Chapter 5

Accounting for Share Capital

Exercise-1.1

1 marks

State which of the following statements are true

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

(o) Forfeited shares can not be issued at a discount.
Answer False
(p) The shares originally issued at discount may be re-issued at a premium.
Answer True

Do it Yourself I

1. 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

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

Answer

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
2006 Jan 15	Bank A/c Dr To Share Application and Allotment A/c (Being application money received on 3,000 share @ ₹ 5 each)		15,000	15,000
	Share Application A/c Dr To Share Capital A/c (Being application money transferred to share capital)		15,000	15,000
Mar 1	Share First Call A/c Dr To Share Capital A/c (Being money due on 3,000 shares @ 2.50 each)		7,500	7,500
	Bank A/c Dr To Share First Call A/c (Being first call money received)		7,500	7,500
	Share IInd and Final Call A/c Dr To Share Capital A/c (Being money due on 3,000 shares @ 2.50 each)		7,500	7,500
	Bank A/c Dr To Share IInd and Final Call A/c (Being final call money received)		7,500	7,500

Note *Entries for share application and share allotment are made separately but in this question they are taken together is single entry according to the requirement of the question.*

Do it Yourself II

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.

Answer

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c	Dr		60,000	
	To Share Application A/c				60,000
	(Being application money received on 20,000 share @ 3 each)				
	Share Application A/c	Dr		60,000	
	To Share Capital A/c				60,000
	(Being application money transferred to share capital)				
2005 May 1	Share Allotment A/c	Dr		60,000	
	To Share Capital A/c				60,000
	(Being allotment money due on 20,000 share @ 3 each)				
	Bank A/c (19,000×3)	Dr		57,000	
	Call to Arrear A/c (1,000 × 3)	Dr		3,000	
	To Share Allotment A/c				60,000
	(Being allotment money received except for 1,000 shares)				
Aug 1	Share Ist Call A/c	Dr		40,000	
	To Share Capital A/c				40,000
	(Being Ist call money due on 20,000 shares @ 2 each)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c (18,400×2)	Dr		36,800	
	Calls-in-Arrears A/c (1,600×2)	Dr		3,200	
	To Share in Call A/c				40,000
	(Being Ist call money received except for 1,600 shares (1,000 of X and 600 of Y))				
Oct 1	Share IInd Final Call A/c	Dr		40,000	
	To Share Ist Capital A/c				40,000
	(Being money due on II call on 20,000 shares @ 2 each)				
	Bank A/c (18,000×2)	Dr		36,000	
	Calls-in-Arrears A/c (2,000×2)	Dr		4,000	
	To Share IInd and Final Call A/c				40,000
	(Being money received on IInd call except for 2,000 shares (X-1,000, Y-600, Z-400))				

Balance Sheet
as on December 31, 2005

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Authorised Share Capital Issued, Subscribed, Callesd-up and Paid-up Capital			**Current Assets**	
20,000 Shares @ 10 each	2,00,000		Cash at Bank	1,89,800
(–) Calls-in-Arrear	(10,200)			
(3,000+3,200+4,000)		1,89,800		
		1,89,800		1,89,800

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.

Answer

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c	Dr		30,000	
	To Share Application A/c				30,000
	(Being application money received on 10,000 shares @ ₹ 3 each)				
	Share Application A/c	Dr		30,000	
	To Share Capital A/c				30,000
	(Being application money transferred to share capital)				
2006 March 3	Share Allotment A/c	Dr		20,000	
	To Share Capital A/c				20,000
	(Being money due on allotment on 10,000 shares @ 2 each)				
	Bank A/c (10,000×2+600×5)	Dr		23,000	
	To Share Allotment A/c	Dr			20,000
	To Calls in Advance A/c				3,000
	(Being allotment money received along with advance payment on 600 shares @ 5 each)				

June 30	Share Ist Call A/c Dr To Share Capital A/c (Being Ist call due on 10,000 shares @ 2.50 each)	25,000	 25,000
	Bank A/c Dr Calls in Advance A/c Dr To Share Ist Call A/c (Being Ist call money received except for 600 shares (received as advance))	23,500 1,500	 25,000
Aug 31	Share IInd and Final Call A/c Dr To Share Capital A/c (Being money due on final call on 10,000 shares @ 2.50 each)	25,000	 25,000
	Bank A/c Dr Calls in Advance A/c Dr To Share IInd and Final Call A/c (Being money received on final call except for 600 shares received on allotment as advance)	23,500 1,500	 25,000

Balance Sheet
as on August 31, 2006

Liabilities	Amt. (₹)	Assets	Amt. (₹)
Authorised Capital	–	**Current Assets**	
Issued, Subscribed, Called-up and Paid-up Capital		Cash at Bank	1,00,000
10,000 Shares @ 10 each	1,00,000		
	1,00,000		1,00,000

Test your Understanding – II

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

(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.
Answer (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%
Answer (i) 5%

(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.
Answer (ii) Credited 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.
Answer (i) For non-paymntof call money

(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
Answer (iii) Capital

(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
Answer (iii) Share capital account

Do it Yourself III
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.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c (100 × 10) Dr		1,000	
	Securities Premium A/c (100 × 2) Dr		200	
	To Share Final Call A/c (100 × 5)			500
	To Share Forfeiture A/c			700
	(Being 100 shares forfeited for non payment of final call ₹ 3 + premium ₹ 2)			

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.**

Answer

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c (800 × 10) Dr		8,000	
	To Calls-in-Arrears A/c (800 × 4)			3,200
	To Discount on Issue A/c (800 × 1)			800
	To Share Forfeiture A/c (800 × 5)			4,000
	(Being 800 shares forfeited for non payment of two calls of ₹ 2 each issued at discount 10%)			

Do it Yourself IV

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

	Rs.
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.

