Accounting for Share Capital

1

Learning Objectives

After studying this chapter, you will be able to :

- *Explain the basic nature of a joint stock company as a form of business organisation and the various kinds of companies based on liability of their members;*
- *describe the types of shares issued by a company;*
- *explain the accounting treatment of shares issued at par, at premium and at a discount including oversubsription;*
- *outline the accounting for forfeiture of shares and reissue of forfeited shares under varying situations; and*
- *workout the amounts to be transferred to capital reserve when for feited*
- *shares are reissued; and*
- *prepare share forfeited account ;*

A company form of organisation is the third stage in the evolution of forms of organisation. Its capital is contributed by a large number of persons called shareholders who are the real owners of the company. But neither it is possible for all of them to participate in the management of the company nor considered desirable. Therefore, they elect a Board of Directors as their representative to manage the affairs of the company. In fact, all the affairs of the company are governed by the provisions of the Companies Act, 1956. A company means a company incorporated or registered under the Companies Act, 1956 or under any other earlier Companies Acts. According to Chief Justice Marshal, "a company is a person, artificial, invisible, intangible and existing only in the eyes of law. Being a mere creation of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence".

A company usually raises its capital in the form of shares (called share capital) and debentures (debt capital.) This chapter deals with the accounting for share capital of companies.

1.1 Features of a Company

A company may be viewed as an association of person who contribute money or money's worth to a common stock and use it for a common purpose. It is an artificial person having or corporate legal entity distinct from its members (shareholders) and has a common seal used for its signature. Thus, it has certain special features which distinguish it from the other forms of organisation. These are as follows:

- *Voluntary Association:* persons who are willing to form a company can come together voluntarily for carrying on a business. Therefore, it is regarded as a voluntary association of persons.
- *Separate Legal Entity:* A company has a separate legal entity which is distinct and separate from its members. It can hold and deal with any type of property. It can enter into contracts and even open a bank account in its own name. It can sue others as well as be sued by others.
- *Limited Liability:* The liability of the members of the company is limited to the unpaid amount of the shares held by them. In the case of the companies limited by guarantee, the liability of its members is limited to the extent of the guarantee given by them in the event of the company being wound up.
- *Perpetual Succession:* The company being an artificial person created by law continues to exist irrespective of the changes in its membership. A company can be terminated only through law. The death or insanity or insolvency of any member of the company in no way affects the existence of the company. Members may come and go but the company continues.
- *Common Seal:* The company being an artificial person, cannot sign its name by it self. Therefore, every company is required to have its own seal which acts as an official signatures of the company. Any document which does not carry the common seal of the company is not binding on the company.
- *Transferability of Shares:* The shares of a public limited company are freely transferable. The permission of the company or the consent of any member of the company is not necessary for the transfer of shares. But the Articles of the company can prescribe the manner in which the transfer of shares will be made.
- *May Sue or be Sued:* A company being a legal person can enter into contracts and can enforce the contractual rights against others. It can sue and be sued in its name if there is a breach of contract by the company.

1.2 Kinds of a Company

Companies can be classified either on the basis of the liability of its members or on the basis of the number of members. On the basis of liability of its members the companies can be classified into the following three categories:

- *Companies Limited by Shares:* In this case, the liability of its members is limited to the extent of the nominal value of shares held by them. If a member has paid the full amount of the shares, there is no liability on his part whatsoever may be the debts of the company. He need not pay a single paise from his private property. However, if there is any liability involved, it can be enforced during the existence of the company as well as during the winding-up.

(ii) *Companies Limited by Guarantee:* In this case, the liability of its members is limited to the amount they undertake to contribute in the event of the company being wound up. Thus, the liability of the members will arise only in the event of its winding up.

(iii) *Unlimited Companies:* When there is no limit on the liability of its members, the company is called an unlimited company. When the company's property is not sufficient to pay off its debts, the private property of its members can be used for the purpose. In other words, the creditors can claim their dues from its members. Such companies are not found in India even though permitted by the Companies Act, 1956.

On the basis of the number of members, a company can be divided into two categories as follows:

(i) *Public Company:* A public company means a company which (a) is not a private company, (b) has minimum capital of Rs. 5 lakh on such higher paid-up capital may be prescribed, and (c) is a private company which is a subsidiary of which is not a private company.

Private Company: A private company is one which has a minimum paid up capital of Rs. 1 Lakh or such higher paid-up capital as may be prescribed by its Articles :

(a) restricts the right to transfer its shares;
(b) limits the number of its members to fifty (excluding its employees);
(c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company.
(d) prohihibits any invitation or acceptance of deposits from person other than its members, directors, and relatives.

1.3 Share Capital of a Company

A company, being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital. Since the number of shareholders is very very large, a separate capital account cannot be opened for each one of them. Hence, innumerable streams of capital contribution merge their identities in a common capital account called as 'Share Capital Account'.

1.3.1 Categories of Share Capital

From accounting point of view the share capital of the company can be classified as follows:

- *Authorised Capital:* Authorised capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company cannot raise more than the amount of capital as specified in the Memorandum of Association. It is also called Nominal or Registered capital. The authorised capital can be increased or decreased as per the procedure laid down in the Companies Act. It should be noted that the company need not issue the entire authorised capital for public subscription at a time. Depending upon its requirement, it may issue share capital but in any case, it should not be more than the amount of authorised capital.
- *Issued Capital:* It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum. The authorised capital which is not offered for public subscription is known as 'unissued capital'. Unissued capital may be offered for public subscription at a later date.
- *Subscribed Capital:* It is that part of the issued capital which has been actually subscribed by the public. When the shares offered for public subscription are subscribed fully by the public the issued capital and subscribed capital would be the same. It may be noted that ultimately, the subscribed capital and issued capital are the same because if the number of share, subscribed is less than what is offered, the company allot only the number of shares for which subscription has been received. In case it is higher than what is offered, the allotment will be equal to the offer. In other words, the fact of over subscription is not reflected in the books.
- *Called-up Capital:* It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares. For example, if the face value (also called nominal value) of a share allotted is Rs. 10 and the company has called up only Rs. 7 per share, in that scenario, the called up capital is Rs. 7 per share. The remaining Rs. 3 may be collected from its shareholders as and when needed.
- *Paid-up Capital:* It is that portion of the called up capital which has been actually received from the shareholders. When the share holders have paid all the call amount, the called-up capital is the same to the paid-up capital. If any of the shareholders has not paid amount on calls, such an amount may be called as 'calls in arrears'. Therefore, paid-up capital is equal to the called-up capital minus call-in-arrears.
- *Uncalled Capital:* That portion of the subscribed capital which has not yet been called-up. As stated earlier, the company may collect this amount any time when it needs further funds.

- *Reserve Capital:* A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.

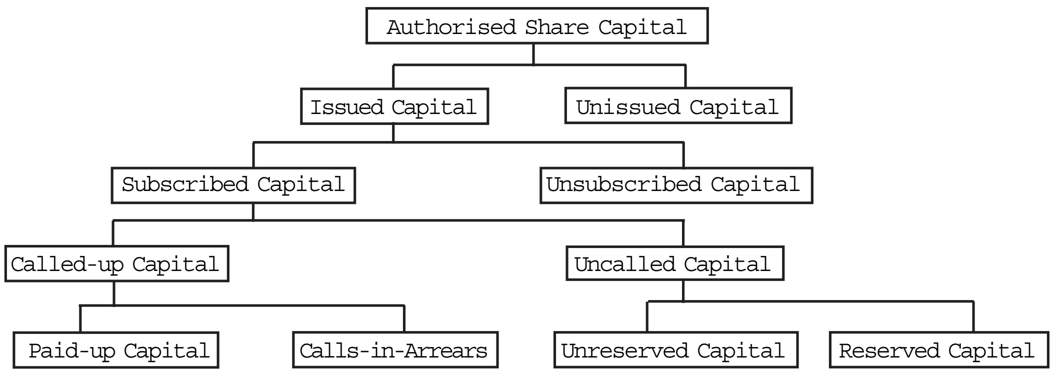

Fig. 1.1 : *Categories of Share Capital*

Let us take the following example and show how the share capital will be shown in the balance sheet. Sunrise Company Ltd., New Delhi, has registered its capital as Rs. 40,00,000, divided into 4,00,000 shares of Rs. 10 each. The company offered to the public for subscription of 2,00,000 shares of Rs. 10 each, as Rs. 2 on application, Rs.3 on allotment, Rs.3 on first call and the balance on final call. The company received applications for 2,50,000 shares. The company finalised the allotment on 2,00,000 shares and rejected applications for 50,000 shares. The company did not make the final call. The company received all the amount except on 2,000 shares where call money has not been received. The above amounts will be shown in the balance sheet of a company as follows:

Sunrise Company Ltd.
Balance Sheet as on ....

Share Capital	*(Rs.)*
Authorised or Registered or Nominal Capital:	
4,00,000 Shares of Rs. 10 each	40,00,000
Issued Capital:	
2,00,000 Shares of Rs. 10 each	20,00,000
Subscribed Capital	
2,00,000 Shares of Rs. 10 each	20,00,000

Called-up Capital		
2,00,000 Shares of Rs. 10 each, Rs. 8 per share		16,00,000
Paid-up Capital		
2,00,000 Shares of Rs. 10 each, Rs. 8 per share	16,00,000	
Less : Calls in arrears		
(on 2,000 Shares @ Rs. 3 per share)	6,000	15,94,000

1.4 Nature and Classes of Shares

Shares, as applied to the capital of a company, refer to the units into which the total share capital of a company is divided. Thus, a share is a fractional part of the share capital and forms the basis of ownership interest in a company. The persons who contribute money through shares are called shareholders.

The amount of authorised capital, together with the number of shares in which it is divided, is stated in the Memorandum of Association but the classes of shares in which the company's capital is to be divided, alongwith their respective rights and obligations, are prescribed by the Articles of Association of the company. As per Section 86 of The Companies Act, a company can issue two types of shares (1) preference shares, and (2) equity shares (also called ordinary shares).

1.4.1 Preference Shares

According to Section 85 of The Companies Act, 1956, a preference share is one, which fulfils the following conditions :

a) That it carries a preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value of each share before any dividend is paid to the equity shareholders.
b) That with respect to capital it carries or will carry, on the winding-up of the company, the preferential right to the repayment of capital before anything is paid to equity shareholders.

However, notwithstanding the above two conditions, a holder of the preference share may have a right to participate fully or to a limited extent in the surpluses of the company as specified in the Memorandum or Articles of the company. Thus, the preference shares can be participating and non-participating. Similarly, these shares can be cumulative or non-cumulative, and redeemable or irredeemable.

1.4.2 Equity Shares

According to Section 85 of The Companies Act, 1956, an equity share is a share which is not a preference share. In other words, shares which do not enjoy any preferential right in the payment of dividend or repayment of capital, are termed as equity shares. The equity shareholders are entitled to share the distributable profits of the company after satisfying the dividend rights of the preference share holders. The dividend on equity shares is not fixed and it may vary from year to year depending upon the amount of profits available for distribution. The equity share capital may be (i) with voting rights; or (ii) with differential rights as to voting, dividend or otherwise in accordance with such rules and subject to such conditions as may be prescribed.

Test your Understanding – I

State which of the following statements are true :

(a) A Company is formed according to the provisions of Indian Companies Act-1932.
(b) A company is an artificial person.
(c) Shareholders of a company are liable for the acts of the company.
(d) Every member of a company is entitled to take part in its management.
(e) Company's shares are generally transferable.
(f) Share application account is a personal account.
(g) The director of a company must be a shareholder.
(h) Application money should not be less than 25% of the face value of shares.
(i) Paid-up capital can exceed called-up capital.
(j) Capital reserves are created from capital profits.
(k) Securities premium account is shown on the assets side of the balance sheet.
(l) Premium on issue of shares is a capital loss.
(m) At the time of issue of shares, the maximum rate of securities premium is 10%.
(n) The part of capital which is called-up only on winding up is called reserve capital.
(o) Forfeited shares can not be issued at a discount.
(p) The shares originally issued at discount may be re-issued at a premium.

1.5 Issue of Shares

A salient characteristic of the capital of a company is that the amount on its shares can be gradually collected in easy instalments spread over a period of time depending upon its growing financial requirement. The first instalment is collected along with application and is thus, known as application money, the second on allotment (termed as allotment money), and the remaining instalment are termed as first call, second call and so on. The word final is sufixed to the last instalment. However, this in no way prevents a company from calling the full amount on shares right at the time of application.

The important steps in the procedure of share issue are :

- *Issue of Prospectus:* The company first issues the prospectus to the public. Prospectus is an invitation to the public that a new company has come into existence and it needs funds for doing business. It contains complete information about the company and the manner in which the money is to be collected from the prospective investors.
- *Receipt of Applications:* When prospectus is issued to the public, prospective investors intending to subscribe the share capital of the company would make an application along with the application money and deposit the same with a scheduled bank as specified in the prospectus. The company has to get minimum subscription (Refer Box 1) within 120 days from the date of the issue of the prospectus. If the company fails to receive the same within the said period, the company cannot proceed for the allotment of shares and application money should be returned within 130 days of the date of issue of prospectus.
- *Allotment of Shares:* If minimum subscription has been received, the company may proceed for the allotment of shares after fulfilling certain other legal formalities. Letters of allotment are sent to those whom the shares have been alloted, and letters of regret to those to whom no allotment has been more. When allotment is made, it results in a valid contract between the company and the applicants who now became the shareholders of the company.

Box 1

Minimum Subscription

It means the minimum amount that, in the opinion of directors, must be raised to meet the needs of business operations of the company relating to:·

- the price of any property purchased, or to be purchased, which has to be met wholly or partly out of the proceeds of issue;
- preliminary expenses payable by the company and any commission payable in connection with the issue of shares;
- the repayment of any money borrowed by the company for the above two matters;
- working capital; and
- any other expenditure required for the usual conduct of business operations.

It is to be noted that 'minimum subscription' of capital cannot be less than 90% of the issued amount according to SEBI (Disclosure and Investor Protection) Guidelines, 2000 [6.3.8.1 and 6.3.8.2]. If this condition is not satisfied, the company shall forthwith refund the entire subscription amount received. If a delay occurs beyond 8 days from the date of closure of subscription list, the company shall be liable to pay the amount with interest at the rate of 15% [Section 73(2)].

