

Company Accounts and Analysis of Financial Statements Chapter 1

Accounting for Share Capital

Short answers long answers : Solutions of Questions on Page Number : 65

Q1 :

What is public company?

Answer :

A public company is defined as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities to the general public through stock market. There must be atleast seven members to form a public company. As per the section 3 (1) (iv) of Companies Act 1956, public company means a company which:

- a) is not a private company,
- b) has a minimum paid up capital of Rs 5,00,000 or such higher paid up capital, as may be prescribed,
- c) is a private company, being a subsidiary of a company which is not a private company.

A public company should not be mistakenly understood as a publicly-owned company, as the latter is exclusively owned and controlled by the government. A public company issues its share to general public without any restriction on maximum number of persons. A public company can be segmented into two types:

1. **Listed Company**- A Company whose shares are listed and traded in the stock exchange like, Tata Motors, Reliance, etc.
2. **Unlisted Company**- A Company whose shares are not listed in the stock exchange and thereby these shares cannot be traded in the stock exchange.

Q2 :

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

Answer :

The Section 3 (1) (i) of the Company Act of 1956 defines an organisation as a company that is formed and registered under the Act or any existing company that is formed and registered under any earlier company laws. In general, a company is an artificial person, created by law that has a separate legal entity, perpetual succession, common seal and has limited liability. It is a voluntary association of person who together contributes in the capital of the company to do business. Generally, the capital of a company is divided into small parts known as shares, the ownership of which is transferable subject to certain terms and conditions. There are two types of company, public company and private company.

Characteristics of Company

- 1. Association of Person:** A company is formed voluntarily by a group of persons to perform a common business. Minimum number of person should be two for formation of a private company and seven for a public company.
- 2. Artificial Person:** Company is an artificial and juristic person that is created by law.
- 3. Separate Legal Entity:** A company has a separate legal entity from its members (shareholders) and Directors. It can open a bank account, sign a contract and can own a property in its own name.
- 4. Limited Liability:** The liability of the members of a company is limited up to the nominal value or the face value of the shares. Unlike a partnership firm, on insolvency of a company, the members and the shareholders are not liable to pay the amount due to the creditors of the company. In fact, the members and the shareholders are only liable to pay the unpaid amount of the shares held by them. For example, if the value of share is Rs 10 and Rs 6 is paid up, then the member is liable to pay only Rs 4.
- 5. 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 Company Act.
- 6. Common Seal:** The Company is an artificial 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.
- 7. Transferability of Shares:** The shares of public limited company is easily and freely transferable without any consent from other members. But the share of ownership of a private limited company is not transferable without the consent of the other members.

Q3 :

What is private limited company?

Answer :

Private limited company is a company that is limited by shares or by guarantee by its members.

A private limited company is defined as a company that has a minimum paid up share capital of Rs 1,00,000. As defined by the Section 3 (1) (iii) of Companies Act 1956, private limited company is defined by the following characteristics:

- a) It restricts the right to transfer its shares.
- b) There must be atleast two and a maximum of 50 members (excluding current and former employees) to form a private company.
- c) It cannot invite application from the general public to subscribe its shares, or debentures.
- d) It cannot invite or accept deposits from persons other than its members, Directors and their relatives.

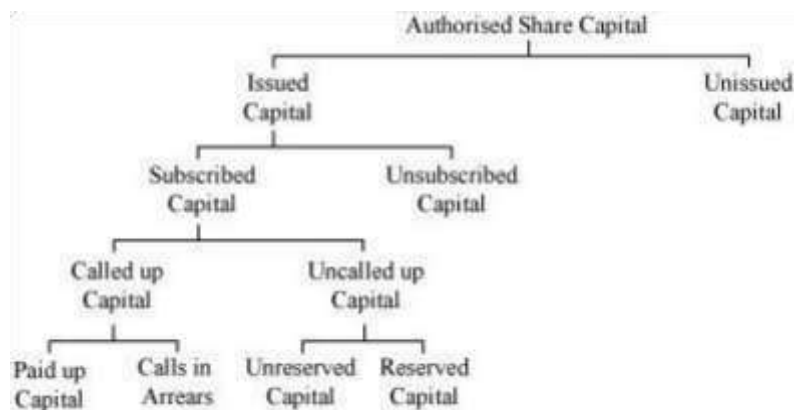
Unlike public company, a private company cannot issue its shares or debentures to general public at large as shares of these companies are not traded in the stock exchange, for example, CocaCola India Private limited, etc.

Q4 :

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

Answer :

The division of the share capital of a company into main categories is diagrammatically explained below.



- 1. Authorised Capital:** It is an amount which is stated in the Memorandum of Association. It is the maximum amount that the company can raise by issuing shares. This maximum amount can be increased as per the procedures laid down in the Company Act.
- 2. Issued Capital:** It is a part of authorised capital which is offered by the company to the general public for subscription. For example, if the authorised capital of a company is Rs 1,00,000 divided into Rs 10 per share, then the issued capital cannot be more than Rs 1,00,000.
- 3. Unissued Capital:** It is a part of authorised capital that is not offered till now but can be offered to the general public in future. In the above example, if the issued capital is Rs 80,000, then the unissued capital is Rs 20,000.
- 4. Subscribed Capital:** It is a part of issued capital that is actually subscribed by the general public. For example, if the company has issued 8,000 shares of Rs 10 per share and public has subscribed for 7,500 shares, then the subscribed share capital of the company amounts to Rs 75,000.
- 5. Unsubscribed Capital:** It is that part of the issued capital that is not subscribed by the public. For example, in the above example, 500 shares were left unsubscribed, making an unsubscribed share capital of Rs 5,000.
- 6. Called up Capital:** It is a part of subscribed capital that is called up by the Directors from the shareholders of a company to pay. For example, if the Directors call up Rs 6 out of Rs 10 (i.e. the face value of the share) from the shareholders of 10,000 to pay, then Rs 60,000 is regarded as called up share capital.
- 7. Uncalled up Capital:** It is that part of subscribed capital which is not called up till now but can be called up in future as per the need of the company. For example, in the above example, Rs 4 were left uncalled from shareholders holding 10,000 shares, so Rs 40,000 is uncalled up share capital.
- 8. Paid up capital:** It is that part of called up share capital which is actually received from the shareholders. If the entire called up money of Rs 4 on 1,000 shares has been received except from a shareholder holding 300 shares, then the paid up share capital is Rs 2,800 (Rs 4,000 - Rs 1,200). The amount of Rs 1,200 is called Call in Arrears that has been called up but is unpaid.
- 9. Reserved Capital:** As per the Section 99 of the Company Act of 1956, a limited company may call up any portion of uncalled share capital in the event of winding up of the company to pay its creditors. This amount of uncalled share capital cannot be used for any other purpose and is reserved for paying back the creditors, that is why, such portion of share capital is called reserve capital.

Q5 :

Define Government Company?

