public. For example, if a company invited application for 20,000 shares of Rs 10 each. However; applications were received only for 17,000 shares. In this case, as the number of shares applied (17,000 shares) is less than 90% $\left(\frac{90}{100} \times 20,000 = 18,000\right)$ of the shares offered, so the company cannot allot shares and has to immediately refund the application money received. Similarly, if in the above example, the company had received applications for less than 90,000 shares (i.e. less than 90% of shares issued), then in such a situation, the company can not allot shares to the applicants and it has to refund the entire application amount received.

Journal Entry for Refund of Application Money in case of less than the Minimum Subscription of Shares

Share Application A/c	Dr.
To Bank A/c	
(Application money refunded)	

Over-Subscription

It refers to a situation when the number of application received by the company is *more than* the number of applications offered. For example, a company invited application for 7,500 shares of Rs 10 each from the general public. Public applied for 10,000 shares. In this case, as the number of shares applied (10,000 shares) is more than the number of shares offered (7,500 shares), so this is a case of over-subscription of shares. In case of over-subscription of shares, a company cannot allot shares to all the applicants. It can allot only that much number of shares to the applicants which have been offered by it i.e. 7,500 shares. Therefore, in case of over-subscription of shares, a company can opt for any of the three alternatives to allot shares.

(i) *Rejecting Excess Application and Money Returned*

(ii) *On Pro-rata basis*

(iii) *Both Pro-rata Allotment and Rejection of some Excess Applications (covered in the next lesson).*

(i) ***Rejecting Excess Application and Money Returned***

In case of over subscription of shares, the company can refuse excess applications and accordingly, the money received on these excess applications is returned to the applicants. For example, in the above example, the company can refuse the excess applications of 2,500 shares (i.e. 10,000 - 7,500 shares) and refund the money back to these applicants. The rest 7,500 applicants will be allotted 7,500 shares. The following Journal entries are passed in this case.

<u>*Journal Entries*</u>

Bank A/c	Dr.	
To Share Application A/c		{with total amount received on application}
(Application money received)		
Share Application A/c	Dr.	(with total amount received)
To Share Capital A/c		(with application money transferred to share capital account)
To Bank A/c		(with excess application money returned to applicants)
(Application money transferred to share capital and excess amount returned)		

***<u>Example</u>*:** KGO Ltd. invited applications for 75,000 shares of Rs 10 each. The share money is payable as follows:

Rs 3 on application, Rs 5 on allotment and Rs 2 on first and final call.

The company had received the application for 90,000 shares. It has accepted applications for 75,000 shares and rejected the remaining applications. Excess application money received was refunded. Pass the necessary Journal entries.

Solution

Bank A/c (90,000 shares × 3)	Dr.	2,70,000	

To Share Application A/c (90,000 shares × 3)			2,70,000
(Application money received for 90,000 shares at Rs 3 per share)			
Share Application A/c (90,000 shares × Rs 3)	Dr.	2,70,000	
To Share Capital A/c (75,000 shares × Rs 3)			2,25,000
To Bank A/c (15,000 shares × Rs 3)			45,000
(Application money on 75,000 shares transferred to share capital account and refunded excess application money on 15,000 shares)			
Share Allotment A/c (75,000 shares × 5)	Dr.	3,75,000	
To Share Capital A/c (75,000 shares × 5)			3,75,000
(Allotment money due on 75,000 shares at Rs 5 each)			
Bank A/c (75,000 shares × 5)	Dr.	3,75,000	
To Share Allotment A/c (75,000 shares × 5)			3,75,000
(Allotment money received)			
Share First and Final call A/c (75,000 shares × 2)	Dr.	1,50,000	
To Share Capital A/c (75,000 shares × 2)			1,50,000
(Call money due on 75,000 shares at Rs 2 each)			

Bank A/c (75,000 shares × 2)	Dr.	1,50,000	
To Share First and Final call A/c (75,000 shares × 2)			1,50,000
(Call money received)			

Note: *It should be noted in the above example and in the case of over-subscription of shares, the first two entries of Share Application is passed with the number of shares applied (or application received i.e. 90,000 shares). However; all the rest entries from allotment onwards (from entry 3 to 6) are passed with the number of shares issued (i.e. 75,000 shares).*

(ii) ***Pro-rata Allotment***

In the above example, we saw that the company has outrightly rejected the application for the excess shares of 15,000 shares. However, the company may have opted for pro-rata allotment. It implies that instead of rejecting the shares, the company allots shares to all the applicants but less than what they have applied for. That is, the shares are partially allotted to the applicants. For instance, the company may allot 150 shares to an applicant who has applied for 400 shares. In such a case, the excess amount received on application can either be utilised by the company towards amount due on allotment and calls or it can be refunded to the applicants. But, generally, a company prefers to utilise the excess money received on application towards the subsequent calls, i.e. allotment, first call and so on.

Journal Entries

Bank A/c To Share Application A/c (Application money received)	Dr.	{with total amount received on application}
Share Application A/c To Share Capital A/c To Share Allotment or Call A/c (Application money transferred to share capital account and excess money utilised on share allotment)	Dr.	(with total amount received) (with application money transferred to share capital account) (with amount utilised towards allotment or call)

Example: Neena & Co. Ltd. issued 50,000 shares of Rs 10 each payable as Rs 3 on application, Rs 5 on allotment and Rs 2 on first and final call. Applications were received for 70,000 shares. The company has made pro-rata allotment and the excess money received has been utilised towards allotment. Pass the necessary Journal entries.

Solution

Bank A/c (70,000 shares × Rs 3)	Dr.	2,10,000	
To Share Application A/c (70,000 shares × Rs 3)			2,10,000
(Application money received on 70,000 shares at Rs 3 per share)			
Share Application A/c (70,000 shares × Rs 3)	Dr.	2,10,000	
To Share Capital A/c (50,000 shares × Rs 3)			1,50,000
To Share Allotment A/c (20,000 shares × Rs 3)			60,000
(Application money on 50,000 shares transferred to share capital account and excess money on 20,000 shares utilised towards share allotment)			
Share Allotment A/c (50,000 shares × Rs 5)	Dr.	2,50,000	
To Share Capital A/c (50,000 shares × Rs 5)			2,50,000
(Allotment money due on 50,000 shares at Rs 5 each)			
Bank A/c (Rs 2,50,000 – Rs 60,000)	Dr.	1,90,000	
To Share Allotment A/c			1,90,000
(Amount received on allotment) (***WN)***			
Share First and Final Call A/c (50,000 shares × Rs 2)	Dr.	1,00,000	
To Share Capital A/c			1,00,000

(Call money due on 50,000 shares at Rs 2 per share)			
Bank A/c (50,000 shares × Rs 2)	Dr.	1,00,000	
To Share First and Final Call A/c			1,00,000
(Call money received)			

Working Note:

Amount due on allotment	= Rs 2,50,000
Less: Excess Money Utilised towards allotment	= Rs (60,000)
Amount Received on allotment	= Rs 1,90,000

***Note*:** In this case, if the excess money to be utilised towards allotment (here it is Rs 60,000) happens to be Rs 2,50,000, then the Journal entry 4, would not be passed as the company would not receive any money at the time of allotment. Also, if any balance remains after adjusting the allotment money, then it would be adjusted for the first call, second call and third call (if the case requires). For example, let us suppose that the excess amount to be utilised towards allotment is Rs 2,65,000. Then no entry would be passed for receiving allotment money. Further, after adjusting the allotment money of Rs 2,50,000, Rs 15,000 still remains as the balance, which will be adjusted in the first call. Thus, at the time of receiving first call money, the Journal entry would be passed with Rs 85,000 (i.e. Rs 1,00,000 - Rs 15,000).

(iii) *Both Pro-rata Allotment and Rejection of some Excess Applications (covered in the next lesson).*

Over-Subscription and Pro-Rata Allotment

Objectives

After going through this lesson, you shall be able to understand the following concepts related to Over-Subscription.

- Computation Table
- Pro-rata Allotment and Rejection of Excess Application

Computation Table: It is generally advisable to prepare a separate table known as computation table in case when the company makes Pro-rata allotment and Rejection simultaneously. This table shows all the computation of amount received on application and excess money if any. ***Students must note that the purpose of this table to just for ease, it is not compulsory to prepare. Also, there is no marks attached to this table as per the CBSE marking scheme.*** The below given is the format of such computation table.

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 40 each**	**Application Money transferred to Share Capital at *Rs* 40 each**	**Excess money on application**	**Bank (*Refund*)**
A						
B						
C						
Total						
			4 = 5 + 6 + 7			

It should be noted that the sum of the columns 5, 6 and 7 should always be equal to 4. Based on the computation table, it is very easy to place the amount in the Journal entry.

Bank A/c Dr. To Share Application A/c (Share Application money received)	Column 4	 Column 4
Share Application A/c Dr. To Share Capital A/c (20,000 shares × Rs 4) To Share Allotment A/c (2,000 shares × Rs 4) To Bank A/c (3,000 shares × Rs 4) (Application money transferred to Share Capital Account and excess money adjusted towards Share Allotment Account and money refunded to the rejected share applicants)	Column 4	 Column 5 Column 6 Column 7

Pro-rata Allotment and Rejection of some Excess Applications

In case of over subscription of shares, the company may follow a combination of both, the pro-rata allotment and refund of excess money received. It implies that, the company in case of over subscription, may reject the some of the applications and can make pro-rata allotment to remaining applicants. The amount received on rejected applications is refunded immediately to the applicants. The excess amount received on applications from the applicants to whom the pro-rata allotment is made can be adjusted towards the amount due on allotment and call.

Journal Entries

Bank A/c Dr. To Share Application A/c (Application money received)	{with total amount received on application}

Share Application A/c	Dr.	(with total amount received)
To Share Capital A/c		(with application money transferred to share capital account)
To Share Allotment or Call A/c		(with amount utilised towards allotment or call)
To Bank A/c		(with application money refunded)
(Share Application money adjusted)		

***Example*:** M K Ltd. issued 20,000 shares of Rs 10 each. The amount is payable as follows:

Rs 4 on application, Rs 3 on allotment and Rs 3 on first and final call.

The company received application for 25,000 shares. The Company rejected applications for 3000 shares and made pro-rata on the remaining applications. Pass the necessary Journal entries.

Solution

Bank A/c (25,000 shares × Rs 4)	Dr.	1,00,000	
To Share Application A/c			1,00,000
(Application money received on 25,000 shares at Rs 4 each)			
Share Application A/c	Dr.	1,00,000	
To Share Capital A/c (20,000 shares × Rs 4)			80,000
To Share allotment A/c (2,000 shares × Rs 4)			8,000
To Bank A/c (3,000 shares × Rs 4)			12,000
(Application money on 20,000 shares transferred to share capital account, on 2000 shares adjusted towards allotment and on 3000 shares refunded)			
Share Allotment A/c	Dr.	60,000	
To Share Capital A/c			60,000
(Allotment money due on 20,000 shares at Rs 3 per share)			
Bank A/c	Dr.	52,000	

To Share Allotment A/c			52,000
(Allotment money received)			
Shares First and Final call A/c	Dr.	60,000	
To Share Capital A/c			60,000
(Call money due on 20,000 shares at Rs 3 per share)			
Bank A/c	Dr.	60,000	
To Share First and Final call A/c			60,000
(Call money received)			

<u>*Working Notes:*</u>

Total Amount due on allotment	= 60,000
Less: Amount received on application utilised towards allotment	= (8,000)
Total Amount Received on allotment	= Rs 52,000

<u>Example</u>: Lyt Ltd. issued 80,000 shares of Rs 50 each at par payable as Rs 15 on application, Rs 25 on allotment and balance on first and final call. Applications were received for 1,10,000 shares. Company made the allotment on the following basis:

a. To applicants for 55,000 shares- Full
b. To applicants for 30,000 shares- 25,000 shares
c. To applicants for 25,000 shares- Rejected

Excess money on application (if any) was to be utilised towards allotment and call money. Record the above transactions by passing necessary Journal entries.

Solution

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at Rs 15 each**	**Application Money transferred to Share Capital at Rs 15 each**	**Excess money on Application**	**Bank (*Refund*)**
A	55,000	55,000	8,25,000	8,25,000	-	-

B	30,000	25,000	4,50,000	3,75,000	75,000 (5,000 shares × Rs 15)	
C	25,000	Nil	3,75,000	-	-	3,75,000 (*Refunded*)
Total	**1,10,000**	**80,000**	**16,50,000**	**12,00,000**	**75,000**	**3,75,000**

Books of Lyt Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (1,10,000 shares × Rs 15 each)	Dr.		16,50,000	
	To Equity Share Application A/c				16,50,000
	(Share application money received for 1,10,000 shares at Rs 15 each)				
	Equity Share Application A/c	Dr.		16,50,000	
	To Share Capital A/c (80,000 shares × Rs 15 each)				12,00,000
	To Share Allotment A/c				75,000
	To Bank A/c (25,000 shares × Rs 15 each)				3,75,000
	(Share application money of 80,000 shares transferred to share capital, 25,000 shares money were refunded and the balance adjusted on allotment)				
	Share Allotment A/c	Dr.		20,00,000	
	To Share Capital A/c (80,000 shares × Rs 25 each)				20,00,000
	(Allotment money due)				
	Bank A/c (20,00,000 – 75,000)	Dr.		19,25,000	
	To Share Allotment A/c				19,25,000
	(Share allotment money received after adjustment of excess application money)				

In the above example, we can see that the total of column 2 is 1,10,000 and the total of column 3 is 80,000. But, sometimes, it may not be the case. In such case, the total of shares applied (total of column 2) is not the same as that of the total number of applications received. Therefore, it is always important to check that the total of the column 2 and column 3 with that of the total number of share applications received and total number of shares allotted. The below-mentioned example explains a case of balancing figure.

Example: Makeup Ltd. issued 50,000 shares of Rs 20 each at a premium of Rs 2 payable as Rs 6 on application, Rs 8 (including premium of Rs 2) on allotment, Rs 4 on first call and balance on final call. Applications were received for 65,000 shares. Company made the allotment on the following basis:

a. To applicants for 5,000 shares- Rejected
b. To applicants for 25,000 shares- Full
c. To applicants for 20,000 shares- 15,000 shares

Excess money on application (if any) was to be utilised towards allotment and call money. Record the above transactions by passing necessary Journal entries.

Solution

Computation Table						
1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 6 each**	**Application Money transferred to Share Capital at *Rs* 6 each**	**Excess money on application**	**Bank (*Refund*)**
A	5,000	Nil	30,000	-	-	30,000 (*Refunded*)
B	25,000	25,000	1,50,000	1,50,000	-	-
C	20,000	15,000	1,20,000	90,000	30,000 (5,000 × Rs 6)	-
D (*Balancing figure*)	15,000	10,000	90,000	60,000	30,000	-
Total	**65,000**	**50,000**	**3,90,000**	**3,00,000**	**60,000**	**30,000**

In this example, we can see that in the question, the information (as per the categories) is given only for 50,000 (application) shares and 40,000 shares (allotted). Certainly, there exists some of the balancing figure. The row D indicates the balancing figure as 15,000 and 10,000. The Journal entries in this case will remain the same.

Books of Makeup Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (65,000 shares × Rs 6 each)	Dr.		3,90,000	
	To Equity Share Application A/c				3,90,000
	(Share application money received for 65,000 shares at Rs 6 each)				
	Equity Share Application A/c	Dr.		3,90,000	
	To Share Capital A/c (50,000 shares × Rs 6 each)				3,00,000
	To Share Allotment A/c				60,000
	To Bank A/c (5,000 shares × Rs 6 each)				30,000
	(Share application money of 50,000 shares transferred to share capital, 5,000 shares money were refunded and the balance adjusted on allotment)				
	Share Allotment A/c	Dr.		4,00,000	
	To Share Capital A/c (50,000 shares × Rs 6 each)				3,00,000
	To Securities Premium A/c (50,000 shares × Rs 2 each)				1,00,000
	(Allotment money due)				
	Bank A/c (4,00,000 – 60,000)	Dr.		3,40,000	

	To Share Allotment A/c (Share allotment money received after adjustment of excess application money)			3,40,000
	Share First Call A/c Dr. To Share Capital A/c (50,000 shares × Rs 4 each) (Share first call due on 50,000 shares at Rs 4each)		2,00,000	2,00,000
	Bank A/c Dr. To Share First Call A/c (Share first call received)		2,00,000	2,00,000
	Share Final Call A/c Dr. To Share Capital A/c (50,000 shares × Rs 4 each) (Share final call due on 50,000 shares at Rs 4 each)		2,00,000	2,00,000
	Bank A/c Dr. To Share Final Call A/c (Share final call received)		2,00,000	2,00,000

Example: Divya Sarees Ltd. registered with a capital Rs 20,00,000 divided into 20,000 equity shares of Rs 100 each. Company made an offer for 5,000 shares payable as Rs 30 on application, Rs 40 on allotment and the balance on the last call. The company received application for 8,200 shares. The applications for 200 shares were rejected outrightly and money was refunded. The full allotment was made to 2,000 shares. The balance applications were allotted on the pro-rata basis, for this purpose the company followed the policy of adjusting of excess application money on towards further calls. Pass Journal entries to record the allotment of shares.

