8 Company Accounts : Issue of Shares

Content

Competency Statements

❑ *The Students will be able to :*

- *Learn the types of Share and Share Capital.*
- *Understand the Concept of Public Subscription and Private Placement.*
- *Know Concept of under and over valuation of Shares and accounting of Shares issued at par, at premium and at discount.*
- *Know the different accounting treatment for under and over Subscription of Shares as well as call in arrears and call in advance.*

Company Accounts
(Issue of Shares)

Introduction -

Capital is the life blood of any business organisation. A sole trader introduces capital out of his own pocket. Similarly the partners also bring capital from their own pockets. But is case of company form of business organisation, the capital is raised through the issue of shares.

Industrial Revolution brought significant changes in the size of business-structure. Joint Stock Company as a modern form of business organisation emerged to meet the requirements of large sized business to remove the main defects or limitation of the partnership form of organisation. i.e.

unlimited liability and shortage of funds. It was therefore felt necessary to collect the capital from the public at large and to encourage the public to contribute capital, here the principal of limited liability was adopted.

8.1 Share and Share Capital

8.1.1 Meaning

As per Section 2(84) of companies Act 2013 "Share is the share in the capital of a company and includes stock as well." 'Share Capital' means the capital raised by a company by issue of shares. In case of Company is divided into small parts known as shares. This is why it is known as 'Share Capital'.

-According to Companies Act, Company can issue two types of shares namely Equity Shares and Preference Shares.

Equity Shares - A share which is not a preference share is an equity share. It means that if the shareholder is not entitled to a fixed dividend or have priority at the time of repayment of capital will be treated as Equity Share Capital. Equity shareholders participate in profits of a company after all preferential rights have been satisfied. Equity shareholders are the risk bearers and therefore the real owners of the company and can get dividend after payment of all expenses and dividend to preference shareholders.

Preference Shares - Preference shares are those shares which have right with respect to payment of dividend and repayment of capital of winding of the company. Thus preference shareholders enjoy preferential rights in case of payment of dividend and repayment of Capital. Preference shareholders get fixed rate of dividend before giving dividend to equity shareholders. On the basis of additional rights or benefits preference shares can be further classified as follows -

a) Cumulative and Non-cumulative Preference Shares

b) Redeemable and Irredeemable Preference Shares

c) Participative and Non-participative Preference Shares

d) Convertible and Non-convertible Preference shares

As the above classification of Preference shares does not effect on the accounting entires, detail explanation is not given here.

8.1.2 Types of Share Capital

The different types of share capital are as follows -

i) **Authorised Capital -** The Authorised Capital is the amount of share Capital which a company is authorised to issue by its Memorandum of Association. The amount of Authorised capital is determined after taking into consideration the future requirements of capital of the company. This capital is also known as "Nominal Capital" or "Registered Capital". This is the maximum amount which a company is authorised to raise by the issue of shares. The Authorised Capital can be increased or decreased by adopting the prescribed legal procedure.

ii) **Issued Capital -** Issued Capital is that part of the Authorised Capital which is offered to the public for subscription. If the company issue all its shares, Issued Capital will be equal to Authorised Capital. Generally, company issues such number of shares which are sufficient to meet the requirements of the company at the time of their issue. The part of Authorised capital which is not issued to the public is known as Unissued Capital.

iii) **Subscribed Capital -** Subscribed Capital is that part of Issued Capital which is actually subscribed by the public. When the shares issued for subscription are wholly subscribed, issued capital would be the same as the subscribed capital. The part of issued capital which is not subscribed by the public are known as unsubscribed capital.

iv) Called up Capital - It is that part of the subscribed capital which is actually called up from the shareholders. The company demands only that portion of the value of the shares which it considers sufficient for the time being. It should be noted that Called up Capital may be equal to Subscribed Capital. The part of subscribed capital which is not called up by the company are known as UN-Called Capital.

v) Paid up Capital - It is that portion of the Called up Capital which has actually been paid by the shareholders, as it is likely that some shareholders may not pay all the amount demanded and due on their shares. Paid up capital can be equal or lesser than the Called up Capital but it cannot be more than the Called up Capital. The difference between Called up Capital and Paid up Capital is known as Calls-in-Arrears.

vi) Reserve Capital - It is that portion of Subscribed Capital which has been called up and which the company by special resolution had decided not to called up except in the event of and for the purpose of winding up.

8.1.3 Treatment of Share Capital in Balance Sheet

Example - A company was formed with an Authorised Capital of ₹ 10,00,000 divided into ₹10,000 equity shares of ₹ 100 each. It issued to the public 7,500 equity shares payable as ₹ 30 on application, ₹ 30 on allotment and balance on Final call. Applications were received for ₹ 6,000 equity shares. The amount of allotment was duly received except one shareholder holding 500 equity shares did not pay allotment money. The company did not make final call.

How will you show the different categories of share capital in Balance Sheet?

Solution :

In the Books of A Company

Balance Sheet as on ......

Liabilities	Amount ₹	Assets	Amount ₹
Authorised Capital :		Cash at Bank	3,45,000
10000 equity shares of ₹ 100 each	10,00,000		
Issued Capital :			
7500 equity shares of ₹ 100 each	7,50,000		
Subscribed Capital :			
6000 equity shares of ₹ 100 each	6,00,000		
Called-up Capital :			
6000 equity shares of ^ 100 each, ₹ 60 per share called-up	3,60,000		
Paid-up Capital : 6000 equity shares of ₹ 100 each ₹ 60 per share called-up 360000			
Less Calls in arrears (500 x 30) 15,000	3,45,000		
Total	**3,45,000**	**Total**	**3,45,000**

Types/Methods of Issue of Share Capital -

1. Right Issue {Sec. 62) to equity shareholders.
2. Employee Stock option scheme (Sec. 62 (1) (b) to employees. (ESOS)
3. Any person (Sec. 62 (l)(c))
   a) i) Private placement of shares (Sec. 42)
      ii) Preferential Allotment of shares (R 13 of co. SCO Rules) to shareholders only. Public Issue of shares
   c) Sweat Equity Shares (Sec. 54) issued to Directors or employees.
4. Issue of Bonus shares to members/shareholders (Sec, 63 (1))

Issue of Share Capital

Sr. No.	Type of Securities	Private Company	Public Company	Meaning	Accounting Treatment
1.	**Right Issue**	✓	✓	Right shares are issued by the company to its existing shareholders usually at a discounted price. Existing shareholders are given priority or right of purchasing those shares.	Accounting entries in the books of the company for right Issue are the same as those for issue of ordinary shares to the public
2.	**Empolyees Stock Option Scheme**	✓	✓	These shares are allotted to the employees at the rate less than the market price. This scheme encourages its employees to acquire ownership in the form of shares.	Accounting value is based on fair value and intrinsic value of option Employees compensation expenses account. Deferred employees compensation expenses etc. are the new accounts opened.
3.	**a. Private Placement**	✓	✓	Any offer or invitation to subscribe or issue of securities to any selected person or group of person.	These transaction avoid the time consuming process of having securities registered for sale to the general public through SEBI.
	b. Public Offer	✗	✓	Public offer is the offering of securities which are listed on a stock exchange to general public.	Generally, company issue its shares on IPO. The capital collected recorded as stockholder equity in the Balance Sheet.

	c. Sweat equity share	✓	✓	As per Section 2(88) of the companies Act 2013 "Sweat Equity Shares" means such as issued by a company to its directors or employees at a discount or for consideration, other than cash for providing their know-how or making available rights in the nature intellectual property rights or value additions by whatever by whatever name called.	If the consideration is not by way of cash, which does not make that form of an asset that can be carried to the balance sheet of the company as per the accounting standards.
4.	**Bonus Issue**	✓	✓	Bonus shares are distributed by a company to its current shareholders as fully paid shares free of charge.	A Bonus Issue is just re-composition of reserves. It decreases the reserves on one hand and causes increase in share capital. So it is just the amounts are transferred from redemption reserve, capital reserve, security premium etc. to equity share capital.