Answer :

As per the Section 617 of Company Act of 1956, a Government Company means any 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 the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a Government Company as thus defined.

Q6 :

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 total capital of a company is divided into equal units of small denomination termed as shares. The ownership of these shares is easily transferable, from one person to other, subject to certain conditions. The person who is contributing in the capital in the form of shares is known as shareholder. The ownership of a shareholder is limited to the value of the shares held by him/her.

Types of Shares

As per the Section 86 of the Company Act of 1956, there are two types of shares- Preference Shares and Equity Shares (also known as Ordinary Shares)

i) Preference Shares: Section 85 of the Company Act, 1956 defines Preference Shares to be featured by the following rights:

- a. Preference Shares entitle its holder the right to receive dividend at a fixed rate or fixed amount.
- b. Preference Shares entitle its holder the preferential right to receive repayment of capital invested by them before their equity counterparts at the time of winding up of the company. **ii)**

Equity Shares: Equity Shareholders have a voting right and control the affairs of a company.

As per Section 85 (2) of Companies Act 1956; equity share is a share that is not a preference share. It does not possess any preferential right of payment of dividend or repayment of capital. The rate of dividend is not fixed on equity shares and varies from year to year, depending upon the amount of profit available for distribution after paying dividend to the preference shareholders.

Q7 :

What do you mean by a listed company?

Answer :

Those public companies whose shares are listed and can be traded in a recognised stock exchange for public trading like, Tata Motors, Reliance, etc are called Listed Company. These companies are also called Quota Companies. The listing of securities (shares) helps the investor to determine the increase/decrease in value of their investment in a concerned listed company. This provides ample indication to the potential investors about the goodwill of the company and facilitates them to take various investment decisions and also to assess the viability of their investment in a company.

Q8 :

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

Answer :

When the total number of applications received for shares exceeds the number of shares offered by the company to the public, the situation of oversubscription arises. A company can opt for any of the three alternatives to allot shares in case of oversubscription of shares.

i) Excess applications are refused and money received on excess applications is returned to the applicants.

The company can refuse excess applications and the money received on these excess applications is returned to the applicants.

Share Application A/c	Dr.
To Share Capital A/c	
To Bank A/c	
(Excess application money returned)	

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
	To Share Application A/c		24,000

(Application money received for 12,000 shares)

Share Application A/c	Dr.	24,000	
	To Share Capital A/c		20,000
	To Bank A/c	4,000	

(Application money transferred to Share Capital

Account and the excess money returned)

ii) Pro rata Basis

The company can allot shares on pro rata basis to all the share applicants. The excess amount received in the application is adjusted on the allotment.

Share Application A/c	Dr.	
	To Share Capital A/c	
	To Share Allotment A/c	

(Adjustment of application money on allotment)

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
	To Share Application A/c		24,000

(Application money received for 12,000 shares)

Share Application A/c	Dr.	24,000	
To Share Capital A/c			20,000
To Share Allotment A/c			4,000

(Application money transferred to Share Capital

Account and the balance amount is transferred to
Share Allotment Account)

Share Allotment A/c	Dr.	50,000	
To Share Capital A/c			50,000

(Amount due on allotment of 10,000 shares @ Rs 5 per share)

Bank A/c	Dr.	46,000	
To Share Allotment			46,000

(Allotment money received, Rs 50,000 – Rs 4,000)

iii) Pro rata and refund of money

In this case, the company follows a combination of both the method. It may reject some share applications and may allot some applications on the pro rata basis.

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

(Application money transferred to Share Capital

Bank A/c	Dr.	46,000	
To Share Allotment A/c			46,000
(Allotment money received, Rs 50,000 – Rs			

4,000)

Q9 :

What are the uses of securities premium?

Answer :

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities:

1. For paying up un issued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,
2. For writing off the preliminary expenses of the company,
3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,
4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own shares.

Q10 :

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

Answer :

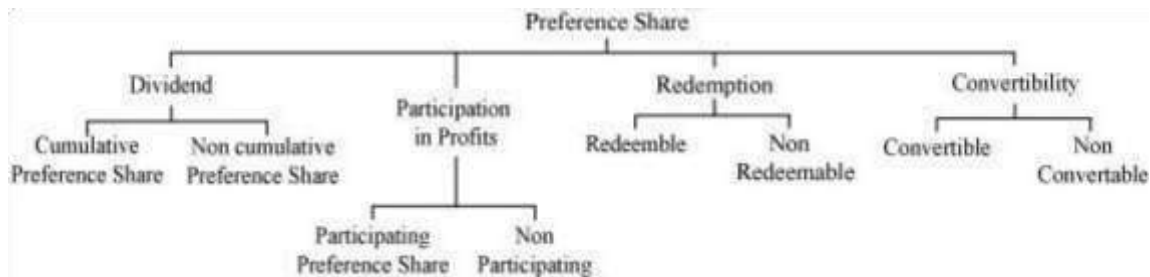
Preference Shares: Section 85 of the Company Act, 1956 defines Preference Shares to be featured by the following rights:

- a. Preference Shares entitle its holder the right to receive dividend at a fixed rate or fixed amount.
- b. Preference Shares entitle its holder the preferential right to receive repayment of capital

invested by them before their equity counterparts at the time of winding up of the company.

Types of Preference Shares

The different types of Preference Shares are diagrammatically explained below.



1. On the basis of Dividend:

a) *Cumulative Preference Shares*

When a preference shareholder has a right to recover any arrears of dividend, before any dividend is paid to the equity shareholders, then the type of Preference Shares held by the shareholder is known as Cumulative Preference Shares. All Preference Shares are cumulative unless otherwise expressly stated to be non cumulative.

b) **Non Cumulative Preference Share**

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.

2. On the basis of Participation:

a) **Participating Preference Share**

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 Share.

b) **Non participating Preference Share**

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.

It must be noted that all Preference Shares are non-participating until and unless expressly stated.

3. On the basis of Redemption:

a) Redeemable preference share

When a preference shareholder is repaid by the company after a certain specified period in accordance with the term specified in the Section 80 of Company Act of 1956, then the type of the shares held by him/her is known as Redeemable Preference Shares.

b) Non Redeemable Preference share

These shares are not repaid by the company during its lifetime. As per the Section 80A of the Company Act of 1956, no company can issue Non Redeemable Preference Shares. It is merely a theoretical concept.

4. On the basis of Convertibility:

a) Convertible Preference Share

The shareholders holding Convertible Preference Shares have a right to convert his/her shares into equity shares.

b) Non Convertible Preference Share

Unlike Convertible Preference Shares, the shareholders holding Non Convertible Preference Shares do not enjoy the right to convert their shares into equity shares.

Q11 :

What is buy-back of shares?