Solution

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 30 each**	**Application Money transferred to Share Capital at *Rs* 30 each**	**Excess money on application**	**Bank (*Refund*)**
A	200	Nil	6,000	-	-	6,000 (*Refunded*)
B	2,000	2,000	60,000	60,000	-	-
C	6,000 (*Balance*)	3,000	1,80,000	90,000	90,000 (3,000 × Rs 30)	-
Total	**8,200**	**5,000**	**2,46,000**	**1,50,000**	**90,000**	**6,000**

Books of Divya Sarees Ltd.
Journal

Date	Particulars	L.F.	Debit Amount	Credit Amount

				Rs	Rs
	Bank A/c (8,200 shares × Rs 30 each)	Dr.		2,46,000	
	To Equity Share Application A/c				2,46,000
	(Share application money received for 8,200 shares at Rs 30 each)				
	Equity Share Application A/c	Dr.		2,46,000	
	To Share Capital A/c (5,000 shares × Rs 30 each)				1,50,000
	To Share Allotment A/c				90,000
	To Bank A/c (200 shares × Rs 30 each)				6,000
	(Application money of 5,000 shares transferred to Share capital and remaining application adjusted on allotment)				
	Share Allotment A/c	Dr.		2,00,000	
	To Share Capital A/c (5,000 shares × Rs 40 each)				2,00,000
	(Share allotment money due on 5,000 shares at Rs 40 each)				
	Bank A/c (2,00,000 – 90,000)	Dr.		1,10,000	
	To Share Allotment A/c				1,10,000
	(Share allotment money received after adjustment of advance application money)				
	Share First and Final Call A/c	Dr.		1,50,000	
	To Share Capital A/c (5,000 shares × Rs 30 each)				1,50,000
	(Share first and final call due on 5,000 shares at Rs 30 each)				
	Bank A/c	Dr.		1,50,000	
	To Share First and Final Call A/c				1,50,000
	(Share first and final call received on 5,000 shares at Rs 30 each)				

<u>Example</u>: Gyan Sagar Publication Ltd. offered for 10,000 shares of Rs 100 each at a premium of Rs 20 per share payable as Rs 40 on application, Rs 50 allotment (including premium) and Rs 30 on first and final call. Public applied for 16,000 shares. The company allotted shares on the pro-rata basis as:

a. Applicants of 4,000 shares were allotted in full
b. Applicants of 9,000 shares were allotted 6,000 shares.
c. The balance shares were sent letters of regret and their money was refunded.

Excess money (*if any*) received from the applicants to whom pro-rata allotment was made is to be adjusted on the subsequent calls. Record the above transactions by passing necessary Journal entries.

Solution

Computation Table						
1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at**	**Application Money transferred to Share**	**Excess money on application**	**Bank (*Refund*)**

			Rs 40 each	Capital at *Rs* 40 each		
A	4,000	4,000	1,60,000	1,60,000	-	
B	9,000	6,000	3,60,000	2,40,000	1,20,000 (3,000 × Rs 40)	
C	3,000 (*Balance*)	Nil	1,20,000	-	-	1,20,000 (*Refunded*)
Total	**16,000**	**10,000**	**6,40,000**	**4,00,000**	**1,20,000**	**1,20,000**

Books of Gyan Sagar Publication Ltd.
Journal Entries

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (16,000 shares × Rs 40 each)	Dr.		6,40,000	
	To Equity Share Application A/c				6,40,000
	(Share application money received for 16,000 shares at Rs 40 each)				
	Equity Share Application A/c	Dr.		6,40,000	
	To Share Capital A/c (10,000 shares × Rs 40 each)				4,00,000
	To Share Allotment A/c				1,20,000
	To Bank A/c (4,000 shares × Rs 40 each)				1,20,000
	(Share application money of 10,000 shares transferred to share capital, 4,000 shares money were refunded and the balance adjusted on allotment)				
	Share Allotment A/c	Dr.		5,00,000	
	To Share Capital A/c (10,000 shares × Rs 30 each)				3,00,000
	To Securities Premium A/c (10,000 shares × Rs 20 each)				2,00,000
	(Allotment money due)				
	Bank A/c (5,00,000 – 1,20,000)	Dr.		3,80,000	
	To Share Allotment A/c				3,80,000
	(Share allotment money received after adjustment of excess application money)				
	Share First and Final Call A/c	Dr.		3,00,000	
	To Share Capital A/c (10,000 shares × Rs 30 each)				3,00,000

	(Share first and final call due on 10,000 shares at Rs 30 each) Bank A/c Dr. To Share First and Final Call A/c (Share first and final call received)			3,00,000	3,00,000

Calls-in-Arrears and Calls-in-Advance

Objective

After going through this lesson, you shall be able to understand following concepts.

- Calls-in-Arrears
- Calls-in-Advance

Calls-in-Arrears

It may happen that a shareholder fails to pay all the instalments in due time. In such case, the company expects the shareholder to pay the outstanding amount in the later stages (or calls). For example, a shareholder pays allotment and first call money at the time of the second call. The amount of money that is being paid at the later stages is termed as Calls-in-Arrears. In this case, the following Journal entries are passed.

Journal Entries

For Non-payment of Allotment or Calls
Calls-in-Arrears A/c Dr. To Share Allotment or Call A/c (Non-payment of share allotment or call money)
On Receipt of Calls-in-Arrears (at later date)
Bank A/c Dr. To Calls-in-Arrears A/c (Amount due on allotment or call money received)

Example: A company issued 2,000 shares of Rs 20 each payable as follows:

On Application- Rs 6
On Allotment- Rs 7
On First Call- Rs 3
On Final Call- Rs 4

All the shares were fully subscribed by the public. One shareholder, holding 700 shares, failed to pay the amount due on allotment and first call. However; he paid the entire amount due along with the final call.
Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (2,000 shares × Rs 6) To Share Application A/c (Application money received on 2,000 shares at Rs 6 per share)	Dr.		12,000	12,000
	Share Application A/c To Share Capital A/c (Application money transferred to Share Capital Account)	Dr.		12,000	12,000
	Share Allotment A/c (2,000 shares × Rs 7) To Share Capital A/c (Amount due on allotment of 2,000 shares at Rs 7 per share)	Dr.		14,000	14,000
	Bank A/c (1,300 shares × Rs 7) Calls-in-Arrears A/c (700 shares × Rs 7) To Share Allotment (2,000 shares × Rs 7) (Allotment money received on 1,300 shares)	Dr. Dr.		9,100 4,900	14,000
	Share First Call A/c (2,000 shares × Rs 3) To Share Capital A/c (First call money due on 2,000 shares at Rs 3 per share)	Dr.		6,000	6,000
	Bank A/c (1,300 shares × Rs 3) Calls-in-Arrears A/c (700 shares × Rs 3) To Share First Call A/c (2,000 shares × Rs 3) (First call money received on 1,300 shares)	Dr. Dr.		3,900 2,100	6,000
	Share Second and Final Call A/c (2,000 shares × Rs 4) To Share Capital A/c (Second and Final Call money due on 2,000 shares at Rs 4 per share)			8,000	8,000
	Bank A/c (Rs 8,000 + Rs 4,900 + Rs 2,100) To Share Second and Final Call A/c To Calls-in-Arrears A/c (Second and Final Call money received on 2,000 shares along with amount due on 700 shares on allotment and first call)	Dr.		15,000	8,000 7,000

Interest on Calls-in-Arrears (*This topic has been excluded from current year's syllabus*)

As learnt above that when a shareholders fails to pay the amount due on allotment or on any subsequent calls within the prescribed time, then it is termed as Calls-in-Arrears. Often, a company as authorised by its Articles of Association charges interest on the amount of calls-in-arrears. The interest on calls-in-arrears is calculated for the period from the due date till the date of actual payment. In case, the Articles of Association is silent in regards of the interest, then Table F of Companies Act, 2013 shall be applicable as per which interest @ 10% p.a. is to be charged on calls-in-arrears. However, it is totally at the discretionary of the company to charge interest on calls-in-arrears.

Treatment of Calls-in-Arrears in the Company's Balance Sheet

As per Schedule III of the Companies Act, 2013, Calls-in-Arrears is shown as deduction from the Called-up Share Capital under the sub-head of Share Capital in the Notes to Accounts. The final balance of Share Capital is shown under the main head of Shareholders' Funds on the Equity and Liabilities Side of the Company's Balance Sheet.

Balance Sheet (Relevant Extract)

as on……

Particulars	Note No.	Figures at the end of the Current Year
I. Equity and Liabilities 1. Shareholders' Fund a. Share Capital b. Reserves and Surplus 3. Non-Current Liabilities 4. Current Liabilities	 1	
Total		
II. Assets 1. Non-Current Assets a. Fixed Assets b. Other Non-Current Assets 2. Current Assets a. Cash and Cash Equivalents		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Share Capital** Authorised Share Capital …… shares of Rs.. each Issued Share Capital …… shares of Rs.. each	

	Subscribed, Called-up and Paid-up Share Capital …… shares of Rs.. each *Less*: Calls-in-Arrears	

Calls-in-Advance

On the contrast to the Calls-in-Arrears, Calls-in-Advance refers to a situation when a shareholder pays the whole amount or a part of the amount of shares before it become due, i.e. before the company calls for it. For example, if a shareholder pays the amount of first call, second call along with the allotment money at the time of the allotment. The amount of money that is being paid in advance at the earlier stages is termed as Calls-in-Advance. In this case, the following Journal entries are passed.

<u>*Journal Entries*</u>

For receipt of Calls-in-Advance
Bank A/c Dr. To Calls-in-Advance A/c (Calls-in-advance received)
Adjustment of Calls-in-Advance
Calls-in-Advance A/c Dr. To Share Allotment or Call A/c (Calls-in-Advance adjusted)

<u>Example</u>: Krutika Ltd. issued 25,000 shares of Rs 10 each at a premium of 20% payable as follows:
Rs 2 on application
Rs 7 on allotment (including premium)
Rs 3 on first and final call

All the shares were fully subscribed and all the money was duly received. Hiten, a shareholder to whom 1,500 shares were allotted paid the whole amount at the time of allotment. Pass the necessary Journal entries.

Solution

Journal

Date	**Particulars**	**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
1.	Bank A/c Dr. To Share Application A/c (Application money received on 25,000 shares at Rs 2 per share)		50,000	50,000
2.	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital		50,000	50,000

	account)				
3.	Share Allotment A/c To Share Capital A/c To Securities Premium A/c (Allotment money due on 25,000 shares at Rs 7 per share including premium of Rs 2 per share)	Dr.		1,75,000	 1,25,000 50,000
4.	Bank A/c (1,75,000 + 4,500) To Share Allotment A/c To Calls-in-Advance A/c (Amount received on allotment and also amount received from Hiten on 1,500 shares at Rs 3 per share)	Dr.		1,79,500	 1,75,000 4,500
5.	Share First and Final Call A/c To Share Capital A/c (Share call money due on 25,000 shares at Rs 3 per share)	Dr.		75,000	 75,000
6.	Bank A/c (23,500 shares × Rs 3) Calls-in-Advance A/c (1,500 shares × Rs 3) To Share First and Final Call A/c (Share First and Final Call money received on 23,500 shares at Rs 3 per share)	Dr. Dr.		70,500 4,500	 75,000

Interest on Calls-in-Advance (*This topic has been excluded from current year's syllabus*)

Often, a company as authorised by its Article of Association provides interest on the amount of calls-in-advance. The interest on calls-in-advance is calculated for the period from the date of payment till the date when the call is actually made. In case, the Articles of Association is silent in regards of the interest, then the Table F of Companies Act, 2013 shall be applicable as per which interest @ 12% p.a. is to be provided on calls-in-advance.

Treatment of Calls-in-Advance in the Company's Balance Sheet

As per Schedule III of Companies Act, 2013, Calls-in-Advance is shown in the Notes to Accounts under the sub-head of ***Other Current Liabilities.*** The final balance is shown under the the main head of ***Current Liabilities*** on the Equity and Liabilities side of the Company's Balance Sheet.

Balance Sheet (Relevant Extract)

as on……

Particulars	**Note No.**	**Figures at the end of**

		the Current Year
I. Equity and Liabilities 1. Shareholders' Fund a. Share Capital b. Reserves and Surplus 3. Non-Current Liabilities 4. Current Liabilities a. Other Current Liabilities	1	
Total		
II. Assets 1. Non-Current Assets a. Fixed Assets b. Other Non-Current Assets 2. Current Assets a. Cash and Cash Equivalents		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Other Current Liabilities** Calls-in-Advance	

Forfeiture of Shares

Objective

After going through this lesson, you shall be able to understand the following concepts of Forfeiture of Shares.

- Forfeiture of Shares that were Originally Issued at ***Par***
- Forfeiture of Shares that were Originally Issued at ***Premium***

Forfeiture of Shares

When a shareholder fails to pay the allotment money or any subsequent calls, then the company informs the shareholder by giving him/her a proper notice. If after the notification, the shareholder pays all the due money, then it is considered as a case of Calls-in-Arrears. However, if even after the notice, the shareholder fails to pay the due money, then the company forfeits the shares allotted to him/her. Such cancellation of shares due to the non-payment of due calls is known as *Forfeiture of Shares*. When the shares are forfeited, then the amount that has been already paid by the shareholders on earlier instalments (say application, allotment, etc.) is not returned to them.

Forfeiture of Shares and Companies Act

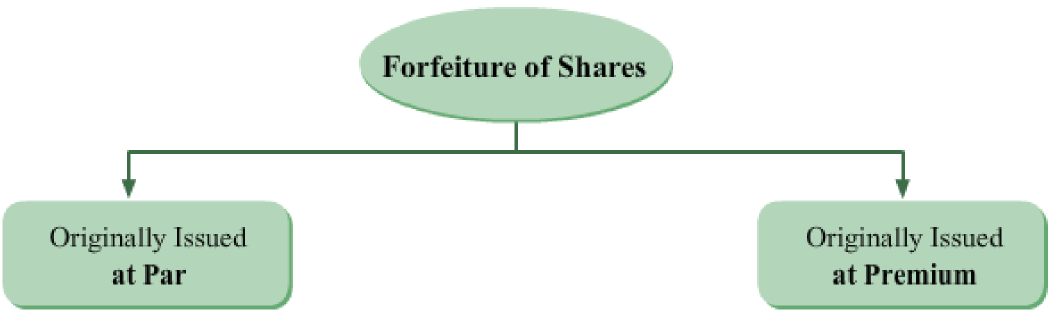
A company can forfeit shares only if it is provided in the Article of Association. As per the Table F of the Companies Act, 2013, the following is the procedure of forfeiting shares.

1. A notice is to be sent to the defaulting shareholders stating them to pay the outstanding amount along with the interest within the period of 14 days of the receipt of such notice, otherwise, the shares will be forfeited.
2. If the shareholders do not pay the amount, then the company has the right to forfeit his/ her share by passing a resolution.
3. A notice of such resolution is send to the defaulting shareholders and a public notice of the same is published in any of the daily newspapers.
4. After forfeiting the shares, the names of the shareholders are removed from the register of members.

Accounting Treatment

As we know that shares can be issued either at par or at premium. Thus, the accounting treatment of forfeiture of shares can be classified in the following two cases.

I. Forfeiture of Shares that were Originally Issued at ***Par***
II. Forfeiture of Shares that were Originally Issued at ***Premium***



I. Forfeiture of Shares that were Originally Issued at 'Par'

When the shares are forfeited which were originally issued at par, then the share capital account is debited with the called-up amount (that is the amount which the company has called from the shareholders). The amount that has been received from the shareholders is credited to the Share Forfeiture Account and the amount that remains unpaid is credited to the Share Allotment or Call Account. The following is Journal entry in this case.