Shares of a company are issued either at *par, at a premium or at a discount.* Shares are said to have been issued at *par* when their issue price is exactly equal to their nominal value according to the terms and conditions of issue. When the shares of a company are issued more than its nominal value (face value), the excess amount is called *premium* and the issue is said to have been made at a premium. When the shares are issued at a price less than the face value of the share, it is known as shares issued at a *discount.*

Irrespective of the fact that shares are issued at par, premium or discount, the share capital of a company as stated earlier, is collected in instalments to be paid at different stages.

1.6 Accounting Treatment

On application : The amount of money paid with various instalment represents the contribution to share capital and should ultimately be credited to share capital. However, for the sake of convenience, initially individual accounts are opened for each instalment. All money received along with application is deposited with a scheduled bank in a separate account opened for the purpose. The journal entry is as follows:

Bank A/c Dr.
    To Share Application A/c
(Amount received on application for – shares @ Rs. ______ per share).

On allotment : When minimum subscription has been received and certain legal formalities on the allotment of shares have been duly complied with, the directors of the company proceed to make the allotment of shares.

The allotment of shares implies a contract between the company and the applicants who now become the allottees and assume the status of share-holders or members.

Box 2

Allotment of Shares

(Implications from accounting point of view)

- It is customary to ask for some amount called "Allotment Amount" from the allottees on the shares allotted to them as soon as the allotment is made.
- With the acceptance to the offer made by the applicants, the amount of application money received has to be transferred to share capital account as it has formally become the part of the same.
- The money received on rejected applications should either be fully returned to the applicant within 130 days of the date or issue of prospectus, or
- In case lesser number of shares have to be allotted, than those applied for the excess application money must be adjusted towards the amount due on allotment from the allottees.
- The effect of the later two steps is to close the share application account which is only a temporary account for share capital transactions.

The journal entries with regard to allotment of shares are as follows:

1. *For Transfer of Application Money*

   Share Application A/c Dr.

   To Share Capital A/c

   (Application money on _____ Shares allotted/ transferred to Share Capital)

2. *For Money refunded on rejected application*

   Share Application A/c Dr.

   To Bank A/c

   (Application money returned on rejected application for – shares).

3. *For Amount Due on Allotment*

   Share Allotment A/c Dr.

   To Share Capital A/c

4. *For Adjustment of Excess Application Money*

   Share Application A/c Dr.

   To Share Allotment A/c

   (Application Amount on – Shares @ Rs. per shares adjusted to the amount due on allotment).

5. *For Receipt of Allotment Amount*

   Bank A/c Dr.

   To Share Allotment A/c

   (Allotment money received on – Shares @ Rs. – per share Combined Account)

Sometimes *a combined account* for share application and share allotment called 'Share Application and Allotment Account' is opened in the books of a company. The combined account is based on the reasoning that allotment without application is impossible while application without allotment is meaningless. These two stages of share capital are closely inter-related. When a combined account is maintained, journal entries are recorded in the following manner:

1. *For Receipt of Application and Allotment*

   Bank A/c Dr.

   To Share Application and Allotment A/c

   (Money received on applications for shares @ Rs. _____ per share).

2. *For Transfer of Application Money and Allotment Amount Due*

   Share Application and Allotment A/c Dr.

   To Share Capital A/c

   (Transfer of application money to Share Capital Account for amount due or allotment of – Share @ Rs. _____ per share)

3. *For Money Refunded on Rejected Applications*

   Share Application and Allotment A/c Dr.

   To Bank A/c

   (Application money returned on rejected application for ___ shares).

4. *On Receipt of Allotment Amount*

   Bank A/c Dr.

   To Share Application and Allotment A/c

   (Balance of Allotment Money Received).

On Calls : Calls play a vital role in making shares fully paid-up and for realising the full amount of shares from the shareholders. In the event of shares not being fully called-up till the completion of allotment, the directors have the authority to ask for the remaining amount on shares as and when they decide about the same. It is also possible that the timing of the payment of calls by the shareholders is determined at the time of share issue itself and given in the prospectus.

Two points are important regarding the calls on shares. First, the amount on any call should not exceed 25% of the face value of shares. Second, there must be an interval of at least one month between the making of two calls unless otherwise provided by the articles of association of the company.

When a call is made and the amount of the same is received, the journal entries are as given below:

1. *For Call Amount Due*

   Share Call A/c Dr.

   To Share Capital A/c

   (Call money due on – Shares @ Rs. ____ per share)

2. *For Receipt of Call Amount*

   Bank A/c Dr.

   To Share Call A/c

   (Call money received)

The word/words First, Second, or Third must be added between the words "Share" and 'Call' in the Share Call account depending upon the identity of the call made. For example, in case of first call it will be termed as 'Share First Call Account', in case of second call it will be 'Share Second Call Account' and so on. Another point to be noted is that the words 'and Final' will also be added to the last call, say, if second call is the last call it will be termed as 'Second and Final Call' and if it is the third call which is the last call, it will be termed as 'Third and Final Call'. It is also possible that the whole balance after allotment may be collected in one call only. In that case the first call itself, shall be termed as the 'First and Final Call'.

Box 3

The following points should be kept in mind while issuing the share capital for public subscription :

1. The application money should be at least 5% of the face value of the share.
2. Calls are to be made as per the provisions of the articles of association.
3. Where there is no articles of association of its own, the following provisions of Table A will apply:
   (a) A period of one month must elapse between two calls;
   (b) The amount of call should not exceed 25% of the face value of the share;
   (c) A minimum of 14 days' notice is given to the shareholders to pay the amount; and
   (d) Calls must be made on a uniform basis on all shares within the same class.

Note: The procedure for accounting for the issue of both equity and preference shares is the same. To differentiate between the two the words 'Equity' and 'Preference' is prefixed to each and every instalment.

Illustration 1

Mona Earth Mover Ltd. decided to issue 12,000 shares of Rs.100 each payable at Rs.30 on application, Rs.40 on allotment, Rs.20 on first call and balance on second and final call. Applications are received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money is duly received on all the shares, and all sums due on calls are received except on 100 shares.

Record the transactions in the books of Mona Earth Movers Ltd.

Solution

Books of Mona Earth Movers Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr.		3,90,000	
	To Share Application A/c			3,90,000
	(Application money on 13,000 shares @ Rs.30 per share received)			
	Share Application A/c Dr.		3,60,000	
	To Share Capital A/c			3,60,000
	(Application money transferred to share capital)			

	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 12,000 shares @ Rs. 40 per share)		4,80,000	4,80,000
	Share Application A/c Dr. To Bank A/c (Application money on 1,000 shares returned]		30,000	30,000
	Bank A/c Dr. To Share Allotment A/c (Money received on 12,000 shares @ Rs. 40 per share on allotment)		4,80,000	4,80,000
	Share First Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 20 per share on first Call)		2,40,000	2,40,000
	Bank A/c Dr. To Share First Call A/c (First Call money received except for 100 shares)		2,38,000	2,38,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 10 per share on Second and final Call)		1,20,000	1,20,000
	Bank A/c Dr. To Share Second and Final Call A/c (Second and final call money received except for 100 shares)		1,19,000	1,19,000

Illustration 2

Eastern Company Ltd. issued 40,000 shares of Rs. 10 each to the public for the subscription of its share capital, payable at Rs. 4 on application, Rs. 3 on allotment and the balance on Ist and final call. Applications were received for 40,000 shares. The company made the allotment to the applicants in full. All the amounts due on allotment and first and final call were duly received.

Give the journal entries in the books of the company.

Solution

Books of Eastern Company Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr. To Share Application A/c (Application money on 40,000 shares @ Rs.4 per share received)		1,60,000	 1,60,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital)		1,60,000	 1,60,000
	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 40,000 shares @ Rs. 3 per share)		1,20,000	 1,20,000
	Bank A/c Dr. To Share allotment A/c (Money received on 40,000 shares @ Rs. 3 per share on allotment)		1,20,000	 1,20,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Money due on 40,000 shares @ Rs. 3 per share on First and final call)		1,20,000	 1,20,000
	Bank A/c Dr. To Share Ist and Final Call A/c (First and final call money received)		1,20,000	 1,20,000

Do it Yourself

On January 01, 2006, a limited company was incorporated with an authorised capital of Rs. 40,000 divided into shares of Rs. 10 each. It offered to the public for subscription of 3,000 shares payable as follows:

On Application	Rs. 3 per share
On Allotment	Rs. 2 per share
On First Call (One month after allotment)	Rs. 2.50 per share
On Second and Final Call	Rs. 2.50 per share

The shares were fully subscribed for by the public and application money duly received on January 15, 2006. The directors made the allotment on February 1, 2006.

How will you record the share capital transactions in the books of a company if the amounts due has been duly received, and the company maintains the combined account for application and allotment.

1.6.1 Calls in Arrears

It often happens that shareholders do not pay the call amount when it becomes due. When any shareholder fails to pay the amount due on allotment or on any of the calls, such amount is known as 'Calls-in-Arrears'/'Unpaid Calls'. Calls-in-Arrears represent the debit balance of all the calls account and are shown as a deduction from the paid-up capital on the liabilities side of the balance sheet. However, where a company maintains 'Calls-in-Arrears' Account, it needs to pass the following additional journal entry. However, it is not necessary to do so.

Calls in Arrears A/c Dr.
 To Share I Call Account A/c
 To Share II and Final Call Account A/c
(Calls in arrears brought into account)

The Articles of Association of a company usually empower the directors to change interest at a stipulated rate on calls in arrears. In case the articles are silent in this regard, the rule contained in Table A shall be applicable which states that the interest at a rate not exceeding 5% p.a. shall have to be paid on all unpaid amounts on shares for the period intervening between the day fixed for payment and the time of actual payment thereon.

On receipt of the call amount together with interest, the amount of interest shall be credited to interest account while call money shall be credited to the respective call account or to calls-in-arrears account. When the shareholder makes the payment of calls-in-arrears together with interest, the entry will be as follows:

Bank A/c Dr.
 To Calls-in-Arrears A/c
 To Interest A/c

If nothing is specified, there is no need to take the interest on calls-in-arrears account and record the above entry

Illustration 3

Cronic Limited issued 10,000 equity shares of Rs. 10 each payable at Rs. 2.50 on application, Rs. 3 on allotment, Rs. 2 on first call, and the balance of Rs. 2.50 on the final call. All the shares were fully subscribed and paid except of a shareholder having 100 shares who could not pay for the final call. Give journal entries to record these transactions.

Solution

Books of Cronic Limited
Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c	Dr.		25,000	
	To Share Application A/c				25,000
	(Money received on applications for 10,000 shares @ Rs. 2.50 per share)				
	Equity Share Application A/c	Dr.		25,000	
	To Share Capital A/c				25,000
	(Transfer of application money on 10,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		30,000	
	To Share Capital A/c				30,000
	(Amount due on the allotment of 10,000 shares @ Rs. 3 per share)				
	Bank A/c	Dr.		30,000	
	To Share Allotment A/c				30,000
	(Allotment money received)				
	Share First Call A/c	Dr.		20,000	
	To Share Capital A/c				20,000
	(First call money due on 10,000 shares @ Rs. 2 per share)				
	Bank A/c	Dr.		20,000	
	To Share First Call A/c				20,000
	(First call money received)				
	Share Second and Final Call A/c	Dr.		25,000	
	To Share Capital A/c				25,000
	(Final call money due)				
	Bank A/c	Dr.		24,750	
	Call-in-Arrears A/c	Dr.		250	
	To Share Second and Final Call A/c				25,000
	(Final call money received except that of 100 shares)				

1.6.2 Calls in Advance

Sometimes some shareholders pay a part or the whole of the amount of the calls not yet made. The amount so received from the shareholders is known as "Calls in Advance". The amount received in advance is a liability of the company and should be credited to 'Call-in-Advance Account." The amount received will be adjusted towards the payment of calls as and when they becomes due. Table A of the Companies Act provides for the payment of interest on calls in advance at a rate not exceeding 6% per annum.

The following journal entry is recorded for the amount of calls received in advance.

Bank A/c Dr.
To Calls-in-Advance A/c
(Amount received on call-in-advance)

When calls become actually due requiring adjustment of 'Call-in-Advance' Account, the journal entry will be :

Calls-in-Advance A/c Dr.
To Particular Call A/c
(Calls-in-advance adjusted with the call money due)

The balance in 'Calls-in-Advance' account is shown as a separate item on the liabilities side of company's balance sheet under the heading 'Share Capital' but is not added to the amount of paid-up capital.

As Calls-in-Advance is a liability of the company, it is under obligation if provided by the Articles, to pay interest on such amount from the date of its receipt up to the date when appropriate call is due for payment. A stipulation is generally made in the Articles regarding the rate at which interest is payable. However, if Articles are silent on this account, Table A is applicable which provides for interest on calls in advance at a rate not exceeding 6% p.a.

The accounting treatment of interest on calls in advance is as follows:

1. *For Payment of Interest*
   Interest on Calls in Advance A/c Dr.
   To Bank A/c
   (Interest paid on Calls-in-Advance)

   Or

2. *For Interest due*
   Interest on Calls-in-Advance A/c Dr.
   To Sundry Shareholder's A/c

Illustration 4

Konica Limited registered with an authorised equity capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, issued for subscription of 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call and the balance as and when required.

Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares. The company did not make any other call.

Give the necessary journal entries in the books of the company to record these share capital transactions.

Solution

Books of Konica
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		25,000	
	To Equity Share Application A/c				25,000
	(Money received on application for 1,000 shares @ Rs. 25 per share)				
	Equity Share Application A/c	Dr.		25,000	
	To Equity Share Capital A/c				25,000
	(Transfer of application money on 1,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		30,000	
	To Equity Share Capital A/c				30,000
	(Amount due on the allotment of 1,000 shares @ Rs. 30 per share)				
	Bank A/c	Dr.		30,000	
	To Equity Share Allotment A/c				30,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		20,000	
	To Equity Share Capital A/c				20,000
	(First call money due on 1,000 shares @ Rs. 20 per share)				
	Bank A/c	Dr.		19,250	
	Calls-in-Arrears A/c	Dr.		2,000	
	To Equity Share First Call A/c				20,000
	To Calls-in-Advance A/c				1,250
	(First call money received on 900 shares and calls-in-advance on 50 shares @ Rs. 25 per share)				

In practice the entries for the amount received are recorded in the cash book and not in the journal. (See Illustration 5)

Illustration 5

Unique Pictures Ltd. was registered with an authorised capital of Rs. 5,00,000 divided into 20,000, 5% preference shares of Rs. 10 each and 30,000 equity shares of Rs. 10 each. The company issued 10,000 preference and 15,000 equity shares for public subscription. Calls on shares were made as under :

	Equity Shares (Rs.)	*Preference Shares* (Rs.)
Application	2	2
Allotment	3	3
First Call	2.50	2.50
Second and Final Call	2.50	2.50

All these shares were fully subscribed. All the dues were received except the second and final call on 100 equity shares and on 200 preference shares. Record these transactions in journal. You are also required to prepare the cash book and balance sheet.