Answer :

Buy-back of shares means repurchasing of its own shares by a company from the market for reducing the number of shares in the open market. As per the Section 77A, 77AA and 77B of the Company Act of 1956, a company can Buy-back its own shares and debentures on the account of following reasons:

1. To improve EPS (Earnings Per Share)
2. To return surplus cash to the shareholders that is not required by the business
3. To support value of its shares
4. To facilitate capital restructuring of the company.
5. To prevent take-over bid. Buy-back of shares may be done:

- a) By purchasing shares from existing share holders on a proportionate basis, or
- b) By purchasing shares from the open market, or
- c) By purchasing shares from odd lots, viz. where the lot of securities listed in the recognised stock market is smaller than such marketable lot, or
- d) By purchasing shares from the employees of the company

Sources for Buy-back of share:

- 1. Free Reserves,
- 2. Securities Premium Account,
- 3. 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 similar kind of other specified securities.

Q12 :

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

Answer :

Calls-in-Arrears: When a shareholder fails to pay the amount due on allotment or any subsequent calls, then it is termed as Calls-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% p.a. is charged from the shareholders. As per the Revised Schedule VI of the Companies Act, Calls-in-Arrears are deducted from the Called-up Share Capital in the Notes to Accounts (that is prepared outside the Balance Sheet) under the head 'Share Capital'. The final amount of Share Capital is shown on the Equity and Liabilities side of the Company's Balance Sheet. The company can also forfeit the shares on account of nonpayment of the calls money after giving proper notice to the shareholders.

Example- X Ltd. issued 12,000 shares of Rs 10 each. All the shares were duly subscribed, however, the first and final call of Rs 4 on 5,000 shares remained unpaid.

**X Ltd.
Balance Sheet**

Particulars	Note No.	Amount (Rs)
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I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	1,00,000
2. Non-Current Liabilities		-
3. Current Liabilities		-
Total		
II. Assets		
1. Non-Current Assets		-
2. Current Assets		-
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	Share Capital	
	Authorised Share Capital	
 shares of Rs 10 each	-
	Issued Share Capital	
	12,000 shares of Rs 10 each	1,20,000
	Subscribed, Called-up and Paid-up Share Capital	
	12,000 shares of Rs 10 each	1,20,000
	<i>Less: Calls-in-Arrears (5,000 x 4)</i>	1,00,000
		(20,000)

Calls-in-Advance: 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% p.a. is provided to the shareholders. As per the Revised Schedule VI of the Companies Act, Calls-in-Advance (along with interest on it) is added to the 'Other Current Liabilities' in the Notes to Accounts. The final amount of Other Current Liabilities is shown under the main head of 'Current Liabilities' on the Equity and Liabilities side of the Company's Balance Sheet.

Example- X Ltd. issued 12,000 shares of Rs 10 each. All the shares were duly subscribed. The final call of Rs 3 was not yet made, however, a shareholder holding 5,000 shares paid the final call installment in advance along with the allotment money.

**X Ltd.
Balance Sheet**

Particulars	(Rs)	Note	Amount
I. Equity and Liabilities	No.		
1. Shareholders' Funds			
a. Share Capital	1		84,000
2. Non-Current Liabilities			
3. Current Liabilities		a. Other Current Liabilities	2 15,000
Total			
II. Assets			
1. Non-Current Assets			
2. Current Assets			
Total			

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	Share Capital	
	Authorised Share Capital shares of Rs 10 each	-
	Issued Share Capital 12 ,000 shares of Rs 10 each	1
	Subscribed, Called-up and Paid-up Share Capital 12,000 shares of Rs 10 each, Rs 7 called-up	,20,000
2	Other Current Liabilities	84,000
	Calls-in-Advance (5,000 x 3)	15,000

Q13 :

Write a brief note on 'Minimum Subscription'.

Answer :

When shares are issued to the general public, the minimum amount that must be subscribed by the public so that the company can allot shares to the applicants is termed as Minimum Subscription. As per the Company Act of 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.

Q14 :

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

Answer :

When the total number of applications received for shares exceeds the number of shares offered by the company to the public, the situation of Over-subscription arises. 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.

The company can refuse excess applications and the money received on these excess applications is returned to the applicants.

Share Application A/c

Dr.

To Share Capital A/c
To Bank A/c
(Excess application money returned)

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
To Share Application A/c			24,000
(Application money received for 12,000 shares)			

Share Application A/c	Dr.	24,000	
To Share Capital A/c			20,000
To Bank A/c		4,000	(Application money transferred to Share Capital

Account and the excess money returned)

ii) Pro rata Basis

The company can allot shares on pro rata basis to all the share applicants. The excess amount received in the application is adjusted on the allotment.

Share Application A/c Dr.
 To Share Capital A/c
 To Share Allotment A/c
 (Adjustment of application money on allotment)

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
	To Share Application A/c		24,000

(Application money received for 12,000 shares)

Share Application A/c	Dr.	24,000	
	To Share Capital A/c		20,000
	To Share Allotment A/c		4,000

(Application money transferred to Share Capital

Account and the balance amount is transferred to
Share Allotment Account)

Share Allotment A/c	Dr.	50,000	
	To Share Capital A/c		50,000

(Amount due on allotment of 10,000 shares @ Rs 5 per share)

Bank A/c	Dr.	46,000	
	To Share Allotment		46,000

(Allotment money received, Rs 50,000 – Rs 4,000)

iii) Pro rata and refund of money

In this case, the company follows a combination of both the method. It may reject some share applications and may allot some applications on the pro rata basis.

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

To Share Allotment A/c
 To Bank A/c
 (Application money transferred to Share Capital

Account and the balance amount is transferred to Share
 Allotment Account and the excess application

money is refund)

Example: Shares issued 10,000 @ Rs 10 per share and money received for 13,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call. If the company rejects the applications for 1,000 shares and allots the remaining on the pro rata basis.

Bank A/c	Dr.	26,000	
	To Share Application A/c		26,000
(Application money received for 12,000 shares)			

Share Application A/c	Dr.	26,000	
	To Share Capital A/c (10,000 × Rs 2)		20,000
	To Share Allotment A/c (2,000 × Rs 2)		4,000
	To Bank A/c (1,000 × Rs 2)		2,000
(Amount received on share application adjusted to Share Capital and share allotment and balance is refunded)			

Share Allotment A/c	Dr.	50,000	
	To Share Capital A/c		50,000

(Amount due on share allotment of 10,000 share @
Rs 5 per share)

Bank A/c	Dr.	46,000	
To Share Allotment A/c			46,000

(Allotment money received, Rs 50,000 – Rs 4,000)

Under-subscription- When the number of shares applied by the public is lesser than the number of shares issued by the company, then the situation of Under-subscription arises. As per the Company 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 money.

Q15 :

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

Answer :

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities:

1. For paying up unissued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,
2. For writing off the preliminary expenses of the company,
3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,

4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own shares.

Q16 :

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

Answer :

As per the Section 79 of the Company Act of 1956, following are the conditions under which a company can issue shares at a discount.