Answer

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c (1,00,000 × 2.50) Dr		2,50,000	
	To Equity Share Application A/c			2,50,000
	(Being application money received on 1,00,000 equity shares @ 2.50 each)			
	Equity Share Application A/c Dr		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being application money transferred to share capital)			
	Equity Share Allotment A/c (1,00,000 × 2.50) Dr		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being allotment money due on 1,00,000 shares @ 2.50 each)			
	Bank A/c Dr		2,50,000	
	To Equity Share Allotment A/c			2,50,000
	(Being allotment money received in full)			
	Equity Share Ist and Final Call A/c Dr (1,00,000 × 5)		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being final call due on 1,00,000 shares @ 5 each)			

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Bank A/c (99,600×5)	Dr		4,98,000	
	To Equity Share Ist and Final Call A/c				4,98,000
	(Being money received on final call except for 400 shares)				
	Share Capital A/c (400 × 10)	Dr		4,000	
	To Equity Share Ist and Final Call A/c (400×5)				2,000
	To Share Forfeiture A/c				2,000
	(Being 400 shares forfeited for non-payment of final call)				
	Bank A/c (200×8)	Dr		1,600	
	Share Forfeiture A/c (200×2)	Dr		400	
	To equity share Capital A/c (200×10)				2,000
	(Being 200 equity shares reissued @ 8 each fully paid up)				
	Share Forfeiture A/c	Dr		600	
	To Capital Reserve A/c				600
	(Being profit on reissue transferred to capital reserve)				

Working Note Amount received on 200 shares = 200×5 = 1000
(–) Amount used on reissue of 200 shares = (400)
Amount transferred to capital reserve 600

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.

Answer
(a) On forfeiture, share capital is debited with called up amount i.e.,X 8.
(b) The total price of money collected from 1st issue and reissue should be equal to face value atleast. It can exceed also. The share can be reissue for minimum ? 4 per share.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Plant and Machinery A/c Dr		1,00,000	
	To Vendor A/c			1,00,000
	(Being plant and machinery purchased and money due on vendor)			
(ii)	Vendor A/c Dr		1,00,000	
	To Share Capital A/c			1,00,000
	(Being vendor paid in form of shares)			

Do it Yourself V

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 paidRe. 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.

Answer (a)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c (200 × 10) Dr		2,000	
	To Calls-in-Arrears A/c			1,200
	To Share Forfeiture A/c			800
	(Being 200 shares forfeited for non-payment of ₹ 1,200)			
	Bank A/c Dr		1,500	
	Share Forfeiture A/c Dr		500	
	To Share Capital A/c			2,000
	(Being 200 shares reissued for ₹ 1,500)			
	Share Forfeiture A/c Dr		300	
	To Capital Reserve A/c			300
	(Being balance of share forfeiture transferred to capital reserve)			

(b)

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c (600 × 10) Dr		6,000	
	To Calls-in-Arrears A/c			3,500
	To Share Forfeiture A/c			2,500
	(Being 600 shares forfeited)			
	Bank A/c (600 × 11) Dr		6,600	
	To Share Capital A/c (600 × 10)			6,000
	To Securities Premium A/c (600 × 1)			600
	(Being 600 shares reissued @ 11 each)			
	Share Forfeiture A/c Dr		2,500	
	To Capital Reserve A/c			2,500
	(Being balance of share forfeiture transferred to capital reserve)			

Working Note

	Shares	Application	Allotment	Ist Call	Final Call
		₹ 1	₹ 2	₹ 3	₹ 4
A	100	✔	×	×	×
B	200	✔	✔	×	×
C	300	✔	✔	✔	×

							Total
Amount Received	600 × 1		500 × 2		300 × 3	600 × 0	
	= 600	+	= 1,000	+	= 900	–	2,500
Amount not Received	–		100 × 2		300 × 3	600 × 4	
			= 200		= 900	= 2400	3,500

Exercise-1.2

2 marks

1. What is public company?

Answer Minimum requirement of a public company is seven person. As per the Section 3 (1) (iv) of Companies Act 1956, public company is a company which (a) is not a private company, (b) has minimum capital of ?5 lakh or such higher paid-up capital as may be prescribed, and (c) is a private company which is a subsidiary public company.

2. What is private limited company?

Answer As per Section 3 (1) (iii) of Companies Act 1956, A private company is one which has a minimum paid up capital of ^ 1 lakh or such higher paid-up capital as may be prescribed by its Articles
(i) Restricts the right to transfer its shares.
(ii) Limits the number of its members to fifty (excluding its employees).
(iii) Prohibits any invitation to the public to subscribe for any shares in or debentures of the company.
(iv) Prohibits any invitation or acceptance of deposits from person other than its members, directors and relatives.

3. Define Government Company.

Answer Section 617 of Companies Act 1956 defines Government Company as a company in which not less than 51% of the paid up share capital is held by the Central Government or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company.

4. What do you mean by a listed company?

Answer Listed companies are those companies whose shares are listed on a recognised stock exchange for public trading. When a company’s security is listed in a recognised stock exchange the price fluctuation can easily be observed by the investor and he/she can easily determine the increase/decrease in value of their investment in a concerned listed company.
This is the only reason that the volume remain high in case of a listed company as all the moves can be observed and investment strategy can easily be planned in that company.

5. What are the uses of securities premium?

Answer When securities like shares and debentures are issued to public more than their face value the excess is called security premium. As per the Section 78 of the Companies Act 1956, the amount of securities premium can be used by the company for the following purposes

(i) For paying up unissued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share.

(ii) For writing off the preliminary expenses of the company.

(iii) For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

(iv) For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.

(v) Further, as per the Section 77A, the securities premium amount can also be utilised by the company to buy-back its own shares.

6. What is buy-back of shares?

Answer When a company repurchase its own share from the market to reduce the number of share it is called buy-back of shares. As per the Section 77A of the Companies Act, 1956 the procedure for buy back of share would be as follows

(i) First of all the Articles of the Association must authorise the company for the buy-back of shares.

(ii) A special resolution must be passed in the companies' Annual general body meeting.

(iii) The amount of buy-back of shares should not exceed 25% of the paid-up capital and free reserves.

(iv) The debt-equity ratio should not be more than a ratio of 2:1 after the buyback.

(v) All the shares of buy-back should be fully paid-up.

(vi) The buy-back of the shares should be completed within 12 months from the date of passing the special the resolution.

(vii) The company should file a solvency declaration with the Registrar and' SEBI which must be signed by at least two directors of the company. –

Sources for Buy-back of Share

(i) Free reserves.

(ii) Securities premium account.

(iii) Proceeds of any shares or other specified securities, provided that no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of the earlier issues of the similar kind of shares or specified securities.

7. Write a brief note on 'Minimum Subscription'

Answer When shares are issued to the general public, it is necessary that the minimum subscription amount should be subscribed so that the company can allot shares to the applicants. This minimum amount of share subscription is termed as minimum subscription. As per the Company Act 1956, the minimum subscription of share cannot be less than 90% of the issued amount. If the minimum subscription is not received, the company cannot allot shares to its applicants and it shall immediately refund the entire application amount received to the public.
e.g., if a company issued 1,00,000 equity share than at least 90,000 share must be subscribed by the public.

