

6 . COMPANY ACCOUNTS–ISSUE OF SHARES

Say whether the following statements are true or false : (1 mark each)

1. Equity shareholders are the creditors of the Company
(True)
2. Promoters are the owners of the Company
(False)
3. Pro rata allotment is made in case of over subscriptions
(True)
4. Application money should not be less than 25% of the face value of shares (True)
5. Shares cannot be issued at discount
(True)

Fill in the blanks : (1 mark each)

1. A private Ltd . Company with only one person as its members is called
.....
2. Shareholders are given dividend at a fixed rate .
3. Share capital of a company is divided into small units . Each such unit is called
.....
4. Actual number of shares offered to the public for subscription is known as
.....
5. At the time of forfeiture of shares , Share capital account will be debited with
..... value
6. A Company is one which restricts the right to transfer its shares .

Ans: 1. One person company (OPC) 2. Preference shareholders
3. Shares
4. Issued capital 5. Called up value of shares 6. Private
Ltd Company

From the given alternatives choose the right answer : (1 mark each)

1. Who are the real owners of the Company?
a) Government b) Board of directors c) Equity shareholders d)
Debenture holders
2. Maximum number of members in a private Company is :
a) 7 b) 200 c) 20 d) No limit

3. In case of private placement of shares to raise capital a company :
 - a) Invite the public through prospectus b) Does not invite the public
 - c) Invite the public through advertisement d) None of the above

4. As per SEBI Guidelines , Application money should not be less than
 . . of the issue price of each shares :
 - a) 10% b) 15% c) 25% d) 50%

5. If applicants for 80,000 shares were allotted 60,000 shares on pro rata basis , the shareholders who was allotted 1,200 shares must have applied for :
 - a) 900 shares b) 3,600 shares c) 1,600 shares d) 4,800 shares

6. If shares of Rs 4,00,000 are issued for purchase of assets of Rs 5,00,000, Rs 1,00,000 will be treated as
 - a) Discount b) Premium c) Profit d) Loss

7. Forfeiture of shares result in reduction of :
 - a) Subscribed capital b) Authorised capital c) Reserve capital d) None of the above

8. If the premium on forfeited shares has already been received , then securities premium A/c should be :
 - a) Credited b) Debited c) No treatment d) None of these

9. 600 shares of Rs 10 each were forfeited for non payment of Rs 2 per share on first call and Rs 5 per share on final call . Share forfeiture account will be credited with :
 - a) Rs 1,200 b) Rs 1,800 c) Rs 3,000 d) Rs 4,200

10. Issued 20,000 , 12% debenture of Rs 100 each at a premium of 4% , redeemable at a premium of 10% . In such case :
 - a) Loss on issue will be debited by Rs 1,20,000
 - b) Loss on issue will be debited by Rs 2,00,000
 - c) Loss on issue will be debited by Rs 2, 88,000
 - d) None of the above

Ans : 1. (c) 2. (b) 3 (b) 4 (c) 5 (c) 6 (b)
7 (a) 8 (c) 9 (b) 10 (b)

Very short answer questions : (1 mark each)

1. What is a share?

Ans : Total capital of the Company is divided in units of small denominations such as Rs 10 or Rs 100 . Each such unit is called share .

2. What do you mean by Authorised Capital of a Company?

Ans : This is the maximum capital for which a Company is authorised to issue shares during its lifetime . It is also known as Registered or Nominal capital .

3. What is meant by Capital reserve?

Ans : Capital reserve is the reserve created out of Capital profits .

4. What is meant by forfeiture of shares?

Ans : If any shareholder fail to pay allotment and call money within the specified period, the directors may cancel his shares . This is called forfeiture of shares .

5. Can a Company issue a shares having face value of Rs 10 at Rs 9?

Ans : No . Under section 53 of Companies Act 2013, a Company can not issue shares at a discount

PRACTICAL QUESTIONS :

Q No1 : X Ltd has an authorised capital of Rs 40, 00,000 divided into 4, 00,000 Equity shares of Rs 10 each . Out of these shares ,the Company invited application for 3,00,000 equity shares . The public applied for 2, 80,000 shares and all the money was duly received .

Show how share capital will appear in the Balance sheet of the Company . Also prepare notes to accounts . Mark : 3

Balance sheet of X Ltd
As at

particulars	Note no	Amount current year	Amount Prevoius year
1. EQUITY AND LIABILITIES			
Shareholders funds :			
a) Share capital	1	28,00,000	

Notes to accounts :

	Rs
1. Share capital :	
Authorised capital :	
4,00,000 Equity shares of Rs 10 each	<u>40,00,000</u>
Issued capital :	
3,00,000 equity shares of Rs 10 each	<u>30,00,000</u>
Subscribed and fully paid up :	
2,80,000 shares of Rs 10 each	<u>28,00,000</u>

Q. no 2: Rohit Ltd purchased machinery from Mohan & Co. For Rs 3, 50,000. A sum of Rs 75,000 was paid by means of a bank draft and for the balance due Rohit Ltd issued equity shares of Rs 10 each at a premium of 10%. Pass journal entries in the books of Rohit Ltd.