1. A company can issue shares at discount provided it has previously issued such type of shares.
2. The issue of shares at a discount is authorised by a resolution passed by the company in the General Meeting and sanction obtained from the Company Law Tribunal.
3. The resolution specifies that the maximum rate of discount is 10% of the face value of the shares, unless higher percentage of discount allowed by the Company Law Tribunal.
4. A company can issue shares at discount atleast after one year from the date of commencing business.
5. If a company wants to issue shares at discount, then it must issue them within two months of obtaining sanction from the Company Law Tribunal.
6. Every prospectus related to the issue of the shares should explicitly and clearly contain particulars of the discount allowed on the issue of shares.

Q17 :

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 subsequent calls, then the company has the right to forfeit shares by giving a proper notice to the shareholder.

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

1. 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.
2. If the shareholder does not pay the amount, then the company has the right to forfeit his/her share by passing a resolution.
3. A notice of that resolution is sent to the default shareholder and a public notice of the same is published in a daily newspaper.
4. 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

Share Capital A/c	Dr. (amount called up)
To Share Allotment A/c	(amount not received)
To Share Calls A/c	(amount not received)
To Share Forfeiture A/c	(amount received)
(Shares forfeited)	

ii) Forfeiture of Shares that were issued at Premium

a) *If premium is received, then the premium is not shown.*

Share Capital A/c	Dr. (amount called up)
To Share Allotment A/c	(amount not received)
To Share Calls A/c	(amount not received)
To Share forfeiture A/c	(amount received)
(Share forfeited)	

b) *If premium is not received, then the premium is shown.*

Share Capital A/c Dr. (amount called up excluding premium)
Share Premium A/c Dr. (amount not received)
 To Share Allotment A/c (amount not received including premium)
 To Share Calls A/c (amount not received)
 To Share Forfeiture A/c (amount received including premium) (Share forfeited)

iii) Forfeiture of Shares that were issued at Discount

Share Capital A/c Dr. (amount called up, plus discount)
 To Discount on Issue of Shares A/c (amount of discount)
 To Share Allotment A/c (amount not received)
 To Share Calls A/c (amount not received)
 To Share Forfeiture A/c (amount received)
(Share forfeited)

Numerical questions : Solutions of Questions on Page Number : 66

Q1 :

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.

Answer :

Books of Anish Limited

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Equity Share Application A/c (Application money received on application)		9,00,000	9,00,000

for 30,000 equity shares @ Rs 30 per share)			
Equity Share Application A/c Dr. To Equity Share Capital A/c (Share Application money transferred to Share Capital Account)	9,00,000		9,00,000
Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Allotment money due on 30,000 @ Rs 50 per share)	15,00,000		15,00,000
Bank A/c Dr. To Equity Share Allotment A/c (Share Allotment money received for 30,000 shares @ Rs 50 per share)	15,00,000		15,00,000
Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c Share First and Final call due on 30,000 shares @ Rs 20 per share)	6,00,000		6,00,000
Bank A/c Dr. To Equity Share First and Final Call A/c (Share First and Final Call money received for 30,000 shares @ Rs20 per share)	6,00,000		6,00,000

Q2 :

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.

Answer :

Books of Adersh Control Device Ltd

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Share Application money for 30,000 shares @ Rs 3 per share transferred to Share Capital Account)		90,000	90,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Share Allotment money due on 30,000 @ Rs 4 per share)		1,20,000	1,20,000
	Equity Share First and Final Call A/c Dr. To Equity Share Capital A/c (Share First and Final Call due on 30,000 @ Rs 3 per share)		90,000	90,000

Cash Book (Bank Column)

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Equity Share Application		90,000				
	Equity Share Allotment		1,20,000				

	Equity Share First and Final Call		90,000				3,00,000
			3,00,000		By Balance c/d		3,00,000

Q3 :

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.

Answer :

Books of Software Solution India Ltd.

Journal

Date	Particulars	L.F.	Debit Amount	Credit Amount
			Rs	Rs
	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c (Application money transferred to Equity Share Capital for 20,000 shares @ Rs 40 and Rs 4,00,000 is adjusted towards allotment)		12,00,000	8,00,000 4,00,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Equity Share Allotment money due on 20,000 @ Rs 30)		6,00,000	6,00,000

	per share)			
	Equity Share First and Final call A/c Dr.		6,00,000	6,00,000
	To Equity Share Capital A/c (Equity share on First and Final call due on 20,000 @ Rs 30 per share)			

Cash Book (Bank Column)

Dr. Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Equity Share Application		12,80,000		Equity Share Application		80,000
	Equity Share Allotment		2,00,000		Balance c/d		20,00,000
	Equity Share First and Final Call		6,00,000				
			20,80,000				20,80,000

Working Note:

Amount due on Allotment for 20,000 shares @ Rs 30 per share	6,00,000
Money adjusted on application 10,000 shares @ Rs 40 each	4,00,000
Money to be received on Allotment	2,00,000

Q4 :

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.

Answer :

Books of Rupak Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Application A/c Dr. To Share Capital A/c (Application money for 10,000 shares transferred to Share Capital Account)		2,00,000	2,00,000
	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 10,000 shares @ Rs 30 per share)		3,00,000	3 ,00,000
	Share First Call A/c Dr. To Share Capital A/c (Share First Call due on 10,000 shares @ Rs 25 per		2,50,000	2 ,50,000

	share)			
	Calls in Arrears A/c Dr. To Share First Call A/c (Call in arrears on 200 shares @ Rs 25 per share)		5,000	5 ,000

Cash Book (Bank Column)

Dr. Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Share Application		2,00,000				
	Share Allotment		3,00,000				
	Share first call		2,45,000		By Balance c/d		7,57,500
	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
<i>Less:</i> Calls in Arrear for 200 shares @ Rs 25 per Share	(5,000)
Money Received on First Call	2,45,000
<i>Add:</i> Calls received in advance on 500 shares @ Rs25 per share	12,500
	2,57,500

Q5 :

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 :

Books of Mohit Glass Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Application money received on application for 24,000 shares @ Rs 30 per share)		7,20,000	7,20,000
	Share Application A/c Dr. To Share Capital A/c (Bank Column) To Bank A/c (Share Application of 20,000 shares @ Rs 30 transferred to Share Capital Account and the balance returned)		7,20,000	6,00,000 1,20,000
	Share Allotment A/c Dr. To Share Capital A/c		8,00,000	6,00,000

To Share Premium A/c (Allotment money due on 20,000 shares @ 40 per share including Rs 10 for premium)			2,00,000
Bank A/c Dr. To Share Allotment A/c (Allotment money received on 20,000 shares @ Rs 40 per share)	8,00,000		8,00,000
Share First Call A/c Dr. To Share Capital A/c (Share First Call money due on 20,000 shares @ Rs 20 per share)	4,00,000		4,00,000
Bank A/c Dr. To Share First Call A/c (Share First Call money received on 20,000 shares @ Rs 20 per share)	4,00,000		4,00,000
Share Final Call A/c Dr. To Share Capital A/c (Share Final Call money due on 20,000 shares @ Rs 20 per share)	4,00,000		4,00,000
Bank A/c Dr. To Share Final Call A/c (Share Final Call money received on 20,000 shares @ Rs 20 per share)	4,00,000		4,00,000

Q6 :

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 :

	<i>Equity Shares</i>	<i>Preference Shares</i>
On Application	Rs 3 per share	Rs 3 per share
On Allotment (including a premium)	Rs 5 per share	Rs 4 per share
On First Call	Rs 4 per share	Rs 3 per share

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

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

Answer :

Books of A Ltd.