<u>Journal Entry</u>

Share Capital A/c Dr.	(with the amount called up)
To Share Forfeiture A/c	(with the amount received)
To Share Allotment or Call A/c	(with unpaid amount)
or	
To Calls-in-Arrears A/c	(with unpaid amount)
(Forfeiture of shares that were issued at par)	

NOTE: It should be noted if Calls-in-Arrears A/c is maintained, then instead of crediting unpaid calls (such as Shares Allotment Account, Share First Call Account, etc.) Calls-in-Arrears Account is credited.

Example: Pareenita Ltd. issued 9,000 shares of Rs 10 each payable as Rs 4 on application, Rs 5 on allotment and the balance on first and final call. Mahima, one of the shareholders were allotted 3,000 shares. Pass the necessary Journal entries for forfeiture of shares allotted to Mahima in the following cases.

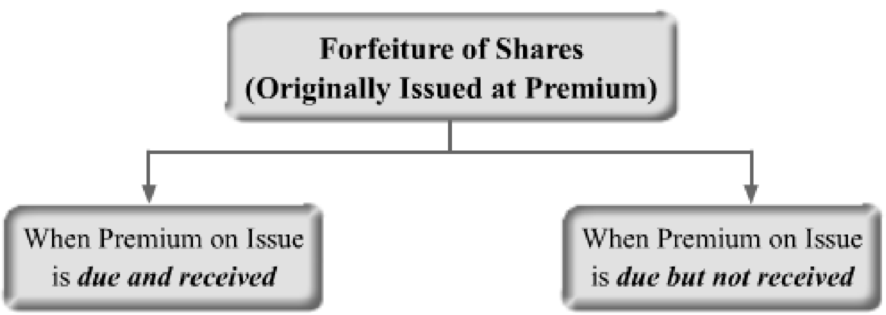
1. When Mahima failed to pay the allotment money and the company forfeited the shares immediately.
2. When Mahima failed to pay the allotment money and on her subsequent failure to pay the first and final call, the company forfeited her shares.

Solution

Case-I				***Case-II***			
In this case, the called-up money is Rs 9 i.e., Application + Allotment (Rs 4 + Rs 5). As the company didn't call for the first call, so first call amount is not included				*In this case, the called-up money is Rs 10 i.e., Application + Allotment + First Call (Rs 4 + Rs 5 + Re 1)*			
Share Capital A/c (3000 shares × Rs 9)	Dr.	27,000		Share Capital A/c (3000 shares × Rs 10)	Dr.	30,000	
To Share Forfeiture A/c (3000 shares × Rs 4)			12,000	To Share Forfeiture A/c (3000 shares × Rs 4)			12,000
To Share Allotment A/c (3000 shares × Rs 5)			15,000	To Share Allotment A/c (3000 shares × Rs 5)			15,000
				To Share First and Final Call A/c (3000 shares × Re 1)			3,000
(Forfeiture of 3,000 shares for non-payment of allotment money)				(Forfeiture of 3,000 shares for non-payment of allotment and first call money)			

II. Forfeiture of Shares that were Originally Issued at 'Premium'

The accounting treatment of forfeiture of shares which were originally issued at premium depends upon the following two possible situations-



(a) When Premium on Issue is Due and Received

As per the Section 78 of the Companies Act, if the amount of premium has been received by the company, then the premium cannot be cancelled if such shares are forfeited later due to the non-payment of any amount due. In other words, there will be no effect on the Securities Premium Account and it will not be debited at the time of forfeiture of shares. In simple words, it can be understood as if the premium amount is received by the company, then Securities Premium Account is not shown in the Journal entry of forfeiture of shares. The following is the Journal entry for forfeiture of shares on which the premium amount is received.

Journal Entry

Share Capital A/c	Dr.	(with the amount called up ***minus premium***)
To Share Forfeiture A/c		(with the amount received)
To Share Allotment or Call A/c		(with unpaid amount ***minus premium***)
or		
To Calls-in-Arrears A/c**		(with unpaid amount ***minus premium***)
(Forfeiture of shares that were issued at premium)		

*****NOTE: It should be noted if Calls-in-Arrears A/c is maintained, then instead of crediting unpaid calls (such as Shares Allotment Account, Share First Call Account, etc.) Calls-in-Arrears Account is credited.***

***Example*:** PQR Ltd. issued 3,000 shares of Rs 10 each at a premium of Rs 3 per share payable as follows:

Rs 3 on application, Rs 7 on allotment (including premium) and Rs 3 on first and final call.

Mohina, a shareholder of 700 shares failed to pay the first and final call money and her shares were forfeited. Pass the necessary Journal entry for forfeiture of shares.

Solution

In this case, as Mohina has paid the allotment money, so it is assumed that she has also paid the premium amount. Thus, in the following Journal entry, Securities Premium Account is not shown. The called-up money is Rs 10 {i.e. Application + Allotment (minus Premium) + First Call = 3 + 7 - 3 + 3}. Share forfeiture amount is Rs 7 {i.e. Application + Allotment (minus Premium) = 3 + 7 - 3}

Share Capital A/c (700 shares × Rs 10)	Dr.	7,000	
To Share Forfeiture A/c (700 shares × Rs 7)			4,900
To Share First and Final Call A/c (700 shares × Rs 3)			2,100
(Forfeiture of 700 shares for non-payment of call money)			

***Example*:** Air Ltd. issued 4,500 shares of Rs 10 each at a premium of Rs 2 per share payable as Rs 3 on application, Rs 5 on allotment (including premium) and Rs 3 on first and Rs 1 on second and final call. Mr. K, who was allotted 1,000 shares failed to pay the first call money and his shares were forfeited immediately. Pass the necessary Journal entry for forfeiture of shares.

Solution

In this case, the second call is not considered as it was not called. The called-up money is Rs 9 {i.e. Application + Allotment (minus Premium) + First Call = 3 + 5 – 2 + 3}. Share forfeiture amount is Rs 6 {i.e. Application + Allotment (minus Premium) = 3 + 5 – 2}

Share Capital A/c (1,000 shares × Rs 9)	Dr.	9,000	
To Share Forfeiture A/c (1,000 shares × Rs 6)			6,000

To Share First Call A/c (1,000 shares × Rs 3)			3,000
(Forfeiture of 1,000 shares for non-payment of first call money)			

IMPORTANT NOTE: From these examples, we can understand that if allotment money is given including premium, then we need to deduct premium amount to calculate Share Capital Amount and Share Forfeiture Amount. However; ***if the question specifies allotment money excluding premium, then to find out the Share Capital Amount and Share Forfeiture Amount, Premium should be not deducted, as the allotment money is given exclusive of premium. That is, if application is Rs 3, Allotment is Rs 4 (excluding premium of Rs 1) and first call is Rs 2, then the Share Capital Amount is Rs 9 (i.e. 3 + 4 + 2). The amount for Share Forfeiture Account is Rs 7 (i.e. 3 + 4), if the shareholder has paid till allotment.***

***Example*:** Hunny Ltd. issued 10,500 shares of Rs 20 each at a premium of Rs 4 per share payable as Rs 6 on application, Rs 5 on allotment (excluding premium) and Rs 8 on first and Rs 1 on second and final call. Sachin, who was allotted 2,000 shares failed to pay the first call money and his shares were forfeited immediately. Pass the necessary Journal entry for forfeiture of shares.

Solution

In this case, the second call is again not considered as it was not called. The called-up money is Rs 19 {i.e. Application + Allotment + First Call = 6 + 5 + 8}. Share forfeiture amount is Rs 11 {i.e. Application + Allotment = 6 + 5}

Share Capital A/c (2,000 shares × Rs 19)	Dr.	38,000	
To Share Forfeiture A/c (2,000 shares × Rs 11)			22,000
To Share First Call A/c (2,000 shares × Rs 8)			16,000
(Forfeiture of 2,000 shares for non-payment of call money)			

(b) When Premium on Issue is Due but not Received

In case of forfeiture of shares, on which the amount of premium has become due but not received (either wholly or partially), then Securities Premium Account is shown separately in the Journal entry of the forfeiture of shares. At time of issue of shares, premium being a gain to the company is credited, but at the time of forfeiture, it is treated as a loss, when the amount of premium remains unpaid. The following Journal entry records the forfeiture of shares on which premium amount is not received by the company.

<u>*Journal Entry*</u>

Share Capital A/c	Dr.	(with the amount called up ***minus premium***)
Securities Premium A/c	Dr.	(with premium amount unpaid)
To Share Forfeiture A/c		(with the amount received)
To Share Allotment or Call A/c		(with unpaid amount on allotment ***plus premium***)
To Share Call A/c		(with unpaid amount on call)
or		
To Calls-in-Arrears A/c**		(with unpaid amount on call)
(Forfeiture of shares that were issued at premium and premium is not received)		

*****NOTE: It should be noted if Calls-in-Arrears A/c is maintained, then instead of crediting unpaid calls (such as Shares Allotment Account, Share First Call Account, etc.) Calls-in-Arrears Account is credited.***

Example: YSR Ltd. issued 3,000 shares of Rs 10 each at premium of Rs 3 payable as Rs 3 on application, Rs 7 on allotment (including premium) and the balance on first and final call. Neha, a shareholder was allotted 700 shares. Pass the necessary Journal entries for forfeiture of shares in the following cases.

1. When Neha failed to pay the allotment and her shares were forfeited.
2. When Neha failed to pay the allotment and on her subsequent failure to pay the first call, her shares were forfeited.

Solution

Case 1: When Neha failed to pay the allotment and her shares were forfeited- In this case, the amount of Share Capital is Rs 7, as the company has called-up till allotment. That is, Application + Allotment - Premium (i.e. 3 + 7 – 3). The Share Forfeiture Amount is Rs 3, as Neha has paid only the application money of Rs 3. However, the Share Allotment is shown with Rs 7 that is including premium amount. The following is the Journal entry in this case.

Share Capital A/c (700 shares × Rs 7)	Dr.	4,900	
Securities Premium A/c (700 shares × Rs 3)	Dr.	2,100	
To Share Forfeiture A/c (700 shares × Rs 3)			2,100
To Share Allotment A/c (700 shares × Rs 7)			4,900
(Forfeiture of 700 shares for non-payment of allotment money)			

Case 2: When Neha failed to pay the allotment and first call- In this case, the amount of Share Capital is Rs 10, as the company has called-up till the first and final call. That is, Application + Allotment - Premium + First and Final Call (i.e. 3 + 7 - 3 + 3). The Share Forfeiture Amount is Rs 3, as Neha has paid only the application money of Rs 3. The following is the Journal entry in this case.

Share Capital A/c (700 shares × Rs 10)	Dr.	7,000	
Securities Premium A/c (700 shares × Rs 3)	Dr.	2,100	
To Share Forfeiture A/c (700 shares × Rs 3)			2,100
To Share Allotment A/c (700 shares × Rs 7)			4,900
To Share First and Final Call A/c (700 shares × Rs 3)			2,100
(Forfeiture of 700 shares for non-payment of allotment and call money)			

Example: Marryland Ltd. issued 14,000 shares of Rs 10 each at premium of Rs 4 payable as Rs 3 on application, Rs 1 on allotment (excluding premium) and Rs 6 on first and final call. Vikram, who was allotted 5,500 shares failed to pay the allotment money, consequently, his shares were immediately forfeited after allotment. Pass the necessary Journal entries for forfeiture of shares.

Solution

It is important to note that in this case, the allotment money is mentioned excluding premium. So, the amount of Share Capital (or called-up money) is Rs 4, as the company has called-up till allotment. That is, Application + Allotment (i.e. 3 + 1). The Share Forfeiture Amount is Rs 3, as Vikram has paid only the application money of Rs 3. However, the Share Allotment is shown with Rs 5 that is including premium amount (1 + 4 premium). The following is the Journal entry in this case.

Share Capital A/c (5,500 shares × Rs 4)	Dr.	22,000	
Securities Premium A/c (5,500 shares × Rs 4)	Dr.	22,000	
To Share Forfeiture A/c (5,500 shares × Rs 3)			16,500

To Share Allotment A/c (5,500 shares × Rs 5)			27,500
(Forfeiture of 5,500 shares for non-payment of allotment money)			

Forfeiture of Shares (contd.)

Objective

After going through this lesson, you shall be able to understand more comprehensive numerical related to Pro-rata and Forfeiture of Shares.

Introduction

In the previous lesson, you have understood the concept of forfeiture of shares under different issue terms namely, at par and at premium. Here, in this lesson, we will explore more sophisticated numerical problems based on the concept of pro-rata allotment and forfeiture of shares. The following are the combinations of the concepts

1. Pro-rata allotment of shares issued at par and forfeiture of shares
2. Pro-rata allotment of shares issued at premium and forfeiture of shares ***(premium amount cannot be adjusted from excess money)***
3. Pro-rata allotment of shares issued at premium and forfeiture of shares ***(Premium amount got partially adjusted from excess money)***

Case-1: Pro-rata Allotment of Shares Issued at Par and Forfeiture of Shares

Example: Noddy Ltd. issued 20,000 shares of Rs 10 each payable as Rs 3 on application, Rs 5 on allotment and balance on first and final call. The company received applications for 30,000 shares. The company rejected 4,000 shares and made pro-rata allotment on the remaining shares. Any excess amount received on allotment to be utilised towards allotment. Rajiv, who has applied for 1,300 shares failed to pay the allotment money and company forfeited his shares immediately after allotment. Radhika, another shareholder of 700 shares failed to pay the final call and her shares were also forfeited. Pass the necessary Journal entries for issue and forfeiture of shares.

Solution

Journal

Date	Particulars	L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bank A/c (30,000 shares × Rs 3) Dr. To Equity Share Application A/c (Share application money received for 30,000 shares at Rs 3)		90,000	 90,000
	Equity Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (4,000 shares × Rs 3) (Share application money on 20,000 shares transferred to share capital, 4,000 shares money were refunded and the balance adjusted on allotment)		90,000	 60,000 18,000 12,000
	Share Allotment A/c Dr.		1,00,000	

	To Share Capital A/c			1,00,000
	(Allotment money due)			
	Bank A/c (1,00,000 – 18,000 – 4,100)**** See Video*** Dr.		77,900	
	To Share Allotment A/c			77,900
	(Share allotment money received)			
	Share Capital A/c Dr.		8,000	
	To Share Forfeiture A/c ***(See Video)***			3,900**
	To Share Allotment A/c ***(See Video)***			4,100**
	(1,000 shares of Rajiv were forfeited after allotment)			
	Share First and Final Call A/c Dr.		38,000	
	To Share Capital A/c			38,000
	(Share first and final call due on 19,000 shares)			
	Bank A/c (38,000 – 1,400) Dr.		36,600	
	To Share First and Final Call A/c			36,600
	(Share first and final call money received)			
	Share Capital A/c Dr.		7,000	
	To Share Forfeiture A/c			5,600
	To Share First and Final Call A/c			1,400
	(700 shares of Radhika were forfeited after final call)			

Working Notes:

WN1

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 3 each**	**Application Money transferred to Share Capital at *Rs* 3 each**	**Excess money on application utilized on allotment**	**Bank (*Refund*)**
I	4,000	Nil	12,000	-	-	12,000
II	26,000	20,000	78,000	60,000	18,000	-
Total	**30,000**	**20,000**	**90,000**	**60,000**	**18,000**	**12,000**

WN2 *Calculation of Number of Shares allotted to Rajiv*

Number of shares applied = 1,300 shares

$\therefore$ Number of shares allotted = $\frac{1,300}{26,000} \times 20,000 = 1,000$ shares

WN3 *Calculation of Amount Unpaid on Allotment*

Ascertaining the Amount Unpaid on Allotment by Rajiv

1	2	3	4	5	6	7
Shares Applied	**Shares Allotted**	**Amount Received Application at Rs 3**	**Amount Utilised on Application at Rs 3**	**Excess Amount received on Application**	**Amount due on Allotment at Rs 5**	**Amount Unpaid on Allotment**
1,300	1,000	3,900	3,000	900 (3,900 – 3,000)	5,000 (1,000 × Rs 5)	4,100 (5,000 – 900)

Case-2: Pro-rata Allotment of Shares Issued at Premium and Forfeiture of Shares ***(premium amount cannot be adjusted from excess money)***

Example: Satish Ltd. has an authorised capital of Rs 50,00,000 divided into shares of Rs 100 each. Company has invited the applications for 40,000 shares of Rs 100 each at a premium of 20% payable as Rs 30 on application, Rs 50 (including premium) on allotment and balance equally on first call and final call. Applications were received for 60,000 shares and allotment was made as follows:

Category A- To applicants for 30,000 shares- 20,000
Category B- To applicants for 20,000 shares- Full
Category C- To applicants for 10,000 shares- Nil

Vishal, who has applied for 4,500 shares (***belonging to Category A***) did not paid any money other than application money. Due his failure to pay the amount his shares were forfeited after allotment. Shanker, another shareholder holding 2,000 shares (***belonging to Category A***) failed to pay first call and his shares were forfeited after first call. Final call not yet made by the company. Pass the necessary Journal Entries in the books of Satish Ltd.