As Public Issue of shares is included in XIIth syllabus only that method is explained in detail here.

8.2.1

Public Issue of Shares : It is the most common and popular practice of Public Limited Companies to raise the share capital by issuing its shares to public in Primary Market. Following procedure is followed by the company to issue its shares to the Public.

1. **Issue of Prospectus :** The Company issues a Prospectus which provides complete information about the company to the prospective investors. The Prospectus specifies the number of shares offered to the Public, the face value of shares and the amount to be paid on Application, Allotment and Calls.
2. **Receipt of Applications :** The intending subscriber to the shares are required to send their application form together with the application money by the specified date. The company makes its application forms available to the public through its brokers and banks. As per sec 39(2} of the companies Act 2013, the amount payable on application on every security/shares shall not be less than 5% of the nominal amount of the share or such other percentage or amount as may be specified by SEBI by making regulations in this behalf.

3 **Allotment of Shares -** As per Sec 39(1) of Companies Act 2013, no allotment of any shares 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 complying all the legal requirements the Directors of the Company proceeds for the allotment procedure. Allotment letters are send to those who are allotted certain number of share, while regret letter is sent to those who have not allotted any share and their application money is refunded. On shares being allotted, the second installment is demanded it is called Allotment Money.

4. **Calls on Shares -** After receiving allotment, the company makes the call due. If the calls are more than one, they are serially numbered as First call, Second call etc. and the last call as Final call. A call is a demand by the company to pay remaining amount other than application and allotment money on a share. At least 14 days notice must be given to shareholders for payment of the call.

Basic Accounting Entries for Issue of shares -

The procedure for accounting for the issue of equity and preference shares is the same. However the words Equity or Preference is prefixed to the shares installments in order to differentiate between the two.

Accounting Entries :

1. **On receipt of Share Application money**

Bank A/c ....Dr.

To Share Application A/c

(Being application money on ... shares @.... Per share received)

Share Application money is part of share capital of the company, so it is to be transferred to share capital account.

2. **On transfer of application money to share capital**

Share Application A/c ....Dr.

To Share Capital A/c

(Being share application money on .... Shares @ ₹ .... capital A/c)

3. **On Share Allotment due**

Share Allotment A/c ....Dr.

To Share Capital A/c

(Being share allotment money on Shares @ ₹ .... per share due)

4. **On Allotment money received**

Bank A/c ....Dr.

To Share Allotment A/c

(Being share allotment money on .... Shares @ ₹ .... per share received)

5. **On first call due**

Share first call A/c...Dr.

To Share capital A/c

(Being share first call money on .... Shares @ ₹ .... per share due)

6. **On first call money received**

Bank A/c ....Dr.

To Share first call A/c

(Being share first call money on .... Shares @ ₹ .... per share received)

7. On second call due

Share second call A/c ....Dr.

To Share capital A/c

(Being share second call money on .... Shares @ ₹ .... per share due)

8. On second call money received

Bank A/c...Dr.

To Share second call A/c

(Being share second call money on .... Shares @ ₹ .... per share received)

9. On Third& Final call due

Share Third & Final call A/c.......................................Dr.

To Share Capital A/c

(Being Share Third & Final call money on .... Shares @ ₹ .... per share due)

10. On Third & Final call money received

Bank A/c...Dr.

To Share Third & Final Call A/c

(Being share Third & Final call money on .... Shares @ ₹ .... per share received)

Illustrations

1. Gajanan Ltd. Issued 60,000 equity shares of ₹ 10 each payable as Application, ₹ 3 on Allotment, ₹ 3 on First Call, ₹ 2 on final call. The shares subscribed and all the amount due was received. **Pass necessary Journal the book of Gajanan Ltd.**

Solution :

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being equity share application money on 60,000 share @ ₹ 2 per share received)		1,20,000	1,20,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Being application money on 60,000 equity shares @ ₹ 2 per share transferred to equity share capital)		1,20,000	1,20,000
3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being allotment money on 60,000 equity shares @ ₹ 3 due)		1,80,000	1,80,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being Equity share Allotment money on 60,000 shares @ ₹ 3 received)		1,80,000	1,80,000

5.	Equity Share First Call A/c................................Dr. To Equity share capital A/c (Being Equity share first call money on 60000 shares @ ₹ 3 due)		1,80,000	1,80,000
6.	Bank A/c ....Dr. To Equity Share First call A/c (Being Equity share first call money on 60,000 equity shares @ ₹ 3 received)		1,80,000	1,80,000
7.	Equity share Second & Final call A/c ....Dr. To Equity Share Capital A/c (Being final call money on 60,000 equity shares @ ₹ 2 per share due		1,20,000	1,20,000
8.	Bank A/c ....Dr. To Equity share Second & Final call A/c (Being Final Call money on 60,000 equity shares @ ₹ 2 per share received)		1,20,000	1,20,000

2. Honesty Ltd, Issued 20000 Preference shares of ₹ 10 each payable
₹ 4 on Application
₹ 2 on Allotment
₹ 4 on 1st and Final call.
Shares were fully subscribed and all amount were received.
Pass necessary Journal Entries in the Books of Honesty Ltd.

Solution :

Journal Entries in the Books of Honesty Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Preference Share Application A/c (Being application money on 20,000 Preference shares @ ₹ 4 per share received)		80,000	80,000
2.	Preference Share Application A/c.......................Dr. To Preference Share Capital A/c (Being application money on 20,000 Preference shares @ ₹ 4 per share transferred to preference share capital account)		80,000	80,000
3.	Preference Share Allotment A/c.........................Dr. To Preference Share Capital A/c (Being allotment money on 20,000 Preference shares @ ₹ 2 per share due)		40,000	40,000
4.	Bank A/c ....Dr. To Preference Share Allotment A/c (Being Allotment money on 20,000 Preference shares @ ₹ 2 per share received)		40,000	40,000

5.	Preference Share First & Final Call A/c.............Dr. To Preference Share Capital A/c (Being 1st & final call money on 20000 Preference shares @ ₹ 4 per share due)		80,000	80,000
6.	Bank A/c ....Dr. To Preference Share First & Final call A/c (Being First & Final call money on 20,000 equity shares @ ₹ 4 per share received)		80,000	80,000

Issue of Shares at a Premium

A company can issue its shares at more than its face value. Excess of issue price of share over its face value is termed as Share Premium. If a share of ₹ 10 is issued at ₹ 13 per share the excess of ₹ 3 i.e. 13 - 10 will be termed as Share Premium or Securities Premium. The amount of premium received is credited to a separate account known as Share Premium Account which is shown on the liability side of the Balance Sheet as a separate item.

Share Premium Account should be treated to be on share allotment unless otherwise mentioned. Share Premium Account may be credited at the time of making allotment due or receiving allotment money.