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	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			3,00,000
	To 10% Preference Share Capital A/c			6,00,000
	(Application money transferred to Equity Share Capital)			
			5,00,000	

Equity Share Allotment A/c	Dr.			
10% Preference Share Allotment A/c	Dr.	8,00,000		
To Equity Share Capital A/c			3,00,000	
To Securities Premium A/c			2,00,000	
To 10% Preference Share Allotment A/c			8,00,000	
(Amount due on allotment)				
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			4,00,000	
To 10% Preference Share Capital A/c			6,00,000	
(Amount on First and Final call due)				

Cash Book(Bank Column)

Dr. Cr.

			Amount				Amount
Date	Particulars	J.F.	Rs	Date	Particulars	J.F.	Rs
	Equity Share Application		3,00,000				
	10% Preference Share Application		6,00,000				
	Equity Share Allotment		5,00,000				
	10% Preference Share Allotment		8,00,000				
	Equity Share First and Final Call		4,00,000		Balance c/d		32,00,000
	10% Preference Share First & Final Call		6,00,000				
			32,00,000				32,00,000

Q7 :

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

On Application	Rs 3 per share	
On Allotment (including premium)	Rs 5 per share	On
first call (due three months after allotment) and	the	
balance as and when required.		
	Rs 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 :

Note: In order to solve this question, applicants of category C has been assumed as 5000 instead of 500 and allotment to the applicants of this category has been taken as 2000 in place of 200.

Books of Eastern Company Limited

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Share Application money for 50,000 shares transferred to Share Capital Account and the excess money transferred to Share Allotment Account)		1,80,000	1,50,000 30,000
	Share Allotment A/c Dr. To Share Capital A/c To Share Premium A/c (Allotment money due on 50,000 share @ Rs 5 per share including Rs 3 security premium)	1,50,000	2,50,000	1,00,000
	Share First Call A/c Dr. To Share Capital A/c (First call due on 50,000 share @ Rs 3 per share)	1,50,000	1,50,000	

Cash Book (Bank Column)

Dr. Cr.

Date	Particulars	J.F.	Amount Rs	Date	Particulars	J.F.	Amount Rs
	Share Application		1,80,000				
	Share Allotment		2,20,000		Balance c/d		5,49,700
	Share First Call		1,49,700				
			5,49,700				5,49,700

Eastern Company Limited

Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1.Shareholders' Funds		
a. Share Capital	1	3,99,700
b. Reserves and Surplus	2	1,50,000
2.Non-Current Liabilities		
3.Current Liabilities		
Total		5,49,700

Q8 :

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 :

Books of Sumit Machine Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received on application for 50,000 shares @ Rs 25 per share)		12,50,000	12,50,000
	Share Application A/c Dr. To Share Capital A/c (Share Application money of 50,000 shares transferred to Share Capital Account)		12,50,000	12,50,000
	Share Allotment A/c Dr. Discount on Issue of Shares Dr.		20,00,000 2,50,000	

To Share Capital A/c (Share Allotment money due on 50,000 shares @ Rs 40 each at discount of Rs 5)			22,50,000
Bank A/c Dr. To Share Allotment A/c (Allotment money received for 50,000 shares @ Rs 40 per share)	20,00,000		20,00,000
Share First and Final Call A/c Dr. To Share Capital A/c (Share First and Final call due on 50,000 shares @ Rs 30 per share)	15,00,000		15,00,000
Bank A/c Dr. Calls in Arrears A/c Dr. To Share First and Final Call A/c (Share First and Final Call received except 400 shares)	14,88,000 12,000		15,00,000

**Sumit Machine Ltd.
Balance Sheet**

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	49,88,000
2. Non-Current Liabilities		
3. Current Liabilities		
Total		49,88,000
II. Assets		
1. Non-Current Assets		
a. Other Non-Current Assets	2	2,50,000
2. Current Assets		

a. Cash and Cash Equivalents	3	47,38,000
Total		49,88,000

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	Share Capital Authorised Share Capital shares of Rs 100 each Issued Share Capital	-

Q9 :

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 (a)

Books of Kumar Ltd

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Sundry Assets A/c Dr. To Bhanu Oil Ltd (Assets purchased from Bhanu Oil Ltd.)		6,30,000	6,30,000
(a)	Bhanu Oil Ltd Dr. To Share Capital (6,300 shares issued at par to Bhanu Ltd.)		6,30,000	6,30,000
(b)	Bhanu Oil Ltd Dr. Discount on Issue of Share A/c Dr.		6,30,000 70,000	

	To Share Capital A/c (7,000 share issued at 10% discount)			7,00,000
(c)	Bhanu Oil Ltd Dr.		6,30,000	
	To Share Capital A/c			5,25,000
	To Securities Premium A/c (5,250 share are issued at 20% premium)			1,05,000

No. of Shares issued of at par =	Amount Payable
	Face value (per share)

6300 Shares =	6,30,000
	100

Case (b)

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Sundry Assets A/c Dr.		6,30,000	
	To Bhanu Oil Ltd (Assets purchased from Bhanu Oil Ltd.)			6,30,000
	Bhanu Oil Ltd	Dr.	6,30,000	
	Discount on Issue of Share A/c	Dr.	70,000	
	To Share Capital A/c 7,00,000	(7,00,000 share issued at 10% discount to Bhanu Ltd. in consideration of assets purchased)		

No. of Shares issued at discount =	Amount Payable
	Face value – Discount per share

7000 Shares =	6,30,000
	(100 – 10)

Case (c)

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Sundry Assets A/c Dr. To Bhanu Oil Ltd (Assets purchased from Bhanu Oil Ltd.)		6,30,000	6,30,000
	Bhanu Oil Ltd Dr. To Share Capital A/c To Securities Premium A/c (5,250 share are issued at 20% premium to Bhanu Ltd. in consideration of assets purchased)		6,30,000	5,25,000 1,05,000

No. of shares issued of at Premium =	Amount Payable
	Face value + Premium per share

5250 Shares	6,30,000
=	(100+20)

Q10 :

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 :

Book of Bansal Heavy Machine Ltd

Books of Naman Ltd

Date	Particulars	L.F.	Debit	Credit
			Amount	Amount
			Rs	Rs
	Bank A/c Dr.		5,00,000	