Long Answer Type s

1. What is meant by the word 'Company'? Describe i characteristics.

Answer According to Section 3 (1) (i) of the Company Act of 195 "Company means a company formed and registered under this Act or £ existing company."

In general, a company is an artificial person, created by law that has separate legal entity, perpetual succession, and common seal and t limited liability. It is a voluntary association of person who together contribu in the capital of the company to do business.

Generally, the capital of a company is divided into small parts known shares, the ownership of which is transferable subject to certain terms s conditions.

Characteristics of Company

(i) Incorporated Association A company comes into existence through the operation of law. Therefore, its incorporation under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.

(ii) Separate Legal Entity A company has a separate legal entity, which is not affected by changes in the membership. Therefore being a separate entity, a company can contract, sue and be used in its corporate name and capacity.

(iii) Artificial Person A company is an artificial and juristic person that is created by law.

(iv) Limited Liability Every shareholder of accompany has limited liability. His liability is limited to the extent of the unpaid value of the shares held by him. If such shares are fully paid up, he is subject to no further liability.

(v) Perpetual Existence The existence of company is not affected by the death,

retirement, and insolvency of its members. That is, the life of a company remains unaffected by the life and the tenure of its members in the company. The life of a company is infinite until it is properly wound up as per the Companies Act.
(vi) Common Seal The company is not a natural person and has no physical existence. Hence, it cannot put its signature. Thus, the common seal acts as an official signature of a company that validates the official documents.
(vii) Maintenance of Books A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.

2. Explain in brief the main categories in which the share capital of a company is divided.

Answer Share capital of a company can be divided into the following categories
(i) Authorised Capital It refers to that amount which is laid down in clause of the memorandum of association of the company. This i maximum amount with which company is registered and to raise from the public by the issue of shares. The therefore, called the registered or nominal or authorised capital of company.
(ii) Issued Capital The authorised capital which is offered to the public for subscription including shares offered to the vendors for subscription other than cash is called the issued capital.
(iii) Subscribed Capital It is the portion of issued capital which has been subscribed to by the public i.e., applied for and allotted by the company. Thus, face value of allotted shares is known as subscribed capital.
(iv) Called-up Capital The portion of the subscribed capital which the shareholders are called upon to pay is termed as called up capital of the company. The company usually does not require a shareholder to pay in one lot, the full value of the shares he has subscribed for. He is generally required to pay it by instalments. The balance of subscribed capital which has not been called-up represents uncalled capital.
(v) Paid-up Capital The amount of called-up capital which has been actually paid by the shareholders is called as paid-up capital and the amounts yet due from the shareholders are called as calls-in-arrears.
(vi) Reserve Capital Sometimes a company by means of special resolution decides that certain portion of its uncalled capital shall not be called-up during its existence and it would be available as an additional security to its creditors in the event of its liquidation. Such a portion of uncalled capital is termed as reserve capital.

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.

Answer The capital of a company is divided into a number of equal parts. Each part is called a share. A company may divide its capital into shares of ? 10, ? 50, ^100 or any suitable amount, but it is always preferable to have shares of small denomination in order to bring them within the reach of small investor.

According to Lord Lindley, “The portion of capital to which each member is entitled to his share”. In this way, share is proportionate part of the share capital and forms ownership in a company.

According to Companies Act, 1956 there are two types of shares

(i) Preference Share Preference Share is one which carries the following two rights

(a) They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares

(b) On the winding up of the company, they have right to return of capital before the capital returned on equity shares.

However, not with standing the above two conditions, a holder of the preference share may have a right to share fully or to a limited extent in the surplus of the company as specified in the Memorandum or Articles* of the company.

(ii) Equity Share Under Indian Companies Act 1956, ‘an equity share is share which is not preference share’. Thus, this share does not carry any preferential right or in other words, equity share is one which is entitled to dividend and repayment of capital after the claim of preference shares is satisfied. Usually the equity shareholders control the affairs of the company and hence right to all the profits after the preference dividend has been paid.

4. Discuss the process for the allotment of shares of a company in case of over subscription.

Answer When shares are issued to the public for subscription through the prospectus by well managed and financially strong companies, it may happen that the total number of applications received for shares exceeds the number of shares offered by the company to the public, such situation is called the situation of over-subscription. A company can opt for any of the three alternatives to allot shares in case of over-subscription of shares.

(i) Excess Applications are Refused and Money received on Excess Applications is Returned to the Applicants

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Bank A/c (Being excess share application money refunded)			

(ii) If the Applicant are made Partially Allotment (or Pro-rata Basis) In case of over-subscription, when a company allots shares rateable to all the applicants, it is called as pro-rata allotment.
In such a case, the main problem is what to do with the excess amount received on application. Practically, it will be quite irrational to refund the excess money first and then ask the allottee applicants to pay the allotment money.

In practice, generally excess application money receive on these shares is adjusted towards the amount due on allotment or call. For this purpose the entry is made as follows
Pro-rata and Refund of Money In case of over-subscription, the director can adopt a combination of the above two alternatives i.e., they can accept full allotment to some applications, a pro-rata allotment to others and no allotment to the rest.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Share Allotment A/c (Being excess share application money transferred to share allotment account)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Share Allotment A/c To Bank A/c (Being application money transferred to share capital account and excess share application money transferred to share allotment account and rest money is refund)			