Solution

Books of Satish Ltd.
Journal

Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
	Bank A/c	Dr.		18,00,000	
	To Share Application A/c				18,00,000
	(Application money received on 60,000 shares)				
	Share Application A/c	Dr.		18,00,000	
	To Share Capital A/c				12,00,000
	To Share Allotment A/c				3,00,000
	To Bank A/c				3,00,000
	(Application money adjusted and surplus refunded)				
	Share Allotment A/c	Dr.		20,00,000	
	To Share Capital A/c				12,00,000
	To Securities Premium A/c				8,00,000

	(Allotment money due on 40,000 shares)			
	Bank A/c (20,00,000 – 3,00,000 – 1,05,000) ** ***See Video*** Dr. To Share Allotment A/c (Allotment money received)		15,95,000	15,95,000
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Forfeiture A/c ***(See Video)*** To Share Allotment A/c ***(See Video)*** (3,000 shares of Vishal were forfeited after allotment)		1,80,000 60,000	1,35,000** 1,05,000**
	Share First Call A/c Dr. To Share Capital A/c (First call due on 37,000 share @ Rs 20 per share)		7,40,000	7,40,000
	Bank A/c Dr. To Share First Call A/c (First call money received except 2,000 shares)		7,00,000	7,00,000
	Share Capital A/c Dr. To Shares Forfeiture A/c To Share First Call A/c (2,000 shares of Shankar were forfeited after first call)		1,60,000	1,20,000 40,000

***<u>Working Notes</u>*:**
<u>WN1</u>

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 30 each**	**Application Money transferred to Share Capital at *Rs* 30 each**	**Excess money on application utilised on allotment**	**Bank (*Refund*)**
A	30,000	20,000	9,00,000	6,00,000	3,00,000	-
B	20,000	20,000	6,00,000	6,00,000	-	-
C	10,000	Nil	3,00,000	-	-	3,00,000
Total	**60,000**	**40,000**	**18,00,000**	**12,00,000**	**3,00,000**	**3,00,000**

WN2 *Calculation of Number of Shares allotted to Vishal*
Number of shares applied = 4,500 shares

$$\therefore \text{Number of shares alloted} = \frac{4,500}{30,000} \times 20,000 = 3,000 \text{ shares}$$

WN3 *Calculation of Amount Unpaid on Allotment by Vishal*

Ascertaining the Amount Unpaid on Allotment by Vishal

1	2	3	4	5
Shares Applied	**Shares Allotted**	**Amount Received on Application at Rs 30**	**Amount Utilised on Application at Rs 30**	**Excess Amount received on Application**
4,500	3,000	1,35,000	90,000	45,000 (1,35,000 – 90,000)

Total Amount due on Allotment (3,000 × Rs 50) = Rs 1,50,000
Premium due on Allotment (3,000 × Rs 20) = Rs 60,000
∴Remaining amount of allotment (3,000 × Rs 30) = Rs 90,000
Excess amount received on application = Rs 45,000 (column 5 of above table)
Amount utilised on allotment only (except premium) = Rs 45,000
Amount still remained unpaid on allotment = Rs 45,000
Amount of Premium that remained unpaid = Rs 60,000
So, total amount unpaid on allotment = 45,000 + 60,000 = Rs 1,05,000.
This amount has been deducted from the Journal entry 4.

Example: Kuber Ltd. has invited applications for 40,000 shares of Rs 10 each at a premium of Rs 1 payable as Rs 3 on application, Rs 4 on allotment (including premium) and balance in two equal calls. The company received applications for 90,000 shares and made the allotment as follows:

Category I- To applicants for 50,000 shares- 20,000 shares
Category II- To applicants for 20,000 shares- 10,000 shares
Category III- To applicants for 10,000 shares- 10,000 shares
Category IV- Remaining applicants- Nil

Bhuvan, who has applied for 3,500 shares (***belonging to Category II***) did not paid any amount other than application money and his shares were forfeited after allotment.
Manoj, who was allotted 1,600 shares (***belonging to Category III***) failed to pay first call and his shares were subsequently forfeited immediately after the first call. The company did not make the final call. Pass the necessary Journal entries in the books.

Solution

Date	**Particulars**		**L.F.**	**Debit Amount (Rs)**	**Credit Amount (Rs)**
	Bank A/c	Dr.		2,70,000	
	To Share Application A/c				2,70,000
	(Application money received on 90,000 shares)				
	Share Application A/c	Dr.		2,70,000	

	To Share Capital A/c To Share Allotment A/c To Bank A/c (Application money adjusted and surplus refunded)			1,20,000 1,10,000 40,000
	Share Allotment A/c To Share Capital A/c To Securities Premium A/c (Allotment money due on 40,000 shares)	Dr.	1,60,000	 1,20,000 40,000
	Bank A/c (1,60,000 – 1,10,000 – 1,750) To Share Allotment A/c (Allotment money received)	Dr.	48,250	 48,250
	Share Capital A/c (1,750 shares × Rs 6) Securities Premium A/c (1,750 shares × Re 1) To Share Forfeiture A/c (***WN 3***) To Share Allotment A/c (***WN 3***) (1,750 shares of Bhuvan were forfeited after allotment)	Dr. Dr.	10,500 1,750	 10,500 1,750
	Share First Call A/c To Share Capital A/c (First call due on 38,250 shares @ Rs 2 per share)	Dr.	76,500	 76,500
	Bank A/c To Share First Call A/c (First call money received except on 1,600 shares)	Dr.	73,300	 73,300
	Share Capital A/c To Shares Forfeiture A/c To Share First Call A/c (1,600 shares of Manoj were forfeited after first call)	Dr.	12,800	 9,600 3,200

Working Notes:

WN1

Computation Table

1	2	3	4	5	6	7	8	9
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 3 each**	**Application Money transferred to Share Capital at *Rs* 3 each**	**Excess money on application utilised on allotment**	**Amount due on allotment at Rs 4**	**Excess Amount utilized on Allotment**	**Bank (*Refund*)**
I	50,000	20,000	1,50,000	60,000	90,000	80,000	80,000	10,000

								(90,000 – 80,000)
II	20,000	10,000	60,000	30,000	30,000	40,000	30,000	-
III	10,000	10,000	30,000	30,000	-	Full allotment made	-	-
IV	10,000	Nil	30,000	-	-	-		30,000
Total	**90,000**	**40,000**	**2,70,000**	**1,20,000**	**1,20,000**	**1,20,000**	**1,10,000**	**40,000**

WN2 *Calculation of Number of Shares Allotted to Bhuvan*

Number of shares applied = 3,500 shares

$\therefore$ Number of shares alloted = $\frac{3,500}{20,000} \times 10,000 = 1,750$ shares

WN3 *Calculation of Amount Unpaid on Allotment by Bhuvan*

Ascertaining the Amount Unpaid on Allotment by Bhuvan

1	2	3	4	5
Shares Applied	**Shares Allotted**	**Amount Received on Application at Rs 3**	**Amount Utilised on Application at Rs 3**	**Excess Amount received on Application**
3,500	1,750	10,500	5,250	5,250 (10,500 – 5,250)

Total Amount due on Allotment (1,750 × Rs 4) = Rs 7,000
Premium due on Allotment (1,750 × Re 1) = Rs 1,750
∴Remaining amount of allotment (1,750 × Rs 3) = Rs 5,250
Excess amount received on application = Rs 5,250 (column 5 of above table)
Amount utilised on allotment only (except premium) = Rs 5,250
Amount still remained unpaid on allotment = Nil
Amount of Premium that remained unpaid = Rs 1,750
So, total amount unpaid on allotment = Nil + 1,750 = Rs 1,750.
This amount has been deducted from the Journal entry 4

Case-3: Pro-rata Allotment of Shares Issued at Premium and Forfeiture of Shares *(Premium amount got partially adjusted from excess money)*

Example: Rohtash Ltd. offered applications for 20,000 shares of Rs 10 each at a premium of Rs 2 payable as Rs 2 on application, Rs 5 on allotment (including premium), Rs 2 on first call and balance on second and final call. Applications were received for 70,000 shares and allotment was done as under:

Category I- To applicants of 60,000 shares- 20,000 shares
Category II- To applicants of 10,000 shares- Nil

Sujeet, who has applied for 1,800 shares (***belonging to Category I***) failed to pay the allotment money and subsequently his shares were forfeited immediately after allotment. Sandeep, another shareholder holding 400 shares (***belonging to Category I***) failed to pay first call and his shares were forfeited after first call. Second and final call not yet made by the company. Pass the necessary Journal Entries in the books of Rohtash Ltd.

Solution

Books of Rohtash Ltd.
Journal

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Bank A/c	Dr.		1,40,000	
	To Share Application A/c				1,40,000
	(Application money received on 70,000 shares)				
	Share Application A/c	Dr.		1,40,000	
	To Share Capital A/c				40,000
	To Share Allotment A/c				80,000
	To Bank A/c				20,000
	(Application money adjusted and surplus refund)				
	Share Allotment A/c	Dr.		1,00,000	
	To Share Capital A/c				60,000
	To Securities Premium				40,000
	(Allotment money due on 20,000 shares)				
	Bank A/c (1,00,000 – 80,000 – 600)** ***See Video***	Dr.		19,400	
	To Share Allotment A/c				19,400
	(Allotment money received)				
	Share Capital A/c (600 shares × Rs 5)	Dr.		3,000	
	Securities Premium A/c (***See Video***)	Dr.		600**	
	To Share Forfeiture A/c (***See Video***)				3,000**
	To Share Allotment A/c (***See Video***)				600**
	(600 shares of Sujeet were forfeited after allotment)				
	Share First Call A/c	Dr.		38,800	
	To Share Capital A/c				38,800
	(First call due on 19,400 share @ Rs 2 per share)				
	Bank A/c	Dr.		38,000	
	To Share First Call A/c				38,000
	(First call money received except 400 shares)				
	Share Capital A/c (400 shares × Rs 7)	Dr.		2,800	
	To Shares Forfeiture A/c				2,000
	To Share First Call A/c				800
	(400 shares of Sandeep were forfeited after first call)				

Working Notes:
WN1

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 2 each**	**Application Money transferred to Share Capital at *Rs* 2 each**	**Excess money on application utilized on allotment at Rs 5**	**Bank (*Refund*)**
I	60,000	20,000	1,20,000	40,000	80,000	-
II	10,000	Nil	20,000	-		20,000
Total	**70,000**	**20,000**	**1,40,000**	**40,000**	**80,000**	**20,000**

WN2*Calculation of Number of Shares allotted to Sujeet*
Number of shares applied = 1,800 shares

$$\therefore \text{Number of shares alloted} = \frac{1,800}{60,000} \times 20,000 = 600 \text{ shares}$$

WN3 *Calculation of Amount Unpaid on Allotment*

Ascertaining the Amount Unpaid on Allotment by Sujeet

1	2	3	4	5
Shares Applied	**Shares Allotted**	**Amount Received Application at Rs 2**	**Amount Utilised on Application at Rs 2**	**Excess Amount received on Application**
1,800	600	3,600	1,200	2,400 (3,600 – 1,200)

Total amount due on allotment (600 × Rs 5) = Rs 3,000
Premium due on allotment (600 × Rs 2) = Rs 1,200
∴Remaining amount of allotment (600 × Rs 3)= Rs 1,800
Excess amount received on application = Rs 2,400 (column 5 of above table)
Amount utilised on allotment only (except premium) = Rs 1,800
∴Remaining excess amount of Rs 600 (i.e. 2,400 – 1,800) is utilised towards premium on allotment.
Hence, the Amount of Premium that remained unpaid = 1,200 – 600 = Rs 600
Also, this is the unpaid amount for allotment, so Rs 600 has been deducted from the Journal entry 4

Reissue of Forfeited Shares

Objective

After going through this lesson, you shall be able to understand the following concepts of Reissue of Forfeited Shares.

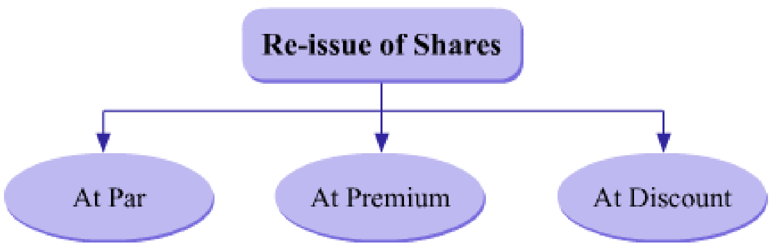
- Reissue of Forfeited Shares at Par
- Reissue of Forfeited Shares at Premium
- Reissue of Forfeited Shares at Discount

Introduction to Reissue of Forfeited Shares

As learnt in the previous chapter that when a shareholder fails to pay due amount, a company forfeits the shares (allotted to the shareholder) after giving a proper notice. Now, the question arises what does the company do with such forfeited shares? Often, the company reissues the forfeited shares to other shareholders. The activity of issue of forfeited shares is termed as Reissue of Shares.

Terms of Reissue of Shares

Similar to the issue of fresh shares, a company can reissue its shares either at par, at premium or at discount. The treatment and Journal entries differ in each of the cases.



***Case 1:* Reissue of Forfeited Shares at 'Par'**

Reissue of forfeited shares at par implies that the forfeited shares are reissued at a price equal to its nominal or face value. In the Journal entry of reissue of shares, Bank Account is debited with the amount received on reissue and the Share Capital Account is credited with the paid-up amount on such shares. The following is the Journal entry for reissue of shares at par.

Journal Entry

Bank A/c Dr. To Share Capital A/c (Reissue of shares at par)	(with amount received on re-issue of shares) (with face value or nominal value of shares)

***Example*:** Raman Ltd. forfeited 800 shares of Rs 10 each fully called-up on which Rs 6 has been received by the company. The shareholder of these shares failed to pay amount due on allotment of 2 per share and final call of Rs 2 per share. These shares were reissued by the company at 10 per share fully paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (800 shares × Rs 10) Dr. 8,000
To Share Forfeiture A/c (800 shares × Rs 6) 4,800
To Share Allotment A/c (800 shares × Rs 2) 1,600
To Share Final Call A/c (800 shares × Rs 2) 1,600
(Forfeiture of 800 shares for non-payment of allotment and final call money forfeited)
Bank A/c (800 shares × Rs 10) Dr. 8,000
To Share Capital A/c 8,000
(Reissue of 800 forfeited shares at Rs 10 per share)

Case 2 **Reissue of Forfeited Shares at 'Premium'**

Reissue of forfeited shares at premium implies that the forfeited shares are reissued at a price more than its face value (or paid-up value). For example, a share with a face value of Rs 10 is reissued at Rs 12. The difference between the two values i.e. Rs 2 is treated as Securities Premium. In this case, on reissue of shares, Bank Account is debited with the total amount received on reissue and Share Capital Account is credited with the paid-up amount on such shares. Securities Premium Account is credited with the amount of premium on reissue. The following is the Journal entry for the reissue of shares at premium.

Journal Entry

Bank A/c Dr.	(with amount received on re-issue of shares)
To Share Capital A/c	(with paid-up amount on re-issue of shares)
To Securities Premium A/c	(with the amount of premium on reissue)
(Reissue of shares at premium)	

Example: Karan Ltd. forfeited 500 shares of Rs 10 each fully called-up out of which the company received only Rs 5 and the balance amount remained unpaid. As a result, the company forfeited these shares for the non-payment of allotment money of Rs 3 and call money of Rs 2. These share were reissued by the company at Rs 15 per share fully-paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (500 shares × Rs 10) Dr. 5,000
To Share Forfeiture A/c (500 shares × Rs 5) 2,500
To Share Allotment A/c (500 shares × Rs 3) 1,500
To Share First and Final call A/c (500 shares × Rs 2) 1,000
(Forfeiture of 500 shares for non-payment of allotment and call money)
Dr. 7,500
Bank A/c (500 shares × Rs 15)
To Share Capital A/c (500 shares × Rs 10) 5,000
To Securities Premium A/c (500 shares × Rs 5) 2,500

(Reissue of 500 forfeited shares at Rs 15 per share)

***Example*:** MKay Ltd. forfeited 1,000 shares of Rs 10 each for the non-payment of first call of Re 1. The second and final call of Rs 3 was not made. The forfeited shares were reissued as Rs 8 paid-up for Rs 9 per share. Pass the necessary Journal entries.

