Chapter 10: Company Accounts Part - 1 (Accounting for Shares)

Question: 1

Answer in one Sentence only :
What is authorised capital?

Solution

The amount of capital stated in the memorandum of association at the time of incorporation is referred to as authorised capital. It is the maximum amount of capital that can be issued to the shareholders of a company. It is also known as the registered capital or the nominal capital of the company.

Question: 2

Answer in one Sentence only :
State the meaning of issued capital.

Solution

The part of authorised capital of a company that is issued to the public in the form of shares is known as issued capital. If the number of shares subscribed by the public is equal to the number of shares issued, then the issued capital will be equal to the subscribed capital.

Question: 3

Answer in one Sentence only :
What do you mean by reserve capital?

Solution

Reserve capital represents the portion of subscribed capital that remains uncalled except in case of winding up or at the time of liquidation. As per Section 99 of the Companies Act, 1956, a company can create reserve capital by passing a special resolution.

Question: 4

Answer in one Sentence only :
Define share.

Solution

The total capital of a company is divided into equal units of small denomination termed as shares.

Question: 5

Answer in one Sentence only :
Write the meaning of equity share capital.

Solution

A company can raise capital via debt capital and share capital. Debt capital is procured from lenders in the form of loans or debentures, whereas share capital is procured by issuing shares (i.e. equity shares or preference shares). Equity shareholders have ownership rights in the management of a company and the amount of equity share capital is repaid only on winding up the company.

Question: 6

Answer in one Sentence only :
What is meant by convertible preference share?

Solution

Preference shares are those shares which are given priority over equity shareholders in respect of payment of dividend and repayment of capital on winding up. Preference shares that can be converted into equity shares at a given future date, according to agreed terms and conditions, are known as convertible preference shares.

Question: 7

Answer in one Sentence only :
Which preference shares are called cumulative preference shares?

Solution

In case of cumulative preference shares, the unpaid dividend on preference shares is accumulated and treated as arrears. In other words, the dividend on such shares is carried forward to the next year. The unpaid dividend on these shares keeps on accumulating till it is paid.

Question: 8

Answer in one Sentence only :
What is allotment of shares?

Solution

Allotment means accepting the applications of the applicants and distributing the shares to them. After the acceptance, the company allots the shares via share certificates. The share certificate contains the details about the number of shares allotted to the applicant. Shareholders pay the prescribed allotment money for getting the shares allotted.

Question: 9

Answer in one Sentence only :
What is meant by share premium?

Solution: 1

Issue of shares at a premium means the issue of shares by a company at a price higher than the face value of the shares. (The difference between the issue price, i.e., the price at which the shares are issued, and the face value of the shares is called share premium) for example, when shares of the face value of Rs.10 each are issued at a price of Rs.12 per share, the shares are said to be issued at a premium.

Solution: 2

As per Section 78 of the Companies Act, 1956, when the shares are issued to the public at a price more than their par value, i.e. face value, the shares are said to be issued at a premium. The amount of premium received is credited to a separate account known as Securities Premium Account. It can be used for the following purposes:

a. For writing-off preliminary expenses of the company
b. For writing-off expenses of commission paid or discount allowed on issue of shares or debentures of the company
c. For issuing bonus shares

Question: 10

Answer in one Sentence only :
What is meant by discount on issue of shares?

Solution

As per Section 79 of the Companies Act, 1956, issuance of shares at a discount implies that shares are issued at a price below their par value, i.e. the face value of the shares. The discount on issuance of shares is debited to Discount on Issue of Shares Account. For example, a share with a face value of Rs 10 is issued at a discount of 10%. So, a discount of Re 1 per share will be offered and the share will be issued at Rs 9.

Question: 11

Answer in one Sentence only :
Give the full form of SEBI.

Solution

SEBI stands for Securities Exchange Board of India. It is the regulator of the securities market in India and was established in 1988.

Question: 12

Answer in one Sentence only :
What do you understand by Pro-rata allotment of shares?

Solution

When shares subscribed by the public are greater than the shares offered by the company, it results in over-subscription. In such cases, the company makes allotment on proportionate basis, which is known as pro-rata allotment of shares. For example, the company may allot 1500 shares to an applicant who applied for 2000 shares.

Question: 13

Answer in one Sentence only :
Define call-in-advance.

Solution

Sometimes a shareholder might pay the amount due on future calls along with the allotment money. In other words, it represents the amount received from the shareholders in excess of the amount that is actually due from them. This amount is credited to a different account known as Calls in Advance Account. It is shown on the Liabilities side of the company's Balance Sheet. A company can accept calls in advance only if there is a provision in its Articles of Association. According to Table A, the company is required to pay interest at the rate of 6% p.a. on the amount received as advance call money.

Question: 14

Answer in one Sentence only :
Define securities premium.