	To Share Application A/c	5,00,000			
	(Shares Application money received for 20,000 shares @ Rs 25 each)				
	Share Application A/c	Dr.	5,00,000		
	To Share Capital		5,00,000		
	(Share Application money of 20,000 shares @ Rs 25 transferred to Share Capital Account)			each	
	Share Allotment A/c	Dr.	6,00,000		
	To Share Capital A/c		6,00,000		
	(Share Allotment due on 20,000 shares @ Rs 30 each)				
				Dr.	
5,94,000				Bank A/c	
	To Share Allotment A/c		5,94,000		
	(Allotment money received for 19,800 shares @ Rs 30 per share)				
	Share First Call A/c	Dr.	5,00,000		
	To Share Capital A/c		5,00,000		
	(Share First Call money due on 20,000 @ Rs 25 per share)			Dr.	
				Bank A/c	
4,92,500					
	To Share First Call A/c		4,92,500		
	(Share First Call received @ Rs 25 per share for 19,700 shares)				
	Share Final Call A/c	Dr.	4,00,000		
	To Share Capital A/c		4,00,000		
	(Share Final Call money due on 20,000 shares @ 20 per share)			Dr.	
				Bank	
3,94,000					

Q12 :

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

On application Rs 30
On allotment Rs 50 (including premium)

On first and final call Rs 30

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

Give journal entries in the books of the company.

Answer :

Books of Krishna Ltd

Date	Particulars	L.F.	Debit Amount Rs	Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received for 15,000 shares @ Rs 30 per share)		4,50,000	
	Share Application A/c Dr. To Share Capital A/c (Share Application money of 15,000 shares transferred to Share Capital Account)		4,50,000	
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Share Allotment money on 15,000 shares @ Rs 50 per share including Rs 10 securities premium due)		7,50,000	
	Bank A/c Dr.		7,42,500	

To Share Allotment A/c (Share

Allotment received on 14,850 shares and 150 shares 7,42,

Share First and Final Call A/c Dr. To Share Capital A/c (Share First and Final Call for 15,000 shares @ Rs 30 per share due)	4,50,000
Bank A/c Dr. To Share First and Final Call A/c (Share First and Final Call received for 14,850 shares @ Rs 30 per share and 150 shares failed to pay amount due)	4,45,500
Share Capital A/c (150□□□100) Dr. 15,000 Share Premium A/c (150 x 10) Dr. 1,500 To Share Allotment A/c (150 x 50) To Share First and Final Call A/c (150□□□30) To Share Forfeiture A/c (150□□□ 30) (150 shares forfeited for non-payment of Share Allotment and Share First and Final Call) 18,000	
Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (150 shares of Rs 100 each reissued @ Rs 120 to Neha)	

failed to pay the money due)

4 ,50,

4 ,45,

7 ,
4 , 4 ,

Q13 :

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

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

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

Give Journal entries in the books of the company.

Answer :

Books of Arushi Computers Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received for 10,000 shares @ Rs 20 per share)		2,00,000	2,00,000
	Share Application A/c Dr.		2,00,000	

<p>To Share Capital A/c (Share Application money for 10,000 shares transferred to Share Capital Account)</p>		2,00,000
<p>Share Allotment A/c Dr. Discount on Issue of Shares A/c Dr. To Share Capital A/c (Allotment money due on 10,000 shares @ Rs 30 per share excluding discount Rs 10)</p>	3,00,000 1,00,000	4,00,000
<p>Bank A/c Dr. To Share Allotment A/c (Share Allotment money received for 10,000 shares @ Rs 30 per share)</p>	3,00,000	3,00,000
<p>Share First Call A/c Dr. To Share Capital A/c (Share First Call money due on 10,000 shares @ Rs 30 per share)</p>	3,00,000	3,00,000
<p>Bank A/c Dr. To Share First Call A/c (First Call money received for 10,000 shares @ Rs 30 per share)</p>	3,00,000	3,00,000
<p>Share Final Call A/c Dr. To Share Capital A/c (Final Call money due on 10,000 shares @ Rs 10 per share)</p>	1,00,000	1,00,000
<p>Bank A/c Dr. To Share final call A/c (Final Call money received for 9800 shares @ Rs 10 per share and 200 shares failed to pay)</p>	98,000	98,000
<p>Share Capital A/c (200 × 100) Dr.</p>	20,000	

To Share Final Call 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) (200 shares forfeited for non-payment of Final Call Rs 10 per share)	16,000

Q14 :

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

On application	Rs 20
On allotment	Rs 50 (including premium)
On first call	Rs 30
On final call	Rs 20

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

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

Give journal entries in the books of the company.

Answer :

Books of Raunak Cotton Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received on 10,000 shares)		2,00,000	2,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank (Share Application money adjusted)		2,00,000	1,20,000 40,000 40,000
	Share Allotment A/c Dr. To Share Capital A/c To Share Premium A/c (Share allotment money due)		3,00,000	1,80,000 1,20,000
	Bank A/c Dr. To Share Allotment A/c		2,47,000	2,47,000

Q15 :

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

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

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

[illegible]

	Share	Capital
(Share Application for 1,20,000 shares @ Rs 3 per share transferred to Account and remaining amount adjusted to Allotment)		
Share Allotment A/c Dr. 6,00,000		
To Equity Share Capital A/c 3,60,000		
To Securities Premium 2,40,000		
(Share Allotment due on 1,20,000 shares @ Rs 5 per share including Rs 2 Securities Premium)		
Bank A/c Dr. 4,80,000		
To Share Allotment A/c 4,80,000		
(Share allotment for 1,20,000 shares @ Rs 5 per share received)		
Share First Call A/c Dr. 2,40,000		
To Equity Share Capital A/c 2,40,000		
(Share First Call due on 1,20,000 shares @ Rs 2 per share)		
Bank A/c Dr. 2,30,400		
To Share First Call A/c 2,30,400		
(Share First Call received on 1,15,200 shares @ Rs 2 per share and 4,800 shares failed to pay)		
Share Final Call A/c Dr. 2,40,000		
To Equity Share Capital A/c 2,40,000		
(Share Final call due on 1,20,000 shares @ Rs 2 per share)		
Bank A/c Dr. 2,30,400		
To Share Final Call A/c 2,30,400		
(Share Final Call received on 1,15,200 shares @ Rs 2 per share and 4,800 shares failed to pay)		
Equity Share Capital A/c (4,800 10) Dr. 48,000		
To Share First Call A/c (4,800 2) 9,600		
To Share Final Call A/c (4,800 2) 9,600		
To Share Forfeiture A/c (4,800 6) 28,800		
(4,800 shares forfeited for the non-payment of First Call and Final Call)		
Bank A/c Dr. 33,600		
Share Forfeiture A/c Dr. 14,400		
To Equity Share Capital 48,000		
(4,800 shares reissued @ Rs 7 per share, fully paid-up)		
Share Forfeiture A/c Dr. 14,400		
To Capital Reserve A/c		

Q16 :

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

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

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

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

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

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

Answer :