5. What is a 'Preference Share'? Describe the different types of preference shares.

Answer Preference share is one which carries the following two rights
(i) They have a right to receive dividend at a fixed rate before any dividend is paid on the equity shares.
(iii) On the winding up of the company, they have right to return of capital before of the capital returned on equity shares.
However, not with standing the above two conditions, a holder of the preference share may have a right to share fully or to a limited extent in the surplus of the company as specified in the Memorandum or Articles of the Company.
Preference shares can be of various types which are as follows
(i) **Cumulative Preference** Shares If there are no profits in one year and the arrears of dividends are to be carried forward and paid out of the profits of subsequent years, the preference share is said to be cumulative. It is noted that the company should pay dividend out of profits only.
(ii) **Non-Cumulative Preference** Shares If unpaid dividend lapses, the share is said to be non-cumulative preference share. It means when a preference shareholder receives dividend only in case of profit and is not entitled any right to recover the arrears of dividend, then the type of preference shares held by the shareholder is known as non-cumulative preference shares.
(iii) **Redeemable Preference** Shares When shares are repaid after some specified time in accordance with the terms of issue they are called redeemable preference shares.
(iv) **Non-Redeemable Preference** Shares These are the preference shares, which do not carry with them the arrangement regarding redemption. According to Section 80 (54), no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.
(v) **Participating Preference** Shares When a preference shareholder enjoys the right to participate in the surplus profit (in addition to the fixed rate of dividend) that is left after the payment of dividend to the equity shareholders, the type of shares held by the shareholder is known as participating preference shares.
(vi) **Non-Participating Preference** Shares When a preference shareholder receives only a fixed rate of dividend every year and do not enjoy the additional participation in the surplus profit, then the type of shares held by the shareholder is known as non-participating preference shares.
(vii) **Convertible Preference** Shares These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.
(viii) **Non-Convertible Preference** Shares When the holder of a preference share

has not been conferred the right to get his holding converted into equity share, it is called non-convertible preference shares. Preference shares are non-convertible unless otherwise stated.

6. Describe the provisions of law relating to 'Calls-in- Arrears' and 'Calls in Advance'

Answer Calls-in-Arrears The portion of called up capital which is not paid by the shareholder within a specified time is known as calls-in-arrears. In other words, when a shareholder fails to pay the amount due on allotment or any subsequent calls, then it is termed as call-in-arrears.

The company is authorised by its Article of Association to charge interest at a specified rate on the amount of call-in-arrears from the due date till the date of payment. If the Article of Association is silent in this regard, then Table A shall be applicable that is interest at 5% pa is charged.

It is deducted from the called-up share capital on the liabilities side of the Company's Balance Sheet. The company can also forfeit the shares on account of non-payment of the calls money after giving proper notice to shareholders.

Calls in Advanqe It means calls not due but paid by the shareholder in advance. Thus, the amount of future calls is received in advance by the company.

In other words, when a shareholder pays the whole amount or a part of the amount in advance, i.e., before the company calls, then it is termed as calls in advance. The company is authorised by its Article of Association to pay interest at the specified rate on call in advance from the date of payment till the date of call made.

If the Article of Association is silent in this regard, then the Table A shall be applicable that is, interest at 6% pa is provided. It is shown under the heading of current liabilities on the liabilities side of the Company's Balance Sheet.

7. Explain the terms 'Over-subscription' and 'Under-subscription'. How are they dealt with in accounting records?

Answer When shares are issued to the public for subscription through the prospectus by well managed and financially strong companies, it may happen that the total number of applications received for shares exceeds the number of shares offered by the company to the public, such situation is called the situation of over-subscription. A company can opt for any of the three alternatives to allot shares in case of over-subscription of shares.

(i) Excess Applications are Refused and Money Received on Excess Applications is Returned to the Applicants

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Share Allotment A/c (Being excess share application money refunded)			

(ii) If the Applicant are made Partially Allotment (or Pro-rata Basis) In case of over-subscription, when a company allots shares rateable to all the applicants, it is called as pro-rata allotment. In such a case the main problem is what to do with the excess amount received on application.
Practically, it will be quite irrational to refund the excess money first and then ask the allottee applicants to pay the allotment money.
In practice, generally excess application money receive on these shares is adjusted towards the amount due on allotment or call. For this purpose the entry is made as follows

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Share Allotment A/c (Being excess share application money transferred to share allotment account)			

(iii) Pro-rata and Refund of Money In case of over-subscription, the director can adopt a combination of the above two alternatives i.e., they ,can accept full allotment to some applications, a pro-rata allotment to others and no allotment to the rest.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Application A/c Dr To Share Capital A/c To Share Allotment A/c To Bank A/c (Being application money transferred to share capital account and excess share application money transferred to share allotment account and rest money is refund)			

Under-Subscription: In case when share are issued by the company and the number of shares applied by the public is lesser than the number of shares issued this is called the situation of under-subscription.
As per the Comprise Act, the minimum subscription is 90% of the shares issued by the company. This implies that the company can allot shares to the applicants provided if applications for 90% of the issued shares are received. Otherwise, the company should refund the entire application amount received.
In this regard, necessary journal entry is passed only after receiving and refunding

of the application. In this case, normal entries are made as the adjustment is not needed for any excess.

8. Describe the purposes for which a company can use 'Securities Premium Account.

Answer Securities premium account can be used only for the following four purposes as laid down by Section 78 of the Companies Act 1956
(i) To issue fully paid bonus shares to an extent not exceeding unissued share capital of the company.
(ii) To write-off preliminary expenses of the company.
(iii) To write-off the expenses of, or commission paid, or discount allowed on any of the shares or debentures of the company.
(iv) To pay premium on the redemption of preference shares or debentures of the company.

9. State clearly the conditions under which a company can issue shares at a discount.

Answer In normal condition 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' and in accordance with the provisions of Section 79 of the Companies Act.
According to Section 79 of the Companies Act, 1932, a company is permitted to issue shares, at a discount provided the following conditions ara satisfied
(i) 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.
(ii) 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.
(iii) At least one year must have elapsed since the date on which the company became entitled to commence the business.
(iv) The shares are of a class which has already been issued. •
(v) 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.
(vi) If the offer prospectus at the date of issue must mention particulars of the discount allowed on the issue of shares.

10. Explain the term 'Forfeiture of Shares' and give the accounting treatment on forfeiture.

Answer If a shareholder fails to pay the allotment money and or any call money on his shares as called upon by the directors, his shares may be forfeited by the directors, if they are so authorised by the Articles of Association. This is known as forfeiture of shares.

As per the Table A of the Company Act, the procedure of forfeiting shares is mentioned below.

(i) A notice is sent to default shareholder stating him/her to pay calls-in-arrears along with the interest accrued on the outstanding calls money within a period of 14 days of the receipt of notice, otherwise, the shares will be forfeited.

(ii) If the shareholder does not pay the amount, then the company has the right to forfeit his/her share by passing a resolution.

(iii) A notice of that resolution is send to the default shareholder and a public notice of the same is published in a daily newspaper.

(iv) The name of the shareholder is removed from the register of members (i.e., shareholders).