Solution

Securities premium or share premium refers to the amount received in excess of the face value of the share. For example, if a share with face value Rs 10 is issued at Rs 12, the amount of premium per share is Rs 2. The amount of premium is the difference between the issue price and the face value of a share.

Question: 15

Give one word / Term / phrase for the following statement :
Capital stated in the capital clause of Memorandum of Association.

Solution

Authorised Capital

Explanation: The capital stated in the capital clause of the Memorandum of Association is regarded as authorised capital. It is the maximum amount of capital that a company can issue to its shareholders. It is also known as the registered capital or the nominal capital of a company.

Question: 16

Give one word / Term / phrase for the following statement :
The portion of subscribed capital which has not yet been called up.

Solution

Uncalled Capital

Explanation: It represents the part of issued and subscribed share capital which is not yet called up by a company. In other words, the part of face value of a share that is not called up by the company is referred to as uncalled capital.

Question: 17

Give one word / Term / phrase for the following statement :
The capital which is not disclosed in the balance sheet.

Solution

Reserve Capital

Explanation: It represents the portion of subscribed capital that remains uncalled except in case of winding up or at the time of liquidation. It does not form a part of a company's Balance Sheet.

As per Section 99 of the Companies Act, 1956, a company can create reserve capital by passing a special resolution.

Question: 18

Give one word / Term / phrase for the following statement :
Preference share on which arrears of dividend accumulate.

Solution

Cumulative Preference Share

Explanation: In case of cumulative preference shares, the unpaid dividend on preference shares is accumulated and treated as arrears. In other words, the dividend on such shares is carried forward to the next year. The unpaid dividend on these shares keeps on accumulating till it is paid.

Question: 19

Give one word / Term / phrase for the following statement :
A preference share having right of conversion into equity.

Solution

Convertible

Explanation: Preference shares with the provision of being converted into equity shares after a defined span of time are known as convertible preference shares.

Question: 20

Give one word / Term / phrase for the following statement :
Issue of share above face value.

Solution

Share issued at Premium

Explanation: Shares are said to be issued at a premium when the issue price of a share is more than its face value. The amount of premium is credited to a separate account known as Securities Premium Account.

Question: 21

Give one word / Term / phrase for the following statement :
The account to which excess amount on share forfeited a/c is transferred.

Solution

Capital Reserve

Explanation: It is a reserve created out of capital profits of an organisation. It is maintained out of profits earned from specific transactions of a capital nature. It is capital reserve to which the excess amount on Share Forfeited Account is transferred. Such excess amount represents the profit on re-issue of forfeited shares.

Question: 22

Give one word / Term / phrase for the following statement :
The maximum amount beyond which a company is not allowed to raise funds.

Solution

Authorised / Nominal Capital

Explanation: The maximum amount of capital beyond which a company is not allowed to raise funds is known as its authorised share capital. This capital is stated in the capital clause of the Memorandum of Association of the company at the time of its incorporation.

Question: 23

Give one word / Term / phrase for the following statement :
Deduction made from share capital to find out paid up capital.

Solution

Calls-in-arrears

Explanation: Sometimes, a shareholder might not pay the call money on all the shares or on some of the shares held by him. In such cases, the unpaid amount is treated as call in arrears. According to Table A, the company is authorised to charge interest on call in arrears @ 5% p.a. till the amount remains unpaid. The amount of call in arrears is deducted from the called-up capital in the Balance Sheet to show the net paid-up capital by the shareholder.

Question: 24

Give one word / Term / phrase for the following statement :
Amount called on shares by the company but not received.

Solution

Calls-in-arrears

Explanation: Sometimes, a shareholder might fail to pay allotment or call money on all the shares or some of the shares held by him/her. The amount that is called up by a company but not paid (received) by (from) a shareholder represents the amount due, i.e. the outstanding amount. Therefore, it is termed as calls-in-arrears. Calls-in-arrears are shown in a company's Balance Sheet by way of deduction from the called-up capital.

Question: 25

Give one word / Term / phrase for the following statement :
The capital on which dividend is paid.

Solution

Paid up Capital

Explanation: A company declares dividend on the amount of money paid up by the shareholders. That is, dividend is declared on paid-up share capital. It represents the money received from the shareholders on the shares held by them. It is not necessary that every shareholder will pay the whole amount of called-up share capital; therefore, a company pays dividend on the amount of paid-up capital.

Question: 26

Give one word / Term / phrase for the following statement :
Shares having voting right.

Solution

Equity Shares

Explanation: Shares issued with voting rights are termed as equity or ordinary shares. Equity shareholders have residual claims in the earnings of a company. In other words, in the event of liquidation (winding up), equity shareholders are paid after payment to preference shareholders has been made.