Books of Prince Limited

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr.		6,00,000	

To Share Application A/c		6,00,000
(Share Application money received on 3,00,000 shares @ Rs 2 per share)		
Share Application A/c Dr.	6,00,000	To Share Capital A/c
		4,00,000
To Share Allotment A/c		2,00,000
(Application money on 2,00,000 shares transferred to Share Capital Account and the balance adjusted on allotment)		
Share Allotment A/c Dr.	10,00,000	
To Share Capital A/c		4,00,000
		6,00,000
(Allotment money due on 2,00,000 shares @ Rs 5 per share including premium of Rs 3 per share)		
To Securities Premium A/c		

Bank A/c (6,00,000 - 2,00,000 - 1,600) Dr. 7,98,400
 To Share Allotment A/c 7,98,400 (Allotment money received)

Share First Call A/c Dr. 6,00,000 To Share Capital A/c

6,00,000
(Share First Call due on 2,00,000 shares @ Rs 3 per share)

Bank A/c (6,00,000 - 1,200 - 1,800)	Dr.	5,97,000	To Share
First Call A/c		5,97,000	
(First call money received)			

Q17 :

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

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

Answer :

Books of Life machine tools Limited

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Application money received on application for 70,000 shares @ Rs 5 per share including premium Rs 2)		3,50,000	3,50,000
	Share Application A/c Dr. To Share Capital A/c		3,50,000	1,50,000

	To Securities Premium A/c To Share Allotment A/c To Bank A/c (Share Application money for 50,000 shares transferred to Share Capital Account and Securities Premium, Rs 60,000 adjusted to Allotment and Rs 40,000 returned)			1,00,000 60,000 40,000
	Share Allotment A/c Dr. To Share Capital A/c (Share Allotment money due on 50,000 shares @ Rs 4 per share)	2,00,000		2,00,000
	Bank A/c Dr. To Share Allotment A/c (Share Allotment money received on share allotment)	1,40,000		1,40,000
	Share First and Final A/c Dr. To Share Capital A/c (Share First and Final Call money due on 50,000 shares @ Rs 3 per share)	1,50,000		1,50,000
@ Rs 3 per share and 500 shares failed to pay)	Bank A/c Dr. 1,48,500 To Share First and Final A/c 1,48,500 (Share First and Final Call money received from 49,500			shares

Q18 :

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

Answer :

Books of Orient Company Limited

Journal

Date	Particulars	L.F.	Debit	Credit
			Amount Rs	Amount Rs
	Bank A/c Dr. To Share Application A/c (Share Application Money received for 26,000 shares @ Rs 2 per share)		52,000	52,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Application money @ Rs 2 per share of 20,000 shares transferred to Share Capital Account and money of 4,000		52,000	40,000 4,000 8,000

shares returned, remaining to Share Allotment)			
Share Allotment A/c	Dr.	80,000	

<p>Money received for all the shares after adjustment of money transferred from Share Application)</p>	<p>To Share Capital A/c 60,000 To Securities Premium A/c 20,000 (Share Allotment money due on 20,000 shares @ Rs 4 per including Re 1 Securities Premium)</p>	share	
	<p>Bank A/c Dr. 76,000 To Share Allotment A/c 76,000 (Share Allotment</p>		
	<p>Share First Call A/c Dr. 60,000 To Share Capital A/c 60,000 (Share First Call money due on 20,000 share @ Rs 2 per share)</p>		
	<p>Bank A/c Dr. 60,000 To Share First Call A/c 60,000 (Share First Call received for 20,000 shares @ Rs 2 per share)</p>		
	<p>Share Second and Final Call A/c Dr. 40,000 To Share Capital A/c 40,000 (Share Second and Final Call money due on 20,000 shares @ per share)</p>		
	<p>Bank A/c Dr. 39,000 To Share Second and Final Call A/c 39,000 (Share Second and Final Call money received for 19,500 @ Rs 2 per share and 500 shares failed to pay)</p>		
	<p>Share Capital A/c Dr. 5,000 To Share Second and Final Call A/c 1,000 To Share Forfeiture A/c 4,000 (500 shares of Rs 10 per share fully called-up forfeited for non-payment of Second and Final Call Rs 2 per share)</p>		
	<p>Bank A/c Dr. 2700 Share Forfeiture A/c Dr.</p>		

Q19 :

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

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

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

- (a) to refuse allotment to the applicants for 20,000 shares;**
- (b) to allot in full to applicants for 80,000 shares;**
- (c) to allot the balance of the available shares' pro-rata among the other applicants; and (d) to utilise excess application money in part as payment of allotment money.**

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

Answer :

In the books of Alfa Limited

Journal

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Application A/c Dr.		24,00,000	
	To Share Capital A/c			20,00,000
	To Share Allotment A/c			4,00,000

	(Share Application money adjusted)			
	Share Allotment A/c To Share Capital A/c (Share Allotment money due)	Dr.	12,00,000	12,00,000
	Share First and Final Call A/c To Share Capital A/c (Share First and Final Call due)	Dr.	8,00,000	8,00,000

Working Note:

1. Number of shares applied by Applicant

$$\begin{aligned}
 &= \frac{\text{Total number of applied shares}}{\text{Total number of allotted shares}} \times \text{No. of shares allotted} \\
 &= \frac{4,00,000}{3,20,000} \times 400 = 500 \text{ shares}
 \end{aligned}$$

2. Call in arrears by applicant on allotment

Money received on Application	(500 × 5)	2,500
	=	
<i>Less:</i> Amount adjusted on Application	(400 × 5)	2,000
Amount adjusted on Allotment	=	500

3.

Money due on Allotment	(400 × 3)	1,200
Money adjusted		500

Balance due on Allotment	700	
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Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Capital A/c Dr. To Share Allotment A/c To Share First & Final Call A/c To Share Forfeiture A/c (400 shares forfeited)		4,000	700 800 2,500
	Share Forfeiture A/c Dr. To Share Capital A/c (Share reissued and loss on issue charged from Share Forfeiture Account)		400	400
	Share Forfeiture A/c Dr.		2,100	

Q20 :

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

Answer :

Books of Ashoka Limited

Journal

Date	Particulars	L.F.	Debit	Credit
			Amount Rs	Amount Rs
	Share Capital A/c Dr. To Final Call A/c To Share Discount A/c To Share Forfeiture A/c (1,000 Shares of 20 per share forfeited for nonpayment of Share Final Call money @ Rs 4 per share)		20,000	4,000 4,000 12,000
	Bank A/c (400 x 14) Dr. Discount on Issue of Shares A/c (400 x 4) Dr. Share Forfeiture A/c (400 x 2) Dr. To Share Capital A/c (400 shares @ Rs 20 per share reissued for Rs 14 per share fully paid-up)		5,600 1,600 800	8,000
	Bank A/c Dr. To Share Capital A/c (200 shares @ 20 per share reissued for Rs 20 per share fully paid-up)		4,000	4,000
	Share Forfeiture A/c Dr. To Capital Reserve (Balance of 600 shares in Share Forfeiture Account transferred to Capital Reserve Account, after reissue)		6,400	6,400