Solution

Books of Unique Pictures Limited

Journal

Date	*Particulars*		*L.F.*	*Debit Amount* (Rs.)	*Credit Amount* (Rs.)
	Equity Share Application A/c	Dr.		30,000	
	5% Preference Share Application A/c	Dr.		20,000	
	To Equity Share Capital A/c				30,000
	To 5% Preference Share Capital A/c				20,000
	(Transfer of application money)				
	Equity Share Allotment A/c	Dr.		45,000	
	5% Preference Share Allotment A/c	Dr.		30,000	
	To Equity Share Capital A/c				45,000
	To 5% Preference Share Capital A/c				30,000
	(Amount due on allotment)				
	Equity Share First Call A/c	Dr.		37,500	
	5% Preference Share First Call A/c	Dr.		25,000	
	To Equity Share Capital A/c				37,500
	To 5% Preference Share Capital A/c				25,000
	(First call money due)				
	Call-in-Arrears A/c	Dr.		750	
	To Equity Share Second and Final Call A/c				250
	To 5% Preference Share Final Call A/c				500
	(For Calls-in-Arrears)				

Cash Book (Bank Column)

Dr. Cr.

Date	Particulars	L.F.	Amount (Rs.)	Date	Particulars	L.F.	Amount (Rs.)
	Equity Share Application		30,000		Bal. c/d		2,49,250
	5% Preference Share Application		20,000				
	Equity Share Allotment		45,000				
	5% Preference Share Allotment		30,000				
	Equity Share First Call		37,500				
	5% Preference Share First Call		25,000				
	Equity Share IInd & Final Call		37,250				
	5% Preference Share IInd & Final Call		24,500				
			2,49,250				**2,49,250**

Balance Sheet of Unique Pictures as on . . . . .

Liabilities			Amount (Rs.)	Assets	Amount (Rs.)
Authorised Capital				Bank	2,49,250
30,000 equity shares of Rs.10 each		3,00,000			
20,000, 5% preference shares of Rs.10 each		2,00,000	5,00,000		
Issued Capital					
15,000 equity shares of Rs.10 each		1,50,000			
10,000, 5% preference shares of Rs.10 each		1,00,000	2,50,000		
Paid-up Capital					
15,000; equity share of Rs.10 each		1,50,000			
10,000, 5% preference share of Rs.10 each		1,00,000			
		2,50,000			
Less : Calls in arrears :					
equity shares	250				
preference shares	500	750	2,49,250		
			2,49,250		**2,49,250**

Illustration 6

Rohit and Company issued 30,000 shares of Rs.10 each payable Rs.3 on application, Rs.3 on allotment and Rs.2 on first call after two months. All money due on allotment was received, but when the first call was made a shareholder having 400 shares did not pay the first call and a shareholder of 300 shares paid the money for the second and final call of Rs.2 which had not been made as yet.

Give the necessary journal entries in the books of the company.

Solution

Books of Rohit & Company
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr. To Share Application A/c (application money received on 30,000 shares @ Rs.3 per share)		90,000	 90,000
	Share Application A/c Dr. To Share Capital A/c (application money transferred to share capital account)		90,000	 90,000
	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 30,000 shares @ Rs.3 per share)		90,000	 90,000
	Bank A/c Dr. To Share Allotment A/c (Allotment money received)		90,000	 90,000
	Share First Call A/c Dr. To Share Capital A/c (First call money due on 30,000 shares @ Rs.2 per share)		60,000	 60,000
	Bank A/c Dr. Call in Arrears A/c Dr. To Share First Call A/c To Calls in Advance A/c (Money received in advance on the second call for 300 shares @ Rs.2 per share, and the first call not received on 400 shares @ Rs.2 per share)		59,800 800	 60,000 600

Do it Yourself

1. A company issued 20,000 equity shares of Rs.10 each payable at Rs.3 on application, Rs.3 on allotment, Rs.2 on first call and Rs.2 on second and the final call. The allotment money was payable on or before May 01, 2005; first call money on or before August Ist, 2005; and the second and final call on or before October Ist, 2005; 'X', whom 1,000 shares were allotted, did not pay the allotment and call money; 'Y', an allottee of Rs.600 shares, did not pay the two calls; and 'Z', whom 400 shares were allotted, did not pay the final call. Pass journal entries and prepare the Balance Sheet of the company as on December 31, 2005.
2. Alfa company Ltd. issued 10,000 shares of Rs.10 each for cash payable at Rs.3 on application, Rs.2 on allotment and the balance in two equal instalments. The allotment money was payable on or before March 3, 2006; the first call money on or before 30 June, 2006; and the final call money on or before 31st August, 2006. Mr. 'A', whom 600 shares were allotted, paid the entire remaining face value of shares allotted to him on allotment. Record journal entries in company's books and also prepare their balance sheet on the date.

1.6.3 Over Subscription

There are instances when applications for more shares of a company are received than the number offered to the public for subscription. This usually happens in respect of share issues of well-managed and financially strong companies and is said to be a case of 'Over Subscription'.

In such a condition, three alternatives are available to the directors to deal with the situation: (1) they can accept some applications in full and totally reject the others; (2) they can make a pro-rata allotment to all; and (3) they can adopt a combination of the above two alternatives which happens to be the most common course adopted in practice.

The problem of over subscription is finally resolved with the allotment of shares. Therefore, from the accounting point of view, it is better to place the situation of over subscription within the total frame of application and allotment, i.e. receipt of application amount, amount due on allotment and its receipt from the shareholders, and the same has been observed in the pattern of entries.

First Alternative : When the directors decide to fully accept some applications and totally reject the others, the application money received from rejected applications is fully refunded. For example, a company invited applications for 20,000 shares and received the applications for 25,000 shares. The directors totally rejected the applications for 5,000 shares which are in excess of the required number and refunded their application money in full. In this case, the journal entries on application and allotment will be as follows :

The journal entries on application and allotment according to this alternative are as follows:

1 Bank A/c Dr.
To Share Application A/c
(Money received on application for 25,000 shares @ Rs. _ per share)

2 Share Application A/c Dr.
To Share Capital A/c
To Bank A/c
(Transfer of money on application 20,000 for shares allotted and money refunded on applications for _ shares rejected)

3 Share Allotment A/c Dr.
To Share Capital A/c
(Amount due on the allotment of _ shares @ Rs. _ per Share)

4 Bank A/c Dr.
To Share Allotment A/c
(Allotment money received)

Second Alternative : When the directors opt to make a proportionate allotment to all the applicants (called 'pro-rata' allotment), the excess application money received is normally adjusted towards the amount due on allotment. In case, however, the excess application money received is more than the amount due on allotment of shares, such excess amount may either be refunded or credited to calls in advance.

For example, in the event of applications for 20,000 shares being invited and those received are for 25,000 shares, it is decieded to allot shares in the ratio of 4:5 to all applicants. It is a case of pro-rata allotment and the excess application money received on 5,000 shares would be adjusted towards the amount due on the allotment of 20,000 shares. In this case, the journal entries on application and allotment will be as follows.

1 Bank A/c Dr.
To Share Application A/c
(Application money received on 25,000 shares @ Rs. _ per Share)

2 Share Application A/c Dr.
To Share Capital A/c
To Share Allotment A/c
(Transfer of application money to share capital and the excess application money credited to share allotment.)

3 Share Allotment A/c Dr.
To Share Capital A/c
(Amount due on the Allotment of 25,000 share @ Rs. _ per Share)

4 Bank A/c Dr.
To Share Allotment A/c
(Allotment money received after adjusting the amount already received as excess application money)

Third Alternative : When the application for some shares are rejected outrightly; and pro-rata allotment is made to the remaining applicants, the money on rejected applications is fully refunded and the excess application money received from applicants to whom prorata allotment has been made is adjusted towrds the amount due on the allotment of shares allotted.

For example, a company invited applications for 10,000 shares and received applications for 15,000 shares. the directors decided to reject the applications for 2,500 shares outright and to make a pro-rata allotment of 10,000 shares to the applicants for the remaining 12,500 shares so that four shares are allotted for every five shares applied. In this case, the money on applications for 2,500 shares rejected would be refunded fully and that on the remaining 2,500 shares (12,500 shares – 10,000 shares) would be adjusted against the allotment amount due on 10,000 shares allotted and credited to share allotment account, the journal entries on application and allotment recorded as follows:

1 Bank A/c Dr.
To Share Application A/c
(Money received on application for 15,000 shares @ Rs. _ per share)

2 Share Application A/c Dr.
To Share Capital A/c
To Share Allotment A/c
To Bank A/c
(Transfer of application money to share capital, and the excess application amount of pro-rata allottees credited to share allotment and the amount on rejected applications refunded)

3 Share Allotment A/c Dr.
To Share Capital A/c
(Amount due on the Allotment of 10,000 shares @ Rs. _ per share)

4 Bank A/c Dr.
To Share Allotment A/c
(Allotment money received after adjusting the amount already received as excess application money.)

Illustration 7

Janta Papers Limited invited applications for 1,00,000 equity shares of Rs. 25 each payable as under:

On Application	Rs. 5.00 per share
On Allotment	Rs. 7.50 per share
On First Call (due two months after allotment)	Rs. 7.50 per share
On Second and Final Call (due two months after First Call)	Rs. 5.00 per share

Applications were received for 4,00,000 shares on January 01, 2006 and allotment was made on February 01, 2006.

Record journal entries in the books of the company to record these share capital transactions under each of the following circumstances:

1 The directors decide to allot 1,00,000 shares in full to selected applicants and the applications for the remaining 3,00,000 shares were rejected outright.

2 The directors decide to make a pro-rata allotment of 25 per cent of the shares applied for to every applicant; to apply the balance of application money towards amount due on allotment; and to refund the amount remaining thereafter.

3 The directors totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make a pro-rata allotment of the 20,000 shares to remaining applicants the excess of application money is to be adjusted towards allotment and calls to be made.

Solution

Books of Janta Papers Limited
Journal

First Alternative

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
2006 January 01	Bank A/c Dr.		20,00,000	
	To Equity Share Application A/c			20,00,000
	(Money received on applications for 4,00,000 shares @ Rs. 5 per share)			

February 01	Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Transfer of application money on 1,00,000 shares to share capital and money refunded on rejected applications)		20,00,000	 5,00,000 15,00,000
February 01	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ Rs 7.50 per share)		7,50,000	 7,50,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		7,50,000	 7,50,000
April 01	Equity Share First Call A/c Dr. To Equity Share Capital A/c Dr. (First call money due on 1,00,000 shares @ Rs. 7.50 per share)		7,50,000	 7,50,000
June 01	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Final Call money due on 1,00,000 shares @ Rs. 5 per share)		5,00,000	 5,00,000
June 01	Bank A/c Dr. To Equity Share Second and Final Call A/c (Final call money received)		5,00,000	 5,00,000

Second Alternative

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
2006 January 01	 Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 4,00,000 shares @ Rs. 5 per share)		 20,00,000	 20,00,000
February 01	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Transfer of application money on Shares allotted to share capital, excess application amount credited to allotment account and money refunded on rejected applications)		20,00,000	 5,00,000 7,50,000 7,50,000

February 01	Equity Share Allotment A/c Dr.		7,50,000	
	To Equity Share Capital A/c			7,50,000
	(Amount due on the allotment of Rs. 1,00,000 shares @ Rs 7.50 per share)			
February 01	Bank A/c Dr.		7,50,000	
	To Equity Share Allotment A/c			7,50,000
	(Amount due on the allotment of Rs. 1,00,000 shares @ Rs 7.50 per share)			

Note : The entries regarding the two calls would be the same as under the preceeding method.

Third Alternative

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
2006 January 01	Bank A/c Dr.		20,00,000	
	To Equity Share Application A/c			20,00,000
	(Money received on applications for 4,00,000 shares @ Rs. 5 per share)			
February 01	Equity Share Application A/c Dr.		20,00,000	
	To Equity Share Capital A/c			5,00,000
	To Equity Share Allotment A/c			1,50,000
	To Calls-in-Advance A/c			2,50,000
	To Bank A/c			11,00,000
	(Amount on share application adjusted to share capital, share allotment and calls-in-advance and the balance refunded including the money on rejected applications			
February 01	Equity Share Allotment A/c Dr.		7,50,000	
	To Equity Share Capital A/c			7,50,000
	(Transfer of application money on shares allotted to share capital and amount due on the allotment of 1,00,000 shares @ Rs. 7.50 per share			
	Bank A/c Dr.		6,00,000	
	To Equity Share Allotment A/c			6,00,000
	(Allotment money received)			

April 01	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First Call money due on 1,00,000 shares @ Rs. 7.50 per share)		7,50,000	 7,50,000
April 01	Bank A/c Dr. Calls-in-Advance A/c Dr. To Equity Share First Call A/c (Calls-in-advance adjusted against first call and the balance money on call received)		6,00,000 1,50,000	 7,50,000
June 01	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Final Call money due on 1,00,000 shares @ Rs. 5 per share)		5,00,000	 5,00,000
June 01	Bank A/c Dr. Calls-in-Advance A/c Dr. To Equity Share Second and Final Call A/c (Calls-in-advance adjusted against final call and the balance money on call received)		4,00,000[1] 1,00,000	 5,00,000

Note: The balance of excess application money as a result of pro-rata distribution in journal entry 3 above is large enough to meet the demands on allotted shares in respect of the allotment and the two call money, as well as to leave an amount to be refunded along with that on the rejected applications.