Journal entry

Share Allotment A/c.............................Dr
    To Share Capital A/c
    To Share Premium / Securities Premium A/c

3. Ankita Ltd. Offered for public 10,000 equity shares of ₹ 10 each at a premium of ₹ 12 per share payable as under

On Application	- ₹ 4
On Allotment	- ₹ 4 (including premium)
On First & Final call	- Balance amount

Company received all the money. The issue was fully subscribed. **Give Journal entries to record the above transactions and also show Balance Sheet.**

Solution :

Journal Entires in the Books of Ankita Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.	`	40,000	
	To Equity Share Application A/c			40,000
	(Being application money on 10,000 Equity shares @ ₹ 4 per share received)			
2.	Equity Share Application A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being application money on 10,000 Equity shares @ ₹ 4 per share transferred to preference share capital)			
3.	Equity Share Allotment A/c ....Dr.		40,000	
	To Equity Share Capital A/c			20,000
	To Share Premium A/c			20,000
	(Being allotment money on 10,000 equity shares @ ₹ 4 per share due)			
4.	Bank A/c ....Dr.		40,000	
	To Equity Share Allotment A/c			40,000
	(Being allotment money on 10,000 equity shares @ ₹ 4 per share received)			
5.	Equity Share First & Final Call A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being Equity share first & final call money on 10,000 equity shares @ ₹ 4 per share due)			
6.	Bank A/c ....Dr.		40,000	
	To Equity Share First & Final call A/c			40,000
	(Being Equity share 1st & Final call money on 10,000 equity shares @ ₹ 4 per share received)			

Balance Sheet of Ankita Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital		Bank	1,20,000
10,000 Eq. shares of 10 each	1,00,000		
Share Premium / Securities Premium A/c	20,000		
	1,20,000		1,20,000

Issue of Shares at Discount -

When a company issues shares at a price less than the face value of the shares, it is known as issue of shares at discount Normally, shares are not issued at discount by a company because the discount allowed is a loss to the company which no company would like to incur. The loss on issue of shares is to be debited to 'Discount on Issue of shares Account/ The amount of discount will be shown on the asset side of Balance Sheet till it is completely written off. The entry for discount should be passed at the time of allotment along with the transfer entry for allotment because the loss on account of discount is incurred as soon as the shares have been allotted.

Journal entry :

Share Allotment A/c.................................... Dr.

Discount on Issue of Shares A/c .... Dr.

To Share Capital A/c

Note : As per new provisions of issued by government Act (2013) Public issue of shares can not be at a Discount.

4 Ashwini Ltd invited applications from the public for subscribing for 10,000 equity shares of ₹ 15 each at a discount of ₹ 1 per share payable, ₹ 5 on application, ₹ 9 Allotment. All the shares were applied and allotted. Money due on allotment was received.

Pass Journal Entries in the Books of Ashwini Ltd. and prepare Balance Sheet.

Journal Entries in the Books of Ashwini Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		50,000	
	To Equity Share Application A/c			50,000
	(Being application money on 10,000 Equity shares @ ₹ 5 per share received)			
2.	Equity Share Application A/c ....Dr.		50,000	
	To Equity Share Capital A/c			50,000
	(Being application money on 10,000 Equity shares @ ₹ 5 per share transferred to preference share capital)			
3.	Equity Share Allotment A/c ....Dr.		90,000	
	Discount on Issue of Shares A/c ....Dr.		10,000	
	To Equity Share Capital A/c			1,00,000
	(Being allotment money on 10,000 equity shares @ ₹ 9 per share, after allowing discount of ₹ 1 per share due)			
4.	Bank A/c ....Dr.		90,000	
	To Equity Share Allotment A/c			90,000
	(Being allotment money on 10,000 equity shares @ ₹ 9 per share received)			

Balance Sheet of Ashwini Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital		Bank	1,40,000
10,000 Equity shares of 15 each	1,50,000	Discount on Issue of Shares	10,000
	1,50,000		1,50,000

8.2.4

Over subscription and Under subscription of Shares

(A) Over subscription of Shares -

When the number of shares applied for is more than the number of shares the company has offered / issued to the public it is known as 'Over subscription'. In the case of Over subscription there may be three possibilities-

1. Some applicants may be allotted the full number of shares they have applied which is known as 'Full Allotment'. In this case there is no excess application money received.
2. Some applicants may not be allotted shares in which case their applications are treated as rejected. In such a case the whole amount will have to be refunded to the applicants.

Journal entry :

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

3. Some applicants may be allotted less number of snares than they have applied for, which is known as 'Partial Allotment'. In this case the excess amount received on application may be utilised towards the money due on allotment by transferring the excess amount from the Share Application Account to Share Allotment Account.

5 Vaishali Ltd. Issued 10000 equity shares of ₹ 10 each at par payable ₹ 3 on Application, ₹ 4 on Allotment and ₹ 3 on First and Final call. The company received applications for 15000 shares.

The Board of Directors rejected 5000 applications and application money was refunded. All the money was duly received.

Show Journal Entries in the Books of Vaishali Ltd.

Solution :

Journal Entries in the Books of Vaishali Ltd

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being application money on 15,000 Equity shares @ ₹ 3 per share received)		45,000	45,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c (Being application money on 10,000 Equity shares @ ₹ 3 per share transferred to preference share capital)		30,000	30,000
3.	Equity Share Application A/c ....Dr. To Bank A/c (Being application money on 5,000 equity shares @ ₹ 3 per share refunded)		15,000	15,000
4.	To Equity Share Allotment A/c....................Dr. To Equity Share Capital A/c (Being allotment money on 10,000 equity shares @ ₹ 4 per share due)		40,000	40,000

5.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being allotment money on 10,000 equity shares @ ₹ 4 per share due)		40,000	40,000
6.	Equity share First and Final call A/c.................Dr. To Equity Share Capital A/c (Being Equity share first & Final call on 10,000 equity shares @ ₹ 3 per share due)		30,000	30,000
7.	Bank A/c ....Dr. To Equity share First and Final call A/c (Being equity share first & final call money on 10,000 equity shares @ ₹ 4 per share due)		30,000	30,000

Pro-rata/Proportionate Allotment

When the application received for shares is more than the number of shares that can be issued, the Directors may reduce the number of shares to be alloted each applicant proportionately on the basis of total application received and the number of shares issued. Thus under this case each applicant gets the shares but less than those demanded applied by him.

Alternatively it can reject certain applications and refund the application money, allow full shares to some applicants and make pro-rata allotment to others. In case of pro-rata allotment company will adjust excess application money received against allotment money demanded from the shareholders.

Journal Entry :

a) Share Application A/c Dr.

To share Allotment A/c

or

b) Share Application A/c Dr.

To Share Capital A/c

To Share Allotment A/c

(Being extras application money adjusted with allotment money)

6 Sanika Company Ltd issued 10000 equity shares to the public of ₹ 10 each. Payable as ₹ 2 on Application, ₹ 5 on Allotment, and ₹ 3 on 1st and Final Call. All the calls were made and money received.

Company received applications for 20,000 shares. Directors decided to allot shares to all applicants on pro-rata basis.

Pass Journal Entries in the Books of Sanika Co. Ltd.

Solution :

Journal Entries in the Books of Sanika Ltd

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Equity Share Application A/c (Being application money on 20,000 Equity shares @ ₹ 2 per share received)		40,000	 40,000
2.	Equity Share Application A/c ....Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Being application money on 10,000 Equity shares transferred to equity share capital and application money on 10000 equity shares adjusted against share allotment A/c)		40,000	 20,000 20,000
3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being allotment money on 10,000 equity shares @ ₹ 5 per share due)		50,000	 50,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being share allotment money on 10,000 equity shares after adjusting excess application money)		30,000	 30,000
5.	Equity share First and Final Call A/c ....Dr. To Equity Share Capital A/c (Being Equity share first & Final Call on 10,000 shares @ ₹ 3 per share due)		30,000	 30,000
6.	Bank A/c ....Dr. To Equity Share First & Final Call A/c (Being Equity share first & Final call Money received)		30,000	 30,000

Note - Company has issued 10000 shares to the public, but applications were received for 20000 shares i.e. excess applications for 10000 shares.