Accounting Treatment for Forfeiture of Shares

(i) Forfeiture of Shares that were Issued at Par

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non-payment of allotment or call money)			

(ii) Forfeiture of Shares that were Issued at Premium

(a) Sometimes forfeited shares would have been issued at premium in that case if amount of premium is received than premium received is not shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

(b) Sometimes forfeited shares would have been issued at premium in that case if amount of premium is not received than premium not received is shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Total Amount Called-up)	
	Share Premium A/c Dr		(Premium Amount Called-up)	
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

(iii) Forfeiture of shares that were issued at discount Sometimes forfeited shares would have been issued at discount in that case amount of discount will always be shown.

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
	Share Capital A/c Dr		(Total Amount Called-up)	(Discount Amount)
	To Discount on Issue of Shares A/c			
	To Share Allotment A/c (Not Received)			
	To Share Calls A/c (Not Received)			
	To Share Forfeiture A/c (Amount Received)			
	(Being shares forfeited on non payment of allotment or call money)			

Exercise-1.3

4 marks

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.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (30,000×30)	Dr		9,00,000	
	To Equity Share Application A/c				9,00,000
	(Being application money received on application for 30,000 equity shares @ ₹ 30 per share)				
(ii)	Equity Share Application A/c	Dr		9,00,000	
	To Equity Share Capital A/c (30,000×30)				9,00,000
	(Being share application money transferred to share capital account)				
(iii)	Equity Share Allotment A/c	Dr		15,00,000	
	To Equity Share Capital A/c (30,000×50)				15,00,000
	(Being allotment money due on 30,000 @ ₹ 50 per share)				
(iv)	Bank A/c (30,000×50)	Dr		15,00,000	
	To Equity Share Allotment A/c				15,00,000
	(Being share allotment money received for 30,000 shares @ ₹ 50 per share)				
(v)	Equity Share First and Final Call A/c	Dr		6,00,000	
	To Equity Share Capital A/c (30,000×20)				6,00,000
	(Being share first and final call due on 30,000 shares @ ₹ 20 per share)				
(vi)	Bank A/c (30,000×20)			6,00,000	
	To Equity Share First and Final Call A/c	Dr			6,00,000
	(Being share first and final call money received for 30,000 shares @ ₹ 20 per share)				

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.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Money received against application			—	—
(ii)	Equity Share Application A/c	Dr		90,000	
	To Equity Share Capital A/c (30,000×3)				90,000
	(Being application money for 30,000 shares @ ₹ 3 per share transferred to share capital A/c)				
(iii)	Equity Share Allotment A/c	Dr		1,20,000	
	To Equity Share Capital A/c (30,000×4)				1,20,000
	(Being allotment money due on 30,000 shares @ ₹ 4 per share)				
(iv)	Money received against allotment due			—	—
(v)	Equity Share First and Final Call A/c	Dr		90,000	90,000
	To Equity Share Capital A/c (30,000×3)				
	(Being first and final call money due on 30,000 shares @ ₹ 3 per share)				
(vi)	Money received against first and final call			—	—

Note *All the entries related to bank (i.e., money received in different situations) will not be passed as the question has asked for separate cash Book.*

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Equity Share Application		90,000				
	To Equity Share Allotment		1,20,000				
	To Equity Share First and Final Call		90,000		By Balance c/d		3,00,000
			3,00,000				3,00,000

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.

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Equity Share Application A/c Dr		11,00,000	
	To Equity Share Capital A/c (20,000×40)			8,00,000
	To Equity Share Allotment A/c (10,000×30)			3,00,000
	(Being application money transferred to equity share capital for 20,000 shares @ ₹ 40 and ₹3,00,000 is adjusted towards allotment)			
(ii)	Equity Share Allotment A/c Dr		6,00,000	
	To Equity Share Capital A/c (20,000×30)			600,000
	(Being equity share allotment money due on 20,000 @ ₹ 30 per share)			
(iii)	Equity Share First and Final Call A/c Dr		6,00,000	
	To Equity Share Capital A/c (20,000×30)			600,000
	(Being equity share on first and final call due on 20,000 @ ₹ 30 per share)			

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Equity Share Application		12,80,000		By Equity Share Application (80,000+1,00,000)		1,80,000
	To Equity Share Allotment		3,00,000		By Balance c/d		20,00,000
	To Equity Share First and Final Call		6,00,000				
			21,80,000				21,80,000

Note *Entries related to money received against application, allotment and call are directly taken in cash book.*

Working Note

Applications received for 32,000 shares @ 40 each	12,80,000
Application for 2,000 shares rejected and amount (2,000×40) refunded	(80,000)
	12,00,000
10,000 shares alloted in full and amount transferred to share capital (10,000×40)	(4,00,000)
	8,00,000
20 shares allotted 10 shares hence amount for 10,000 shares adjusted to share capital (10000×40) and excess 10,000 shares @ ₹ 30 taken as allotment advance remaining ₹ 10 refunded for excess 10,000 shares	(4,00,000) (3,00,000) (1,00,000)
	×

Total refund (80,000+1,00,000) = ₹ 1,80,000

Total amount due on allotment (20,000 share @ 30)	6,00,000
(–) Amount received on application	(3,00,000)
Amount to be received on allotment	3,00,000

Adjustment Table

Categ-ories	Shares Applicat-ion	Stores Allotted	Application Money Received	Applica-tion Money due	Excess	Excess Adjusted in		
						Allotment	Calls	Return
(i)	2,000	—	80,000	—	80,000			80,000
(ii)	10,000	10,000	4,00,000	4,00,000	—	—	—	
(iii)	20,000	10,000	8,00,000	4,00,000	4,00,000	3,00,000		1,00,000
	32,000	20,000	12,80,000	8,00,000	4,80,000	3,00,000		1,80,000

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.