Question: 27

Give one word / Term / phrase for the following statement :
Shares having first right on surplus assets at the time of liquidation.

Solution

Preference Shares

Explanation: Preference shares are given priority over equity shares regarding the distribution of dividend and repayment of capital at the time of liquidation or winding up of a company. In other words, preference shareholders have the first right (preferential) in the surplus assets or the earnings of a company over equity shareholders.

Question: 28

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

Nominal value of shares allotted to the public is called ______________ capital.

Options

- authorised
- reserve
- paid up
- subscribed

Solution

Nominal value of shares allotted to the public is called **subscribed** capital.

Explanation: Shares applied by the public and allotted to the public by a company are referred to as shares subscribed. Therefore, the nominal value of shares allotted to the public is termed as subscribed capital.

Question: 29

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

Paid up, value of all shares allotted is called _______________ capital.

Options

- uncalled
- issued
- subscribed
- nominal

Solution

Paid up value of all shares allotted is called **subscribed** capital.

Explanation: The part of the issued capital that is subscribed to and paid by the public is called subscribed capital.

Question: 30

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

As per section 69 (3) of the Companies Act, 1956, the minimum amount payable on share application should be_______________ percent.

Options

- 10
- 5
- 20

* 15

Solution

As per section 69 (3) of the Companies Act, 1956, the minimum amount payable on share application should be **5** per cent.

Explanation: Minimum amount payable on share application should be 5% of the nominal value of the share.

Question: 31

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

As per SEBI guidelines, the minimum amount payable on share application should be _____________ of nominal value of share.

Options

* 10
* 20
* 25
* 5

Solution

As per SEBI guidelines, the minimum amount payable on share application should be **25%** of nominal value of share.

Explanation: As per SEBI, at least 25% of the nominal value of shares should be called on application.

Question: 32

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

As per Table A, the amount on call on a share must not exceed _____________ percent.

Options

* 5
* 10
* 20
* 25

Solution

As per Table A, the amount on call on a share must not exceed **25** per cent.

Explanation: A company cannot call more than 25% of the nominal value of shares in one call.

Question: 33

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

If articles are silent regarding interest on calls-in-arrears, the minimum rate of interest to be charged is _____________.

Options

- 5% p.a.
- 6% p.a.
- 8% p.a.
- none of these

Solution

If articles are silent regarding interest on calls-in-arrears, the minimum rate of interest to be charged is **5%.**

Explanation: Calls-in-arrears are defined as those dues which are not paid by the shareholders on the allotment or on calls within the fixed time.

The interest on Calls-in-arrears is to be paid by the defaulters and if nothing is provided in the articles then the interest of 5% p.a. is to be applied.

Question: 34

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

If the articles are silent regarding interest on Calls-in-advance, the minimum rate of interest to be charged is _____________ p.a.

Options

- 5%
- 6%
- 8%
- none of these

Solution

If the articles are silent regarding interest on calls-in-advance, the minimum rate of interest to be charged is **<u>6%</u>** p.a.

Explanation: If the articles are silent, then the provisions of Table A are applicable. As per Table A, interest @ 6% p.a. is paid on calls-in-advance.

Question: 35

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

The document inviting offers from public to subscribe its share is called _____________.

Options

- prospectus
- share certificate
- both ‘a’ and ‘b’
- none of these

Solution

The document inviting offers from public to subscribe its share is called **prospectus**.

Explanation: A prospectus is used to invite applications from the general public to purchase the shares of a company. It contains information about the company such as names and addresses of the registered office and directors of the company, consent from SEBI, authorised and issued capital etc. On the basis of information contained in a prospectus, the public applies for the shares.

Question: 36

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

If shares are issued at its face value, it is called as issue at ___________________.

Options

- premium
- discount
- par
- none of these

Solution

If shares are issued at its face value, it is called as issue at **par**.

Explanation: Shares are said to have been issued at par when the face value of a share equals its issue price. On the other hand, if shares are issued at a price below their face value, it is known as issue at discount, whereas if shares are issued at a price that is more than the face value, it is known as issue at premium. For example, if a share is issued at a face value of Rs 10, it is issued at par. If it is issued at Rs 9, then it is issued at a discount of Re 1 and if it is issued at Rs 12, then it is issued at a premium of Rs 2.

Question: 37

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

______________ is deducted from the share capital to know paid up value of shares.

Options

- Calls-in-advance
- Calls-in-arrears
- Forfeited shares
- Discount on issue

Solution

Calls-in-arrears is deducted from the share capital to know paid up value of shares.

Explanation: Calls-in-arrears represent the amount of capital called by a company but not paid by the shareholders. Calls-in-arrears are shown on the Liabilities side of the company’s Balance Sheet by way of deduction from the called-up capital to arrive at the net paid-up capital.

Question: 38

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

Interest on Calls-in-arrears is _______________for the company.