Working Notes:

	(Rs.)	(Rs.)
Excess Application Money		15,00,000
Less Transfers :		
Share Allotment –		
20,000 shares @ Rs. 7.50	1,50,000	
Share Calls –		
20,000 shares @ Rs. 12.50	2,50,000	4,00,000[1]
Amount to be refunded (including that on the rejected applications)		11,00,000

1.6.4 Undersubscription

Under subscription is a situation where number of shares applied for is less than the number for which applications have been invited for subscription. For example, a comapny offered 2 lakh shares for subscription to the public but the applications were received for 1,90,000 share, only. In such a situation, the allotment will be confirmed to 1,90,000 share and entries shall be made accordingly. However, as stated earlier, it must be ensured that the company has received the minimum subscriptions (not less than 90% of the offer otherwise the procedure for issue of shares cannot proceed further and the company will have to refund the entire subscription amount received.

1.6.5 Issue of Shares at a Premium

It is quite common for the shares of financially strong and well-managed companies to be issued at a premium, i.e. at an amount more than the nominal or par value of shares. Thus, when a share of the nominal value of Rs. 100 is issued at Rs. 105, it is said to have been issued at a premium of 5 per cent.

When the issue of shares is at a premium, the amount of premium may technically be called at any stage of the issue of shares. However, premium is generally called with the amount due on allotment, sometimes with the application money and rarely with the call money. The premium amount is credited to a separate account called 'Securities Premium Account' and is shown on the liabilities side of the company's balance sheet under the heading 'Reserves and Surpluses'. It can be used only for the following four purposes as laid down by Section 78 of The Companies Act 1956:

(a) to issue fully paid bonus shares to an extent not exceeding unissued share capital of the company;
(b) to write-off preliminary expenses of the company;
(c) to write-off the expenses of, or commission paid, or discount allowed on any of the shares or debentures of the company; and
(d) to pay premium on the redemption of preference shares or debentures of the company.

The Journal entries for shares are issued at a premium are as follows:

1. For *Premium Amount called with Application money*

(a) Bank A/c Dr.

To Share Application A/c

(Money received on application for —
shares @ Rs. — per share including premium)

Share Application A/c Dr.

To Share Capital A/c

To Securities Premium A/c

(Transfer of application money to share
capital and securities premium accounts)

2. *Premium Amount called with Allotment Money*

(a) Share Allotment A/c Dr.
To Share Capital A/c
To Securities Premium A/c
(Amount due on allotment of shares @ Rs — per share including premium)

(b) Bank A/c Dr.
To Share Allotment A/c
(Allotment money received including premium)

Illustration 8

Jupiter Company Limited issued 35,000 equity shares of Rs. 10 each at a premium of Rs.2 payable as follows:

On Application	Rs. 3
On Allotment	Rs. 5 (including premium)
Balance on First and Final Call	

The issue was fully subscribed. All the money was duly received.
Record journal entries in the books of the company.

Solution

Books of Jupiter Company Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr.		1,05,000	
	To Equity Share Application A/c			1,05,000
	(Money received on applications for 35,000 shares @ Rs. 3 per share)			
	Equity Share Application A/c Dr.		1,05,000	
	To Equity Share Capital A/c			1,05,000
	(Transfer of application money on allotment to share capital)			
	Equity Share Allotment A/c Dr.		1,75,000	
	To Equity Share Capital A/c			1,05,000
	To Securities Premium A/c			70,000
	(Amount due on allotment of 35,000 shares @ Rs. 5 per share including premium)			

	Bank A/c Dr. To Equity Share Allotment A/c (Money received including premium)		1,75,000	1,75,000
	Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Amount due on First and Final Call of Rs. 4 per share on 35,000 shares)		1,40,000	1,40,000
	Bank A/c Dr. To Equity Share First and Final Call A/c (Money received on First and Final Call)		1,40,000	1,40,000

1.6.6 Issue of Shares at a Discount

There are instances when the shares of a company are issued at a discount, i.e. at an amount less than the nominal or par value of shares, the difference between the nominal value and issue price representing discount on the issue of shares. For example, when a share of the nominal value of Rs. 100 is issued at Rs. 98, it is said to have been issued at a discount of two per cent.

As a general rule, a company cannot ordinarily issue shares at a discount. It can do so only in cases such as 'reissue of forfeited shares' (to be discussed later) and in accordance with the provisions of section 79 of The Companies Act.

It states that, a company is permitted to issue shares at a discount provided the following conditions are satisfied:

(a) The issue of shares at a discount is authorised by an ordinary resolution passed by the company at its general meeting and sanctioned by the Company Law Board now Central Government.
(b) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares. The rate of discount can be more than 10 per cent if the Government is convinced that a higher rate is called-for under special circumstances of a case.
(c) At least one year must have elapse since the date on which the company became entitled to commence the business.
(d) The shares are of a class which has already been issued.
(e) The shares issued within two months from the date of receiving sanction for the same from the Government or within such extended period as the Government may allow.
(f) If the offer prospectus at the date of issue must mention particulars of the discount allowed on the issue of shares.

Whenever shares are issued at a discount, the amount of discount is brought into the books at the time of allotment by debiting an account called 'Discount on the Issue of Shares Account'. The journal entry to be passed for the purpose is as given below:

Share Allotment A/c Dr.
Discount on the Issue of Shares A/c Dr.
Share Capital A/c
(Amount due on allotment of – shares @ Rs – per share and discount on issue brought into account.)

'Discount on the Issue of Shares Account', having a debit balance, denotes a loss to the company and is shown on the asset side of the company's balance sheet under heading 'Miscellaneous Expenditure'. It is written-off by being charging it to the Securities Premium Account if any and, in its absence, by being gradually charged to the Profit and Loss Account over a period of 5 to 10 years.

Illustration 9

Fine Arts Limited issued to the public for subscription of 10,000 shares of Rs.10 each at a discount of 10% payable at Rs. 4 on application, Rs. 3 on allotment and Rs.2 on Ist and the final call. The issue was fully subscribed and all the money was duly received.

Write journal entries for the above in the books of the company.

Solution

Books of Fine Arts Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr. To Share Application A/c (Application money received on 10,000 shares @ Rs. 4 per share)		40,000	 40,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to Share Capital)		40,000	 40,000
	Share Allotment A/c Dr. Discount on Issue of Share A/c Dr. To Share Capital A/c (Amount due @ Rs. 3 per share on Allotment and @ Re. 1 per share discount on 10,000 shares allotted)		30,000 10,000	 40,000

	Bank A/c Dr. To Share Allotment A/c (Allotment money received on 10,000 shares)		30,000	30,000
	Share First and Final call A/c Dr. To Share Capital A/c (Final Call of Rs. 2 per share due on 10,000 shares)		20,000	20,000
	Bank A/c Dr. To Share First and Final Call A/c (Final call money received on 10,000 shares)		20,000	20,000

1.6.7 Issue of Shares for Consideration other than Cash

There are instances where a company enters into an arrangement with the vendors from whom it has purchased assets, whereby the latter agrees to accept, the payment in the form of fully paid shares of the company issued to them. Normally, no cash is received for such issue of shares. These shares can also be issued either at par, at premium or at discount, and the number of shares to be issued will depend upon the price at which the shares are issued and the amount payable to the vendor. Thus, to find out the number of shares to be issued to the vendor will be calculated as follows:

$$\text{No. of shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}}$$

For example, Rahul Limited purchased building from Handa Limited for Rs.5,40,000 and the payment is to be made by the issue of shares of Rs.100 each. The number of shares to be issued shall be worked out as follows in different situations :

(a) *When shares are issued at par, i.e. at Rs.100*

$$\text{Number of shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{\text{Rs. } 5{,}40{,}000}{\text{Rs. } 100} = 5{,}400 \text{ shares}$$

(b) *When shares issued at a discount of 10% i.e., at Rs.90 (100 – 10)*

$$\text{Number of shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{\text{Rs. } 5{,}40{,}000}{\text{Rs. } 90} = 6{,}000 \text{ shares}$$

(c) *When shares issued at premium of 20% i.e., at Rs.120 (100 + 20)*

$$\text{Number of shares to be issued} = \frac{\text{Amount Payable}}{\text{Issue Price}} = \frac{\text{Rs. }5{,}40{,}000}{\text{Rs. }120} = 4{,}500 \text{ shares}$$

The journal entries recorded for the share issued for consideration other than cash in above situations will be as follows :

Books of Rahul Limited
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Building A/c	Dr		5,40,000	
	To Handa Limited				5,40,000
	(Building purchased)				
(a)	*When shares are issued at par*				
	Handa Limited	Dr.		5,40,000	
	To Share Capital A/c				5,40,000
	(5,400 Shares issued at par)				
(b)	*When shares are issued at Discount of 10%*				
	Handa Limited	Dr.		5,40,000	
	Discount on Issue of Shares A/c	Dr.		60,000	
	To Share Capital A/c				6,00,000
	(6,000 shares issued at Rs.90 per share)				
(c)	*When shares are issued at premium of 20%*				
	Handa Limited	Dr.		5,40,000	
	To Share Capital A/c				4,50,000
	To Securities Premium A/c				90,000
	(4,500 shares issued at Rs.120 per share)				

Illustration 10

Jindal and Company purchased a machine from High-Life Machine Limited for Rs.3,80,000. As per purchase agreement, Rs. 20,000 were paid in cash and balance by issue of shares of Rs.100 each. What will be the entry passed if the share are issued :

(a) at par
(b) at 10% discount
(c) at 20% premium

Solution

Number of shares will be calculated as follows:

i) When shares issued at par

$$\frac{\text{Rs. }3,60,000}{\text{Rs.}100} = 3,600 \text{ shares}$$

ii) When shares issued at discount

$$\frac{\text{Rs. }3,60,000}{\text{Rs.}90} = 4,000 \text{ shares}$$

iii) When shares issued at premium

$$\frac{\text{Rs. }3,60,000}{\text{Rs.}120} = 3,000 \text{ shares}$$

Books of Jindal and Company
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Machine A/c	Dr.		3,80,000	
	To Bank A/c				20,000
	To High Life machine Limited				3,60,000
	(Machine purchased and Rs.20,000 paid in cash and the balance paid by issue of share)				
(a)	*When shares are issued at par*				
	High-Life Machine Limited	Dr.		3,60,000	
	To Share Capital A/c				3,60,000
	(3,600 Shares of Rs.100 each)				
(b)	*When shares are issued at discount*				
	High Life Machine Limited	Dr.		3,60,000	
	Discount on Issue of Shares A/c	Dr.		40,000	
	To Share Capital A/c				4,00,000
	(4,000 shares of Rs.90 per share issued at discount)				
(c)	*When shares are issued at premium*				
	High Life Machine Limited	Dr.		3,60,000	
	To Share Capital A/c				3,00,000
	To Securities Premium A/c				60,000
	(3,000 shares issued at Rs.120 per share)				

Test your Understanding – II

Choose the Correct Answer.

(a) Equity share holders are :
   (i) creditors
   (ii) owners
   (iii) customers of the company.

(b) Nominal share capital is :
   (i) that Part of the authorised capital which is issued by the company.
   (ii) the amount of capital which is actually applied for by the prospective shareholders.
   (iii) the maximum amount of share capital which a company is authorised to issue.
   (iv) the amount actually paid by the shareholders.

(c) Interest on calls-in-arrears is charged according to "Table A" at :
   (i) 5 %
   (ii) 6 %
   (iii) 8 %
   (iv) 11 %

(d) Money received in advance from shareholders before it is actually called-up by the directors is :
   (i) debited to calls-in-advance account
   (ii) credited to calls-in-advance account
   (iii) debited to calls account.

(e) Shares can be forfeited :
   (i) for non-paymnt of call money
   (ii) for failure to attend meetings
   (iii) for failure to repay the loan to the bank
   (iv) for which shares are pledged as a security.

(f) The balance of share forfeited account after the reissue of forfeited shares is transferred to :
   (i) general reserve
   (ii) capital redemption reserve
   (iii) capital reserve
   (iv) reveneue reserve

(g) Balance of share forfeiture account is shown in the balance sheet under the item :
   (i) current liabilities and provisions
   (ii) reserves and surpluses
   (iii) share capital account
   (iv) unsecured loans

1.7 Forfeiture of Shares

It may happen that some shareholders fail to pay one or more instalments, viz. allotment money and/or call money. In such circumstances, the company can forfeit their shares, i.e. cancel their allotment and treat the amount already received thereon as forfeited to the company within the framework of the provisions in its articles. There provisions are usually based on Regulations 29 to 35 of the Table A which authorise, the directors to forefeit the shares for non-payment of calls made. For this purpose, they have to strictly follow the procedure laid down in this regard.

When shares are forefeited all entries relating to the shares forfeited, except those relating to premium, already recorded in the accounting records, must be reversed. Accordingly, share capital account is debited with the amount called-up in respect of shares are forfeited and crediting (i) the espective unpaid calls account's or calls in arrears account, as the case may be will the unpaid amount, and (ii) share foreited account with the amount already received. Thus, the journal entry will be as follows:

Share Capital A/c Dr.
    To Share Forfeiture A/c
    To Share Allotment A/c
    To Share Calls A/c (individually)
(..... shares forfeited for non-payment of allotment money and calls made)

Note : In case 'Calls-in-Arrears' account is maintained by a company, 'Calls-in-Arrears' account would be credited in the above entry instead of 'Share Allotment' and/or 'Share Call or Calls' account.

The balance of shares forfeited account is shown as an addition to the total paid-up capital of the company under the heading 'Share Capital' on the liabilities side of the balance sheet till the forfeited shares are reissued.

Illustration 11

Handa Limited issued 10,000 equity shares of 100 each payable at follows: Rs. 25 on application, Rs. 30 on allotment, Rs. 20 on first call and Rs. 30 on second and final call 10,000 shares were applied for and allotment. All money due was received with the exception of both calls on 300 shares held by Supriya. These shares were forfeited. Give necessary journal entries.