Working Note No. 1 -

Total Application money received 20000 shares @ ₹ 2	₹ 40,000
Less : Application money on 10000 share @ ₹ 2 which were issued to public	₹ 20,000
Excess Application money received	₹ 20,000

Therefore, excess application money received on 10,000 equity shares @ ₹ 2 per share adjusted with allotment money.

Working Note No. 1 -

Allotment money received = Allotment money demanded

= excess application money

= 50,000 - 20000

₹ 30,000

(B) Under Subscription of Shares-

When number of shares applied by the public are less than the number of shares issued or offered to the public it is called as under subscription of shares. In this case journal entries are made on the number of shares applied and allotted only.

7 XYZ & Company Ltd. issued 4000 shares of ₹ 100 each payable as follows -

₹ 25 on Application
₹ 60 on Allotment
₹ 15 on first and final call

Public applied for 3000 shares. All the money on allotment and call were received.

Give necessary Journal Entries.

Solution :

Journal Entries in the Books of XYZ & Co. Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		75,000	
	To Equity Share Application A/c			75,000
	(Being application money on 3000 Equity shares @ ₹ 25 per share received)			
2.	Equity Share Application A/c ....Dr.		75,000	
	To Equity Share Capital A/c			75,000
	(Being application money on 3000 shares @ ₹ 25 per share transferred to share capital A/c)			
3.	Equity Share Allotment A/c ....Dr.		1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Being allotment money on 3000 equity shares @ ₹ 60 per share due)			
4.	Bank A/c ....Dr.		1,80,000	
	To Equity Share Allotment A/c			1,80,000
	(Being share allotment money on 3000 equity shares @ ₹ 60 per share received)			
5.	Equity share First and Final Call A/c ....Dr.		45,000	
	To Equity Share Capital A/c			45,000
	(Being Equity share 1st & Final Call on 3000 shares @ ₹ 15 per share due)			
6.	Bank A/c ....Dr.		45,000	
	To Equity Share First & Final Call A/c			45,000
	(Being share first & Final call on 3000 shares @ ₹ 15 per share received)			

8.2.5 Calls in Arrears & Calls in Advance

(A) Call in Arrears

If the company accept the application and allots the shares to the person he becomes the shareholder and the shareholder is liable to pay the entire amount of shares. In case he fails to pay the allotment and calls on shares held by him the unpaid amount is known as Calls in Arrears.

The unpaid amount on allotment and calls may be kept in their respective accounts for the balance not received or may be transferred to a new account i.e. Calls in Arrears Account. The Calls in Arrears Account has debit balance which is shown as a deduction from the Paid up Share Capital on liabilities side of Balance sheet.

8 Girish & Co. Ltd. Invited applications for 25000 equity shares of ₹ 10 each payable as

₹ 2.50 on Application

₹ 5 on Allotment

₹ 2.50 on First & Final call

₹ Applications were received for 30000 equity shares and pro-rata allotment were made to all. All the money was duly received except First and Final call on 2500 equity shares.

Enter the above transactions in the books of a company and show the Balance sheet.

Solution :

Journal Entries in the books of Girish Co, Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		75,000	
	To Equity Share Application A/c			75,000
	(Being application money on 30,000 Equity shares @ ₹ 2.5 per share received)			
2.	Equity Share Application A/c ....Dr.		75,000	
	To Equity Share Capital A/c			62,500
	To Share Allotment A/c			12,500
	(Being application money on 25,000 shares @ ₹ 2.50 per share transferred to share capital A/c and excess application money on 500 shares @ ₹ 2.50 per share adjusted)			
3.	Equity Share Allotment A/c ....Dr.		1,25,000	
	To Equity Share Capital A/c			1,25,000
	(Being allotment money on25,000 equity shares @ ₹ 5 per share due)			
4.	Bank A/c ....Dr.		1,12,500	
	To Equity Share Allotment A/c			1,12,500
	(Being share allotment money on 25000 equity shares @ ₹ 5 per share received)			

5.	Equity share First and Final Call A/c ....Dr. To Equity Share Capital A/c (Being Equity share 1st & Final Call Money on 25000 shares @ ₹ 2.50 per share due)		62,500	62,500
6.	Bank A/c ....Dr. Calls in Arreas A/c..Dr. To Equity Share First & Final Call A/c (Being share first & Final call on 22,500 shares @ ₹ 2.50 per share received)		56,250 6,250	62,500

Balance Sheet of Girish & Co. Ltd.

Liabilities	Amount ₹	Amount ₹	Assets	Amount ₹	Amount ₹
Share Capital	2,50,000		Bank		2,43,750
Less : Calls in Arrears	6,250	2,43,750			
		2,43,750			2,43,750

Note - Entry for the receipt of First & Final Call can also be made as follows -

Bank A/c Dr. 56,250

To Equity Share First & Final call A/c 56,250

(B) Calls in Advance -

Company may receive Call in Advance. The amount paid by the shareholder of a company before the particular call is made is known as Calls in Advance. It is the liability of the company and should be transferred to Calls in Advance Account. It is adjusted with the respective call made in future, till then it is shown as a liability in the Balance Sheet.

9 Archana Ltd. issues 10000 shares of ₹ 10 each at ₹ 12 payable as

₹ → 3 on Application

₹ → 5 on Allotment (with premium)

₹ → 4 on First Final Call

Applications were received for 8000 shares only. Ketan a holder of 400 shares made the full payment at the time of Allotment.

Record the above transactions in the Books of Archana Ltd.

Solution:

Journal Entries in the Books of Archana Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr. To Share Application A/c (Being application money on 8,000 shares @ ₹ 3 per share received)		24,000	 24,000
2.	Share Application A/c ....Dr. To Share Capital A/c (Being application money on 8,000 shares @ ₹ 3 per share transferred to share capital A/c)		24,000	 24,000
3.	Share Allotment A/c ....Dr. To Share Capital A/c To Share Premium A/c (Being allotment money on 8,000 shares @ ₹ 5 per share due)		40,000	 24,000 16,000
4.	Bank A/c ....Dr. To Share Allotment A/c To Calls in Advance A/c (Being share allotment money on 8000 equity shares @ ₹ 5 per share & share First & Final call money on 400 shares @ ₹ 4 per share received)		41,600	 40,000 1,600
5.	Share First and Final Call A/c ....Dr. To Share Capital A/c (Being share First & Final Call Money on 8000 shares @ ₹ 4 per share due)		32,000	 32,000
6.	Bank A/c ....Dr. Calls in Advance A/c ....Dr. To Share First & Final Call A/c (Being share First & Final call on 7600 shares @ ₹ 4 per share received & on 400 shares adjusted)		30,400 1,600	 32,000

8.2.6 Issue of Shares for Consideration other than Cash

A company can issue its shares for cash or for consideration other than cash. Such as against purchase of Land & Building, Plant & Machinery etc. The company purchase certain assets from vendors (sellers or suppliers) on credit. Instead of making payment to vendors in cash, the company issues them certain agreed number of shares at the agreed rate at a consideration of assets purchased.

Journal Entries-

1. Purchase of Asset on Credit

Assets A/c Dr.

To Vendor A/c

(Being Asset purchased from the vendor)

2. Allotment of share to

Vendor A/c Dr.

To Share Capital A/c

(Being allotment of.... shares of ₹ ... each fully paid to vendors)

Sometimes a company rewards its promoters for their services by issuing shares to them without any payment. Such an issue of shares also comes under the issue of shares for consideration other than cash. The full amount of the shares issued to promoters for their services is regarded on the cost of goodwill and the entry shall be just the same on the purchase of any asset. The entry is

Goodwill A/c Dr. ...