Options

- income
- expenditure
- gain
- loss

Solution

Interest on Calls-in-arrears is **income** for the company.

Explanation: When the shareholders do not pay the called-up amount on the shares, it is known as calls-in-arrears. The shareholders are required to pay the interest on such calls-in-arrears till it remains unpaid. It is in the nature of income for a company and hence, it is credited. The rate of interest charged by a company on calls-in-arrears is 5 % p.a.

Question: 39

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

When shares are forfeited, share capital account is _______________.

Options

- debited
- credited
- adjusted
- none of these

Solution

When shares are forfeited, share capital account is **debited**.

Explanation: When the shares are forfeited, share capital account is debited, since the money received on the shares being forfeited is to be cancelled. When money is received on the shares, share capital account is credited. Therefore, on forfeiture, share capital account is debited.

Question: 40

Select the most appropriate answer from the alternatives given below and rewrite the sentence :

The excess price received over the par value of shares, should be ____________ to securities premium a/c.

Options

- debited
- credited
- adjusted
- none of these

Solution

The excess price received over the par value of shares should be **credited** to securities premium a/c.

Explanation: When shares are issued at a price above their par value, it is known as issuing of shares at premium. The excess amount received as premium is credited to a separate account known as Securities Premium Account. It is credited, as it is a gain for the company and is in the nature of nominal account.

Question: 41

State, whether the following statements is True or False.

The liability of a shareholder of public limited company is limited.

Options

- True
- False

Solution

True

Explanation: The liability of a shareholder of a public limited company is limited by shares. That is, the liability is limited to the extent of amount unpaid on their shares. In other words, the private property of shareholders cannot be used to pay off liabilities in the event of winding-up or at the time of liquidation of a company.

Question: 41

State, whether the following statements is True or False.

Equity shareholder enjoys preferential rights.

Options

- True
- False

Solution

False

Explanation: Equity shareholders have voting rights. However, it is the preference shareholders who enjoy preferential rights regarding dividend distribution and repayment of capital at the time of liquidation or in the event of winding up of a company.

Question: 42

State, whether the following statements is True or False.

Equity share is a guarantee of fixed rate of dividend.

Options

- True
- False

Solution

False

Explanation: Preference shares are the shares with a fixed rate of dividend. They receive dividend at the pre-defined rate, whereas equity shares do not guarantee a fixed rate of dividend. Moreover, it is uncertain whether the dividend will be distributed to them or profits will be retained.

Question: 43

State, whether the following statements is True or False.

In private placement shares are issued to public through prospectus.

Options

- True
- False

Solution

False

Explanation: In private placement of shares, no applications are invited from the general public for subscribing to the shares of the company. According to section 81(1A) of the Companies Act, 1956, when the promoters of a public company are confident of raising capital through private sources, the company does not invite the public to subscribe for shares. Instead the company promotes the private placement of shares to promoters, friends and other private sources. The promoters are required to prepare a draft prospectus known as 'statement in lieu of prospectus' and file it with the Registrar of Companies at least 3 days before the first allotment.

Question: 44

State, whether the following statements is True or False.

Private placement method saves time and cost.

Options

- True

- False

Solution

True

Explanation: When the promoters of a public company are confident of raising capital through private sources, the company does not invite the general public to subscribe for shares instead the company promotes the private placement of shares to promoters, friends and other private sources. The company is not required to issue a prospectus. Also, no applications are invited for issue of shares. This saves time, cost and money.

Question: 45

State, whether the following statements is True or False.
In public issue whole amount of share capital is called at once.

Options

- True
- False

Solution

False

Explanation: It is not necessary that the whole amount of share capital, i.e. authorized capital, is called up at once. The part of authorized capital that is issued to the shareholders is called issued capital, whereas the part that remains unissued is called unissued capital. The unissued capital of the company can be issued anytime during the life time of the company.

Question: 46

State, whether the following statements is True or False.

Shares are always issued at par.

Options

- True
- False

Solution

False

Explanation: Shares can be issued at par, at discount or at premium. It is not necessary that shares should be issued at par. They can be issued at below the face value, i.e. at a discount, or above the face value, i.e. at premium.

Question: 47

State, whether the following statements is True or False.

A public company can issue shares at only rate of discount.

Options

- True

- False

Solution

False

Explanation: Shares can be issued at a discount by public or private companies, subject to a few conditions (as per Section 79 of Companies Act, 1956) that are mentioned below:

➢ Shares to be issued at a discount must be of an existing class already issued, i.e. a new class of shares cannot be issued at a discount.
➢ Shares issued at a discount must be authorised by the resolution passed in the general meeting of a company and approved by SEBI.
➢ The resolution should specify the maximum rate of discount (not exceeding 10%).
➢ At least one year should have elapsed since the company commenced business.
➢ After the permission of SEBI, the shares to be issued at a discount should be issued within two months.