Mark: 3

Date	particulars	L/F	Dr amo	Cr amo
	Machinery a/c Dr To Mohan & Co (Purchase of machinery)		3,50,000	3,50,000
	Mohan & Co Dr To bank a/c To equity share capital (275,000/11 x10) To security prem. Reserve a/c (paid purchase consideration by issue of shares at premium)		3,50,000	75,000 2,50,000 25,000

Note: **Equity share capital= Amount to be paid/Issue price of shares x Nominal value of shares**

Q no 3: X Ltd took over the following assets and Liabilities of Y Ltd :

Land and building Rs 20,00,000; Stock Rs 5,00,000; Sundry debtors Rs 2,50,000 and sundry creditors Rs 2,00,000 .

X Ltd paid the purchase consideration by issuing bank draft of Rs 16,00,000 and 50,000 equity shares of Rs 20 each at a premium of 10%. Calculate purchase consideration and pass journal entries in the books of X Ltd

Sol: calculation of purchase consideration :

Nominal value of shares issued =50,000 x 20= 10,00,000

Securities premium reserve = 1,00,000

Bank draft =16,00,000

27,00,000

Journal In the books of X Ltd

Date	particulars	L/F	Dr amo	Cr amo
	Land and and building a/c Dr Stock a/c Dr Sundry debtors a/c Dr *Goodwill a/c Dr To sundry creditors a/c To Y Ltd a/c (purchase of assets and liabilities)		20,00,000 5,00,000 2,50,000 1,50,000	2,00,000 27,00,000
	Y Ltd Dr To Bank a/c (issue of bank draft)		16,00,000	16,00,000
	Y Ltd Dr To equity share capital a/c To securities premium reserve a/c (Issue of 50,000 equity shares of 20 each at premium)		11,00,000	10,00,000 1,00,000

Q. NO 4: **Ref: (partial reissue)**

X Ltd forfeited 600 shares of Rs 10 each Rs 7 called up on which Mahesh has paid application and allotment money of Rs 5 per share . Out of these 400 shares were reissued to Naresh as fully paid up for Rs 6 per share . Pass journal entries for forfeiture and reissue of shares .

Mark : 3

Date	particulars	I/f	Debit (Rs)	Credit (Rs)
	Share capital a/c Dr (600x7) To calls in arrear (600x2) To share forfeiture a/c (forfeiture of shares for non payment of call money)		4,200	1200 3,000
	Bank a/c Dr (400x6) Share forfeiture a/c Dr To share capital a/c (400x10)		2,400 1,600	4,000
	Share forfeiture a/c Dr To capital reserve a/c (3,000/600 x400) – 1,600		400	400

Q5 : Y Ltd forfeited 1,000 shares of Rs 10 each issued at 10% premium to Shyam (Rs 9 called up) on which he did not pay Rs 3 on allotment (including premium) and on first call of Rs 2. Out of these ,600 shares were reissued to Ram as fully paid up for Rs 8 per share and 200 shares to Mohan as fully paid up @ Rs 12 at different intervals of time .

Give journal entries for forfeiture and reissue .

Sol :

Journal

Date	particulars	L / F	Dr amo	Cr amo
	Share capital a/c Dr		9,000	
	Securities premium reserve a/c Dr		1,000	
	To share allotment a/c			3,000
	To share first call a/c			2,000
	To share forfeiture a/c			5,000
	(Forfeiture of 1,000 shares of Shyam)		4,800	
	Bank a/c Dr		1,200	
	Share forfeiture a/c Dr			6,000
	To share capital a/c			
	(Reissue of 600 shares at Rs 8 per share as fully paid up)		1,800	
	Share forfeiture a/c Dr			1,800
	To capital reserve a/c			
	(profit on reissue transferred to capital reserve)		2,400	
	Bank a/c Dr			2,000
	To share capital a/c			400
	To securities premium reserve a/c			
	(reissue of 200 shares)		1,000	
	Share forfeiture a/c Dr			1,000
	To capital reserve a/c			
	(profit on reissue of 200 shares transferred)			

Working notes : Profit on reissue of 600 forfeited shares =
 $(5,000 \times 600 / 100) - 1,200$ (loss on reissue) = 1,800

Ref: Pro-rata allotment

Q No6 : Amrit Ltd issued 50,000 shares of Rs 10 each at a premium of Rs 2 per share payable as follows :

Rs 3 on application Rs 4 on allotment (including premium) , Rs 2 on 1st call and the balance on 2nd call .

Application were received for 75,000 shares and prorata allotment was made to all the applicants. All money due were received except allotment and 1st call from Mohan who applied for 1200 shares. All his shares were forfeited. The forfeited shares were reissued for Rs 9,600. Final call was not yet made. Pass necessary journal entries.