To Share Capital A/c

(Allotment of ... shares of ₹ ... each fully paid to promoters)

8.3.1 Forfeiture of Shares

If the shareholder fails to pay allotment or call money or both, the company send reminder to the shareholders to make the payment of calls in arrears. If Shareholder does not respond to reminders and fails to pay money then, the Directors can forfeit his shares as per the provisions of Articles of Association of a company.

When shares are forfeited the share capital is debited with the amount called upto the date of forfeiture in respect of shares forfeited and credit will be given to

i) Share Forfeiture Account with the amount already received and

ii) The respective unpaid calls in account (or calls in arrears account, if unpaid calls have already been transferred to Calls in Arrears Account) in respect of such shares. It should be noted that the share capital account should be debited only with the amount called in respect of such share; and not with their total nominal value unless full amount per share has been called.

Journal Entry

Share Capital A/c Dr.

To Share Forfeitted A/c

To Calls in Arrears A/c

(A) When shares were Originally issued at a Premium

Where the forfeited shares are originally been issued at Premium and premium on forfeited shares has already been received and the Share Premium Account will not be debited because once the premium is received law does not allow to refund or cancel the premium, but if the premium on shares has not been received because it formed part of the installment which remain unpaid, then premium on shares will be debited. The Journal Entry for forfeiture will be -

a) If premium is already received

Share Capital A/c Dr.

To Forfeitted Shares A/c / Share forfeiture A/c

To Calls in Arrears A/c

b) Premium in not received

Share Capital A/c Dr.

Share Premium/ Securities Premium A/c Dr.

To Calls in Arrears A/c

To Share forfeiture A/c / Forfitted Shares A/c

10 Suman Ltd. issued equity shares of ₹ 10 each at a Premium of ₹ 3 per share, Payable as follows-

₹ 3 on application

₹ 5 on Allotment (including Premium)

₹ 2.50 on 1st call

₹ 2.50 on final call

One shareholder Mr. Ashok failed to pay Allotment money and 1st call money on 200 shares. Directors forfeited his share after first call. While another shareholder Mr. Atul failed to pay 1st call and final call money on 100 shares and his shares were forfeited after final call. Show Journal Entries for forfeiture of shares of Mr. Ashok & Mr, AtuI

Solution :

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Share Capital A/c..Dr.		1,500	
	Share Premium A/c ....Dr.		600	
	To Share Allotment A/c			1,000
	To Share First call A/c			500
	To Share Forfeiture A/c			600
	(Being forfeiture of 200 equity share due to non-payment of Allotment money on first call money)			
2.	Share Capital A/c..Dr.		1,000	
	To Share First Call A/c			250
	To Share Final Call A/c			250
	To Share Forfeiture A/c			500
	(Being forfeiture of 100 equity shares due to non-payment of first call and final call money)			

Working Note No. 1 -

Shares Forfeited & Premium not collected

Share Capital = No of forfeited shares × Called up value including premium

No. of forfeited shares = 200

$200 \times 7.5 = 1{,}500$

Security premium = 200 × 3 = 600 (No. of shares premium per share)

Share allotment = 200 × 5 = 1,000 (No. of share Allotment money)

1st Call = 200 × 2.5 = 500 (No. of share Call Money)

Forfeited shares = Bal. Amount

Working Note No. 2 -

Share forfeited premium is collected

Share Capital = No. of shares × called up value (including premium)

= 100 × 10 = 1,000

First Call = No. of shares × Call Money

= 100 × 2.5 = 250

Second Call = No. of shares × Call

= 100 × 2.5 = 250

Forfeited Shares = Balance Amount

11 Shraddha Ltd. issued 100000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as -

₹ → 3 on Application

₹ → 5 on Allotment

₹ → 4 on first& final call

Applications were received for 1,20,000 equity shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted with allotment.

Vinita who was allotted 200 shares failed to pay First & Final call and her shares were forfeited.

Pass Journal Entries in the books of Shraddha Ltd. and show the Balance Sheet

Journal Entries in the Books of Shraddha Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		3,60,000	
	To Equity Share Application A/c			3,60,000
	(Being application money on 1,20,000 Equity shares @ ₹ 3 per share received)			
2.	Equity Share Application A/c ....Dr.		3,60,000	
	To Equity Share Capital A/c			3,00,000
	To Equity Share Allotment A/c			60,000
	(Being application money on 1,00,000 shares transferred to share capital A/cand remaining money adjusted against allotment)			
3.	Share Allotment A/c.......................................Dr.		5,00,000	
	To Share Capital A/c			3,00,000
	To Share Premium A/c			2,00,000
	(Being allotment money on 1,00,000 equity shares @ ₹ 5 per share including premium due)			
4.	Bank A/c ....Dr.		4,40,000	
	To Equity Share Allotment A/c			4,40,000
	(Being share allotment money received after adjusting excess application money received)			
5.	Equity Share First and Final Call A/c ....Dr.		4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being Equity share first & Final Call Money on 1,00,000 shares @ ₹ 4 per share due)			

6.	Bank A/c ....Dr. To Share First & Final Call A/c (Being share first & Final call on 99800 shares @ ₹ 4 per share received)		3,99,200	 3,99,200
7.	Equity Share Capital A/c ....Dr. To Equity Share First & Final call A/c To Share Forfeiture A/c (Being forfeiture of 200 equity shares due to non-payment of first & final call)		2,000	 800 1,200

Balance Sheet of Shraddha Ltd.

Liabilities	Amount ₹	Assets	Amount ₹
Share Capital	9,98,000	Bank	11,99,200
Share Premium Allotment	2,00,000		
Share Forfeiture Allotment	1200		
	11,99,200		11,99,200

(B) When shares were originally issued at discount

When the forfeited shares originally been issued at a discount. The Discount on issue of shares amount should be credited. Journal Entry -

Share Capital A/c Dr

To Calls in Arrears A/c

To Discount on Issue of Shares A/c

To Share forfeiture A/c

12 Subhash Ltd. issued equity share of ₹ 10 each at 10% discount to the public payable, ₹ 3 on Application, ₹ 2 on Allotment, ₹ 2 on 1^{st} call and balance ₹ 2 on final call.

Neeta who was allotted 300 equity shares paid only application money and her shares were forfeited after First call.

Sanjay who was allotted 400 equity shares paid application and allotment money only his shares were forfeited after final call.

Show the Journal entries in the books of the company regarding forfeiture of shares of Neeta and Sanjay.

Solution :

Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		2,400	
	To Equity Share Allotment A/c			600
	To Equity Share First Call A/c			600
	To Discount on Issue of Shares A/c			300
	To Share Forfeiture A/c			900
	(Being forfeiture of 300 equity share due to non-payment of Allotment money, first call money)			
2.	Equity Share Capital A/c ....Dr.		4,000	
	To Equity Share First Call A/c			800
	To Equity Share Final Call A/c			800
	To Discount on Issue of Shares A/c			400
	To Share Forfeiture A/c			2,000
	(Being forfeiture of 400 equity shares due to non-payment of first call and final call money)			

Working Note No. 1 -

Neeta

Capital = No. of Shares Called up value including discount

Allotment 300 × 8 = ₹ 2,400

A/c = 300 × 2 = ₹ 600

First call = 300 × 2 = ₹ 600

Discount = 300 × 1 = ₹ 300

Working Note No. 2 -

Sanjay

Discount = 400 × 1 = ₹ 400

First call = 400 × 2 = ₹ 800

Final call = 400 × 2 = ₹ 800

Capital = 400 × 10 = ₹ 4,000

8.3.3 Reissue of forfeited shares

The directors can re-issue the forfeited shares either at par, premium or at discount, usually re-issued as fully paid and they are issued at a discount. However the amount of discount allowed on reissue should not exceed the amount which has already been received (the forfeited amount) in respect of these shares on their original issue and the same should be debited to Share Forfeiture Account. In case of all the forfeited shares are re-issued balance of share forfeiture account is transferred to Capital Reserve Account.