Solution

Books of Handa Limited
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c Dr. To Share Application A/c (Application money on 10,000 shares @Rs.25 per share received)		2,50,000	 2,50,000

	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital)		2,50,000	 2,50,000
	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 10,000 shares @Rs. 30 per share)		3,00,000	 3,00,000
	Bank A/c Dr. To Share Allotment A/c (Money received on 10,000 shares @ Rs. 30 per share on allotment)		3,00,000	 3,00,000
	Share First Call A/c Dr. To Share Capital A/c (Money due on 10,000 shares @ Rs. 20 per share on Ist Call)		2,00,000	 2,00,000
	Bank A/c Dr. To Share First Call A/c (First call money received except for 300 shares)		1,94,000	 1,94,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Money due on 10,000 shares @ Rs. 30 per share on Second and Final Call)		3,00,000	 3,00,000
	Bank A/c Dr. To Share Second and Final Call A/c (Second and Final Call money received except for 300 shares)		2,91,000	 2,91,000
	Share Capital A/c Dr. To Share First Call A/c To Share Second and Final Call A/c To Share Forfeiture A/c (Three hundred shares Forfeited)		30,000	 6,000 9,000 15,000

Forfeiture of Shares issued at a Premium: Where shares were originally issued at a premium and the premium amount has been fully realised, and later on some share are forfeited due to non-payment of call money, the accounting treatment of forfeiture would be on the same pattern as in the case of shares issued at par. The important point to be noted in this context is that the share premium account is not to be debited at the time of forfeiture if the premium has been received in respect of the forefeited share.

In case, however, if the premium amount has not been received, either wholly or partially, in respect of the shares forfeited, the Share Premium Account will also be debited with the amount of premium not received along-with the Share Capital Account at the time forfeiture. This will usually be the case when even the amount due on allotment has not been received. Thus, the journal entry to record the forfeiture of shares issued at a premium on which premium has not been fully received, will be :

Share Capital A/c Dr.
Securities Premium A/c Dr.
To Share Forfeiture A/c
To Share Allotment A/c
and/or
To Share Calls A/c (individually)
(..... shares forefeited for non-payment of allotment money and calls made)

Note: Where Calls-in-Arrears Account is maintained, Calls-in-Arrears Account is credited and not Share Allotment and/or Share Call/Calls Accounts.

Illustration 12

Sahil, a share holder, failed to pay the share second and final call of Rs. 20 on 1,000 shares issued to him at Rs. 120 (face value of Rs. 100 per share). His shares were forfeited after the second and final call. Give the necessary journal entry for forefeiture of the shares.

Solution

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Share Capital A/c Dr.		1,00,000	
	To Share IInd and Final Call A/c			20,000
	To Share Forfeiture A/c			80,000
	(Forfeiture of 300 shares for non-payment of the final call)			

Illustration 13

Sunena, a shareholder holding 500 shares of Rs.10 each, did not pay the allotment money of Rs. 4 per share (including a premium of Rs. 2) and the first and final call of Rs. 3. Her shares were forfeited after the first and final call. Give journal entry for forefeiture of the shares.

Solution

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Share Capital A/c	Dr.		5 ,000	
	Securities Premium A/c	Dr.		1,000	
	To Share Allotment A/c				2,000
	To Share Ist and Final Call A/c				1,500
	To Share Forfeiture A/c				2,500
	(Forfeiture of 500 shares for non-payment of Ist and final call)				

Forfeiture of Shares Issued at a Discount: Where shares forfeited were originally issued at a discount, the discount applicable to such shares must be cancelled or written back. Hence the Discount on Issue of Shares Account should be credited at the time of forfeitures. So, that the balance on 'Discount on Issue of Shares Account' relates only to the remaining shares forming part of Share Capital Account. Thus, the journal entry to record the forfeiture will be :

Share Capital A/c Dr.
To Share Forfeiture A/c
To Discount on Issue of Shares
To Share Allotment A/c
To Share Calls A/c
or
To Calls-in-Arrears A/c
(Forefeiture of ..... shares for non-payment of allotment money and the calls made).

Illustration 14

Madan Limited invited application for 20,000 shares of Rs. 100 each at a discount of 10%, payable at Rs. 25 on application, Rs. 25 on allotment, Rs. 25 on first call and Rs. 15 on second and final call. Ritu who applied for 1,000 shares was allotted 600 shares and the excess application money adjusted against the allotment money on the shares allotted. These shares were forfeited after the first call. Journalise the transaction for forfeiture after she having failed to pay:

1. The allotment money and the first call, and
2. the first call only.

Solution

Books of Madam Limited
Journal

1. When the Allotment and first call is not paid

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Share Capital A/c Dr.		51,000	
	To Discount on Issue of Shares A/c			6,000
	To Share Allotment A/c			5,000
	To Share First Call A/c			15,000
	To Share Forfeiture A/c			25,000
	(600 shares forfeited after First Call for non-payment of allotment and First Call money)			

Note: The amount due on allotment was Rs. 5,000 only as the excess application money of Rs. 10,000 had been adjusted against the allotment money of Rs. 15,000 due from her.

2. When only the first call is not paid

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Share Capital A/c Dr.		51,000	
	To Discount on issue of shares A/c			6,000
	To Share First Call A/c			15,000
	To Share Forfeiture A/c			30,000
	(600 shares forfeited after First Call on non-payment of First Call money)			

Illustration 15

Ashok Limited issued 3,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share, payable at Rs. 3 on application, Rs. 5 on allotment (including premium) and the balance in two calls of equal amount.

Applications were received for 4,00,000 shares and pro-rata allotment was made to all the applicants. The excess application money was adjusted towards allotment. Mukesh who was allotted 800 shares failed to pay both the calls and his shares were forfeited after the second call. Record necessary journal entries in the books of Ashok Limited and also show the balance sheet:

Solution

Books of Ashok Limited

Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		12,00,000	
	To Equity Share Application A/c				12,00,000
	(Application money received on 4,00,000 shares)				
	Equity Share Application A/c	Dr.		12,00,000	
	To Equity Share Capital A/c				9,00,000
	To Equity Share Allotment A/c				3,00,000
	(Application money on 3,00,000 shares transferred to share capital account and the excess amount adjusted to share allotment account)				
	Equity Share Allotment A/c	Dr.		15,00,000	
	To Equity Share Capital A/c				9,00,000
	To Securities Premium A/c				6,00,000
	(Allotment money due on 3,00,000 shares)				
	Bank A/c	Dr.		12,00,000	
	To Equity Share Allotment A/c				12,00,000
	(Allotment amount received after adjusting excess money received with application)				
	Equity Share First Call A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(First Call amount due on 3,00,000 shares)				
	Bank A/c	Dr.		5,98,400	
	Calls in arrears A/c	Dr.		1,600	
	To Equity Share First Call A/c				6,00,000
	(First Call amount received on 2,99,200 shares)				
	Equity Share Second and Final Call A/c	Dr.		6,00,000	
	To Equity Share Capital A/c				6,00,000
	(Second Call amount due)				
	Bank A/c	Dr.		5,98,400	
	Calls in Arrears A/c	Dr.		1,600	
	To Equity Share Second and Final Call A/c				6,00,000
	(Amount on 2,99,200 shares received)				

	Equity Share Capital A/c Dr.		8,000	
	To Share Forfeited A/c			4,800
	To Call in Arrears A/c			3,200
	(Forfeiture of 800 shares)			

Balance Sheet of Ashok Limited as on ....

Liability	*Amount*	*Assets*	*Amount*
Share Capital	29,92,000	Bank	35,96,800
Securities premium	6,00,000		
Forfeited Share	4,800		
	35,96,800		**35,96,800**

Illustration 16

High Light India Ltd. invited applications for 30,000 Shares of Rs. 100 each at a premium of Rs. 20 per share payable as follows :

On Application	Rs. 40 (including Rs.10 premium)
On Allotment	Rs. 30 (including Rs.10 premium)
On First Call	Rs. 30
On Second & Final Call	Rs. 20

Applications were received for 40,000 shares and pro-rata allotment was made on the application for 35,000 share. Excess application money is to be utilised towards allotment.

Rohan to whom 600 Shares allotted failed to pay the allotment money and his shares were forfeited after allotment.

Aman who applied for 1,050 shares failed to pay first call and his share were forfeited after Ist Call.

Second and final call was made. All the money due on IInd call have been received.

Of the shares forfeited, 1,000 share were reissued as fully paid-up for Rs. 80 per share, which included the whole of Aman's shares.

Record necessary journal entries in the books of High Light India Ltd.

Solution

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c	Dr.		16,00,000	
	To Share Application A/c				16,00,000
	(Application money received on 40,000 shares)				
	Share Application A/c	Dr.		14,00,000	
	To Share Capital A/c				9,00,000
	To Securities Premium A/c				3,00,000
	To Share Allotment A/c				2,00,000
	(Application money transferred to share capital account, securities premium account and the excess money transfered to share allotment account)				
	Share Allotment A/c	Dr.		9,00,000	
	To Share Capital A/c				6,00,000
	To Securities Premium A/c				3,00,000
	(Money due on allotment)				
	Share Application A/c	Dr.		2,00,000	
	To Bank A/c				2,00,000
	(Amount returned on 500 shares)				
	Bank A/c	Dr.		6,86,000	
	To Share Application A/c				6,86,000
	(Amount received in allotment)				
	Share Capital A/c	Dr.		30,000	
	Securities Premium A/c	Dr.		12,000	
	To Share Allotment A/c				14,000
	To Share Forfeiture A/c				28,000
	(Forfeiture of 600 shares of Rohan for non-payment of allotment money)				
	Share First Call A/c	Dr.		8,82,000	
	To Share Capital A/c				8,82,000
	(First Call money due on 29,400 shares)				
	Bank A/c	Dr.		8,55,000	
	To Share First Call A/c				8,55,000
	(First call money received on 28,500 shares)				

	Share Capital A/c Dr.		72,000	
	To Share First Call A/c			27,000
	To Share Forfeiture A/c			45,000
	(Forfeiture of 900 Aman Shares)			
	Share IInd & Final Call A/c Dr.		5,70,000	
	To Share Capital A/c			5,70,000
	(IInd & Final Call money due on 28,500 shares)			
	Bank A/c Dr.		5,70,000	
	To Share IInd & Final Call A/c			5,70,000
	(Due money received)			
	Bank A/c Dr.		80,000	
	Share Forfeiture A/c Dr.		20,000	
	To Share Capital A/c			1,00,000
	(Reissue of 1,000 forfeited shares)			
	Share Forfeiture A/c Dr.		29,666	
	To Capital Reserve		29,666	
	(Profit on 1,000 reissued shares transferred to capital reverve)			

Working Notes :

(I) **Excess amount received on Rohan's application**

Rohan has been alloted = 600 Shares

He must have applied for $\frac{\text{Rs. } 35,000}{\text{Rs. } 30,000}$ 600 700 Shares

		Rs.
Amount received from Rohan	= 700 × Rs. 40	28,000
Amount Adjusted on Application	= 600 × Rs. 40	(24,000)
Amount Adjusted on Allotment		**4,000**
Money due on Allotment	= 600 × Rs. 30	18,000
Money Adjusted		(4,000)
Balance due on Allotment		**14,000**

(II) **Amount recieved on Allotment**

Total Amount due on Allotment = Rs. 30,000 × Rs. 30	= 9,00,000
Amount received on Application	(2,00,000)
	7,00,000

Amount not received on Rohan's Share		(14,000)
Money received on First Call		**6,86,000**

(III) First Call money due on 29,400 shares

	29,400 × Rs. 30 =	8,82,000
Application money not received on 900 Shares	900 × Rs. 30	(27,000)
		8,55,000

(IV) 1000 shares have been reissued including 900 shares of Aman and Balance 100 shares of Rohan

Profit on 100 shares = $\frac{28,000}{600}$ 100	=	4,666
Profit in 900 shares	=	45,000
		49,666
Less: Loss on issue of 1,000 shares		(20,000)
		29,666

(V) Balance in Share forfeiture Account of 500 shares

Rs. $\frac{28,000}{600}$ 500 = Rs. 23,334

Do it Yourself

1. A company forfeited 100 equity shares of Rs.10 each issued at a premium of 20% for non-payment of final call of Rs.5 including the premium. Show the journal entry to be passed for forefeiture of shares.
2. A company forfeited 800 equity shares of Rs.10 each issued at a discount of 10% for non-payment of two calls of Rs.2 each. Calculate the amount forfeited by the company and pass the journal entry for forefeiture of the shares.

Illustration 17

X Ltd. issued for public subscription 40,000 equity shares of Rs. 10 each at premium of Rs. 2 per share payable as under :

On application	Rs. 4 per share
On Allotment	Rs. 5 per share (including premium)
On Call	Rs. 3 per share

Applications were received for 60,000 shares. Allotment was made pro-rata to the applicants for 48,000 shares, the remaining applications being rejected. Money overpaid on application was applied towards sums due on allotment.

Shri Chitnis, to whom 1,600 shares were allotted, failed to pay the allotment money and Shri Jagdale, to whom 2,000 shares were allotted, failed to pay the call money. These shares were subsequently forfeited.

Record journal entries in the books of the company to record the above transactions.

Solution

Books of X Ltd.
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		2,40,000	
	To Equity Share Application A/c				2,40,000
	(Money received on applications for 60,000 shares @ Rs. 4 per share)				
	Equity Share Application A/c	Dr.		2,40,000	
	To Equity Share Capital A/c				1,60,000
	To Equity Share Allotment A/c				32,000
	To Bank a/c				48,000
	(Application amount transferred to share capital, money refunded on rejected applications and excess application money under pro-rata distribution credited to share allotment)				
	Equity Share Allotment A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				1,20,000
	To Securities Premium A/c				80,000
	(Amount due on allotment of 40,000 shares @ Rs. 5 per share including premium)				
	Bank A/c	Dr.		1,61,280	
	Calls-in-Arrears A/c	Dr.		6,720	
	To Equity Share Allotment A/c				1,68,000
	(Money received consequent upon allotment)				
	Equity Share Call A/c	Dr.		1,20,000	
	To Equity Share Capital A/c				1,20,000
	(First call money due on 40,000 shares @ Rs. 3 per share)				

	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share Call A/c (Money received on first call)		1,09,200 10,800	 1,20,000
	Equity Share Capital A/c Dr. Securities Premium A/c Dr. To Forfeited Shares A/c To Call-in-Arrears A/c (Entry for forfeiture of 3,600 shares)		36,000 3,200	 21,680 17,520

Working Notes :

I Amount received on allotment **Rs.**

a)	Amount due on allotment	2,00,000
	40,000 shares × Rs. 5 per share	
b)	Amount actually due on allotment	2,00,000
	Amount due on allotment	
	Less excess Application amount	32,000
	Applied to allotment	
	Amount actually due	1,68,000
c)	Allotment amount due from Chitnis	8,000
	Allotment money on Chitnis's share	
	1,600 shares × Rs. 5 per share	
	Less excess application money paid	1,280
	Due to pro-rata distribution –	
	(1,920 shares – 1,600 shares) 320 × 4	6,720
	Allotment amount due from Chitnis	

According to the ratio of pro-rata distribution (40,000 shares : 48,000 shares), for 1,600 shares to be allotted, Chitnis must have applied for 1,920 shares (1,600 shares × 6/5).

d)	Allotment money received	1,68,000
	(Amount actually due on Allotment)	
	Less Amount unpaid by Chitnis	(6,720)
	Amount received	1,61,280

II. Balance on Shares Forfeited Account

Amount paid by Chitnis :	
1,920 Shares applied for × Rs. 4 per share	7,680
Amount paid by Jagdale :	
2,000 Shares × (Rs. 4 + Rs. 3)	14,000
Total balance	21,680

Note : Premium amount on Jagdale's shares will not be taken into account as it has been received in full by the company.