Mark : 8

Date	particulars	L/F	Dr amo	Cr amo
	Bank a/c (75,000x3) Dr To eq. Share appl. a/c (share application money received)		2,25,000	2,25,000
	Eq. Share appl. a/c Dr To eq. Share capital a/c (50,000x3) To eq. Share allot. a/c (applic. Money transferred to share capital)		2,25,000	1,50,000 75,000
	Eq. Share allot. a/c (50,000x4) Dr To equity share capital a/c (50,000x2) To security premium reserve a/c (allotment money made due)		2,00,000	1,00,000 1,00,000
			1,23,000	
			1,00,000	
	Bank a/c Dr (w.n 2) To Eq. Share allot. a/c (allotment money received)		98,400	1,23,000
	Eq. Share 1st call a/c (50,000x2) Dr To equity share capital a/c (share 1 st call money made due)		5,600 1600	1,00,000 98,400
	Bank a/c (49,200x2) Dr To Eq. Share 1 st call a/c (share 1 st call money received on 49,200 shares)		9,600	2,000
	Eq. Share capital a/c (800x7) Dr Security premium reserve a/c (800x2) Dr To Eq. Share allot. a/c (w.n1) To Eq. Share 1 st call. a/c (800x2)		3,600	1600 3600 5600

	To share forfeiture a/c (diff) (forfeiture of shares for non payment of allot. & 1st call)			4000
				3,600
	Bank a/c Dr To equity share capital a/c (800x7) To Security premium reserve a/c (reissue of forfeited shares at premium)			
	Share forfeiture a/c To capital reserve a/c (profit on reissue transferred to capital reserve)	Dr		

Workings : 1. Allotment money not received :

Shares applied by Mohan = 1200 shares

Shares allotted to him = $50,000 / 75,000 \times 1200 = 800$ shares

Excess application money paid by Mohan = $400 \times 3 = 1200$

Allotment money due from Mohan = $800 \times 4 = 3,200$

Less : excess application money paid by him 1,200

Allotment money not received from Mohan = **2,000**

2. Allotment money received :

Total allotment money = $50,000 \times 4 = 2,00,000$

Less Excess application money with the company = $25,000 \times 3 = \underline{75,000}$

=1,25,000

Less : Allotment money not paid by Mohan 2,000

Total allotment received =1,23,000

3. profit on reissue of forfeited shares : 3600

Q No 7 : X Ltd issued 50,000 shares of Rs 10 each at a premium of Rs 2 per share payable as follows :

Rs 3 on application, Rs 6 on allotment (including premium) and Rs 3 on call .

Application was received for 75,000 shares and pro-rata allotment was made as follows :

To the applicants of 40,000 shares, 30,000 shares were issued and for the rest 20,000 shares were issued . All money due was received except the allotment and call money from Ram who had applied for 1,200 shares (out of group of 40,000 shares) . All his shares were forfeited . The forfeited shares were reissued for Rs 8 per share as **fully paid up** .

Pass necessary journal entries for the above transactions .

Mark : 8

SOL: Workings :

1. Allotment money not received from Ram :

Shares applied by Ram 1200 shares

Shares allotted to him = $30,000/40,000 \times 1200$ = 900 shares

Excess application money paid by him = 300×3 = 900

Allotment money due from Ram = 900×6 = 5400

Less : excess application money paid by him 900

Allotment money not received = 4,500

2. Allotment money received :

Total allotment money = $50,000 \times 6$ = 3,00,000

Less : excess application money with company $25,000 \times 3$ = 75,000

2,25,000

Less : Allotment money not paid by Ram 4,500

Total allotment money received

=2,20,500

Date	particulars	I/f	Dr	Cr
	Bank a/c Dr (75,000x3)		2,25,000	2,25,000
	To eq. Share appl. a/c (shareapplic. Money received)		2,25,000	

Eq. Share appl. a/c Dr To eq. Share capital a/c (50,000x3) To eq. Share allot. a/c		3,00,000	1,50,000 75,000
Eq. Share allot. a/c Dr (50,000x6) To equity share capital a/c (50,000x4) To security premium reserve a/c (allot. money made due)		2,20,500	2,00,000 1,00,000
Bank a/c Dr To Eq. Share allot. a/c (share allot. Money received)		1,50,000	2,20,500
Eq. Share 1st & final call a/c Dr (50,000x3) To equity share capital a/c (share 1 st & final call money made due)		1,47,300	1,50,000
Bank a/c Dr (49,100x3) To Eq. Share 1 st and final call a/c (share call money received on 49,100 shares)		9,000	1,47,300
Eq. Share capital a/c Dr (900x10) To share allotment a/c (wn1) To Eq. Share call. a/c (900x3) To share forfeiture a/c (forfeiture of shares for nonpayment of allot. And call money)		7,200 1,800	4,500 2,700 1800
Bank a/c dr (900x8) Share forfeiture a/c Dr To equity share capital a/c (900x10) (reissue of forfeited shares at discount)			9,000
Note : there is no profit on reissue of shares			