Solution

Share Capital A/c (1,000 shares × Rs 7)	Dr.	7,000	
To Share Forfeiture A/c (1,000 shares × Rs 6)			6,000
To Share First Call A/c (1,000 shares × Re 1)			1,000
(Forfeiture of 1,000 shares for non-payment of first call money)			

Bank A/c (1,000 shares × Rs 9)	Dr.	9,000	
To Share Capital A/c (1,000 shares × Rs 8)			8,000
To Securities Premium A/c (1,000 shares × Re 1)			1,000
(Reissue of 1,000 forfeited shares as Rs 8 paid-up for Rs 9 per share)			

***Example*:** Lal Ltd. forfeited 300 shares of Rs 50 each which were originally issued at premium of Rs 8 per share for the non-payment of allotment money (including premium) of Rs 30 per share. The company received only the application money of Rs 10 per share and first and final call of Rs 18 per share was not made. These forfeited shares were reissued at Rs 60 per share fully paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (300 shares × Rs 32)	Dr.	9,600	
Securities Premium A/c (300 shares × Rs 8)	Dr.	2,400	
To Share Forfeiture A/c (300 shares × Rs 10)			3,000
To Share Allotment A/c (300 shares × Rs 30)			9,000
(Forfeiture of 300 shares for non-payment of allotment)			

Bank A/c (300 shares × Rs 60)	Dr.	18,000	
To Share Capital A/c (300 shares × Rs 50)			15,000
To Securities Premium A/c (300 shares × Rs 10)			3,000
(Reissue of 300 forfeited shares at Rs 60 per share fully paid-up)			

Case 3 **Reissue of Forfeited Shares at 'Discount'**

Reissue of forfeited shares at discount implies that the forfeited shares are reissued at a price less than its face value (or paid-up value). For example, a share with a face value of Rs 10 is reissued at Rs 7. In this case, on reissue of shares, Bank Account is debited with the amount received on reissue (here Rs 7) and the amount of discount allowed on reissue is debited to the Share Forfeiture Account (here Rs 3). Share Capital Account is credited with the paid-up amount on shares (here Rs 10).

Maximum Amount of Discount Allowed on Reissue

The maximum amount of discount allowed at the time of reissue implies the maximum amount of discount that a company can allow at the time of re-issue of the forfeited shares. The maximum discount on the reissue of shares depends upon the whether the forfeited shares were *originally issued* ***at par or at premium***.

If the forfeited shares were originally issued at par or at premium, then these forfeited shares can be reissued with the maximum discount equal to the amount received (or paid by) the original shareholder. For example, a company issued shares at Rs 10 at par. A shareholder paid only the application amount of Rs 3, consequently, these shares were forfeited. Now, if the company want to reissue these shares at discount, then the maximum permissible discount is equal to the amount paid by the original shareholder, i.e. Rs 3.

Journal Entries for Reissue of Forfeited Shares at Discount that were Originally Issued at Par or at Premium

In this case, Bank Account is debited with the amount received on reissue and Share Forfeiture Account is debited with the discount allowed on reissue of forfeited shares. The Share Capital Account is credited with the paid-up amount on reissue of such forfeited shares.

<u>*Journal Entry*</u>

Bank A/c Dr.	(with amount received on re-issue of shares)
Shares Forfeiture A/c Dr.	(with amount of discount allowed on reissue)
To Share Capital A/c	(with paid-up amount on re-issue of shares)
(Reissue of shares at discount)	

<u>Example</u>**:** Divneet Ltd. forfeited 100 shares of 10 each fully called-up on which Rs 7 has been received and final call of Rs 3 remained unpaid. These shares were later reissued at Rs 8 per share fully paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (100 shares × Rs 10)	Dr.	1,000	
To Share Forfeiture A/c (100 shares × Rs 7)			700
To Share Final Call A/c (100 shares × Rs 3)			300

Bank A/c (100 shares × Rs 8)	Dr.	800	
Share Forfeiture A/c (100 shares × Rs 2)	Dr.	200	
To Share Capital A/c (100 shares × Rs 10)			1,000

<u>Example</u>**:** Venkatesh Ltd. forfeited 1,500 shares of Rs 30 each originally issued at premium of Rs 2 per share for the non-payment of first call of Rs 10 per share. The second and final call of Rs 5 was not made. These forfeited shares were reissued at Rs 25 paid-up for Rs 27 per share. Pass the necessary Journal entries.

Solution

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
	Share Capital A/c (1,500 shares × Rs 25)	Dr.		37,500	
	To Share Forfeiture A/c (1,500 shares × Rs 15)				22,500
	To Share First Call A/c (1,500 shares × Rs 10)				15,000
	(1,500 shares forfeited for non-payment of first call money; second call not yet made)				
	Bank A/c (1,500 shares × Rs 27)	Dr.		40,500	
	To Share Capital A/c (1,500 shares × Rs 25)				37,500
	To Securities Premium A/c (1,500 shares × Rs 2)				3,000
	(Re-issue of 1,500 forfeited shares at Rs 25 paid-up for Rs 27 per share)				

Transfer of Balance to Capital Reserve Account

Objective

After going through this lesson, you shall be able to understand the following concepts of Transfer of Balance to Capital Reserve Account.

- Transfer of balance- when all forfeited shares are reissued
- Transfer of balance- when ***not*** all forfeited shares are reissued

Introduction

In the previous chapters we learnt about the forfeiture and reissue of forfeited shares. After the reissue of shares, if any (credit) balance is left in the Share Forfeiture Account, then such balance is considered as a capital gain for the company. In this regard, this capital profit is transferred to a separate account known as Capital Reserve Account. The following is the Journal entry for transferring the excess credit balance of Share Forfeiture Account to Capital Reserve Account.

Journal Entry

Share Forfeiture A/c	Dr.
To Capital Reserve A/c	
(Profit on re-issue transfer to capital reserve)	

Calculation of Amount of Shares Forfeiture to be transferred to Capital Reserve Account

The calculation of amount transferred to the Capital Reserve Account depends on the following two circumstances.

1. When all the forfeited shares are reissued.
2. When not all the forfeited shares are reissued

When all the Forfeited Shares are Reissued

In this case, whether the shares are reissued at par and premium, the credit balance of Share Forfeiture Account in the Journal entry of the forfeiture is transferred to the Capital Reserve Account.

***Example*:** Raman Ltd. forfeited 800 shares of Rs 10 each fully called-up on which Rs 6 has been received by the company. The shareholder of these shares failed to pay amount due on allotment of 2 per share and final call of Rs 2 per share. These shares were reissued by the company at 10 per share fully paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (800 shares × Rs 10)	Dr.	8,000	
To Share Forfeiture A/c (800 shares × Rs 6)			4,800
To Share Allotment A/c (800 shares × Rs 2)			1,600
To Share Call A/c (800 shares × Rs 2)			1,600
(Forfeiture of 800 shares for non-payment of allotment and call money forfeited)			
Bank A/c (800 shares × Rs 10)	Dr.	8,000	
To Share Capital A/c			8,000
(Reissue of 800 forfeited shares at Rs 10 per share)			
Share Forfeiture A/c	Dr.	4,800	
To Capital Reserve A/c			4,800
(Amount of Share Forfeiture transferred to Capital Reserve Account)			

***Example*:** MKay Ltd. forfeited 1,000 shares of Rs 10 each for the non-payment of first call of Re 1. The second and final call of Rs 3 was not made. The forfeited shares were reissued as Rs 8 paid-up for Rs 9 per share. Pass the necessary Journal entries.

Solution

Share Capital A/c (1,000 shares × Rs 7)	Dr.	7,000	
To Share Forfeiture A/c (1,000 shares × Rs 6)			6,000
To Share First Call A/c (1,000 shares × Re 1)			1,000
(Forfeiture of 1,000 shares for non-payment of first call money)			
Bank A/c (1,000 shares × Rs 9)	Dr.	9,000	
To Share Capital A/c (1,000 shares × Rs 8)			8,000
To Securities Premium A/c (1,000 shares × Re 1)			1,000
(Reissue of 1,000 forfeited shares as Rs 8 paid-up for Rs 9 per share)			
Share Forfeiture A/c	Dr.	6,000	
To Capital Reserve A/c			6,000

(Amount of Share Forfeiture transferred to Capital Reserve Account)

Example: Prerna Ltd. forfeited 300 shares of Rs 10 each issued at premium of Re 1 fully called-up on which Rs 7 has been received and Rs 3 remains unpaid on first and final call. These shares were reissued by the company. Pass the necessary Journal entries for forfeiture and reissue of shares if the shares are reissued at Rs 10 fully paid-up.

Solution

Share Capital A/c (300 shares × Rs 10)	Dr.	3,000	
To Share Forfeiture A/c (300 shares × Rs 7)			2,100
To Share First and Final A/c (300 shares × Rs 3)			900
(Forfeiture of 300 shares for non-payment of call money)			
Bank A/c (300 shares × Rs 10)	Dr.	3,000	
To Share Capital A/c (300 shares × Rs 10)			3,000
(Reissue of 300 forfeited shares at Rs 10 per share)			
Share Forfeiture A/c	Dr.	2,100	
To Capital Reserve A/c			2,100
(Profit on reissue transferred to Capital Reserve Account)			

***Note*- In this case, the whole balance of Share Forfeiture Account is transferred to the Capital Reserve Account. This is because there is no debit balance in the Share Forfeiture Account in the reissue entry.**

When All Forfeited Shares are not Reissued

When the shares are forfeited by the company, it is not compulsory that all the forfeited shares are to be reissued. The company may decide to reissue only a part of the forfeited shares. In such a situation, the amount of the Capital Reserve Account is to be calculated on the basis of proportion to the number of shares reissued. The profit on reissue is calculated by the help of the following formulae.

$$\text{Amount of Capital Reserve} = \left(\frac{\text{Total Amount Forfeited}}{\text{No. of Shares Forfeited}} \times \text{No. of Shares Reissued}\right) - \text{Share Forfeited Amount at the time of Reissue}$$

Example: Lipakshi Ltd. forfeited 750 shares of Rs 10 fully called-up for the non-payment of allotment money of Rs 3 and final call money of Rs 4 per share. Out of these 500 shares were reissued at Rs 7 per share, Rs 9 called-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (750 shares × Rs 10)	Dr.	7,500	
To Share Forfeiture A/c (750 shares × Rs 3)			2,250
To Share Allotment A/c (750 shares × Rs 3)			2,250
To Share First and Final Call A/c (750 shares× Rs 4)			3,000
(Forfeiture of 750 shares for non-payment of allotment and call money)			
Bank A/c (500 shares × Rs 7)	Dr.	3,500	

Share Forfeiture A/c (500 shares × Rs 2)	Dr.	1,000	
To Share Capital A/c (500 shares × Rs 9)			4,500
(Reissue of 500 shares at Rs 7 per share, Rs 9 called-up)			

Share Forfeiture A/c	Dr.	500	
To Capital Reserve A/c			500
(Profit on reissue transferred to capital reserve account)			

<u>Working Note</u>:- *<u>Calculation of Amount to be transferred to Capital Reserve Account</u>*

Amount Forfeited on 750shares	2,250
∴Amount Forfeited on 500 shares $\left(\frac{2,250}{750}\times 500\right)$	1,500
Less: Discount allowed on 500 shares reissued	(1,000)
Profit transferred to Capital Reserve Account	500

***<u>Example</u>*:** Murgun Ltd. forfeited 400 shares of Rs 10 each (issued at premium of Rs 2) for the non-payment of allotment money of Rs 4 (including premium) and final call of Rs 4 was not made. Out of these, 300 shares were reissued at Rs 12 fully paid-up. Pass the necessary Journal entries.

Solution

Share Capital A/c (400 shares × Rs 6)	Dr.	2,400	
Securities Premium A/c (400 shares × Rs 2)	Dr.	800	
To Share Forfeiture A/c (400 shares × Rs 4)			1,600
To Share Allotment A/c (400 shares × Rs 4)			1,600
(Forfeiture of 400 shares for non-payment of allotment money including premium of Rs 2)			

Bank A/c (300 shares × Rs 12)	Dr.	3,600	
To Share Capital A/c (300 shares × Rs 10)			3,000
To Securities Premium A/c (300 shares × Rs 2)			600
(Reissue of 300 shares at Rs 12 per share)			
Share Forfeiture A/c	Dr.	1,200	
To Capital Reserve A/c			1,200
(Profit on re-issue transferred to Capital Reserve Account)			

<u>Working Note</u>:- *<u>Calculation of Amount to be transferred to Capital Reserve Account</u>*

Amount Forfeited on 400 shares	1,600
∴ Amount Forfeited on 300 shares $\left(\frac{1,600}{400}\times 300\right)$	1,200
Less: Discount allowed on 300 shares reissued	-
Profit transferred to Capital Reserve Account	1,200

Disclosure of Share Capital in Company's Balance Sheet

Objective
After going through this lesson, you shall be able to understand the following concepts.

- Disclosure of Share Capital in the Company's Balance Sheet as per ***Schedule III of the Companies Act, 2013.***
- ***Preparation of Bank Account along with the Journal Entries***
- Accounting Treatment under ***ESOP***

Introduction
Till now you have learnt that what are and how the Journal entries are passed in the books of a company in the various cases such as at the time of issue of shares, forfeiture of shares, reissue of shares, etc. However, sometimes you may also ask to prepare Company's Balance Sheet and to disclose the Share Capital of the company in its Balance Sheet along with the Journal entries. According to Schedule III of the Companies Act, 2013 the company can prepare its Balance Sheet in the Vertical Format only as given below.

Balance Sheet (Relevant Extract)
as on……

Particulars	Note No.	Figures at the end of the Current Year
I. Equity and Liabilities 1. Shareholders' Funds a. Share Capital b. Reserves and Surplus 3. Non-Current Liabilities 4. Current Liabilities		
Total		
II. Assets 1. Non-Current Assets a. Fixed Assets 2. Current Assets a. Cash and Cash Equivalents		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Share Capital** Authorised Share Capital …… shares of Rs.. each	

	Issued Share Capital …… shares of Rs.. each Subscribed, Called-up and Paid-up Share Capital …… shares of Rs.. each *Less*: Calls-in-Arrears *Add*: Shares Forfeited	
2	**Reserves and Surplus** Capital Reserve Securities Premium	
3	**Other Current Liabilities** Calls-in-Advance	
4	**Fixed Assets** Land and Building Machinery Furniture	
5	**Cash and Cash Equivalents** Cash at Bank	

Example 1: R Ltd. has authorised capital of Rs 50,00,000 divided into 5,00,000 shares of Rs 10 each. The company has issued 3,00,000 shares at a premium of 20%. Amount is payable as Rs 3 on application, Rs 5 on allotment, Rs 2 on first call and balance on final call. The public has subscribed 95% of the issued shares. All the money was duly received. Show how the Share Capital will appear in the Company's Balance Sheet. Also prepare Notes to Accounts.

Solution

R Ltd.
Balance Sheet

Particulars	**Note No.**	**Amount (Rs)**
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	28,50,000
b. Reserves and Surplus	2	5,70,000
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**34,20,000**
II. Assets		
1. Non-Current Assets		

2. Current Assets		
a. Cash and Cash Equivalents	3	34,20,000
Total		**34,20,000**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Share Capital**	
	Authorised Share Capital	
	5,00,000 shares of Rs 10 each	50,00,000
	Issued Share Capital	
	3,00,000 shares of Rs 10 each	30,00,000
	Subscribed, Called-up and Paid-up Share Capital	
	2,85,000 shares of Rs 10 each	28,50,000
2	**Reserves and Surplus**	
	Securities Premium	5,70,000
3	**Cash and Cash Equivalents**	
	Cash at Bank	34,20,000

Example 2: Gem Ltd. has an authorised share capital 3,00,000 shares of Rs 10 each. Out of this, the company has issued 2,00,000 shares. The public applied for 1,80,000 shares. Amount is payable as Rs 4 on application, Rs 3 on allotment and balance on final call. All the money was duly received except the final call from one shareholder holding 1,000 shares. Disclose the Share Capital in the Company's Balance Sheet and prepare Notes to Accounts ***as per Schedule III*** of Companies Act, 2013.