Balance in Share Forfeiture Account (12,000 - 800 - 6,400) = Rs 4,800

Working Notes:

For 400 Shares

Share Forfeiture Account credited	Rs 12 per share
Less: Share Forfeiture Account debited	Rs 2 per share
Amount transferred to Capital Reserve Account, after adjustment	Rs 10 per share

Amount of 400 shares transferred to Capital Reserve Account, after reissue

= 400 Shares @ Rs 10 per share

= Rs 4,000

For 200 Shares

Share Forfeiture Account credited	Rs 12 per share
Less: Share Forfeiture Account debited	Nil
Amount transferred to Capital Reserve Account, after adjustment	Rs 12 per share

Amount of 200 shares transferred to Capital Reserve Account, after reissue

= 200 Shares @ Rs 12 per share

= Rs 2,400

Total amount transferred to Capital Reserve Account for 600 shares = Capital Reserve for 200 shares + Capital Reserve for 200 shares

= 4,000 + 2,400

= Rs 6,400

Q21 :

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

Answer :

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Capital A/c (600 x 8) Dr. To Share Allotment (100 x 2) To Share First Call A/c (300 x 3) To Share Second Call A/c (600 x 2) To Share Forfeiture A/c (600 shares @ Rs 10 per share Rs 8 called-up forfeited after making Second Call)		4,800	200 900 1,200 2,500
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (600 shares @ Rs 10 each for Rs 11 per share fully paid-up reissued)		6,600	6,000 600
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance of Share Forfeiture Account transferred to Capital Reserve Account after reissue)		2,500	2,500

Working Notes:

Share Forfeiture Account credited

Amit	(100 x 1)	=	100
Bimal	(200 x 3)	=	600
Chetan	(300 x 6)	=	1,800
	2,500		

Q22 :

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

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

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

Answer :

Books of Ajanta Company Limited

Date	Particulars	L.F.	Debit	Credit
			Amount	Amount
			Rs	Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received for 24,000 shares @ Rs 2 per share)		48,000	48,000
	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Share Application @ Rs 2 per share for 20,000 shares transferred to Share Capital and remaining for 4,000 shares rejected)		48,000	40,000 8,000
	Share Allotment A/c Dr. To Share Capital A/c (Share Allotment money due @ Rs 3 per share on 20,000 shares)		60,000	60,000
	Bank A/c Dr. To Share Allotment A/c (Share Allotment money received for 20,000 shares @ Rs 3 per share)		60,000	60,000
	Share First Call A/c Dr. To Share Capital A/c (Share First Call money due on 20,000 Shares @ Rs 2.5 per share)		50,000	50,000
	Bank A/c Dr. To Share First Call A/c (Share First Call money received for 20,000 shares @ Rs 2.5 per share)		50,000	50,000

<div>Share Final Call A/c</div> <div>Dr.</div> <div>To Share Capital A/c</div> <div>(Share Final Call money due on 20,000 Shares</div> <div>@ Rs 2.5 per share)</div>		
<div>Bank A/c</div> <div>Dr.</div>	<div>48,500</div>	

Calls in Arrears A/c Dr. 1,500 To Share Final Call A/c 50,000 (Share Final Call money received for 19,400 shares @ share except 600 shares)		Rs	2.5 per
Share Capital A/c Dr. 6,000 To Calls in Arrears A/c 1,500 To Share Forfeiture A/c 4,500 (600 Shares forfeited @ Rs 10 each for the non- of Share Final Call @ Rs 2.5 per share)			payment
Bank A/c Dr. 3,600 Share Forfeiture A/c Dr. 400 To Share Capital A/c 4,000 (400 shares @ Rs 10 each for Rs 9 per share reissued)			

Q23 :

Journalise the following transaction in the books Bhushan Oil Ltd:

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

Answer :

Case (a)

Books of Bhushan Oil Ltd.

Date	Particulars	L.F.	Debit	Credit
			Amount Rs	Amount Rs
	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c To Discount on Issue of Shares (200 shares forfeited @ Rs 100 each issued at a discount of Rs 10 for the nonpayment of allotment money Rs 50 per share)		16,000	10,000 4,000 2,000
	Bank A/c Dr. Discount on Issue of Shares Dr. Share Forfeiture A/c Dr. To Share Capital A/c (200 shares reissued @ Rs 70 per share fully paid-up)		14,000 2,000 4,000	20,000

Case (b)

Date	Particulars	L.F.	Debit	Credit
			Amount Rs	Amount Rs
	Share Capital A/c Dr. Securities Premium A/c Dr. To Share Allotment A/c		900 600	1,200

	To Share Forfeiture A/c (150 shares @ Rs 10 each forfeited for nonpayment of allotment money Rs 8 per share including premium Rs 4)			300
	Bank A/c Dr. To Share Capital A/c To Securities Premium A/c (150 shares @ Rs 10 each reissued For Rs 15 per share fully paid-up)	2,250		1,500 750
	Share Forfeiture A/c Dr.	300		
	To Capital Reserve A/c (Balance of Share Forfeiture Account transferred to Capital Reserve Account)			300

Case (c)

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Share Capital A/c Dr. To Share Final Call A/c To Share Forfeiture A/c (400 shares @ Rs 50 per share forfeited for nonpayment of Final Call Rs 10 per share)		20,000	4,000 16,000
	Bank A/c Dr. Share forfeiture A/c Dr. To Share Capital A/c (400 shares @ Rs 50 each reissued for Rs 45 fully paid-up)		18,000 2,000	20,000
	Share Forfeiture A/c Dr. To Capital Reserve A/c (Balance in Share Forfeiture Account transferred to Capital Reserve Account)		14,000	14,000

Exercise : Solutions of Questions on Page Number : 72

Q1 :

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

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

Rohit to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited after allotment. **Ashmita**, who applied for 1,000 shares failed to pay the

Two calls and his shares were forfeited after the second call. Of the shares forfeited, 1,200 shares were sold to **Kapil** for Rs 85 per share as fully paid, the whole of **Rohit's** shares being included.

Record necessary journal entries.

Answer :

Books of Amisha Ltd.

Date	Particulars	L.F.	Debit Amount Rs	Credit Amount Rs
	Bank A/c Dr. To Share Application A/c (Share Application money received on 50,000 shares @ 40 per share)		20,00,000	20,00,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Share Application money adjusted)		20,00,000	16,00,000 4,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Share Premium A/c		6,00,000	8,00,000 8,00,000

(Share Allotment money due including premium)			
Bank A/c	Dr.	11,82,000	
	To Share Allotment A/c	11,82,000	
(Share Allotment money received except 600 shares)			
Share Capital A/c	Dr.	36,000	
Share premium A/c	Dr.	12,000	
	To Share Allotment A/c	18,000	
	To Share Forfeiture A/c	30,000	
(600 shares forfeited after allotment)			
Share First Call A/c	Dr.	9,85,000	
	To Share Capital	9,85,000	