Question: 48

State, whether the following statements is True or False.

A public company forfeits share on non-payment of final call only.

Options

- True
- False

Solution

False

Explanation: A company can forfeit the shares of a shareholder if he fails to pay any instalment due from him to the company. A company is required to issue a clear 14 days' notice to the defaulting shareholder asking him to pay the due amount on his shares, failing which, his shares are forfeited.

Question: 49

State, whether the following statements is True or False.

Forfeited shares are reissued at par only.

Options

- True
- False

Solution

False

Explanation: Forfeited shares can be issued at par, at a discount or at a premium, as decided by the board of directors. The forfeited amount is transferred to Share Forfeiture Account. However, when the forfeited shares are reissued, the balance amount is transferred to the Capital Reserve Account.

Question: 50

State, whether the following statements is True or False.
Share forfeited balance is transferred to Capital Reserve Account.

Options

- True
- False

Solution

True

Explanation: On forfeiture, the amount received on such shares is transferred to the Share Forfeiture Account. Later, when the forfeited shares are reissued at a discount, the amount of discount is set off against the Share Forfeiture Account and the balance is transferred to the Capital Reserve Account. Only when the forfeited shares are reissued, the amount in the Share Forfeiture Account is transferred to the Capital Reserve Account.

Question: 51

State, whether the following statements is True or False.

Shares are issued for cash only.

Options

- True
- False

Solution

False

Explanation: Shares can be issued for cash or for consideration other than cash. Sometimes shares are issued to vendors against purchase of assets. Also, shares are issued to the promoters of a company for setting up the company.

Question: 52

(Calculation of different types of Capital):
From the following details calculate authorised capital, issued, subscribed, called up and paid up share Capital and also calls in arrear and uncalled capital :
Pankaj Ltd. was formed with a capital of Rs 5,00,000 divided in to 5,000 shares of Rs 100 each. Of these 1,000 shares were issued to the vendor as fully paid in payment of purchase of machinery. 3,000 shares were offered to the public and of these 2,500 shares were applied and allotted. Rs 10 was payable on application and Rs 25 on allotment. The balance was yet to be called. All the money called up was duly received with the exception of allotment money on 300 shares

Solution

Particulars	**Amount (Rs)**
Authorised Capital (5,000 shares of Rs 100 each)	500,000
Issued Capital (1,000 + 3,000 × 100)	400,000

Subscribed Capital (1,000 + 2,500 × 100)	350,000
Called-up Capital 1,000 shares of Rs 100 each 100,000 2,500 shares of Rs 35 each 87,000	187,500
Paid-up Capital 1,000 × 100 + 2,000 × 35 – 300 × 25 = 1,00,000 + 87,500 – 7,500	180,000
Calls-in-Arrears (300 × 25)	7,500
Uncalled Capital (2,500 × 35)	162,500

Balance Sheet (Liability side only)		
Particulars	**Amount (Rs.)**	**Amount (Rs.)**
Authorised Capital 5,000 shares of Rs 100 each	500,000	
Issued Capital 4,000 shares of Rs 100 each	400,000	
Subscribed Capital 3,500 shares of Rs 100 each	350,000	
Called-up Capital 2,000 shares of Rs 100 each issued to a vendor for purchase of a machinery		100,000
2,500 shares of Rs 100 each, Rs 35 called-up 87,500 (-) : Calls-in-Arrears 7,500		80,000
Paid up Share Capital		**180,000**

Question: 53

(Full Subscription)

The HMT Ltd. issued 15,000 Equity shares of Rs 10 each, payable as under-

On Application	Rs 3	On Allotment	Rs 2
On First Call	Rs 3	On Final Call	Rs 2

All the shares were fully subscribed by the public. All the money due on installments were received.
Pass journal entries to record the above transactions in the books of the company.

Solution

Books of HMT Ltd.

Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c		45,000	45,000

	(Share application received on 15,000 shares of Rs 3 each)			
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Share application transferred to share capital)		45,000	45,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share allotment due on 15,000 shares of Rs 2 each)		30,000	30,000
	Bank A/c Dr. To Equity Share Allotment A/c (Share allotment received)		30,000	30,000
	Equity Share First Call A/c Dr To Equity Share Capital A/c (Share first call due on 15,000 shares of Rs 3 each)		45,000	45,000
	Bank A/c Dr. To Equity Share First Call A/c (Share first call received)		45,000	45,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Share final call due on 15,000 shares of Rs 2 each)		30,000	30,000
	Bank A/c Dr. To Equity Share Final Call A/c (Share final call received)		30,000	30,000

Question: 54

(Under Subscription)
Usha Co. Ltd. issued Rs 12,000 Equity shares of Rs 100 each payable as under-

Rs 30	on application	Rs 20	on allotment
Rs 35	on first call	Rs 15	on second call

Public applied for Rs 10,000 shares and all the applicants were accepted by the company. Allotment of the shares were made. All the money on allotment, first call and second call were received.
Show the journal of the Company.