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Share Application A/c	Dr		2,00,000	
	To Share Capital A/c (10,000×20)				2,00,000
	(Being application money for 10,000 shares transferred to share capital account)				
(ii)	Share Allotment A/c	Dr		3,00,000	
	To Share Capital A/c (10,000×30)				3,00,000
	(Being allotment money due on 10,000 shares @ ₹ 30 per share)				
(iii)	Share First Call A/c	Dr		2,50,000	
	To Share Capital A/c (10,000×25)				2,50,000
	(Being share first call due on 10,000 shares @ ₹ 25 per share)				
(iv)	Call-in-Arrears A/c (200×25)	Dr		5,000	
	To Share First Call A/c				5,000
	(Being call-in-arrears on 200 shares @ ₹ 25 per share)				

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Share Application		2,00,000				
	To Share Allotment		3,00,000				
	To Share First Call		2,45,000		By Balance c/d		7,57,500
	To Calls in Advance		12,500				
			7,57,500				7,57,500

Working Note

Money due on first call for 10,000 shares @ 25 each	2,50,000
(–) Calls-in-arrears for 200 shares @ ₹ 25 per share	(5,000)
Money received on first call	2,45,000
(+) Calls received in advance on 500 shares @ ₹ 25 per share	12,500
Total money received on first call	2,57,500

Note *It is not necessary to open call-in-arrears account.*

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.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (24,000×30) Dr		7,20,000	
	To Share Application A/c			7,20,000
	(Being application money received on application for 24,000 shares @ ₹ 30 per share)			
(ii)	Share Application A/c Dr		7,20,000	
	To Share Capital A/c (20,000×30)			6,00,000
	To Bank A/c (4,000×30)			1,20,000
	(Being share application of 20,000 shares @ ₹ 30 transferred to share capital account and the balance returned)			
(iii)	Share Allotment A/c Dr		8,00,000	
	To Share Capital A/c (20,000×30)			6,00,000
	To Share Premium A/c (20,000×10)			2,00,000
	(Being allotment money due on 20,000 shares @ 40 per share including ₹ 10 for premium)			
(iv)	Bank A/c (20,000 × 40) Dr		8,00,000	
	To Share Allotment A/c			8,00,000
	(Being allotment money received on 20,000 shares @ ₹ 40 per share)			
(v)	Share First Call A/c Dr		4,00,000	
	To Share Capital A/c (20,000×20)			4,00,000
	(Being share first call money due on 20,000 shares @ ₹ 20 per share)			
(vi)	Bank A/c (20,000×20) Dr		4,00,000	
	To Share First Call A/c			4,00,000
	(Being share first call money received on 20,000 shares @ ₹ 20 per share)			

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(vii)	Share Final Call A/c Dr		4,00,000	
	To Share Capital A/c (20,000×20)			4,00,000
	(Being share final call money on 20,000 shares @ ₹ 20 per share)			
(viii)	Bank A/c (20,000×20) Dr		4,00,000	
	To Share Final Call A/c			4,00,000
	(Being share final call money received on 20,000 shares @ ₹ 20 per share)			

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 :

The amount on share was payable as under

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

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Equity Share Application A/c Dr		3,00,000	
	10% Preference Share Application A/c Dr		6,00,000	
	To Equity Share Capital A/c (1,00,000×3)			3,00,000
	To 10% Preference Share Capital A/c (2,00,000×3)			6,00,000
	(Being application money transferred to equity share capital)			
(ii)	Equity Share Allotment A/c Dr		5,00,000	
	10% Preference Share Allotment A/c Dr		8,00,000	
	To Equity Share Capital A/c (1,00,000×3)			3,00,000
	To Securities Premium A/c (1,00,000×2)			2,00,000
	To 10% Preference Share Allotment A/c (2,00,000×4)			8,00,000
	(Being amount due on allotment)			

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(iii)	Equity Share First and Final Call A/c	Dr		4,00,000	
	10% Preference Share First and Final Call A/c	Dr		6,00,000	
	To Equity Share Capital A/c (1,00,000×4)				4,00,000
	To 10% Preference Share Capital A/c (2,00,000×3)				6,00,000
	(Being amount on first and final call due)				

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Equity Share Application		3,00,000				
	To10% Preference Share Application		6,00,000				
	To Equity Share Allotment		5,00,000				
	To 10% Preference Share Allotment		8,00,000				
	To Equity Share First and Final Call		4,00,000		By Balance c/d		32,00,000
	To 10% Preference Share First and Final Call		6,00,000				
			32,00,000				32,00,000

Note *Entries related to money received are directly taken in cash book. The entries for equity shares and preference shares can be made separately also.*

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	3 per share
On Allotment (including premium)	5 per share
On First Call (due three months after allotment) and the balance as and when required.	3 per share

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.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Share Application A/c	Dr		1,80,000	
	To Share Capital A/c (50,000×3)				1,50,000
	To Share Allotment A/c (Working Note)				30,000
	(Being share application money for 50,000 shares transferred to share capital account and the excess money transferred to share allotment account)				
(ii)	Share Allotment A/c (50,000×5)	Dr		2,50,000	
	To Share Capital A/c (50,000×2)				1,00,000
	To Share Premium A/c (50,000×3)				1,50,000
	(Being allotment money due on 50,000 share @ ₹ 5 per share including ₹ 3 security premium)				
(iii)	Share First Call A/c	Dr		1,50,000	
	To Share Capital A/c				1,50,000
	(Being first call due on 50,000 share @ ₹ 3 per share)				
(iv)	Arrear on First Call A/c (100 × 3)	Dr		300	
	To Share First Call A/c				300
	(Being call-in-arrears on 100 share @ ₹ 3 per share)				

Dr **Cash Book** (Bank Column) Cr

Date	Particulars	JF	Amt. (₹)	Date	Particulars	JF	Amt. (₹)
	To Share Application (60,000×3)		1,80,000		By Balance c/d		5,49,700
	To Share Allotment (Working Note)		2,20,000				
	To Share First Call (49,900×3)		1,49,700				
			5,49,700				5,49,700

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Share Capital			**Current Assets**	
Authorised Capital			Cash at Bank	5,49,700
Issue and Subscribed Capital				
Called-up and Paid-up				
50,000 shares of ₹ 10 each				
₹ 8 Called-up	4,00,000			
(–) Share First Call (Calls-in-Arrears)	(300)	3,99,700		
Reserve and Surplus				
Securities Premium		1,50,000		
		5,49,700		5,49,700

Note *In category* C, 500 *and* 200 *shares should be read as* 5,000 *and* 2,000.