Solution

Gem Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	17,97,000
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**17,97,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		

a. Cash and Cash Equivalents	2	17,97,000
Total		**17,97,000**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	3,00,000 shares of Rs 10 each		30,00,000
	Issued Share Capital		
	2,00,000 shares of Rs 10 each		20,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	1,80,000 shares of Rs 10 each	18,00,000	
	Less: Calls-in-Arrears	(3,000)	17,97,000
2	**Cash and Cash Equivalents**		
	Cash at Bank		17,97,000

Example 3: Fatima Ltd. is registered with a capital of Rs 35,00,000 divided into equity shares of Rs 100 each. Out of these 10,000 shares were issued to a vendor as fully paid purchase consideration for a Land acquired. Remaining shares were offered to the general public and of these only 80% were applied for and allotted. All the calls were made and duly received except the first and final call of Rs 25 per share on 1,500 shares. Out of these shares, 1,000 shares were forfeited by the company for the non-payment of the call money. Show how Share Capital will appear in the Company's Balance Sheet ***as per Schedule III*** of Companies Act, 2013.

Solution

Fatima Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	29,62,500
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**29,62,500**
II. Assets		
1. Non-Current Assets		
a. Fixed Assets		
i. Tangible Assets	2	10,00,000
2. Current Assets		
a. Cash and Cash Equivalents	3	19,62,500
Total		**29,62,500**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	35,000 shares of Rs 100 each		35,00,000
	Issued Share Capital		
	35,000 shares of Rs 100 each		35,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	10,000 shares of Rs 100 each issued to the vendor		10,00,000
	19,000 shares of Rs 100 each	19,00,000	
	Less: Calls-in-Arrears (500 × 25)	(12,500)	
	Add: Share Forfeiture (1,000 × 75)	75,000	19,62,500
			29,62,500
2	**Tangible Assets**		
	Land		10,00,000
3	**Cash and Cash Equivalents**		
	Cash at Bank		19,62,500

***Example 4*:** Chaahat Ltd. issued 1,00,000 shares of Rs 10 each at a premium of Rs 2 payable as Rs 3 on application, Rs 5 on allotment (including premium) and balance on final call. Applications were received for 1,55,000 shares. Company made the allotment on the following basis:

Category A- To applicants for 50,000 shares- Full

Category B- To applicants for 30,000 shares- Rejected

Category C- To the remaining applicants made pro-rata allotment

Excess money on application (if any) was utilised towards allotment.

Rehaan, a shareholder who has applied for 3,000 shares (*belonging to category C*) failed to pay the allotment and first call. Anika, another shareholder of 1,200 shares failed to pay the final call. The shares of both the shareholders were forfeited after the final call. Out of these forfeited shares, 3/5th of Rehaan's shares and half of the Anika's shares were reissued by the company for Rs 15,000. Record the above transactions by passing necessary Journal entries and also prepare Company's Balance Sheet ***as per Schedule III*** of Companies Act, 2013.

Solution

Books of Chaahat Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (1,55,000 shares × Rs 3)	Dr.		4,65,000	

	To Equity Share Application A/c (Share application money received for 1,55,000 shares at Rs 3 each)			4,65,000
	Equity Share Application A/c Dr. To Share Capital A/c (1,00,000 shares × Rs 3) To Share Allotment A/c To Bank A/c (30,000 shares × Rs 3) (Share application money on 1,00,000 shares transferred to share capital, 30,000 shares money were refunded and the balance adjusted on allotment)		4,65,000	 3,00,000 75,000 90,000
	Share Allotment A/c (1,00,000 shares × Rs 5) Dr. To Share Capital A/c (1,00,000 shares × Rs 3) To Securities Premium A/c (1,00,000 shares × Rs 2) (Allotment money due)		5,00,000	 3,00,000 2,00,000
	Bank A/c (5,00,000 – 75,000 – 7,000) Dr. To Share Allotment A/c (Share allotment money received)		4,18,000	 4,18,000
	Share Final Call A/c (1,00,000 × Rs 4) Dr. To Share Capital A/c (Share final call due on 1,00,000 shares at Rs 4 each)		4,00,000	 4,00,000
	Bank A/c (4,00,000 – 12,800) Dr. To Share Final Call A/c (Share final call received)		3,87,200	 3,87,200
	Share Capital A/c (3,200 shares × Rs 10) Dr. Securities Premium A/c (2,000 shares × Rs 2) Dr. To Share Forfeiture A/c (9,000 + 7,200) To Share Allotment A/c To Share Final Call A/c (3,200 shares × Rs 4) (2,000 shares of Rehaan and 1,200 shares of Anika were forfeited after final call)		32,000 4,000	 16,200 7,000 12,800
	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (1,800 shares × Rs 10) (Re-issue of 1,800 forfeited shares)		15,000 3,000	 18,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Share forfeiture amount transferred to capital reserve)		6,000	 6,000

Yelo Ltd.

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	9,93,200
b. Reserves and Surplus	2	2,02,000
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**11,95,200**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	11,95,200
Total		**11,95,200**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	…… shares of Rs 10 each		-
	Issued Share Capital		
	1,00,000 shares of Rs 10 each		10,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	98,600 shares of Rs 10 each	9,86,000	
	Add: Shares Forfeited	7,200	9,93,200
2	**Reserves and Surplus**		
	Capital Reserve	6,000	
	Securities Premium	1,96,000	2,02,000
3	**Cash and Cash Equivalents**		
	Cash at Bank		11,95,200

***Working Notes*:**

WN 1

Computation Table						
1	2	3	4	5	6	7
Category	**Shares**	**Shares**	**Money Received on**	**Application Money**	**Excess money on**	**Bank**

	Applied	Allotted	application at *Rs* 3 each	transferred to Share Capital at *Rs* 3 each	application	(*Refund*)
A	50,000	50,000	1,50,000	1,50,000	-	-
B	30,000	Nil	90,000	-	-	90,000
C	75,000	50,000	2,25,000	1,50,000	75,000	-
Total	**1,55,000**	**1,00,000**	**4,65,000**	**3,00,000**	**75,000**	**90,000**

***WN2** Calculation of Amount Unpaid on Allotment by Rehaan*

Number of shares applied = 3,000 shares

$\therefore$ Number of shares allotted $= \frac{3,000}{75,000} \times 50,000 = 2,000$ shares

Amount received on application (3,000 shares × Rs 3)	9,000
Less: Utilised on application (2,000 shares × Rs 3)	(6,000)
Excess amount received on application	3,000

Amount due on allotment (2,000 shares × Rs 5)	10,000
Less: Excess amount received on application	(3,000)
Amount unpaid on allotment	**7,000**

***WN3** Calculation of Amount Received from Anika*

Amount received from Anika (1,200 × Rs 6) = Rs 7,200

***WN4** Calculation of Number of Shares Reissued*

$3/5^{th}$ of Rehaan's Shares = 1,200 shares

Half of Anika's Shares = 600 shares

Total number of reissued shares = 1,200 + 600 = 1,800 shares

***WN5** Calculation of Amount to be transferred to Capital Reserve*

Amount forfeited on Rehaan's 2,000 shares	9,000	
$\therefore$ Amount forfeited 1,200 shares $\left(\frac{9,000}{2,000} \times 1,200\right)$		5,400
Amount forfeited on Anika's 1,200 shares	7,200	
$\therefore$ Amount forfeited 600 shares $\left(\frac{7,200}{1,200} \times 600\right)$		3,600
		9,000
Less: Discount allowed on 1,800 shares reissued		(3,000)
Amount to be transferred to Capital Reserve		6,000

Preparation of Bank Account
We have already learnt the preparation of Bank Account for a partnership firm at the time of admission, retirement/death and dissolution of a partnership firm. Similar to the partnership firm, a company also maintains a Bank Account. The basic rules for preparing the Bank Account for a company remain exactly the same i.e. all the cash or bank receipts are debited and all the cash/cheque payments are credited in Cash/Bank Account. We record the receipts and payments (in form of cash or cheque) due to issue, forfeiture, reissue of shares and refund of excess money.

Till now, we have learnt the Journal entries in the various cases of issue and re-issue of shares. These entries contain cash/bank transactions for example, receipt or refund of application or any instalment money. Therefore, whenever a question requires to prepare Cash/Bank Account, then we record all the cash/bank transactions in this account. In other words, in such cases, the cash/bank transactions are not recorded in the Journal book. The receipt of the application money, allotment money and any call money are recorded on the debit side of the Bank Account, whereas, any amount refunded by the company to its shareholders is recorded on the credit side of the account. The format of Bank Account is given below.

***Example* 5**: RTP Ltd. has authorised share capital of Rs 80,00,000 divided into 8,00,000 shares of Rs 10 each. It has invited applications for 5,00,000 shares of Rs 10 each. Amount is payable as Rs 2 on application, Rs 5 on allotment and Rs 3 on first and final call. Applications were received for 6,00,000 shares. The company made the pro-rata allotment of the shares. The excess money received is to be utilised towards allotment. Rohit, a shareholder of 2,500 shares failed to pay the allotment and call money. These shares were forfeited by the company. Later, out of these shares 1,500 shares reissued by the company at Rs 8 fully paid-up. You are required to-

i. Pass the necessary Journal entries.
ii. Prepare Bank Account.
iii. Also prepare the Company's Balance Sheet ***as per Schedule III*** of Companies Act, 2013.

Solution
(i)

Book of RTP Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
J.E. 1	Bank A/c Dr. To Share Application A/c (Share application money received on 6,00,000 shares)		12,00,000	 12,00,000
J.E. 2	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Application money adjusted)		12,00,000	 10,00,000 2,00,000
J.E. 3	Share Allotment A/c Dr. To Share Capital A/c (Share allotment money due)		25,00,000	 25,00,000
J.E. 4	Bank A/c (25,00,000 – 2,00,000 – 11,500) Dr. To Share Allotment A/c		22,88,500	 22,88,500

	(Allotment money received)			
J.E. 5	Share First and Final Call A/c Dr. To Share Capital A/c (Share First and Final call due)		15,00,000	 15,00,000
J.E. 6	Bank A/c (15,00,000 – 7,500) Dr. To Share First and Final Call A/c (First and final call money received)		14,92,500	 14,92,500
J.E. 7	Share Capital A/c Dr. To Share Forfeiture A/c To Share Allotment A/c To Share First and Final Call A/c (2,500 shares of Rohit were forfeited)		25,000	 6,000 11,500 7,500
J.E. 8	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c (1,500 shares re-issued at Rs 8 each fully paid-up)		12,000 3,000	 15,000
J.E. 9	Share Forfeiture A/c Dr. To Capital Reserve A/c (Profit on reissue of 1,500 shares transferred to capital reserve)		600	 600

Working Notes:

WN1*Calculation of Amount Unpaid on Allotment by Rohit*

Number of shares allotted = 2,500 shares

$$\therefore \text{Number of shares applied} = \frac{2,500}{5,00,000} \times 6,00,000 = 3,000 \text{ shares}$$

Amount received on application (3,000 shares × Rs 2)	6,000
Less: Utilised on application (2,500 shares × Rs 2)	(5,000)
Excess amount received on application	1,000

Amount due on allotment (2,500 shares × Rs 5)	12,500
Less: Excess amount received on application	(1,000)
Amount unpaid on allotment	**11,500**

WN2*Calculation of Amount to be transferred to Capital Reserve*

Amount forfeited on Rohit's 2,500 shares	6,000	
Amount forfeited 1,500 shares $\left(\frac{6,000}{2,500} \times 1,500\right)$		3,600

Less: Discount allowed on 1,500 shares reissued	(3,000)
Amount to be transferred to Capital Reserve	600

(ii)

Bank Account

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
J.E. 1	To Share Application A/c	12,00,000			
J.E. 4	To Share Allotment A/c	22,88,500			
J.E. 6	To Share First and Final Call	14,92,500			
J.E. 8	To Share Capital A/c	12,000		By Balance c/d	49,93,000
		49,93,000			49,93,000

Note 1: The Journal entries number such as ***J.E. 1, J.E. 4, etc.*** mentioned in the date column of the Bank Account are in reference from the first part of the question. The students are not required to mention them as these are only for their understanding.

Note 2: When the question asks to prepare the Bank Account, then the bank entries are not recorded in the Journal. The following are the Journal entries when the Bank Account is prepared.

Book of RTP Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Share Application A/c	Dr.		12,00,000	
	To Share Capital A/c				10,00,000
	To Share Allotment A/c				2,00,000
	(Application money adjusted)				
	Share Allotment A/c	Dr.		25,00,000	
	To Share Capital A/c				25,00,000
	(Share allotment money due)				
	Share First and Final Call A/c	Dr.		15,00,000	
	To Share Capital A/c				15,00,000
	(Share First and Final call due)				
	Share Capital A/c	Dr.		25,000	
	To Share Forfeiture A/c				6,000
	To Share Allotment A/c				11,500
	To Share First and Final Call A/c				7,500
	(2,500 shares of Rohit were forfeited)				
	Share Forfeiture A/c	Dr.		3,000	
	To Share Capital A/c				3,000
	(1,500 shares re-issued at Rs 8 each fully paid-up)				

	Share Forfeiture A/c Dr. To Capital Reserve A/c (Profit on reissue of 1,500 shares transferred to capital reserve)		600	600

(iii)

RTP Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	49,92,400
b. Reserves and Surplus	2	600
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**49,93,000**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	49,93,000
Total		**49,93,000**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	8,00,000 shares of Rs 10 each		80,00,000
	Issued Share Capital		
	5,00,000 shares of Rs 10 each		50,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	4,99,000 Shares of Rs 10 each	49,90,000	
	Add: Forfeited Shares	2,400	49,92,400
2	**Reserves and Surplus**		
	Capital Reserve		600
3	**Cash and Cash Equivalents**		
	Cash at Bank		49,93,000

Example* 6**: Pass the necessary Journal Entries and Prepare Bank Account for ***Example 4 (of Chaahat Ltd.) given above.

Solution

Books of Chaahat Ltd.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Equity Share Application A/c	Dr.		3,75,000	
	To Share Capital A/c (1,00,000 shares × Rs 3)				3,00,000
	To Share Allotment A/c				75,000
	(Share application money adjusted)				
	Share Allotment A/c (1,00,000 shares × Rs 5)	Dr.		5,00,000	
	To Share Capital A/c (1,00,000 shares × Rs 3)				3,00,000
	To Securities Premium A/c (1,00,000 shares × Rs 2)				2,00,000
	(Allotment money due)				
	Share Final Call A/c (1,00,000 × Rs 4)	Dr.		4,00,000	
	To Share Capital A/c				4,00,000
	(Share final call due on 1,00,000 shares at Rs 4 each)				
	Share Capital A/c (3,200 shares × Rs 10)	Dr.		32,000	
	Securities Premium A/c (2,000 shares × Rs 2)	Dr.		4,000	
	To Share Forfeiture A/c (9,000 + 7,200)				16,200
	To Share Allotment A/c				7,000
	To Share Final Call A/c (3,200 shares × Rs 4)				12,800
	(2,000 shares of Rehaan and 1,200 shares of Anika were forfeited after final call)				
	Share Forfeiture A/c	Dr.		3,000	
	To Share Capital A/c				3,000
	(Re-issue of 1,800 forfeited shares)				
	Share Forfeiture A/c	Dr.		6,000	
	To Capital Reserve A/c				6,000
	(Share forfeiture amount transferred to capital reserve)				

Bank Account

Date	Particulars	Amount (Rs)	Date	Particulars	Amount (Rs)
	Share Application A/c (Application money received)	4,65,000		Share Application A/c (Amount refunded to shareholders)	90,000
	Share Allotment A/c (Allotment money received)	4,18,000			
	Share Final Call A/c (Final call money received)	3,87,200			

	Share Capital A/c (Amount received on re-issue of shares)	15,000		By Balance c/d (*Balancing Figure*)	11,95,200
		12,85,200			12,85,200

Accounting Treatment under ESOP

Case 1: When all the employees exercise their option rights

Example: Star Ltd. grants options to 50 employees to subscribe 200 shares each. The share capital of the company was divided into shares of Rs 10 each. The option can be exercised within 180 days from the end of vesting period of 3 years. The fair (market) value of each share if Rs 45 each whereas the price at which it is offered (exercise price) is Rs 30. The option was exercised by all the employees. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Year 1	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	($1/3^{rd}$ compensation expenses recognised in respect of ESOP				
Year 2	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	($1/3^{rd}$ compensation expenses recognised in respect of ESOP				
Year 3	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	($1/3^{rd}$ compensation expenses recognised in respect of ESOP				
Year 4	Bank A/c (10,000 x 30)	Dr.		3,00,000	
	To Share Application A/c				3,00,000
	(Application money received from all employees)				
Year 4	Share Application A/c	Dr.		3,00,000	
	Share Options Outstanding A/c (10,000 x 15)			1,50,000	
	To Share Capital A/c (10,000 x 10)				1,00,000
	To Securities Premium Reserve A/c				3,50,000
	(Options exercised by all the employees and shares issued to them @ Rs 30 per share)				

Working Note:

Employees Compensation Expense = Total shares on which options can be exercised x Difference in fair value & exercise price

Employees Compensation Expense = (50 x 200) x (45-30) = 10,000 x 15 = 1,50,000

These expenses are to be recognised in three vesting years.