1.7.1 Re-issue of Forfeited Shares

The directors can either cancel or re-issue the forefeited shares. In most cases, however, they reissue special shares which may be at par, at premium or at a discount. Normally, the forfeited shares are reissued as fully paid and at a discount. In this context, it may be noted that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares on their original issue, and that the discount allowed on reissue of forfeited shares should be debited to the 'Share Forfeited Account'. The balance, if any, left in the Share-Forfeited Account, should be treated as capital profit and transferred to Capital Reserve Account. For example, when a company forfeits 200 shares of Rs. 10 each on which Rs. 600 had been received, it can allow a maximum discount of Rs. 600 on their reissue. Assuming that the company reissues these shares for Rs. 1,800 as fully paid, the necessary journal entry will be:

Bank A/c	Dr.	1,800	
Share Forfeiture A/c	Dr.	200	
To Share Capital A/c			2,000
(Reissue of 200 forfeited shares at Rs. 9 per share as fully paid)			

This shall leave a balance of Rs. 400 in share forfeited account which should be transferred to Capital Reserve Account by recording the following journal entry:

Forfeited Share A/c	Dr.	400	
To Capital Reserve			400
(Profit on reissue of forfeited shares transferred)			

Another important point to be noted in this context is that the capital profit arises only in respect of the forefited share reissued, and not on all forefeited shares. Hence, when a part of the forfeited shares are reissued, the whole balance of Share Forfeited Account cannot be transferred to the capital reserve. In such a situation, it is only the proportionate amount of balance that relates to the forefeited shares reissued which should that relates to the forefeited shares reissued which should be transferred to capital reserve, ensuring that the remaining balance in Share forefeited Account is equal to the amount forefeited on shares not yet reissued.

Illustration 18

The director of Poly Plastic Limited resolved that 200 equity shares of Rs.100 each be forfeited for non-payment of the IInd and final call of Rs.30 per share. Out of these, 150 shares were re-issued at Rs.60 per share to Mohit.

Show the necessary journal entries .

Solution

Books of Poly Plastic Limited
Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Share Capital A/c	Dr.		20,000	
	To Share Forfeited A/c				14,000
	To Share IInd and Final Call A/c				6,000
	(200 shares forfeited for non-payment of final call at Rs.30 per share)				
	Bank A/c	Dr.		9,000	
	Share Forfeiture A/c	Dr.		6,000	
	To Share Capital A/c				15,000
	(Reissue of 150 shares of Rs.100 each, issued as fully paid for Rs.60 each)				
	Share Forfeited A/c	Dr.		4,500	
	To Capital Reserve				4,500
	(Profit on reissue of 150 forfeited shares transferred to capital reserve)				

Working Notes :

		(Rs.)	
Total amount forfeited on 200 shares	=	14,000	(200 × Rs.70)
Amount forfeited on 150 shares	=	10,500	(150 × Rs.70)
Amount forfeited on 50 shares	=	3,500	(50 × Rs.70)
Amount of discount on reissue of 150 shares	=	6,000	(150 × Rs.40)
Amount of profit on reissued shares transferred to capital reserve	=	4,500	(Rs. 10,500 – Rs.6,000)
Balance left in share forfeited account (equal to amount forfeited on 50 shares)	=	4,500	(Rs.14,000 – Rs.6,000 – Rs. 3,500)

Illustration 19

On January 1, 2002, the director of X Ltd. issued for public subscription 50,000 equity shares of Rs. 10 each at Rs. 12 per share payable as to Rs. 5 on application (including premium), Rs. 4 on allotment and the balance on call in May 01, 2002.

The lists were closed on February 10, 2002 by which date applications for 70,000 were received. Of the cash received Rs. 40,000 was returned and Rs.60,000 was applied to the amount due on allotment, the balance of which was paid on February 16, 2002.

All the shareholders paid the call due on May 01, 2002 with the exception of an allottee of 500 shares.

These shares were forfeited on September 29, 2002 and reissued us fully paid at Rs. 8 per share on November 01, 2002.

The company, as a matter of policy, does not maintain a Calls-in-Arrears Account.

Give journal entries to record these share capital transactions in the books of X. Ltd.

Solution

Book of X. Ltd.
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
Feb.10	Bank A/c	Dr.		3,50,000	
	To Equity Share Application and Allotment A/c				3,50,000
	(Amount received on application for 70,000 shares @ Rs. 5 per share Including Premium)				
Feb.16	Equity Share Application A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				1,50,000
	To Securities Premium A/c				1,00,000
	(Transfer of application money on 50,000 shares to share capital and premium accounts consequent upon allotment)				
Feb.16	Equity Share Allotment A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Amount due on allotment of 50,000 Shares @ Rs. 4 per share)				
Feb.16	Equity Share Application A/c	Dr.		1,00,000	
	To Bank A/c				1,00,000
	To Equity Share Allotment A/c				
	(Money refunded for 8,000 shares and balance transfer to share capital account)				
Feb.16	Bank A/c	Dr.		1,40,000	
	To Equity Share Allotment A/c				1,40,000
	(Money received on allotment)				
May 1	Equity Share First & Final Call A/c	Dr.		1,50,000	
	To Equity Share Capital A/c				1,50,000
	(First call money due)				

May 1	Bank A/c Dr.		1,48,500	
	To Equity Share First & Final Call A/c			1,48,500
	(Money received on first call)			
Sept.29	Equity Share Capital A/c Dr.		5,000	
	To Share Forfeited A/c			3,500
	To Equity Share First & Final Call A/c			1,500
	(Forfeiture of 500 shares for non-payment of call)			
Nov. 1	Bank A/c Dr.		4,000	
	Shares Forfeited A/c Dr.		1,000	
	To Equity Share Capital A/c			5,000
	(Reissue of 500 forfeited shares as fully paid at Rs. 4 per share)			
Nov. 1	Share Forfeited A/c Dr.		2,500	
	To Capital Reserve			2,500
	(Balance on Share Forfeited Accounts transferred to capital reserve)			

Illustration 20

A limited company forfeited 1,000 equity shares of Rs. 10 each, issued at a discount of 10 per cent, for non-payment of first call of Rs. 2 and second call of Rs. 3 per share.

These shares were reissued to A upon payment of Rs. 7,000 credited as fully paid.

The company maintains calls-in-arrears account.

Record journal entries in the books of the company relating to forfeiture of 1,000 shares and their reissue.

Solution

Books of Limited Company
Journal

Date	*Particulars*	*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Equity Share Capital A/c Dr.		10,000	
	To Share Forfeited A/c			4,000
	To Discount on the Issue of Share A/c			1,000
	To Calls-in-Arrears A/c			5,000
	(Forfeiture of 1,000 shares for non-payment of call and discount on issue written back)			

	Bank A/c Dr.		7,000	
	Discount on Issue of Shares a/c Dr.		1,000	
	Shares Forfeited A/c Dr.		2,000	
	To Equity Share Capital A/c			10,000
	(Reissue of 1,000 forfeited shares as fully paid at Rs. 7 per share, discount on issue written back and the balance debited to forfeited shares account)			
	Share Forfeited A/c Dr.		2,000	
	To Capital Reserve			2,000
	(Closure of forfeited shares)			

Illustration 21

O Limited issued a prospectus offering 2,00,000 Equity Shares of Rs. 10 each, at a premium of Rs. 2 per share, payable as follows:

On Application	Rs. 2.50 per share
On Allotment	Rs. 4.50 per share (including premium)
On First Call (three months from allotment)	Rs. 2.50 per share
On Second Call (three months after call)	Rs. 2.50 per share

Subscriptions were received for 3,17,000 shares on April 23, 2002 and the allotment made on April 30, was as under :

		Shares Allotted
(i)	Allotment in full (two applicants paid in full on allotment in respect of 4,000 shares each)	38,000
(ii)	Allotment of two shares for every three shares applied for	1,60,000
(iii)	Allotment of one share for every four shares applied for	2,000

Cash amounting to Rs. 77,500 (being application money received with applications on 31,000 shares upon which no allotments were made) was returned to applicants on May 6, 2002.

The amounts called from the allottees were received on the due dates with the exception of the final call on 100 shares. These shares were forfeited on November 15, 2002 and reissued to A on November 16 for payment of Rs. 9 per share.

Record journal entries other than those relating to cash, in the books of O Limited, and also show how the transactions would appear in the Balance Sheet, assuming that the Company paid interest due from it on October 31, 2002.

Solution

Book of O Limited
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
April 30	Share application A/c	Dr.		7,15,000	
	To Equity Share Capital A/c				5,00,000
	To Equity Share Allotment A/c				1,75,000
	To Cash-in-Advance A/c				40,000
	(Transfer of Application Money to share capital after allotment and excess appliation money on 86,000 shares due to pro-rata allotment credited to share allotment)				
April 30	Equity Share Allotment A/c	Dr.		9,00,000	
	To Equity Share Capital A/c				5,00,000
	To Securities Premium A/c				4,00,000
	(Allotment amount due on 2,00,000 shares @ Rs. 4.50 per share including premium)				
July 31	Equity Share First Call A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(First call money due on 2,00,000 shares @ Rs. 2.50 per share)				
July 31	Calls-in-Advance A/c	Dr.		20,000	
	To Equity share First Call A/c				20,000
	(Call in advance on 8,000 shares adjusted against first call money due)				
Oct. 31	Equity Share Second and Final Call A/c	Dr.		5,00,000	
	To Equity Share Capital A/c				5,00,000
	(Second call money due on 2,00,000 shares @ Rs. 2.50 per share)				
Oct. 31	Calls in Advance A/c	Dr.		20,000	
	To Equity Share Second and Final Call A/c				20,000
	(Calls in advance on 8,000 shares adjusted against second call money due)				

Nov. 15	Equity Share Capital A/c Dr. To Equity Shares Forfeited A/c To Equity share Second and Final Call A/c (Forfeiture of 100 shares for the non-payment of call money)		1,000	 750 250
Nov. 16	Equity Shares Forfeited A/c Dr. To Equity Share Capital A/c (Amount due from A for the reissue of 100 shares as fully paid at Rs. 9 per share)		100	 100
Nov. 16	Equity Shares Forfeited A/c Dr. To Capital Reserve (The closure of forfeited shares)		650	 650

Cash Book

Dr. *Cr.*

Receipts	*Amount (Rs.)*	*Payments*	*Amount (Rs.)*
Equity Share Aplication	7,92,500	Equity Shares Application	77,500
Equity Share Allotment	6,85,000	Balance c/f	23,60,650
Equity Share First Call	4,80,000		
Equity Share Second and First Call	4,79,750		
Equity Share Capital	900		
	24,38,150		**24,38,150**

Working Notes :

1. Excess Application Money

Categories of Allotment	*No. of Shares Applied*	*No. of Share Alloted*	*Ratio of Allotment*
i	38,000	38,000	100%
i	2,40,000	1,60,000	2/3
iii	8,000	2,000	1/4
	2,86,000	**2,00,000**	

Therefore, refund of application money = 3,17,000 – 2,86,000 × Rs. 2.50

= Rs. 77,500

Application money received (2,86,000 shares @ Rs. 2.50) = Rs. 7,15,000

Application money due : (2,00,000 shares @ Rs. 2.50)	=	Rs. 5,00,000
Excess application money		Rs. 2,15,000

2. Amount of Calls-in-Advance

   As two allotees, each holding 4,000 shares, paid the full amount on allotment, amount of calls-in-advance is thus :
   8,000 shares × (Rs. 2.50 + Rs. 2.50) = Rs. 40,000

Box 4

Buy-Back of Shares : When a company purchased its own shares, it is called 'Buy-Back of Shares'. Section 77A of the Companies Act, 1956 provides such a facility to the companies and can buy its own shares from either of the following :

(a) Existing equity shareholders on a proportionate basis
(b) Open Market
(c) Odd lot shareholders
(d) Employees of the company

The company can buy back its own shares either from the free reserves, securities premium or from the proceeds of any shares or other specified securities. In case shares are bought back out of free reserves, the company must transfer a sum equal to the nominal value of shares bought back to 'Capital Redemption Reserve Account'.

Section 77A of The Companies Act 1956 has laid down the following procedures for buy-back of shares :

(a) The Articles of the Association must authorise the company for the buy-back of shares.
(b) A special resolution must be passed in the companies' Annual General Body meeting.
(c) The amount of buy-back of shares should not exceed 25% of the paid-up capital and free reserves.
(d) The debt-equity ratio should not be more than a ratio of 2:1 after the buy-back.
(e) All the shares of buy-back should be fully paid-up.
(f) The buy-back of the shares should be completed within 12 months from the date of passing the special resolution.
(g) The company should file a solvency declaration with the Registrar and SEBI which must be signed by at least two directors of the company.

Illustration 22

Garima Limited issued a prospectus inviting applications for 3,000 shares of Rs. 100 each at a premium of Rs.20 payable as follows:

On Application	Rs.20 per share
On Allotment	Rs.50 per share (Including premium)
On First call	Rs.20 per share
On Second call	Rs.30 per share

Applications were received for 4,000 shares and allotments made on pro-rata basis to the applicants of 3,600 shares, the remaining applications being rejected, money received on application was adjusted on account of sums due on allotment.

Renuka whom 360 shares were allotted failed to pay allotment money and calls money, and her shares were forfeited.

Kanika, the applicant of 200 shares failed to pay the two calls, her shares were also forfeited. All these shares were sold to Naman as fully paid for Rs.80 per share. Show the journal entries in the books of the company.