Solution

Books of Usha Co. Ltd
Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Share application received on 10,000 shares of Rs.30 each)		300,000	300,000

	Equity Share Application A/c Dr. To Equity Share Capital A/c (Share application transferred to Share Capital)		300,000	300,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share allotment due on 10,000 shares of Rs 20 each)		200,000	200,000
	Bank A/c Dr. To Equity Share Allotment A/c (Share allotment received)		200,000	200,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Share first call due on 10,000 shares of Rs 35 each)		350,000	350,000
	Bank A/c Dr. To Equity Share First Call A/c (Share first call received)		350,000	350,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Share final call due on 10,000 shares of Rs 15 each)		150,000	150,000
	Bank A/c Dr. To Equity Share Final Call A/c (Share final call received)		150,000	150,000

Note: Company will call money on 10,000 shares only because public subscribed for 10,000 shares.

Question: 55

(Over Subscription and retain for allotment):
Geeta Ltd. invited applications for Rs 50,000 Equity shares of 10 each payable as under-

Rs 3	On Application	Rs 2	On Allotment
Rs 3	On First Call	Rs 2	On Final Call

Public applied for Rs 60,000 shares. All the applications were accepted by the company. Money on excess application was used for allotment purpose. Assuming that all the allotment, first call and final call duly received.
Pass journal entries in the books of the company.
Rise in the books of the company.

Solution

Shares Applied	**Shares Allotted**
60,000	50,000

Books of Geeta Ltd.
Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr To Equity Share Application A/c		180,000	180,000

	(Share application received on 60,000 shares of Rs. 3 each)			
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Share allotment transferred to Share Capital and excess application adjusted on allotment)		180,000	180,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share allotment due on 50,000 shares of Rs 2 each)		100,000	100,000
	Bank A/c Dr. To Equity Share Allotment A/c (Share allotment received)		70,000	70,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Share first call due on 50,000 shares of Rs 3 each)		150,000	150,000
	Bank A/c Dr. To Equity Share First Call A/c (Share first call received)		150,000	150,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Share final call due on 50,000 shares of Rs 2 each)		100,000	100,000
	Bank A/c Dr. To Equity Share Final Call A/c (Share final call received)		100,000	100,000

Working Notes:

Money received on Application (60,000×3) = 180,000
Less: Application money transferred
to Share Capital 50,000×3 = 150,000
Excess money on application = 30,000

Allotment due on 50,000 Shares × Rs 2 = 100,0000
Less: Adjustment of excess money
on application = 30,000
Share Allotment Received = 70,000

Question: 55

(Over subscription- Some over application refunded and rest used for allotment)
ONGC Ltd. invited applications for 25,000 shares of Rs 100 each payable as under-

On Application	Rs 20	On Allotment	Rs 40
On First Call	Rs 25,	On Final Call	Rs 15

Public applied for 40,000 shares, out of which 10,000 shares were rejected and money on 5,000 shares was diverted to share allotment. All the allotment and calls money was received.
Pass journal entries in the journal of ONGC Ltd.

Solution

Computation Table

Categories	Shares Applied	Shares Alloted	Money received on Application @ Rs 20 each	Money transfers to Share Capital @ Rs 20 each	Excess Application money adjusted on Share Allotment	Allotment due @ Rs 40 each	Refunded
I	10,000	Nil	200,000	-	-	-	200,000
II	30,000	25,000	600,000	500,000	100,000	10,00,000	-
	40,000	25,000	800,000	500,000	100,000	10,00,000	200,000

Books of ONGC Ltd.
Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Share Application A/c (Share application received on 40,000 shares of Rs 20 each)		800,000	800,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Share application transferred to Share Capital and excess application money received on 5,000 shares adjusted on share allotment and application received on 10,000 shares refunded)		800,000	500,000 100,000 200,000
	Share Allotment A/c Dr To Share Capital A/c (Share allotment due on 25,000 shares of Rs 40 each)		10,00,000	10,00,000
	Bank A/c Dr. To Share Allotment A/c (Share Allotment received)		900,000	900,000
	Share First Call A/c Dr. To Share Capital A/c (Share first call due on 25,000 shares of Rs 25 each)		625,000	625,000
	Bank A/c Dr.		625,000	625,000

	To Share First Call A/c (Share first call received)			
	Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 25,000 shares of Rs 15 each)		375,000	375,000
	Bank A/c Dr To Share Final Call A/C (Share final call received)		375,000	375,000

Working Notes:

Money received on Application (40,000×3) = 800,000
Less: Application money transferred
to Share Capital 25,000×20 = 500,000
Less: Application money
Refunded 10,000×20 = 200,000
Excess money on application = 100,000

Allotment due on 25,000 Shares × Rs 40 = 10,00,0000
Less: Adjustment of excess money
on application = 1,00,000
Share Allotment Received = 900,000

Question: 56

(Call in arrears and Balance Sheet)
The Alfo Ltd. made an issue of 10,000 shares of Rs 20 each payable as follows-

Application	Rs 5	Allotment	Rs 10
First Call	Rs 2	Final Call	Rs 3

The company received applications for 15,000 shares of which applications for 5,000 shares were rejected and money refunded. The directors made all the calls. One share holders, holding 100 shares failed to pay first and final call. The expenses of issue amounted to Rs 5,000 . Pass journal entries and show the Balance Sheet.

Note: Expenses on issue should be shown as asset. Every year certain amount of expenses should be charged to P&L A/c.

Solution

Share Applied	**Share Allotted**
15,000	10,000

Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Share Application A/c (Share application received on 15,000 shares of Rs 5 each)		75,000	75,000
	Share Application A/c Dr. To Share Capital A/c		75,000	50,000 25,000

	To Bank A/c (Share application transferred to Share Capital A/c and Share Application on 5,000 shares has been refunded)			
	Share Allotment A/c Dr. To Share Capital A/c (Share allotment due on 10,000 shares of Rs. 10 each)		100,000	100,000
	Bank A/c Dr. To Share Allotment A/c (Share allotment received)		100,000	100,000
	Share First Call A/c Dr. To Share Capital A/c (Share first call due on 10,000 shares of Rs 2 each)		20,000	20,000
	Bank A/c Dr. Call-in-Arrears A/c Dr. To Share First Call A/c (Share first call received on 9,800 shares of Rs. 3 each)		30,000	30,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Final Call A/c (Share final call received on 9,700 shares of Rs. 3 each)		29,700 300	30,000
	Share Issue expenses A/c Dr. To Bank A/c (Expenses on issue of shares paid)		5,000	5,000

Balance Sheet of Alfo Ltd.

Liabilities		**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Issued and Paid-up Capital 10,000 shares of Rs. 20 each	200,000	199,500	Cash at Bank Miscellaneous Expenditure	194,500
(-) Calls-in-Arrears	500		Expenses on Issue	5,000
		199,500		199,500

Question: 57

(Issue at discount and Pro-rate allotment)
Global IT Ltd. issued 1,00,000 shares of 10 each at a discount of 10% payable as follows-

On Application	Rs 3	On Allotment	Rs 3 (Discount)
On First Call	Rs 2	On Second Call	Rs 1

Public applied for 1,20,000 shares and the directors made pro-rata allotment to the applicants.
Show the journal of the company assuming that all money received on allotment and calls.

Solution

Share Applied	**Shares Allotted**
1,20,000	1,00,000

Books of Global IT Ltd.
Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr To Share Application A/c (Share Application received on 120,000 shares of Rs. 3 each)		360,000	360,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Share application transferred to share allotment and share on 20,000 share adjusted on share Allotment)		360,000	300,000 60,000
	Share Allotment A/c Dr. Discount A/c Dr. To Share Capital A/c (Share allotment due on 100,000 shares of Rs. 3 each, issued at discount of 10%)		300,000 100,000	400,000
	Bank A/c (300,000 - 60,000) Dr. To Share Allotment A/c (Share application received)		240,000	240,000
	Share First Call A/c Dr. To Share Capital A/c (Share first call due on 100,000 shares of Rs.2 each)		200,000	200,000
	Bank A/c Dr. To Share First Call A/c (Share first call received)		200,000	200,000
	Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 1,00,000 shares of Rs 1 each)		100,000	100,000
	Bank A/c Dr. To Share Final Call A/c (Share first call received)		100,000	100,000

Working Notes:

Money received on Application (1,20,000×3) = 360,000
Less: Application money transferred
to Share Capital 1,00,000×3 = 300,000

Excess money on application	=	60,000
Allotment due on 1,00,000 Shares × Rs 3	=	300,0000
Less: Adjustment of excess money on application	=	60,000
Share Allotment Received	=	240,000

Question: 58

(Issue at premium and calls in arrears)

Hindusthan Petroleum Ltd., invited application for 40,000 Equity shares of Rs 100 each payable as under including 20% premium:

On Application	Rs 30	On Allotment	Rs 40 (including premium)
On First Call	Rs 20	On Final Call	Rs 30

All the shares were applied for and also allotted. One share holder who was allotted 500 shares failed to pay first and final call.
Record the above transactions in the journal of the company.