Case 2: When all the employees don't exercise their option rights

<u>Example</u>: Star Ltd. grants options to 50 employees to subscribe 200 shares each. The share capital of the company was divided into shares of Rs 10 each. The option can be exercised within 180 days from the end of vesting period of 3 years. The fair (market) value of each share if Rs 45 each whereas the price at which it is offered (exercise price) is Rs 30. The option was exercised by 45 employees. Pass the necessary Journal entries.

Solution

Journal

Date	Particulars		L.F.	Debit Amount (Rs)	Credit Amount (Rs)
Year 1	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	(1/3rd compensation expenses recognised in respect of ESOP				
Year 2	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	(1/3rd compensation expenses recognised in respect of ESOP				
Year 3	Employees Compensation Expense A/c	Dr.		50,000	
	To Share Options Outstanding A/c				50,000
	(1/3rd compensation expenses recognised in respect of ESOP				
Year 4	Bank A/c (9,000 x 30)	Dr.		2,70,000	
	To Share Application A/c				2,70,000
	(Application money received from all employees)				
Year 4	Share Application A/c	Dr.		2,70,000	
	Share Options Outstanding A/c (9,000 x 15)			1,35,000	
	To Share Capital A/c (9,000 x 10)				90,000
	To Securities Premium Reserve A/c				3,15,000
	(Options exercised by all the employees and shares issued to them @ Rs 30 per share)				
Year 4	Share Options Outstanding A/c	Dr.		15,000	
	To General Reserve A/c				15,000
	(Amount of options not exercised transferred to General Reserve)				

<u>Working Note</u>:

Employees Compensation Expense = Total shares on which options can be exercised x Difference in fair value & exercise price

Employees Compensation Expense = (50 x 200) x (45-30) = 10,000 x 15 = 1,50,000
These expenses are to be recognised in three vesting years.

Comprehensive Examples

Uptill now, we have learnt each and every aspects and topics related to the chapter of shares. We are now in a position to tackle some comprehensive examples. The following are the examples, which will test your knowledge and the degree of acquaintance to each of the topics that you learnt in the previous lessons.

Example 1:
Dilip & Co. issued 1,70,000 shares of Rs 50 each at a premium of Rs 4 payable as Rs 13 on application, Rs 18 on allotment (including premium of Rs 3), Rs 11 on first call (including premium of Re 1) and balance on final call. The issue was over-subscribed to the extent of 70,000 shares. Company made the allotment on the following basis:

Category A- To applicants for 60,000 shares- Full
Category B- To applicants for 20,000 shares- Rejected
Category C- To the remaining applicants- 1,10,000

Over payments on application were to be utilised towards sum due on allotment and calls. The amount from the rejected applications was to be refunded in full.
Harry, a shareholder of 4,950 shares (belonging to category C) failed to pay the allotment and first call. Due to his failure to pay the first call his shares were forfeited immediately. Lee, another shareholder of 3,500 shares failed to pay both the calls. His shares were also forfeited. Out of the forfeited shares, $2/3^{rd}$ of the Harry's shares and $3/5^{th}$ of Lee's shares were reissued by the company at Rs 44 each fully paid-up. Record the above transactions by passing the necessary Journal entries and also prepare Company's Balance Sheet ***as per Schedule III*** of Companies Act, 2013.
Solution

Books of Dilip & Co.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (2,40,000 shares × Rs 13)	Dr.		31,20,000	
	To Equity Share Application A/c				31,20,000
	(Share application money received for 2,40,000 shares at Rs 13 each)				
	Equity Share Application A/c	Dr.		31,20,000	
	To Share Capital A/c (1,70,000 shares × Rs 13)				22,10,000
	To Share Allotment A/c				6,50,000
	To Bank A/c (20,000 shares × Rs 13)				2,60,000
	(Share application money on 1,70,000 shares transferred to share capital, 20,000 shares money were refunded and the balance adjusted on allotment)				
	Share Allotment A/c	Dr.		30,60,000	
	To Share Capital A/c (1,70,000 shares × Rs 15)				25,50,000

	To Securities Premium A/c (1,70,000 shares × Rs 3)				5,10,000
	(Share allotment money due)				
	Bank A/c (30,60,000 – 6,50,000 – 59,850)	Dr.		23,50,150	
	To Share Allotment A/c				23,50,150
	(Allotment money received)				
	Share First Call A/c	Dr.		18,70,000	
	To Share Capital A/c				17,00,000
	To Securities Premium A/c				1,70,000
	(Share first call due)				
	Bank A/c (18,70,000 – 54,450 – 38,500)	Dr.		17,77,050	
	To Share First Call A/c				17,77,050
	(Share first call received)				
	Share Capital A/c (4,950 shares × Rs 38)	Dr.		1,88,100	
	Securities Premium A/c (4,950 shares × Rs 4)	Dr.		19,800	
	To Share Forfeiture A/c				93,600
	To Share Allotment A/c				59,850
	To Share First Call A/c (4,950 shares × Rs 11)				54,450
	(Harry’s shares forfeited for non-payment of premium, allotment and first call money)				
	Share Final Call A/c	Dr.		19,80,600	
	To Share Capital A/c				19,80,600
	(Share final call due on 1,65,050)				
	Bank A/c (19,80,600 – 42,000)	Dr.		19,38,600	
	To Share Final Call A/c				19,38,600
	(Share final call received)				
	Share Capital A/c (3,500 shares × Rs 50)	Dr.		1,75,000	
	Securities Premium A/c (3,500 shares × Rs 1)			3,500	
	To Share Forfeiture A/c (3,500 shares × Rs 28)				98,000
	To Share First Call A/c (3,500 shares × Rs 11)				38,500
	To Share Final Call A/c (3,500 shares × Rs 12)				42,000
	(Lee’s shares forfeited for non-payment of call money)				
	Bank A/c (5,400 shares × Rs 44)	Dr.		2,37,600	
	Share Forfeiture A/c (5,400 shares × Rs 6)	Dr.		32,400	
	To Share Capital A/c (5,400 shares × Rs 50)				2,70,000
	(5,400 shares reissued at Rs 44 fully paid-up)				
	Share Forfeiture A/c	Dr.		88,800	
	To Capital Reserve A/c				88,800

	(Share forfeiture amount transferred to capital reserve)			

Dilip & Co.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	84,17,900
b. Reserves and Surplus	2	7,45,500
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**91,63,400**
II. Assets		
1. Current Assets	3	91,63,400
Total		**91,63,400**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	…… shares of Rs 50 each		
	Issued Share Capital		
	1,70,000 shares of Rs 50 each		85,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	1,66,950 shares of Rs 50 each	83,47,500	
	Add: Shares Forfeited	70,400	84,17,900
2	**Reserves and Surplus**		
	Capital Reserve		88,800
	Securities Premium		6,56,700
3	**Current Assets**		
	Cash at Bank		91,63,400

***<u>Working Notes</u>*:**
<u>WN 1</u>

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at Rs 13 each**	**Application Money transferred to Share Capital at Rs 13**	**Excess money on application utilised**	**Bank (*Refund*)**

				each	on allotment	
A	60,000	60,000	7,80,000	7,80,000		
B	20,000	Nil	2,60,000	Nil		2,60,000
C	1,60,000	1,10,000	20,80,000	14,30,000	6,50,000	
Total	**2,40,000**	**1,70,000**	**31,20,000**	**22,10,000**	**6,50,000**	**2,60,000**

***WN 2** Calculation of Unpaid Amount on Allotment by Harry*

Number of Shares Applied by Harry = $\frac{1,60,000}{1,10,000} \times 4,950 = 7,200$ shares

Amount received on application $(7,200 \times 13)$ = Rs 93,600

Less: Amount utilised on application $(4,950 \times 13)$ = Rs (64,350)

Excess amount received on application = Rs 29,250 .....**(1)**

Amount due on Allotment $(4,950 \times 18)$ = 89,100

Less: Excess amount received on Application (from 1) = (29,250)

Amount not paid on Allotment = 59,850

***WN 3** Calculation of Number of Shares Re-issued*

Number of Harry's reissued shares $= 4,950 \times \frac{2}{3} = 3,300$ shares

Number of Lee's reissued shares $= 3,500 \times \frac{3}{5} = 2,100$ shares

Total number of shares reissued = 3,300 + 2,100 = 5,400 shares

***WN 4** Calculation of Amount to be transferred to Capital Reserve*

Amount forfeited on Harry's 4,950 shares	93,600	
∴ Amount forfeited on Harry's 3,300 shares is	$\left(93,600 \times \frac{3,300}{4,950}\right)$	62,400
Amount forfeited on Lee's 3,500 shares	98,000	
∴ Amount forfeited on Lee's 2,100 shares is	$\left(98,000 \times \frac{2,100}{3,500}\right)$	58,800
		1,21,200
Less: Discount allowed on 5,400 reissued shares		(32,400)
Amount to be transferred to Capital Reserve		88,800

Example 2:

Kong Ltd. issued 30,000 shares of Rs 100 each payable as Rs 25 on application, Rs 45 on allotment, Rs 15 on first call and balance on final call. The applications were received for 55,000 shares. The company made the pro-rata allotment on the following basis:

Category I- To the applicants for 25,000 shares- 18,000 shares

Category II- To the applicants for 18,000 shares- 12,000 shares

Category III- Remaining applications were rejected

The company refunded the amount received from the rejected applicants and decided to utilise the excess money received on application towards allotment. Ritesh, a shareholder, who has applied for 4,500 (belonging to Category II) failed to pay the allotment money due to which his shares were immediately forfeited. Jahnavi, another shareholder of 2,500 shares failed to pay the first call money. Due to her failure to pay the amount her shares were forfeited after first call. The final call not yet been made by the company. Later, the company reissued 50% of Ritesh's shares at Rs 80 and 1,800 shares of Jahnavi at Rs 70, Rs 85 paid up. Pass the necessary Journal entries and also prepare Company's Balance Sheet along with Notes to Accounts.

Solution

Books of Kong Ltd.
Journal

Date	**Particulars**		**L.F.**	**Debit Amount Rs**	**Credit Amount Rs**
	Bank A/c (55,000 shares × Rs 25)	Dr.		13,75,000	
	To Equity Share Application A/c				13,75,000
	(Share application money received for 55,000 shares at Rs 25 each)				
	Equity Share Application A/c	Dr.		13,75,000	
	To Share Capital A/c (30,000 shares × Rs 25)				7,50,000
	To Share Allotment A/c				3,25,000
	To Bank A/c (12,000 shares × Rs 25)				3,00,000
	(Share application money on 30,000 shares transferred to share capital, 12,000 shares money were refunded and the balance adjusted on allotment)				
	Share Allotment A/c	Dr.		13,50,000	
	To Share Capital A/c				13,50,000
	(Share allotment money due)				
	Bank A/c (13,50,000 – 3,25,000 – 97,500)	Dr.		9,27,500	
	To Share Allotment A/c				9,27,500
	(Allotment money received)				
	Share Capital A/c (3,000 shares × Rs 70)	Dr.		2,10,000	
	To Share Forfeiture A/c ***(WN2)***				1,12,500
	To Share Allotment A/c ***(WN2)***				97,500
	(Ritesh's shares forfeited for non-payment of allotment money)				
	Share First Call A/c	Dr.		4,05,000	
	To Share Capital A/c				4,05,000
	(Share first call due on 27,000 shares at Rs 15				

	each)				
	Bank A/c (4,05,000 – 37,500) To Share First Call A/c (Share first call received)	Dr.		3,67,500	3,67,500
	Share Capital A/c (2,500 shares × Rs 85) To Share Forfeiture A/c (2,500 shares × Rs 70) To Share First Call A/c (2,500 shares × Rs 15) (Jahnavi's shares forfeited for non-payment of first call money)	Dr.		2,12,500	1,75,000 37,500
	Bank A/c (1,500 shares × Rs 80) Shares Forfeiture A/c (1,500 shares × Rs 5) To Share Capital A/c (1,500 shares × Rs 85) (1,500 shares re-issued at Rs 80, Rs 85 paid-up)	Dr. Dr.		1,20,000 7,500	1,27,500
	Bank A/c (1,800 shares × Rs 70) Shares Forfeiture A/c (1,800 shares × Rs 15) To Share Capital A/c (1,800 shares × Rs 85) (1,800 shares reissued at Rs 70, Rs 85 paid-up)	Dr. Dr.		1,26,000 27,000	1,53,000
	Share Forfeiture A/c To Capital Reserve A/c (Share forfeiture amount transferred to capital reserve)	Dr.		1,47,750	1,47,750

Kong Ltd.

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	24,68,250
b. Reserves and Surplus	2	1,47,750
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**26,16,000**
II. Assets		
1. Current Assets	3	26,16,000
Total		**26,16,000**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	Share Capital		
	Authorised Share Capital		
	…… shares of Rs 100 each		-
	Issued Share Capital		
	30,000 shares of Rs 100 each		30,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	27,800 shares of Rs 100 each, Rs 85 called-up	23,63,000	
	Add: Shares Forfeited	1,05,250	24,68,250
2	Reserves and Surplus		
	Capital Reserve		1,47,750
3	Current Assets		
	Cash at Bank		26,16,000

Working Notes:

WN 1

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at Rs 25 each**	**Application Money transferred to Share Capital at Rs 25 each**	**Excess money on application utilised on allotment**	**Bank (Refund)**
I	25,000	18,000	6,25,000	4,50,000	1,75,000	-
II	18,000	12,000	4,50,000	3,00,000	1,50,000	-
III	12,000	-	3,00,000	-	-	3,00,000
Total	**55,000**	**30,000**	**13,75,000**	**7,50,000**	**3,25,000**	**3,00,000**

WN 2 Calculation of Unpaid Amount on Allotment by Ritesh

Number of shares applied = 4,500 shares

$\therefore$ Number of shares allotted $= \frac{4,500}{18,000} \times 12,000 = 3,000$ shares

Amount received on application (4,500 shares × Rs 25)	1,12,500
Less: Utilised on application (3,000 shares × Rs 25)	(75,000)

Excess amount received on application	**37,500**

Amount due on allotment (3,000 shares × Rs 45)	1,35,000
Less: Excess amount received on application	(37,500)
Amount unpaid on allotment	**97,500**

WN3 Calculation of Number of Shares Re-issued

Number of Ritesh's reissued shares = 3,000 × 50% = 1,500 shares
Number of Jahnavi's reissued shares = 1,800 shares
Total number of shares reissued = 1,500 + 1,800 = 3,300 shares

WN4 Calculation of Amount to be transferred to Capital Reserve

Amount forfeited on Ritesh's 3,000 shares	1,12,500	
∴ Amount forfeited on Ritesh's 1,500 shares $\left(\frac{1,12,500}{3,000}\times 1,500\right)$		56,250
Amount forfeited on Jahnavi's 2,500 shares	1,75,000	
∴ Amount forfeited on Jahnavi's 1,800 shares $\left(\frac{1,75,000}{2,500}\times 1,800\right)$		1,26,000
		1,82,250
Less: Discount allowed on 1,500 reissued shares		(7,500)
Less: Discount allowed on 1,800 reissued shares		(27,000)
Amount to be transferred to Capital Reserve		1,47,750

Example 3: Bharat Ltd. issued 4,000 shares of Rs 20 each at a premium of Rs 6 payable as follows-
On Application- Rs 12 (including premium of Rs 2)
On Allotment- Rs 4 (including premium of Rs 2)
On First Call- Rs 6 (including premium of Re 1)
On Final Call- Rs 4 (including premium of Re 1)

Applications were received for 6,500 shares. The company rejected applications for 1,500 shares and made pro-rata allotment on remaining shares. The excess money received on application was decided to utilise towards allotment. Shikha, who has applied for 700 shares failed to pay the allotment and first call money. Due to her failure to pay the amount, her shares were forfeited after first call. Meethi, another shareholder of 400 shares failed to pay the first and final call due to which her shares forfeited.
Out of these forfeited shares, the company decided to re-issue 450 shares (half of Shikha's shares being included) at Rs 17 each fully paid-up. Pass the necessary Journal entries in the books of company and also prepare Company's Balance Sheet as per ***Schedule III*** of Companies Act, 2013.