Solution

Books of Garima Limited
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		80,000	
	To Share Application A/c				80,000
	(Application money received on 4,000 shares @ Rs. 20 per share)				
	Share Application A/c	Dr.		80,000	
	To Share Capital A/c				60,000
	To Share Allotment A/c				12,000
	To Bank A/c				8,000
	(Transfer of application money on 3,000 shares to Share Capital Account, on 600 shares to Allotment Account, and on of 400 shares refunded)				
	Share Allotment A/c	Dr.		1,50,000	
	To Share Capital A/c				90,000
	To Securities Premium A/c				60,000
	(Money due on allotment @ Rs. 50 per share on 3,000 shares including Rs.20 on account of share premium)				
	Bank A/c	Dr.		1,21,440	
	To Share Allotment A/c				1,21,440
	(Money received on share allotment:*See note 1)*				
	Share First Call A/c	Dr.		60,000	
	To Share Capital A/c				60,000
	(Money due on call on 3,000 shares @ Rs.20 per share)				

	Bank A/c Dr.		48,800	
	To Share First Call A/c			48,800
	(First call money received on 2440 shares)			
	Share Second and Final Call A/c Dr.		90,000	
	To Share Capital A/c			90,000
	(Money due on call on 3,000 shares @ Rs.30 per share)			
	Bank A/c Dr.		73,200	
	To Share Second and Final Call A/c			73,200
	(Second and Final Call money received on 2,440 shares)			
	Share Capital A/c Dr.		56,000	
	Securities Premium A/c *(See note 2)*		7,200	
	To Share Allotment A/c			16,560
	To Share First Call A/c			11,200
	To Share Second and Final A/c			16,800
	To Shares Forfeited A/c *(See Note 3)*			18,640
	(Forfeiture of 560 shares)			
	Bank A/c Dr.		44,800	
	Share Forfeiture A/c Dr.		11,200	
	To Share Capital A/c			56,000
	(Reissue of 560 forfeited shares)			
	Shares forfeiture A/c Dr.		7,440	
	To Capital Reserve			7,440
	(Profit on forfeiture and reissue of 560 forfeited shares transferred)			

Working Notes :

Amount received on allotment has been calculated as follows:

		(Rs.)
	Total money due on allotment (including premium)	1,50,000
Less :	Application money receive on 600 shares adjusted towards allotment money	12,000
	Net amount due on allotment on 3000 shares	1,38,000
Less :	Allotment money due on 360 shares alloted to Renuka, not received $\frac{360}{3000} \times 1,38,000$	16,560
	Net amount received on 2,640 shares	1,21,440

Since the allotment money which includes securities premium of Rs. 20 per share has not been received. on 360 shares held by Renuka (now forfeited) has been debited to share premium account as per rules.

Amount forefeited has been worked out as follows :-

Application money received from Renuka: $360 \times \frac{3,600}{3,000}$	= 432 × Rs. 20 = Rs. 8,640
Application and Allotment money received from Kanika on 200 shares	Rs. 10,000
Total amount received on forefeited shares	Rs. 18,640

Do it Yourself

Excell Company Limited made an issue of 1,00,000 Equity Shares of Rs.10 each, payable as follows :

On Application	Rs.2.50 per share
On Allotment	Rs.2.50 per share
On Ist and Final Call	Rs.5.00 per share

X, the holder of 400 shares did not pay the call money and his shares were forfeited. Two hundred of the forfeited shares were reissued as fully paid at Rs.8 per share. Draft necessary journal entries and prepare Share Capital and Share Forfeited' accounts in the books of the company.

Test your Understanding – III

(a) If a Share of Rs. 10 on which Rs. 8 is called-up and Rs. 6 is paid is forfeited. State with what amount the Share Capital account will be debited.

(b) If a Share of Rs. 10 on which Rs. 6 has been paid is forfeited, at what minimum price it can be reissued.

(c) Allhuwalia Ltd. issued 1,000 equity shares of Rs. 100 each as fully paid-up in consideration of the purchase of plant and machinery worth Rs. 1,00,000. What entry will be recorded in company's journal.

Illustration 23

Sunrise Company Limited offered for public subscription 10,000 shares of Rs.10 each at Rs. 11 per share. Money was payable as follows:

Rs. 3 on application

Rs. 4 on allotment (including premium)

Rs. 4 on first and final call.

Applications were received for 12,000 shares and the directors made *pro-rata* allotment.

Mr. Ahmad, an applicant for 120 shares, could not pay the allotment and call money, and Mr. Basu, a holder of 200 shares, failed to pay the call. All these shares were forfeited.

Out of the forfeited shares, 150 shares (the whole of *Mr. Ahmad*'s shares being included) were issued at Rs. 8 per share. Record journal entries for the above transactions and prepare the share forfeited account.

Solution

Books of Sunrise Company Limited
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c *(See Note 1)*	Dr.		36,000	
	To Share Application A/c				36,000
	(Application money received on 12,000 shares @ Rs. 3 per share)				
	Share Application A/c	Dr.		36,000	
	To Share Capital A/c				30,000
	To Share Allotment A/c				6,000
	(Transfer of application money to share capital account on 10,000 shares and the balance to allotment account)				
	Share Allotment A/c	Dr.		40,000	
	To Share Capital A/c				30,000
	To Securities Premium A/c				10,000
	(Money due on allotment @ Rs. 4 per share on 10,000 shares including Re 1 on account of share premium)				
	Bank A/c	Dr.		33,660	
	To Share Allotment A/c				33,660
	(Money received on share allotment: *See note 1)*				
	Share Ist and Final Call A/c	Dr.		40,000	
	Share Capital A/c				40,000
	(Money due on call on 10,000 shares @ Rs. 4 per share)				

	Bank A/c To Share Ist and Final Call A/c (Call money received on 9,700 shares)	Dr.		38,800	38,800
	Share Capital A/c Securities Premium A/c *(See Note 2)* To Share Allotment A/c To Share Ist and Final Call A/c To Share Forfeiture A/c *(See Note 3)* (Forfeiture of 300 shares)	Dr.		3,000 100	340 1,200 1,560
	Bank A/c Share Forfeiture A/c To Share Capital A/c (Reissue of 150 forfeited shares)	Dr. Dr.		1,200 300	1,500
	Share Forfeiture A/c To Capital Reserve A/c *(See Note 4)* (Profit on forfeiture and reissue of 150 forfeited shares transferred)	Dr.		360	360

Share Forfeiture Account

Date	*Particulars*	*J.F.*	*Amount (Rs.)*	*Date*	*Particulars*	*J.F.*	*Amount (Rs.)*
	Share Capital		300		Sundries		1,560
	Capital Reserve		360				
	Balance c/d		900				
			1,560				1,560

Working Notes :

1. Amount received on allotment has been calculated as follows:

		(Rs.)	(Rs.)
	Total money due on 10,000 shares @ Rs. 4 per share		40,000
Less:	Application Money Received on 2000 shares adjusted against allotment money net amount due on allotment		(6,000)
			34,000
Less:	Amount due from an applicant for 120 shares who was allotted only 100 shares $\frac{100}{10,000} \times 34,000$		(340)
	Amount received on allotment		33,660

2. Securities Premium Account has been debited only with Rs. 100 relating to 100 shares allotted Mr. Ahmad's shares from whom the allotment money (including premium) has not been received.

3. Shares-Forfeited Account represents the money received on forfeited shares excluding share premium. This has been worked-out as follows:

	(Rs.)
Mr. Ahmad has paid application money @ Rs. 3 per share on 120 shares	360
Mr. Basu has paid @ Rs. 6 per share on Two hundred shares in (application and allotment money excluding premium)	1,200
Total amount received	1,560

	(Rs.)
4. Amount received from *Mr. Ahmad* on 100 shares forfeited which have been reissued Amount received from *Mr. Basu* on 50	360
shares forfeited which have been reissued $\frac{50}{200} \times$ Rs. 1,200	300
Total amount received on One fifty shares which have been forfeited and laten reissued	660
Less: Discount on reissue of forfeited shares (150 Rs. 2)	300
Amount of Capital Profit transferred to capital reserve	360

Do it Yourself

Journalise the following :

(a) The directors of a company forfeited 200 equity shares of Rs. 10 each on which Rs. 800 had been paid. The Shares were re-issued upon payment of Rs. 1,500.

(b) A holds 100 shares of Rs. 10 each on which he has paid Re. 1 per share on application. B holds 200 Shares of Rs. 10 each on which he has paid Re. 1 on application Rs. 2 on allotment. C holds 300 shares of Rs. 10 each who has paid Re. 1 on applications, Rs. 2 on allotment and Rs. 3 on first call. They all failed to pay their arrears and second call of Rs. 4 per share as well. All the shares of A, B and C were forfeited and subsequently reissued at Rs. 11 per share as fully Paid-up.

Terms Introduced in the Chapter

1. Joint Stock Company
2. Share Capital
3. Authorised Capital
4. Issued Capital
5. Unissued Capital
6. Subscribed Capital
7. Called-up Capital
8. Uncalled Capital
9. Paid-up Capital
10. Reserve Capital
11. Share
12. Preference Share
13. Non-redeemable Preference Share
14. Equity Share
15. Issue of Shares for Consideration Other than Cash
16. Discount on Shares
17. Premium on Shares
18. Application Money
19. Minimum Subscription
20. Calls-on Shares
21. Calls-in-Arrears
22. Calls-in-Advance
23. Over subscription
24. Under-subscription
25. Forfeiture of Shares
26. Reissue of forfeited shares
27. Buy Back of Shares

Summary

Company: An organisation consisting of individuals called 'shareholders' by virtue of their holding the shares of a company, who can act as one legal person as regards its business through an elected board of directors.

Share: Fractional part of the capital, and forms the basis of ownership in a company; shares are generally of two types, viz. equity shares and preference shares, according to the provisions of The Companies Act, 1956. Preference shares again are of different types based on varying shades of rights attached to them.

Share Capital of a company is collected by issuing shares to either a select group of persons through the route of private placements and/or offered to the public for subscription. Thus, the issue of shares is basic to the capital of a company. Shares are issued either for cash or for consideration other than cash, the former being more common. Shares are said to be issued for consideration other than cash when a company purchases business, or some asset/assets, and the vendors have agreed to receive payment in the form of fully paid shares of a company.

Stages of Share Issue: The issue of shares for cash is required to be made in strict conformity with the procedure laid down by law for the same. When shares are issued for cash, the amount on them can be collected at one or more of the following stages:

(i) Application for shares
(ii) Allotment of shares
(iii) Call/Calls on shares.

Calls in arrears: Sometimes, the full amount called on allotment and/or call (calls) is not received from the allottees/shareholders. The amount not so received are cumulatively called 'Unpaid calls' or 'Calls-in-Arrears'. However, it is not mandatory for a company to maintain a separate Calls-in-Arrears Account. There are also instances where some shareholders consider it descreet to pay a part or whole of the amount not yet called-up on the shares allotted to them. Any amount paid by a shareholder in the excess of the amount due from him on allotment/call (calls) is known as 'Calls-in-Advance' for which a separate account is maintained. A company has the power to charge interest on calls-in-arrears and is under an obligation to pay interest on calls-in-advance if it accepts them in accordance with the provisions of Articles of Association.

Oversubscription: It is possible for the shares of some companies to be oversubscribed which means that applications for more shares are received than the number offered for subscription through the prospectus. Under such a condition, the alternatives available to the directors are as follows :

(i) They can accept some applications in full and totally reject the others,

(ii) A pro-rata distribution can be made by them,

(iii) A combination of the above two alternatives can be adopted by them.

If the amount of minimum subscription is not received to the extent of 90%, the issue devolves. In case the applications received are less than the number of shares offered to the public, the issue is termed as 'under subscribed'.

Issue of Shares at Premium: Irrespective of the fact that shares have been issued for consideration other than cash, they can be issued either at par or at premium. The issue of shares at par implies that the shares have been issued for an amount exactly equal to their face or nominal value. In case shares are issued at a premium, i.e. at an amount more than the nominal or par value of shares, the amount of premium is credited to a separate account called 'Securities Premium Account', the use of which is strictly regulated by law.

Issue of Shares at Discount: Shares can as well be issued at a discount, i.e. on an amount less than the nominal or par value of shares provided the company fully complies with the provisions laid down by law with regard to the same. Apart from such compliance, shares of a company cannot ordinarily be issued at a discount. When shares are issued at a discount, the amount of discount is debited to 'Discount on Issue of Share Account', which is in the nature of capital loss for the company.

Forfeiture of Shares: Sometimes, shareholders fail to pay one or more instalments on shares allotted to them. In such a case, the company has the authority to forfeit shares of the defaulters. This is called 'Forfeiture of Shares'. Forfeiture means the cancellation of allotment due to breach of contract and to treat the amount already received on such shares as forfeited to the company. The precise accounting treatment of share forfeiture depends upon the conditions on which the shares have been issued – at par, premium or discount. Generally speaking, accounting treatment on forfeiture is to reverse the entries passed till the stage of forfeiture, the amount already received on the shares being credited to Forfeited Shares Account.

Re-issue of Shares: The management of a company is vested with the power to reissue the shares once forfeited by it, subject of course, to the terms and conditions in the articles of association relating to the same. The shares can be reissued even at a discount provided the amount of discount allowed does not exceed the credit balance of forfeited shares' account relating to shares being reissued. Therefore, discount allowed on the reissue of forfeited shares is debited to forfeited shares' account.

Once all the forfeited shares have been reissued, any credit balance on forfeited shares' account is transferred to Capital Reserve representing profit on forfeiture of shares. In the event of all forfeited share not being reissued, the credit amount on forfeited shares' account relating to shares yet to be reissued is carried forward and the remaining balance on the account only is credited to capital reserve account.

Question for Practice

Short Answer Questions

1. What is public company?
2. What is private limited company.
3. Define Government Company?
4. What do you mean by a listed company?
5. What are the uses of securities premium?
6. What is buy-back of shares?
7. Write a brief note on 'Minimum Subscription".

Long Answer Questions

1. What is meant by the word 'Company'? Describe its characteristics.
2. Explain in brief the main categories in which the share capital of a company is divided.
3. What do you mean by the term 'share'? Discuss the type of shares, which can be issued under the Companies Act, 1956 as amended to date.
4. Discuss the process for the allotment of shares of a company in case of over subscription.
5. What is a 'Preference Share'? Describe the different types of preference shares.
6. Describe the provisions of law relating to 'Calls-in-Arrears' and 'Calls-in-Advance'.
7. Explain the terms 'Over-subscription' and 'Under-subscription'. How are they dealt with in accounting records?
8. Describe the purposes for which a company can use 'Securities Premium Account'.
9. State clearly the conditions under which a company can issue shares at a discount.
10. Explain the term 'Forfeiture of Shares' and give the accounting treatment on forfeiture.