Working Note

(i) **Amount Transferred to Share Capital on Application**

Category A 40,000 × 3 = 1,20,000
Category B 8,000 × 3 = 24,000
Category C 2,000 × 3 = 6,000
₹ 1,50,000

(ii) **Amount Transferred to Share Allotment on Application**

Category B excess shares 7,000×3 = 21,000
Category C excess shares 3,000×3 = 9,000
₹ 30,000

(iii) **Amount Received on Allotment**

	Due	Advance	Received
Category A	40,000×5 ₹ 2,00,000	—	2,00,000
Category B	8,000×5 ₹ 40,000	21,000	19,000
Category C	2,000×5 ₹ 10,000	9,000	1,000
			₹ 2,20,000

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.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (50,000×25)	Dr		12,50,000	
	To Share Application A/c				12,50,000
	(Being share application money received on application for 50,000 shares @ ₹ 25 per share)				
(ii)	Share Application A/c	Dr		12,50,000	
	To Share Capital A/c (50,000×25)				12,50,000
	(Being share application money of 50,000 shares transferred to share capital account)				
(iii)	Share Allotment A/c (50,000×40)	Dr		20,00,000	
	Discount on Issue of Shares (50,000×5)	Dr		2,50,000	
	To Share Capital A/c (50,000×45)				22,50,000
	(Being share allotment money due on 50,000 shares @ ₹ 40 each at discount of ₹ 5)				
(iv)	Bank A/c (50,000×40)	Dr		20,00,000	
	To Share Allotment A/c				20,00,000
	(Being allotment money received for 50,000 shares @ ₹ 40 per share)				
(v)	Share First and Final Call A/c	Dr		15,00,000	
	To Share Capital A/c (50,000×30)				15,00,000
	(Being share first and final call due on 50,000 shares @ ₹ 30 per share)				
(vi)	Bank A/c (50,000×30)	Dr		14,88,000	
	Call-in-Arrears A/c	Dr		12,000	
	To Share First and Final call A/c				15,00,000
	(Being share first and final call received except 400 shares)				

Balance Sheet

Liabilities		Amt. (₹)	Assets	Amt. (₹)
Shares Capital			**Current Assets**	
Authorised Capital				
Issued Capital				
50,000 shares @ 100 each		50,00,000	Cash at Bank	47,38,000
			Miscellaneous Expenditure	
Subscribed and Paid-up				
50,000 shares of ₹ 100 each	50,00,000		Discount on Issue of Shares	2,50,000
(–) Calls-in-Arrears	(12,000)	49,88,000		
		49,88,000		49,88,000

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%

Answer

Case (i)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Sundry Assets A/c	Dr		6,30,000	
	To Bhanu Oil Ltd A/c				6,30,000
	(Being assets purchased from Bhanu Oil Ltd)				
(ii)	Bhanu Oil Ltd A/c	Dr		6,30,000	
	To Share Capital A/c (6,300 × 100)				6,30,000
	(Being 6,300 shares issued at par to Bhanu Ltd)				

Working Note Case (i) Number of Shares to be issued

$$= \frac{\text{Amount payable}}{\text{Face value per share}}$$

$$= \frac{6,30,000}{100} = 6,300 \text{ shares}$$

$$\text{Case (ii)} = \frac{6,30,000}{90} = 7,000 \text{ shares}$$

$$\text{Case (iii)} = \frac{6,30,000}{120} = 5,250 \text{ shares}$$

Case (ii)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Sundry Assets A/c	Dr		6,30,000	
	To Bhanu Oil Ltd A/c				6,30,000
	(Being assets purchased from Bhanu Oil Ltd)				
	Bhanu Oil Ltd A/c	Dr		6,30,000	
	Discount on Issue of Share A/c	Dr		70,000	
	To Share Capital A/c				7,00,000
	(Being 7,000 shares are issued at 10% discount to Bhanu Ltd in consideration of assets purchased)				

Case (iii)

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
	Sundry Assets A/c	Dr		6,30,000	
	To Bhanu Oil Ltd A/c				6,30,000
	(Being assets purchased from Bhanu Oil Ltd)				
	Bhanu Oil Ltd A/c	Dr		6,30,000	
	To Share Capital A/c				5,25,000
	To Securities Premium A/c				1,05,000
	(Being 5,250 shares are issued at 20% premium to Bhanu Ltd in consideration of assets purchased)				

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.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Machinery A/c	Dr		3,20,000	
	To Cash A/c				50,000
	To Handa Traders A/c				2,70,000
	(Being machine purchased from Handa Traders paid ₹ 50,000 in cash immediately)				
(ii)	Handa Traders	Dr		2,70,000	
	Discount on Issue of Shares A/c (3,000 × 10)	Dr		30,000	
	To Share Capital A/c (3,000 × 100)				3,00,000
	(Being 3,000 share issued at ₹ 90 face value of ₹100 each to Handa Traders in consideration of amount due to him for machinery purchased)				

Working Note

Number of equity shares to be issued

$$= \frac{\text{Amount payable}}{\text{Face value (per share)}} = \frac{2,70,000}{90} = 3,000 \text{ shares}$$

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.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c	Dr		5,00,000	
	To Share Application A/c				5,00,000
	(Being shares application money received for 20,000 shares @ ₹ 25 each)				
(ii)	Share Application A/c	Dr		5,00,000	
	To Share Capital A/c				5,00,000
	(Being share application money of 20,000 shares @ ₹ 25 each transferred to share capital account)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(iii)	Share Allotment A/c	Dr		6,00,000	
	To Share Capital A/c				6,00,000
	(Being share allotment money due on 20,000 shares @ ₹ 30 per share)				
(iv)	Bank A/c (19,800×30)	Dr		5,94,000	
	Calls-in-Arrears A/c (200×30)	Dr		6,000	
	To Share Allotment A/c				6,00,000
	(Being allotment money received for 19,800 shares @ ₹ 30 per share and 200 shares failed to pay the allotment)				
(v)	Share First Call A/c	Dr		5,00,000	
	To Share Capital A/c				5,00,000
	(Being share first call money due on 20,000 shares @ ₹ 25 per share)				
(vi)	Bank A/c (19,700×25)	Dr		4,92,500	
	Calls-in-Arrears A/c (300×25)	Dr		7,500	
	To Share First Call A/c				5,00,000
	(Being share first call money for 19,700 shares @ ₹ 25 each received except 300 shares)				

(vii)	Share Final Call A/c Dr		4,00,000	
	To Share Capital A/c			4,00,000
	(Being share final call money due on 20,000 shares @ ₹ 20 per share)			
(vii)	Bank A/c (19,700×20) Dr		3,94,000	
	Calls-in-Arrears A/c (300×20) Dr		6,000	
	To Share Final Call A/c			4,00,000
	(Being share Cinal call money received for 19,700 shares @ ₹ 20 per share except 300 shares)			
(ix)	Share Capital A/c Dr		30,000	
	To Share Forfeiture A/c (Working Note)			10,500
	To Calls-in-Arrears A/c (Working Note)			19,500
	(Being 300 shares forfeited on account failed to pay the money due)			

Working Note

Share forfeiture amount

Received application money on (200 +100) shares @ 25 each = 7,500

Received allotment money on 100 shares @ 30 each = 3,000

₹ 10,500

(ii) Calls-in-Arrears

On Allotment = 6,000

On First Call = 7,500

On Final Call = 6,000

₹ 19,500

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

	(₹)
On Application	30
On Allotment	50 (including premium)
On First and Final Call	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.