13 Company forfeited 1000 share of ₹ 10 each for non-payment of final call of ₹ 2. All the forfeited shares were issued at ₹ 6 per share fully paid.

Pass the Journal Entries in the Books of a company for forfeiture and re-issue of shares.

Solution :

Journal Entries in the Books of a Company

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		10,000	
	To Share Forfeiture A/c			8,000
	To Calls in Arrears A/c			2,000
	(Being forfeiture of 1000 Equity shares ₹ 10 for non-payment of final call of ₹ 2 per share)			
2.	Bank A/c ....Dr.		6,000	
	Share Forfeiture A/c		4,000	
	To Share Capital A/c			10,000
	(Being re-issue of 1000 Forfeiture shares @ ₹ 6 per share)			
3.	Share Forfeiture A/c..Dr.		54,000	
	To Capital Reserve A/c			4,000
	(Being balance of Share Forfeiture Account Account transferred to Capital Reserve Account)			

14 Preeti Company Limited invited applications for 50000 Equity Shares of ₹ 100 each at par, payable as follows

On Application ₹ 30

On Allotment ₹ 40

On First & Final Call ₹ 30

The public applied for 35,000 shares and all these were allotted. All money due were collected with an exception of first & final call on 4000 shares, these were forfeited. All forfeited shares were re-issued by the Directors at ₹ 80 per share.

Pass Journal Entries in the Books of Preeti Company Limited.

In the Books of Preeti Co. Ltd.
Journal Entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		10,50,000	
	To Share Application A/c			10,50,000
	(Being Application money on 35000 Equity shares ₹ 30 per share received)			
2.	Equity Share Application A/c ....Dr.		10,50,000	
	To Equity Share Capital A/c			10,50,000
	(Being equity share application money on 35000 shares transferred to Equity share Capital)			

3.	Equity Share Allotment A/c ....Dr. To Equity Share Capital A/c (Being equity share allotment money on 35000 shares ₹ 40 per share due)		14,00,000	14,00,000
4.	Bank A/c ....Dr. To Equity Share Allotment A/c (Being equity share allotment money on 35000 shares ₹ 40 per share received)		14,00,000	14,00,000
5.	Equity Share First & Final Call A/c ....Dr. To Equity Share Capital A/c (Being equity share allotment money on 35000 shares ₹ 30 per share due)		10,50,000	10,50,000
6.	Bank A/c ....Dr. To Equity Share First & Final Call A/c (Being equity share first & final call money on 31000 shares @ ₹ 30 per share received)		9,30,000	9,30,000
7.	Equity Share Capital A/c ....Dr. To Equity Share First & Final Call A/c To Share Forfeiture A/c (Being forfeiture of 4000 equity shares due to non-payment of first & final call)		4,00,000	1,20,000 2,80,000
8.	Bank A/c ....Dr. Share Forfeiture A/c..Dr. To Equity Share Capital A/c (Being re-issue for 4000 forfeited shares @ ₹ 80 per share)		3,20,000 80,000	4,00,000
9.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to capital reserve A/c		2,00,000	2,00,000

15 The Subscribed Capital of Parag Limited is 30,000 Equity Shares of ₹ 100 each and 50,000 Preference shares of ₹ 100 each. On both of these shares ₹ 80 per share were called-up.

The Directors forfeited 500 equity shares held by Ashish who failed to pay First and Second Call of each ₹ 20 per share. They also forfeited 500 preference shares of Ashok who failed to pay ₹ 20 per share on allotment, ₹ 20 per share on First call and ₹ 20 per share on Second call.

The Director re-issued these forfeited shares of Ashish at ₹ 60 per share ₹ 80 paid up and those of Ashok at ₹ 72 per share ₹ 80 paid up All re-issued shares were taken up by Anagha.

Pass Journal Entries to record the forfeiture and re-issue of shares in the books of Parag Ltd.

Journal Entries In the Books of Parag Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		40,000	
	To Equity Share First Call A/c			10,000
	To Equity Share Second Call A/c			10,000
	To Equity Share forfeiture A/c			20,000
	(Being forfeiture of 500 equity share for failure to pay First and Second Call)			
2.	Preference Share Capital A/c.............................Dr.		40,000	
	To Preference Share Allotment A/c			10,000
	To Preference Share First Call A/c			10,000
	To Preference Share Second Call A/c			10,000
	To Preference Share Forfeiture A/c			10,000
	(Being forfeiture of 500 Preference shares due to non-payment of Allotment money, First call & Second call money)			
3.	Bank A/c ....Dr.		30,000	
	Equity Share Forfeiture A/c ....Dr.		10,000	
	To Equity Share Capital A/c			40,000
	(Being re-issue of 500 forfeited shares ₹ 60 per share due)			
4.	Bank A/c ....Dr.		36,000	
	Preference Share Forfeiture A/c.........................Dr.		4,000	
	To Preference Share Capital A/c			40,000
	(Being re-issued 500 forfeited preference shares ₹ 72 per share)			
5.	Equity Share Forfeiture A/c ....Dr.		10,000	
	Preference Share Forfeiture A/c.........................Dr.		6,000	
	To Capital Reserve A/c			16,000
	(Being Balance of share forfeiture account transferred to capital reserve)			

16 Rakesh Ltd. issued 2000 equity shares of ? 100 each at a premium of ₹ 20 per share payable as follows :

On Application	₹ 20
On Allotment	₹ 50 (including Premium)
On first Call	₹ 20
On final Call	₹ 30

Applications were received for 3000 shares, 2000 share allotted to the applicants for 2400 shares. The remaining applications for 600 shares being refused and application money there on was refunded. Excess money received on application was adjusted against allotment.

All amounts were duly received except Mr. Mandar to whom 80 shares were alloted.

Mandar fails to pay First and Final call. His shares were forfeited and were reissued to Mr. Ketan as fully paid at ₹ 80 per share.

Journalise the transactions in the books of the company.

Journal Entries In the Books of Rakesh Ltd.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		60,000	
	To Equity Share Application A/c			60,000
	(Being equity share application money on 3000 equity shares @ ₹ 20 per share received)			
2.	Equity Share Application A/c ....Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being application money on 2,000 shares @ ₹ 20 per share transferred to capital A/c)			
3.	Equity Share Application A/c ....Dr.		20,000	
	To Equity Share Allotment A/c			8,000
	To Bank A/c			12,000
	(Being excess application money on 400 shares adjusted against allotment and on 600 shares refunded)			
4.	Equity Share Allotment A/c ....Dr.		1,00,000	
	To Equity Share Capital A/c			60,000\
	To Share Premium A/c			40,000
	(Being Allotment money on 2,000 equity shares @ ₹ 50 per share including premium due)			
5.	Bank A/c ....Dr.		92,000	
	To Equity Share Allotment A/c.			92,000
	(Being equity share allotment money received)			
6.	Equity Share First Call A/c...............................Dr.		40,000	
	To Equity Share Capital A/c			40,000
	(Being share first call money on 2,000 shares @ ₹ 20 per share due)			
7.	Bank A/c ....Dr.		38,400	
	To Equity Share First Call A/c			38,400
	(Being equity share first call money on 1920 shares @ ₹ 20 per share received)			
8.	Equity Share Final Call A/c...............................Dr.		60,000	
	To Equity Share Capital A/c			60,000
	(Being equity share final call money on 2,000 shares @ ₹ 30 per share due)			
9.	Bank A/c ....Dr.		57,600	
	To Equity Share Final Call A/c			57,600
	(Being share first call money on 1920 shares @ ₹ 30 per share received)			