Numerical Questions

1. Anish Limited issued 30,000 equity shares of Rs.100 each payable at Rs.30 on application, Rs.50 on allotment and Rs.20 on Ist and final call. All money was duly received.

   Record these transactions in the journal of the company.

2. The Adersh Control Device Ltd was registered with the authorised capital of Rs.3,00,000 divided into 30,000 shares of Rs.10 each, which were offered to the public. Amount payable as Rs.3 per share on application, Rs.4 per share on allotment and Rs.3 per share on first and final call. These share were fully subscribed and all money was dully received. Prepare journal and Cash Book.

3. Software solution India Ltd inviting application for 20,000 equity share of Rs.100 each, payable Rs.40 on application, Rs.30 on allotment and Rs.30 on call. The company received applications for 32,000 shares. Application for 2,000 shares were rejected and money returned to Applicants. Applications for 10,000 shares were accepted in full and applicants for 20,000 share allotted half of the number of share applied and excess application money adjusted into allotment. All money received due on allotment and call.

   Prepare journal and cash book.

4. Rupak Ltd. issued 10,000 shares of Rs.100 each payable Rs.20 per share on application, Rs.30 per share on allotment and balance in two calls of Rs.25 per share. The application and allotment money were duly received. On first call all member pays their dues except one member holding 200 shares, while another member holding 500 shares paid for the balance due in full. Final call was not made.

   Give journal entries and prepare cash book.

5. Mohit Glass Ltd. issued 20,000 shares of Rs.100 each at Rs.110 per share, payable Rs.30 on application, Rs.40 on allotment (including Premium), Rs.20 on first call and Rs.20 on final call. The applications were received for 24,000 shares and allotted 20,000 shares and reject 4,000 shares and amount returned thereon. The money was duly received.

   Give journal entries.

6. A limited company offered for subscription of 1,00,000 equity shares of Rs.10 each at a premium of Rs.2 per share. 2,00,000. 10% Preference shares of Rs.10 each at par.

   The amount on share was payable as under :

	Equity Shares	*Preference Shares*
On Application	Rs.3 per share	Rs.3 per share
On Allotment	Rs.5 per share (including a premium)	Rs.4 per share
On First Call	Rs.4 per share	Rs.3 per share

   All the shares were fully subscribed, called-up and paid.

   Record these transactions in the journal and cash book of the company:

7. Eastern Company Limited, having an authorised capital of Rs.10,00,000 in shares of Rs.10 each, issued 50,000 shares at a premium of Rs.3 per share payable as follows :

On Application	Rs.3 per share
On Allotment (including premium)	Rs.5 per share
On first call (due three months after allotment)	Rs.3 per share

and the balance as and when required.

Applications were received for 60,000 shares and the directors allotted the shares as follows :

(a) Applicants for 40,000 shares received shares, in full.

(b) Applicants for 15,000 shares received an allotment of 8,000 shares.

(c) Applicants for 500 shares received 200 shares on allotment, excess money being returned.

All amounts due on allotment were received.

The first call was duly made and the money was received with the exception of the call due on 100 shares.

Give journal and cash book entries to record these transactions of the company. Also prepare the Balance Sheet of the company.

8. Sumit Machine Ltd issued 50,000 shares of Rs.100 each at discount of 5%. The shares were payable Rs.25 on application, Rs. 40 on allotment and Rs.30 on first and final call. The issue were fully subscribed and money were duly received except the final call on 400 shares. The discount was adjusted on allotment.

Give journal entries and prepare balance sheet.

9. Kumar Ltd purchases assets of Rs.6,30,000 from Bhanu Oil Ltd. Kumar Ltd. issued equity share of Rs.100 each fully paid in consideration. What journal entries will be made, if the share are issued, (a) at par, (b) at discount of 10 % and (c) at premium of 20%.

(**Ans:** No. of shares issued (a) 6,300, (b) 7,000, (c) 5250)

10. Bansal Heavy machine Ltd purchased machine worth Rs.3,20,000 from Handa Trader. Payment was made as Rs.50,000 cash and remaining amount by issue of equity share of the face value of Rs. 100 each fully paid at an issue price of Rs.90 each.

Give journal entries to record the above transaction.

(**Ans :** No of shares issued 3,000 shares)

11. Naman Ltd issued 20,000 shares of Rs.100 each, payable Rs.25 on application, Rs.30 on allotment , Rs.25 on first call and The balance on final call. All money

duly received except Anubha, who holding 200 shares did not pay allotment and calls money and Kumkum, who holding 100 shares did not pay both the calls. The directors forfeited shares of Anubha and kumkum.

Give journal entries.

12. Kishna Ltd issued 15,000 shares of Rs.100 each at a premium of Rs.10 per share, payable as follows:

On application	Rs.30
On allotment	Rs.50 [including premium]
On first and final call	Rs.30

All the shares subscribed and the company received all the money due, With the exception of the allotment and call money on 150 shares. These shares were forfeited and reissued to Neha as fully paid share of Rs.12 each.

Give journal entries in the books of the company.

(**Ans :** Capital Reserve Rs. 4,500)

13. Arushi Computers Ltd issued 10,000 equity shares of Rs.100 each at 10% discount. The net amount payable as follows:

On application	Rs.20
On allotment	Rs.30 (Rs.40 – discount Rs.10)
On first call	Rs.30
On final call	Rs.10

A shareholder holding 200 shares did not pay final call. His shares Were forfeited. Out of these 150 shares were reissued to Ms.Sonia at Rs.75 per shares.

Give journal entries in the books of the company.

(Ans : Capital Reserve Rs.9,750)

14. Raunak Cotton Ltd. issued a prospectus inviting applications for 6,000 equity shares of Rs.100 each at a premium of Rs.20 per shares, payable as follows:

On application	Rs.20
On allotment	Rs.50 [including premium]
On first call	Rs.30
On final call	Rs.20

Application were received for 10,000 shares and allotment was made Pro-rata to the applicants of 8,000 shares, the remaining applications Being refused. Money received in excess on the application was adjusted toward the amount due on allotment.

Rohit, to whom 300 shares were allotted failed to pay allotment and calls money, his shares were forfeited. Itika, who applied for 600 shares, failed to pay the two calls and her share were also forfeited. All these shares were sold to Kartika as fully paid for Rs.80 per shares.

Give journal entries in the books of the company.

(Ans: Capital Reserve Rs.7,000)

15. Himalaya Company Limited issued for public subscription of 1,20,000 equity shares of Rs.10 each at a premium of Rs.2 per share payable as under :

With Application	Rs. 3 per share
On allotment (including premium)	Rs. 5 per share
On First call	Rs. 2 per share
On Second and Final call	Rs. 2 per share

Applications were received for 1,60,000 shares. Allotment was made on pro-rata basis. Excess money on application was adjusted against the amount due on allotment.

Rohan, whom 4,800 shares were allotted, failed to pay for the two calls. These shares were subsequently forfeited after the second call was made. All the shares forfeited were reissued to Teena as fully paid at Rs. 7 per share.

Record journal entries in the books of the company to record these transactions relating to share capital. Also show the company's balance sheet.

(Ans : Capital Reserve Rs.14,400)

16. Prince Limited issued a prospectus inviting applications for 2,00,000 equity shares of Rs.10 each at a premium of Rs.3 per share payable as follows :

With Application	Rs.2
On Allotment (including premium)	Rs.5
On First Call	Rs.3
On Second Call	Rs.3

Applications were received for 30,000 shares and allotment was made on pro-rata basis. Money overpaid on applications was adjusted to the amount due on allotment.

Mr. 'Mohit' whom 400 shares were allotted, failed to pay the allotment money and the first call, and her shares were forfeited after the first call. Mr. 'Joly', whom 600 shares were allotted, failed to pay for the two calls and hence, his shares were forfeited.

Of the shares forfeited, 800 shares were reissued to Supriya as fully paid for Rs.9 per share, the whole of Mr. Mohit's shares being included.

Record journal entries in the books of the Company and prepare the Balance Sheet.

(Ans : Capital Reserve Rs.2,000)

17. Life machine tools Limited, issued 50,000 equity shares of Rs.10 each at Rs.12 per share, payable at to Rs.5 on application (including premium), Rs.4 on allotment and the balance on the first and final call.

    Applications for 70,000 shares had been received. Of the cash received, Rs.40,000 was returned and Rs.60,000 was applied to the amount due on allotment, the balance of which was paid. All shareholders paid the call due, with the exception of one share holder of 500 shares. These shares were forfeited and reissued as fully paid at Rs.8 per share. Journalise the transactions.

    (Ans : Capital Reserve Rs.2,500)

18. The Orient Company Limited offered for public subscription 20,000 equity shares of Rs.10 each at a premium of 10% payable at Rs.2 on application; Rs.4 on allotment including premium; Rs.3 on First Call and Rs.2 on Second and Final call. Applications for 26,000 shares were received. Applications for 4,000 shares were rejected. Pro-rata allotment was made to the remaining applicants. Both the calls were made and all the money were received except the final call on 500 shares which were forfeited. 300 of the forfeited shares were later on issued as fully paid at Rs.9 per share. Give journal entries and prepare the balance sheet.

    (Ans : Capital Reserve Rs.2,100)

19. Alfa Limited invited applications for 4,00,000 of its equity shares of Rs.10 each on the following terms :

Payable on application	Rs.5 per share
Payable on allotment	Rs.3 per share
Payable on first and final call	Rs.2 per share

    Applications for 5,00,000 shares were received. It was decided :

    (a) to refuse allotment to the applicants for 20,000 shares;

    (b) to allot in full to applicants for 80,000 shares;

    (c) to allot the balance of the available shares' pro-rata among the other applicants; and

    (d) to utilise excess application money in part as payment of allotment money.

    One applicant, whom shares had been allotted on pro-rata basis, did not pay the amount due on allotment and on the call, and his 400 shares were forfeited. The shares were reissued @ Rs.9 per share. Show the journal and prepare Cash book to record the above .

    (Ans : Capital Reserve Rs. 2,100)

20. Ashoka Limited Company which had issued equity shares of Rs.20 each at a discount of Rs. 4 per share, forfeited 1,000 shares for non-payment of final call of Rs.4 per share. 400 of the forfeited shares are reissued at Rs.14 per share out of the remaining shares of 200 shares reissued at Rs.20 per share. Give journal entries for the forfeiture and reissue of shares and show the amount transferred to capital reserve and the balance in Share Forfeiture Account.

    (Ans: Capital Reserve Rs.6,400, Balance in share forfeiture account Rs.4,800)

21. Amit holds 100 shares of Rs.10 each on which he has paid Re.1 per share as application money. Bimal holds 200 shares of Rs.10 each on which he has paid Re.1 and Rs.2 per share as application and allotment money, respectively. Chetan holds 300 shares of Rs.10 each and has paid Re.1 on application, Rs.2 on allotment and Rs.3 for the first call. They all fail to pay their arrears and the second call of Rs.2 per share and the directors, therefore, forfeited their shares. The shares are reissued subsequently for Rs.11 per share as fully paid. Journalise the transactions.

    (Ans: Capital Reserve Rs.2,500)

22. Ajanta Company Limited having a normal capital of Rs.3,00,000, divided into shares of Rs.10 each offered for public subscription of 20,000 shares payable at Rs.2 on application; Rs.3 on allotment and the balance in two calls of Rs.2.50 each. Applications were received by the company for 24,000 shares. Applications for 20,000 shares were accepted in full and the shares allotted. Applications for the remaining shares were rejected and the application money was refunded.

    All moneys due were received with the exception of the final call on 600 shares which were forfeited after legal formalities were fulfilled. 400 shares of the forfeited shares were reissued at Rs.9 per share.

    Record necessary journal entries and prepare the balance Sheet showing the amount transferred to capital reserve and the balance in Share forfeiture account.

    (Ans: Amount transferred to Capital Reserve Rs.2,600]

23. Journalise the following transaction in the books Bhushan Oil Ltd:
    (a) 200 shares of Rs.100 each issued at a discount of Rs.10 were forfeited for the non payment of allotment money of Rs.50 per share. The first and final call of Rs.20 per share on these share were not made. The forfeited share were reissued at Rs.70 per share as fully paid-up.
    (b) 150 shares of Rs.10 each issued at a premium of Rs.4 per share payable with allotment were forfeited for non-payment of allotment money of Rs.8 per share including premium. The first and final call of Rs.4 per share were not made. The forfeited share were reissued at Rs.15 per share fully paid-up.
    (c) 400 share of Rs.50 each issued at par were forfeited for non-payment of final call of Rs.10 per share. These share were reissued at Rs.45 per share fully paid-up.

    (Ans : Capital Reserve (a) Nil , (b) Rs.300, (c) Rs.14,000)

24. Amisha Ltd inviting application for 40,000 shares of Rs.100 each at a premium of Rs.20 per share payable; on application Rs.40 ; on allotment Rs.40 (Including premium): on first call Rs.25 and Second and final call Rs.15.

    Application were received for 50,000 shares and allotment was made on pro-rata basis. Excess money on application was adjusted on sums due on allotment.

    Rohit to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited after allotment. Ashmita, who applied for 1000 shares failed to pay the

    Two calls and his shares were forfeited after the second call. Of the shares forfeited, 1200 shares were sold to Kapil for Rs.85 per share as fully paid, the whole of Rohit's shares being included.

    Record necessary journal entries.

    (**Ans:** Capital Reserve Rs.48,000; Balance in share forfeited A/c Rs.12,000)

Answers to Test your Understanding

Test your Understanding – I

(a) False, (b) True, (c) False, (d) True, (e) True, (f) True, (g) True, (h) True,

(i) False, (j) True, (k) False, (l) False, (m) False, (n) True, (o) False, (p) True

Test your Understanding – II

(a) (ii), (b) (iii), (c) (i), (d) (ii), (e) (i), (f) (iii), (g) (iii)

Test your Understanding – III

(a) Rs. 8, (b) Rs. 4,

(c) Vendor	Dr.	1,00,000	
To Share Capital A/c			1,00,000