Answer

Journal Entries

Date	Particulars	LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c Dr		4,50,000	
	To Share Application A/c			4,50,000
	(Being shares application money received for 15,000 shares @ ₹ 30 per share)			
(ii)	Share Application A/c Dr		4,50,000	
	To Share Capital A/c (15,000×30)			4,50,000
	(Being share application money of 15,000 shares transferred to share capital account)			
(iii)	Share Allotment A/c Dr		7,50,000	
	To Share Capital A/c (15,000×40)			6,00,000
	To Securities Premium A/c (15,000×10)			1,50,000
	(Being share allotment money on 15,000 shares @ ₹50 per share including ₹ 10 securities premium due)			
(iv)	Bank A/c (14,850×50) Dr		7,42,500	
	Calls-in-Arrears A/c (150×50) Dr		7,500	
	To Share Allotment A/c			7,50,000
	(Being shares allotment received on 14,850 shares and 150 shares failed to pay the money due)			

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(v)	Share First and Final Call A/c	Dr		4,50,000	
	To Share Capital A/c				4,50,000
	(Being share first and final call for 15,000 shares @ ₹ 30 per share due)				
(vi)	Bank A/c (14,850×30)	Dr		4,45,500	
	Calls-in-Arrears A/c (150×30)	Dr		4,500	
	To Share First and Final Call A/c				4,50,000
	(Being share first and final call received for 14,850 shares @ ₹ 30 per share and 150 shares failed to pay amount due)				
(vii)	Share Capital A/c (150×100)	Dr		15,000	
	Share Premium A/c (150×10)	Dr		1,500	
	To Calls-in-Arrears A/c (150×80)				12,000
	To Share Forfeiture A/c (150×30)				4,500
	(Being 150 shares forfeited for non-payment of share allotment and share first and final call)				
(viii)	Bank A/c	Dr		18,000	
	To Share Capital A/c (150×100)				15,000
	To Securities Premium A/c (150×20)				3,000
	(Being 150 shares of ₹ 100 each reissued @ ₹120to Neha)				
(ix)	Share Forfeiture A/c	Dr		4,500	
	To Capital Reserve A/c				4,500
	(Being balance of share forfeiture account transferred to capital reserve account)				

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

	(₹)
On Application	20
On Allotment	30 (₹ 40 – discount ₹ 10)
On First Call	30
On Final Call	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.

Answer

Journal Entries

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(i)	Bank A/c (10,000×20)	Dr		2,00,000	
	To Share Application A/c				2,00,000
	(Being shares application money received for 10,000 shares @ ₹ 20 per share)				
(ii)	Share Application A/c	Dr		2,00,000	
	To Share Capital A/c (10,000×20)				2,00,000
	(Being share application money of 10,000 shares transferred to share capital account)				
(iii)	Share Allotment A/c (10,000×30)	Dr		3,00,000	
	Discount on Issue of Shares A/c (10,000×10)			1,00,000	
	To Share Capital A/c (10,000×40)				4,00,000
	(Being allotment money due on 10,000 shares @ ₹ 30 per share excluding discount ₹ 10)				
(iv)	Bank A/c	Dr		3,00,000	
	To Share Allotment A/c				3,00,000
	(Being shares allotment money received for 10,000 shares @ ₹ 30 per share)				
(v)	Share First Call A/c	Dr		3,00,000	
	To Share Capital A/c (10,000×30)				3,00,000
	(Being share first call money due on 10,000 shares @ ₹ 30 per share)				
(vi)	Bank A/c (10,000×30)	Dr		3,00,000	
	To Share First Call A/c				3,00,000
	(Being final call money received for 10,000 shares @ ₹ 30 per share)				
(vii)	Share Final Call A/c	Dr		1,00,000	
	To Share Capital A/c (10,000×10)				1,00,000
	(Being final call money due on 10,000 shares @ ₹ 10 per share)				
(viii)	Bank A/c (9,800×10)	Dr		98,000	
	Call-in-Arrears A/c (200×10)	Dr		2,000	
	To Share Final Call A/c				1,00,000
	(Being final call money received for 9,800 shares @ ₹ 10 per share and 200 shares failed to pay)				

Date	Particulars		LF	Amt. (Dr)	Amt. (Cr)
(ix)	Share Capital A/c (200×100)	Dr		20,000	
	To Call-in-Arrears A/c (200×10)				2,000
	To Discount on Issue of Shares A/c (200×10)				2,000
	To Share Forfeiture A/c (200×80) (Working Note)				16,000
	(Being 200 shares forfeited for non-payment of final call ₹ 10 per share)				
(x)	Bank A/c (150×75)	Dr		11,250	
	Discount on Issue of Shares (150×10)	Dr		1,500	
	Share Forfeiture A/c (150×15)	Dr		2,250	
	To Share Capital A/c (150×100)	Dr			15,000
	(Being 150 forfeited shares reissued at ₹ 100 per share for ₹ 75)				
(xi)	Share Forfeiture A/c	Dr		9,750	
	To Capital Reserve A/c (Working Note)				9,750
	(Being balance of 150 reissue shares after adjustment transferred to capital reserve account)				

Working Note

(i) Amount for share forfeiture on 200 shares

Received on application 200 shares × 20	= 4,000
Received on allotment 200 shares × 30	= 6,000
Received on first call 200 shares × 30	= 6,000
	₹ 16,000

(ii) Calculation of Capital Reserve

Amount transferred to share forfeiture on 150 shares (150 × 80) = ₹12,000

(–) Amount used on reissue of 150 shares forfeited (150 × 15) = ₹ (2,250)

capital reserve = ₹ 9,750

Note *At the time of forfeiture discount should be credited and when we reissue of these shares. Discount should be debited (special case).*