Solution

Books of Bharat Ltd.
Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (6,500 shares × Rs 12) Dr.		78,000	

	To Equity Share Application A/c (Share application money received for 6,500 shares at Rs 12 each)			78,000
	Equity Share Application A/c To Share Capital A/c (4,000 shares × Rs 10) To Securities Premium A/c (4,000 shares × Rs 2) To Share Allotment A/c To Bank A/c (1,500 shares × Rs 12) (Share application money on 4,000 shares transferred to share capital, 1,500 shares money were refunded and the balance adjusted on allotment)	Dr.	78,000	 40,000 8,000 12,000 18,000
	Share Allotment A/c (4,000 shares × Rs 4) To Share Capital A/c To Securities Premium A/c (Share allotment money due)	Dr.	16,000	 8,000 8,000
	Bank A/c (16,000 – 12,000 – 560) To Share Allotment A/c (Allotment money received)	Dr.	3,440	 3,440
	Share First Call A/c (4,000 shares × Rs 6) To Share Capital A/c To Securities Premium A/c (Share first call due)	Dr.	24,000	 20,000 4,000
	Bank A/c (24,000 – 3,360 – 2,400) To Share First Call A/c (Share first call received)	Dr.	18,240	 18,240
	Share Capital A/c (560 shares × Rs 17) Securities Premium A/c To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c (Shikha's shares forfeited for non-payment of allotment and first call money)	Dr. Dr.	9,520 1,120	 6,720 560 3,360
	Share Final Call A/c To Share Capital A/c To Securities Premium A/c (Share final call due on 3,440 share)	Dr.	13,760	 10,320 3,440
	Bank A/c (13,760 – 1,600) To Share Final Call A/c (Share final call received)	Dr.	12,160	 12,160
	Share Capital A/c (400 shares × 20)	Dr.	8,000	

	Securities Premium A/c (400 shares × 2) To Share Forfeiture A/c To Share First Call A/c To Share Final Call A/c (Meethi's shares forfeited for non-payment of call money)	Dr.		800	 4,800 2,400 1,600
	Bank A/c (450 shares × Rs 17) Share Forfeiture A/c (450 shares × Rs 3) To Share Capital A/c (450 shares × Rs 20) (450 shares reissued at Rs 17 fully paid-up)	Dr. Dr.		7,650 1,350	 9,000
	Share Forfeiture A/c To Capital Reserve A/c (Share forfeiture amount transferred to capital reserve)	Dr.		4,050	 4,050

Bharat Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	75,920
b. Reserves and Surplus	2	25,570
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**1,01,490**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	1,01,490
Total		**1,01,490**

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Share Capital**	
	Authorised Share Capital …… shares of Rs 20 each	-
	Issued Share Capital 4,000 shares of Rs 20 each	80,000
	Subscribed, Called-up and Paid-up Share Capital	

	3,490 shares of Rs 20 each *Add*: Shares Forfeited	69,800 6,120	75,920
2	**Reserves and Surplus** Capital Reserve Securities Premium	 4,050 21,520	25,570
3	**Cash and Cash Equivalents** Cash at Bank		1,01,490

Working Notes:

WN 1

Computation Table

1	2	3	4	5	6	7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 12 each**	**Application Money transferred to Share Capital at *Rs* 10 each**	**Excess money on application utilised on allotment**	**Bank (*Refund*)**
I	1,500		18,000			18,000
II	5,000	4,000	60,000	40,000	12,000	
Total	**6,500**	**4,000**	**78,000**	**40,000***	**12,000**	**18,000**

**Rs 8,000 (i.e. 4,000X2) is transferred to Securities Premium Account.*

WN 2 *Calculation of Unpaid Amount on Allotment by Shikha*

Number of shares applied = 700 shares

$\therefore$ Number of shares allotted = $\frac{700}{5,000} \times 4,000 = 560$ shares

Ascertaining the Amount Unpaid on Allotment by Shikha

1	2	3	4	5
Shares Applied	**Shares Allotted**	**Amount Received Application at Rs 12**	**Amount Utilised on Application at Rs 12**	**Excess Amount received on Application**
700	560	8,400	6,720	1,680 (8,400 – 6,720)

Total amount due on allotment (560 shares × Rs 4) = Rs 2,240
Premium due on allotment (560 shares × Rs 2) = Rs 1,120
∴Remaining amount of allotment (560 shares × Rs 2) = Rs 1,120
Excess amount received on application = Rs 1,680 (column 5 of above table)
Amount utilised on allotment only (*except premium*) = Rs 1,120
∴Remaining excess amount of Rs 560 (i.e. 1,680 – 1,120) is utilised towards premium on allotment.

Hence, the Amount of Premium that remained unpaid on allotment = 1,120 – 560 = Rs 560
Amount of premium unpaid on first call (560 shares × Re 1) = Rs 560

Total Amount of premium unpaid = 560 + 560 = 1,120

WN 3 *Calculation of Amount to be transferred to Capital Reserve*

Amount forfeited on Shikha's 560 shares	6,720	
∴Amount forfeited on Shikha's 280 shares	$\left(\frac{6,720}{560}\times 280\right)$	3,360
Amount forfeited on Meethi's 400 shares	4,800	
∴Amount forfeited on Meethi's 170 shares	$\left(\frac{4,800}{400}\times 170\right)$	2,040
		5,400
Less: Discount allowed on 450 reissued shares		(1,350)
Amount to be transferred to Capital Reserve		4,050

Example 4:
On April 01, 2013, Khanna & Co. made an issue of 90,000 equity shares of Rs 10 each at a premium of Rs 3 payable as Rs 3 on application (including premium of Re 1), Rs 4 on allotment (including premium of Rs 2), Rs 4 on first call and Rs 2 on final call . Applications were received for 2,00,000 shares. And company made the allotment on the following basis-

Category I- To applicants for 25,000 shares- Nil
Category II- To applicants for 40,000 shares- 20,000
Category II- To applicants for 75,000 shares- 30,000
Category IV- To applicants for 60,000 shares- 40,000

Excess money received on application was to be utilised towards allotment and subsequent calls. Aryan, holding 1,500 shares (*belonging to category II*) failed to pay the allotment and first call money. Due to his failure to pay the amount his shares were forfeited immediately first call. Another shareholder, Zayna, who has applied for 1,600 shares (*belonging to category III*) failed to pay both the calls. Her shares were also forfeited.
Later the company re-issued 80% of Ayaan's forfeited shares and 50% of Zayna's forfeited shares at Rs 7 fully paid-up. Record the above transactions by passing the necessary Journal entries and also prepare Company's Balance Sheet ***as per Schedule III*** of Companies Act, 2013.

Solution

Khanna & Co.
Journal

Date	Particulars		L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c (2,00,000 shares × Rs 3)	Dr.		6,00,000	
	To Equity Share Application A/c				6,00,000
	(Share application money received for 2,00,000 shares at Rs 3 each)				
	Equity Share Application A/c	Dr.		6,00,000	
	To Share Capital A/c (90,000 shares × Rs 2)				1,80,000
	To Securities Premium A/c (90,000 shares × Re 1)				90,000
	To Share Allotment A/c				2,40,000
	To Share First Call A/c				15,000

	To Bank A/c (25,000 shares × Rs 3) (Share application money on 90,000 shares transferred to share capital, 25,000 shares money were refunded and the balance adjusted on allotment and first call)			75,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Share allotment money due)		3,60,000	 1,80,000 1,80,000
	Bank A/c (3,60,000 – 2,40,000 – 1,500) Dr. To Share Allotment A/c (Allotment money received)		1,18,500	 1,18,500
	Share First Call A/c Dr. To Share Capital A/c (Share first call due)		3,60,000	 3,60,000
	Bank A/c (3,60,000 – 15,000 – 6,000 – 2,240) Dr. To Share First Call A/c (Share first call received)		3,36,760	 3,36,760
	Share Capital A/c (1,500 shares × Rs 8) Dr. Securities Premium A/c Dr. To Share Forfeiture A/c To Share Allotment A/c To Share First Call A/c (Ayaan's shares forfeited for non-payment of allotment and first call money)		12,000 3,000	 7,500 1,500 6,000
	Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 88,500 shares)		1,77,000	 1,77,000
	Bank A/c (1,77,000 – 1,280) Dr. To Share Final Call A/c (Share final call received)		1,75,720	 1,75,720
	Share Capital A/c (640 shares × 10) Dr. To Share Forfeiture A/c To Share First Call A/c To Share Final Call A/c (Zayna's shares forfeited for non-payment of call money)		6,400	 2,880 2,240 1,280
	Bank A/c (1,520 shares × 7) Dr. Share Forfeiture A/c (1,520 shares × 3) Dr. To Share Capital A/c (1,520 shares × 10)		10,640 4,560	 15,200

	(1,520 shares reissued at Rs 7 fully paid-up)				
	Share Forfeiture A/c To Capital Reserve A/c (Share forfeiture amount transferred to capital reserve)	Dr.		2,880	2,880

Khanna & Co.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	8,96,740
b. Reserves and Surplus	2	2,69,880
2. Non-Current Liabilities		
3. Current Liabilities		
Total		**11,66,620**
II. Assets		
1. Non-Current Assets		
2. Current Assets		
a. Cash and Cash Equivalents	3	11,66,620
Total		**11,66,620**

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	…… shares of Rs 10 each		-
	Issued Share Capital		
	90,000 shares of Rs 10 each		9,00,000
	Subscribed, Called-up and Paid-up Share Capital		
	89,380 shares of Rs 10 each	8,93,800	
	Add: Shares Forfeited	2,940	8,96,740
2	**Reserves and Surplus**		
	Capital Reserve	2,880	
	Securities Premium	2,67,000	2,69,880
3	**Cash and Cash Equivalents**		
	Cash at Bank		11,66,620

***Working Notes*:**
WN 1

Computation Table

1	2	3	4	5	6			7
Category	**Shares Applied**	**Shares Allotted**	**Money Received on application at *Rs* 3 each**	**Application Money transferred to Share Capital at *Rs* 3 each**	**Excess money received on application**	**Excess money utilised towards allotment at Rs 4**	**Excess money utilised towards first call**	**Bank (*Refund*)**
I	25,000	-	75,000					75,000
II	40,000	20,000	1,20,000	60,000	60,000	60,000		
III	75,000	30,000	2,25,000	90,000	1,35,000	1,20,000	15,000	
IV	60,000	40,000	1,80,000	1,20,000	60,000	60,000		
Total	**2,00,000**	**90,000**	**6,00,000**	**2,70,000**	**2,55,000**	**2,40,000**	**15,000**	**75,000**

WN 2 Calculation of Unpaid Amount on Allotment by Ayaan
Number of shares allotted = 1,500 shares

$\therefore$ Number of shares applied $= \frac{1,500}{20,000} \times 40,000 = 3,000$ shares

Amount received on application (3,000 shares × Rs 3)	9,000
Less: Utilised on application (1,500 shares × Rs 3)	(4,500)
Excess amount received on application	4,500

Amount due on allotment (1,500 shares × Rs 4)	6,000
Less: Excess amount received on application	(4,500)
Amount unpaid on allotment	**1,500**

WN 3Calculation of Unpaid Amount on First Call by Zayna
Number of shares applied = 1,600 shares

$\therefore$ Number of shares allotted $= \frac{1,600}{75,000} \times 30,000 = 640$ shares

Amount received on application (1,600 shares × Rs 3)	4,800
Less: Utilised on application (640 shares × Rs 3)	(1,920)
Excess amount received on application	2,880

Amount due on allotment (640 shares × Rs 4)	2,560
Less: Excess amount received on application	(2,560)
	-

Excess amount still remained (2,880 – 2,560)	320

Amount due on first call (640 shares × Rs 4)	2,560
Less: Excess amount received on application utilised	(320)
Amount remained unpaid on first call	**2,240**

WN 4 Calculation of Number of Shares Re-issued

Number of Ayaan's reissued shares = 1,500 × 80% = 1,200 shares
Number of Zayna's reissued shares = 640 × 50% = 320 shares
Total number of shares reissued = 1,200 + 320 = 1,520 shares

WN 5 Calculation of Amount to be transferred to Capital Reserve

Amount forfeited on Ayaan's 1,500 shares	7,500	
Amount forfeited on Ayaan's 1,200 shares $\left(\frac{7,500}{1,500}\times 1,200\right)$		6,000
Amount forfeited on Zayna's 640 shares	2,880	
Amount forfeited on Zayna's 320 shares $\left(\frac{2,880}{640}\times 320\right)$		1,440
		7,440
Less: Discount allowed on 1,520 reissued shares		(4,560)
Amount to be transferred to Capital Reserve		**2,880**

Practice Problems

Problem 1: Rite Ltd. issued 25,000 shares of the face value of Rs 50 each at a premium of 10% payable as Rs 20 on application, Rs 25 on allotment (including premium) and Rs 10 on first and final call. The company received applications for 60,000 shares. The allotment was made on the following basis-

Category A- To applicants for 15,000 shares- 8,000 shares
Category B- To applicants for 25,000 shares- 10,000 shares
Category C- To applicants for 20,000 shares- 7,000 shares

Excess money received was to be utilised towards allotment. Archit, a shareholder (*belonging to Category A*) who had applied for 3,000 shares failed to pay the allotment and call money. Arjun, a shareholder of 1,000 shares (*belonging to Category B*) paid the call money along with allotment.

The company forfeited Archit's shares. Later, out of these forfeited shares 1,000 shares were re-issued for Rs 52,500. Pass the necessary Journal entries in the books and also prepare the Balance Sheet as per ***Schedule III*** of Companies Act, 2013 along with Notes to Accounts.

(**Answer**- Amount received at the time of Allotment- Rs 58,000, Share Forfeiture Account Cr. Rs 60,000, Capital Reserve Account- Rs 37,500, Share Capital in Balance Sheet- Rs 12,42,500, Reserves and Surplus- Rs 1,57,000 and Cash and Cash Equivalents- Rs 13,99,500)

Problem 2: Arvind Ltd. has an authorised capital of Rs 35,00,000 divided into 70,000 10% Preference Shares of Rs 50 each. Company has invited applications for 40,000 shares at a premium of 20% payable as Rs 9 on application, Rs 25 on allotment and balance in equal instalments over two calls. Applications were received for 60,000 shares and allotment was made on the following basis:
Category A- To applicants of 35,000 shares- 25,000 shares
Category B- To applicants of 28,000 shares- 15,000 shares
Category C- To applicants of 7,000 shares- Nil
Babu Rao (*Shareholder of Category A*) to whom 1,500 shares were allotted did not pay any money other than application money. Due to his failure to pay the amount,

his shares were forfeited after allotment.
Raju, another shareholder, was allotted 1,350 shares (*belonging to Category B*) failed to pay the first call and his shares were immediately forfeited after first call.
Out of these forfeited shares all shares of Raju and 30% of Babu Rao's shares were re-issued to Shyam as Rs 37 called-up for Rs 30 per share. Second and final call was made after one month of re-isssue of forfeited shares. All shareholders paid the amount due on final call except Shyam. Pass necessary Journal Entries and prepare Bank Account

(**Answer**- Amount received on allotment- Rs 7,60,900, Amount received on first call- Rs 4,82,950, Amount received on final call- Rs , Amount forfeited on Babu Rao's Shares- Rs 18,900, Amount forfeited on Raju's Shares- Rs 32,400, Capital Reserve- Rs 25,470, Total of Bank Account- Rs 21,34,850)

Topics