Solution

Books of Hindusthan Petroleum Ltd.
Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Share application received on 40,000 shares of Rs.30 each)		12,00,000	12,00,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Share application transferred to share allotment)		12,00,000	12,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c [Share allotment due on 40,000 shares of Rs 40 each (including Premium of 20%)]		16,00,000	8,00,000 8,00,000
	Bank A/c Dr. To Equity Share Allotment (Share application received)		16,00,000	16,00,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Share first call due on 40,000 shares of Rs 20 each)		8,00,000	8,00,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First Call A/c		790,000 10,000	800,000

	(Share first call received on 39,500 shares of Rs 20 each)			
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c (Share Final call due on 40,000 shares of Rs.30 each)		12,00,000	12,00,000
	Bank A/c Dr. Calls-in-Arrears To Equity Share Final Call A/c (Share first call received on 39,500 shares of Rs 30 each)		11,85,000 15,000	12,00,000

Working Notes:
Calls-in-Arrears on First Call = 500 x 20 = Rs. 10,000
Calls-in-Arrears on Final Call = 500 x 30 = Rs. 15,000

Question: 59

(Forfeiture of shares issued at par)
Vijay Ltd. issued Rs 40,000 Equity shares of Rs 10 each payable as follows.

On Application :	Rs 2	On Allotment :	Rs 3
On First Call :	Rs 3	On Second Call :	Rs.2

The company received applications for Rs 50,000 equity shares. Allotment for shares was made on pro rata basis. Share allotment and calls were made and as also received except Raja holding Rs 1,000 shares failed to pay both the calls. His shares were forfeited after second call.
Record the above transactions in books of Vijay Ltd.

Note: Excess money received on share application 10,000 × Rs 2 = 20,000 will be diverted to share allotment A/c.

Solution

Shares Applied	**Share Allotted**
50,000	40,000

Books of Vijay Ltd.
Journal Entry

Date	**Particulars**	**L.F.**	**Debit Amount (Rs.)**	**Credit Amount (Rs.)**
	Bank A/c Dr. To Equity Share Application A/c (Share application received on 50,000 shares of Rs 2 each)		100,000	100,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Share application transferred to Share Capital and Application money		100,000	80,000 20,000

	received in excess on 10,000 shares adjusted on Share Allotment)			
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share allotment due on 40,000 shares of Rs 3 each)		120,000	120,000
	Bank A/c Dr. To Equity Share Allotment A/c (Share allotment received)		100,000	100,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Share first call due on 40,000 shares of Rs 3 each)		120,000	120,000
	Bank A/c Dr. To Equity Share First Call A/c (Share final call due on 40,000 shares of Rs. 2 each)		117,000	117,000
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c		80,000	80,000
	Bank A/c Dr. To Equity Share Final Call A/c (Share final call received on 39,000 shares of Rs. 2 each)		78,000	78,000
	Equity Share Capital A/c Dr. To Equity Share Forfeiture A/c To Equity Share First Call A/c To Equity Share Final Call A/c (1,000 shares were forfeited for non-payment of Share First Call of Rs 3 each and Share Final Call of Rs 2 each)		10,000	5,000 3,000 2,000

Question: 60

(Forfeiture of shares issued at premium)
The Century Ltd. issued 8,000 shares of Rs 100 at a premium of 10% payable as under-

On Application	Rs 25	On Allotment	Rs 40 (including premium)
On First Call	Rs 20	On Second Call	Rs 25

Company called up allotment and both the calls which were duly received except Ramesh to whom 500 shares were allotted failed to pay allotment and calls. Prepare Journal of Century Ltd.

Solution

Books of Century Ltd

Journal Entry

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

	Bank A/c Dr. To Share Application A/c (Share application received on 8,000 shares of Rs 25 each)		200,000	200,000
	Share Application A/c Dr. To Share Capital A/c (Share application transferred to Share Capital A/c)		200,000	200,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Share allotment due on 8,000 shares of Rs 40 each including Premium of Rs 10 each)		320,000	240,000 80,000
	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Share Allotment A/c (Share allotment received)		300,000 20,000	320,000
	Share First Call A/c Dr. To Share Capital A/c (Share first call due on 8,000 shares of Rs 20 each)		150,000 10,000	160,000
	Share Final Call A/c Dr. To Share Capital A/c (Share final call due on 8,000 share of Rs. 25 each0		200,000	200,000
	Bank A/c Dr. Call- in - Arrears A/c Dr. To Share Final Call A/c (Share final call received on 7,500 shares of Rs 25 each)		187,000 12,500	200,000

Working Notes:
Calls-in-Arrears on Share Allotment = 500 x 40 = Rs. 20,000 (including premium of Rs.10)
Calls-in-Arrears on First Call = 500 x 20 = Rs.10,000
Calls-in-Arrears on Final Call = 500 x 25 = Rs. 12,500