10.	Equity Share Capital A/c ....Dr. To Equity Share First Call A/c To Equity Share Final Call A/c To Share Forfeiture A/c (Being forfeiture of 80 shares due to non-payment of first & final call)		8,000	 1,600 2,400 4,000
11.	Bank A/c ....Dr. Share Forfeiture A/c To Equity Shares Capital A/c (Being reissue of 80 forfeited shares @ ₹ 80 per share)		6,400 1,600	 8,000
12.	Share Forfeiture A/c..Dr. To Capital Reserve A/c (Being balance on Share Forfeiture A/c transfer to Capital Reserve A/c)		2,400	 2,400

17 Show Journal Entries in the following cases -

(a) Prashant Trading Company Ltd. Forfeited 100 equity shares of ₹ 100 each due to nonpayment of Final Call of ₹ 30 and the same were re-issued at ₹ 50 per share fully paid.

(b) Swanand Trading Company Ltd. forfeited 1000 equity shares of ₹ 10 each on which application money ₹ 2 and allotment money of ₹ 4 per share was paid. The first call money of ₹ 2 per share remained unpaid. The company re-issued all the forfeited shares @ ₹ 5 per share, ₹ 8 paid-up.

Journal Entries

(a)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr. To Equity Share Final A/c To Share Forfeiture A/c (Being forfeiture of 100 equity shares due to non-payment of final call of ₹ 30 per share)		10,000	 3,000 7,000
2.	Bank A/c ....Dr. Share Forfeiture A/c...Dr. To Equity Share Capital A/c (Being re-issue of 100 forfeited shares @ ₹ 50 per share fully paid)		5,000 5,000	 10,000
3.	Share Forfeiture A/c...Dr. To Capital Reserve A/c (Being balance on share forfeiture A/c transferred to Capital Reserve)		2,000	 2,000

(b)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		8,000	
	To Share Forfeiture A/c			6,000
	To Equity Share First Call A/c			2,000
	(Being forfeiture of 1000 equity shares due to non-payment of first call of ₹ 20 per share)			
2.	Bank A/c ....Dr.		5,000	
	Share Forfeiture A/c...Dr.		3,000	
	To Equity Share Capital A/c			8,000
	(Being re-issue of 1000 forfeited shares @ ₹ 5 per share, @ ₹ 8 per share called-up)			
3.	Share Forfeiture A/c...Dr.		3,000	
	To Capital Reserve A/c			3,000
	(Being balance on share forfeiture A/c transferred to Capital Reserve)			

18 Dhananjay Electronic Caompany Ltd. Forfeited 500 equity shares of ₹ 10 each on which ₹ 6 per share were received. Show journal entries regarding re-issue of all these shares if -

(a) Shares are re-issued at ₹ 8 per share fully paid-up

(b) Share are re-issued at ₹ 7, ₹ 8 called up

(c) Shares are re-issued at ₹ 5.50, ₹ 7 celled up

Journal Entries in the books of Dhananjay Electronics Co.

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Equity Share Capital A/c ....Dr.		5,000	
	To Calls in Arrears A/c			2,000
	To Share Forfeiture A/c			3,000
	(Being forfeiture of 500 equity shares due to non-payment of first call of ₹ 5 per share)			

(a)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		4,000	
	Share Forfeiture A/c..Dr.		1,000	
	To Equity Share Capital A/c			5,000
	(Being re-issue of 500 forfeited shares @ ₹ 8 per share fully paid)			
2.	Share Forfeiture A/c...Dr.		2,000	
	To Capital Reserve A/c			2,000
	(Being balance on share forfeiture A/c transferred to Capital Reserve)			

(b)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		3,500	
	Share Forfeiture A/c.......................................Dr.		500	
	To Equity Share Capital A/c			4,000
	(Being re-issue of 500 equity shares @ ₹ 7 per share, @ ₹ 8 per share called-up)			
2.	Share Forfeiture A/c.......... Dr.		2,500	
	To Capital Reserve A/c			2,500
	(Being balance on share forfeiture A/c transferred to Capital Reserve)			

(c)

Date	Particulars	L.F.	Debit ₹	Credit ₹
1.	Bank A/c ....Dr.		2,750	
	Share Forfeiture A/c.......................................Dr.		750	
	To Equity Share Capital A/c			3,500
	(Being re-issue of 500 equity shares @ ₹ 5.50 per share, @ ₹ 8 per share called-up)			
2.	Share Forfeiture A/c.......................................Dr.		2,250	
	To Capital Reserve A/c			2,250
	(Being balance on share forfeiture A/c transferred to Capital Reserve)			

EXERCISE - 8

Q.1 Objective Questions :

(A) Select he appropriate answer from the alternative given below and rewrite the sentence.

1. The balance of Share Forfeiture A/c is transferred to .... account after re-issue of these share.

   a) Reserve Capital   b) Capital Reserve

   c) Profit & Loss   d) Share capital

2. Premium received on issue of shares is shown to

   a) Liability side of Balance Sheet   b) Asset side of Balance Sheet

   c) Profit & Loss Account debit side   d) Profit & Loss A/c credit side.

3. Shareholders get .... on shares.

   a) Interest   b) Commission

   c) Rent   d) Dividend

4. The document inviting to subscribe the shares of a company is ....

   a) Prospectus   b) Memorandum of Association

   c) Articles of Association   d) Share certificate

5. As per SEBI guidelines minimum amount payable on share application should be .... of Nominal Value of shares.
   a) 10% b) 15%
   c) 2% d) 5%
6. When shares are forfeited the Share Capital Account is ....
   a) credited b) debited
   c) Neither debited nor credited d) Non of the above
7. The liability of shareholder in Joint Stock Company is ....
   a) Joint and Several b) Limited
   c) Unlimited d) huge
8. The Share Capital which a company is authorised to issue by its Memorandum of Association is ....
   a) Nominal capital/Authorised capital b) Issued capital
   c) Paid up capital d) Reserve capital
9. The unpaid amount on allotment and calls may be transferred to .... account.
   a) calls in advance b) calls
   c) calls in arrears d) allotment
10. There must be provision in .... for forfeiture of shares,
   a) Articles of Association b) Memorandum of Association
   c) Prospectus d) Balance Sheet

(B) Give one word/term/phrase for each of the following statements.

1. Amount called-up on shares by the company but not received.
2. Issue of share at its face value
3. The person who purchase the shares of a company.
4. The form of business organisation where huge amount of capital can be raised.
5. The capital which is subscribed by the public.
6. The shares having preferential right at the time of winding up of the company.
7. The shares on which dividend is not fixed.
8. The part of subscribed capital which is not called-up by the company.

(C) State true or false with reasons

1. Directors can forfeit the shares for any reason.
2. Once the application money is received, directors can immediately proceed for allotment of shares.
3. Joint stock company form of business organisation came into existence after industrial revolution.
4. Equity shareholders get guaranteed rate of dividend every year.
5. Face value of shares and market value of shares is always same.
6. Sweat shares are issued to public.

(D) State whether you agree or disagree with following statements

1. In case of Pro-rata allotment the excess application money received must be refunded.
2. Calls in Advance account is shown on the Asset side of the Balance sheet.
3. The Authorised capital is also known as Nominal Capital.
4. Paid-up capital can be more than Called up Capital.
5. Joint Stock company can raise huge amount of capital.
6. When shares are forfeited Shares Capital Account is credited.
7. Directors can re-issue forfeited shares.
8. When the issued price of share is ₹ 12 and face value is ₹ 10, the share is said to be issued at premium.
9. Public limited company can issue its share without issuing its prospectus.
10. Shares can be issued for consideration other than cash.

(E) Answer in one sentence only.

1. What is Preference shares?
2. What is Registered Capital?
3. What is Reserve Capital?
4. What is Over subscription of shares?
5. Which account is debited when share first call money is received?
6. When are shares allotted on pro-rata basis?
7. What is forfeiture of shares?
8. What is Calls in Arrears?
9. What do you mean by shares issued at Premium?
10. What is Paid-up Capital?

(F) Complete the following sentences

1. When face value of the share is ₹ 100 and issued price is ₹120, then it is said that the shares are issued at ....
2. .... Capital is the Capital which a company is authorised to issue by its Memorandum of Association.
3. The difference between Called-up Capital and Paid-up Capital is known as ______.
4. .... share holders get fixed rate of dividend.
5. .... share holders are the real owners of the company.
6. .... form of business organisation in which Capital is raised through the issue of shares.
7. .... Capital is the part of issued capital which is subscribed by the public.
8. The part of Authorised Capital which is not issued to the public is known as .... Capital.

(G) Calculate the following.

1. One shareholder holding 500 equity shares paid share application money @ ₹ 3 Allotment money @ ₹ 4 per share and failed to pay final call of ₹ 3 per share, his shares were forfeited. Calculate the amount of share forfeiture.

2. 10000 equity shares of ₹ 10 each issued at 10% premium. Calculate the total amount of share premium.
3. Company received excess application for 5000 shares @ ₹ 4 per share. Applications of 1000 shares were rejected and pro-rata allotment was made. Calculated the amount of application money adjusted with allotment.
4. 80000 Equity shares of ₹ 10 each issued and fully subscribed and called up at 20% premium. Calculate the amount of Equity share Capital.
5. Directors issued 20000 equity shares of ₹ 100 each at par. These were fully subscribed and called up. All money were received except one shareholder holding 100 equity shares failed to pay final call of ₹ 20 per share. Calculate the amount of paid up capital of the company.
6. Company send Regret letter for 100 shares and Allotment letter to 25000 shareholders. Application money was ₹ 20 per share. Calculate the amount of application money which company is refunding.

Practical Problems

1. Vijay Ltd. was registered with an authorised capital of ₹ 15,00,000 divided into 1,50,000 equity shares of ₹ 10 each.

Company issued 1,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share. Company received applications for 80,000 equity shares and were allotted the shares.

Company received application money ₹ 3 per share, allotment money ₹ 4 per share

(Including premium) and first call money ₹ 3 per share.

The Directors have not made final call of ₹ 2 per share. All money were received except one shareholder holding 500 shares did not pay first call.

Show Authorised Capital, Issued Capital, Subscribed Capital, Called-up Capital, Paid-up Capital, Calls in Arrears and Share Premium amount in company balance sheet.

(Ans : Calls in Arrears ₹ 1,500 Share premium ₹ 1,60,000, Paid-up capital ₹ 6,38,500. Balance Sheet total ₹ 7,98,500)

2. Anand Company Limited issued 1,00,000 Preference shares of ? 10 each payable as - On On Application ₹ 4

On Allotment ₹ 3

On First call ₹ 2

On Second & Final call ₹ 1

Company received application for all these share and received all money.

Pass Journal Entries in the books of Anand Company Ltd.

3. Rohini Company Limited issued 25000 equity shares of ₹ 100 each payable as follows -

On Application ₹ 20

On Allotment ₹ 30

On First call ₹ 20

On Second & Final call ₹ 30

Applications were received for 22,000 equity shares and allotment of shares were made to them. All money was received by the company.

Pass Journal Entries in the books of Rohini Co. Ltd.

(Ans : Application ₹ 4,40,000, Allotment ₹ 6,60,000, First call ₹ 4,40,000, Final call ₹ 6,60,000)

4. Deepak Manufacturing co. Ltd. issued a prospectus inviting applications for 1,00,000 equity shares of ₹ 10 each payable as follows

₹ 2 on Application

₹ 4 on Allotment

₹ 2 on first call

₹ 2 on final call

Application were received for 1,20,000 equity shares. The Directors decided to reject excess applications and refunded application money on that. Company received all money.

Pass Journal Entries in the books of a company.

(Ans : Application Money refunded ₹ 40,000)

5. Sucheta Company Limited issued ₹ 20,00,000 new capital divided into ₹ 100 equity shares at a Premium of ₹ 20 per share payable as ₹ 10 on Application ₹ 40 on Allotment and ₹ 10 premium ₹ 50 on Final call and ₹ 10 premium.

The issue was oversubscribed to the extent of 26000 equity shares. The applicants on 2000 shares were sent letter of regret and their application money was refunded.

Remaining applicants were alloted share on pro-rata basis. All the money due on Allotment and Final call was duly received.

Make necessary Journal entries in the books of Sucheta Company Ltd.

(Ans : Application money refunded ₹ 20,000, Adjusted ₹ 40,000)

6. Suhas Limited issued 10000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable ₹ 3 on application, ₹ 5 (including premium) on allotment and the balance in two calls of equal amount.

Applications were received for ll,000 equity shares and pro-rata allotment was made for all the applicants. The excess application money was adjusted towards allotment.

Mrs. Shobha who were allotted 200 equity shares failed to pay F/F/C and her shares were forfeited after the final call.

Show Journal entries in the books of Suhas Ltd. and also show its presentation in Balance sheet.

(Ans : Amount of forfeiture ₹ 800, Balance sheet total ₹ 1,19,200)

7. Subhash Company Limited issues 2000 Equity shares of ₹ 100 each payable as ₹ 30 on application, ₹ 30 on allotment, ₹ 40 on first and final call.

All the shares were subscribed and duly allotted. Company made all the calls. All cash was duly received except the first & final call on 100 equity shares. These shares were forfeited by company and were re-issued as fully paid for ₹ 75 per share.

Show the Journal entries in the books of Subhash Company Ltd.

(Ans : Amount of forfeiture ₹ 6,000 Capital Reserve ₹ 3,500)

8. **Pass Journal entries for the forfeiture and re-issue of shares in the following cases.**

A) Asha Ltd. forfeited 100 equity shares of ₹ 20 each fully called up for non-payment of first call of ₹ 3 per share and final call of ₹ 5 per share. 80 shares of these were reissued at ₹ 15 per share fully paid.

B) Bhakti Ltd. forfeited 100 equity shares of ₹ 10 each, ₹ 6 called-up on which the shareholder paid application and allotment of ₹ 5 per share. Of these 80 shares were re-issued as fully paid-up for 16 per share.

C) Konark Ltd. forfeited 50 shares of ₹ 10 each, ₹ 8 called-up. The shareholder failed to pay first call of ₹ 3 per share. Later on 30 shares of these were re-issued at ₹ 7 per share.

Ans : A) Amount of forfeiture ₹ 1200, Capital Reserve ₹ 560

B) Amount of forfeiture ₹ 500, Capital Reserve ₹ 400

C) Amount of forfeiture ₹ 250, Capital Reserve ₹ 120

Activity

1. Obtain Prospectus issued by any Company for issue of shares and write a report on the procedure as mentioned in the Prospectus.
2. Visit any Stock Broker and find out the procedure of purchase and sale of shares through Demat Account.