ગુજરાત રાજ્યના શિક્ષણવિભાગના પત્ર-ક્રમાંક
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ELEMENTS OF ACCOUNTS

(Part 2)

Standard 12

PLEDGE

India is my country.

All Indians are my brothers and sisters.

I love my country and I am proud of its rich and varied heritage.

I shall always strive to be worthy of it.

I shall respect my parents, teachers and all my elders and treat everyone with courtesy.

I pledge my devotion to my country and its people.

My happiness lies in their well-being and prosperity.

રાજ્ય સરકારની વિનામૂલ્યે યોજના હેઠળનું પુસ્તક

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PREFACE

The Gujarat Secondary and Higher Secondary Board has prepared new syllabi in accordance with the syllabi at the national level. These syllabi are approved by the Government of Gujarat.

The Gujarat State Board of School Textbooks takes pleasure in presenting this textbook to the students. It is prepared according to the new syllabus of **Elements of Accounts (Part 2)** for **Standard 12**.

This textbook is written and reviewed by expert teachers and professors. This textbook is published after incorporating the necessary changes suggested by the reviewers.

The Board has taken ample care to make this textbook interesting, useful and free of errors. However, suggestions are welcome to improve the quality of this book from persons taking interest in education.

P. bharathi (IAS)
Director
Executive President
Date : 13-12-2019
Gandhinagar

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FUNDAMENTAL DUTIES

It shall be the duty of every citizen of India*:

(a) to abide by the Constitution and respect its ideals and institutions, the National Flag and the National Anthem;

(b) to cherish and follow the noble ideals which inspired our national struggle for freedom;

(c) to uphold and protect the sovereignty, unity and integrity of India;

(d) to defend the country and render national service when called upon to do so;

(e) to promote harmony and the spirit of common brotherhood amongst all the people of India transcending religious, linguistic and regional or sectional diversities; to renounce practices derogatory to the dignity of women;

(f) to value and preserve the rich heritage or our composite culture;

(g) to protect and improve the natural environment including forests, lakes, rivers and wild life, and to have compassion for living creatures;

(h) to develop the scientific temper, humanism and the spirit of inquiry and reform;

(i) to safeguard public property and to abjure violence;

(j) to strive towards excellence in all spheres of individual and collective activity so that the nation constantly rises to higher levels of endeavour and achievement;

(k) to provide opportunities for education by parent, the guardian, to his child, or a ward between the age of 6 to 14 years as the case may be.

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* Constiution of India : Section 51-A

CONTENTS

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1

Accounting for Share Capital

1. Introduction

Company form came into existence after industrial revolution due to limitations of proprietorship and partnership firms in carrying out business on a large scale.

In the modern age capital is required for the business. So, company collects its own capital from several persons. Joint stock company is an association of persons and has an objective of carrying out some business for profit.

Company has a separate legal existence by law. Incorporation, management and winding up of company are governed by the provisions of companies Act.

In India, first time a separate act for company was made in 1956, it's known as Companies Act, 1956. Recently Indian Government has incorporated New **Companies Act, 2013** after necessary amendments in previous Act.

This chapter deals how a company raises the capital, it discusses several points in this reference and their accounting effects in the company's books as per Companies Act, 2013.

2. Types of Companies

Based on establishment, the companies are mainly of two types :

(1) **Statutory Companies or Corporations :** These companies or corporations are created by the special act of state or central legislature. For example, Life Insurance Corporation of India, The New India Assurance Company Limited, Gujarat State Finance Corporation, Gujarat State Civil Supplies Corporation etc.

(2) **Registered Companies :** The companies which are registered and formed under the companies act are called registered companies. Most of the companies are formed under this type.

As per the Indian Companies Act, 2013, there are two main types of companies : Private Company and Public Company.

Private Company : A private company is one which by its Articles of Association (i) restricts the right to transfer its shares; (ii) limits the number of its members to 200; (iii) prohibits any invitations to the public to subscribe for any securities i.e. shares or debentures of the company (iv) must have at least 2 members.

The name of a private company ends with the words, 'Private Limited'. e.g. Panchvilla Cotton Private Limited, Apex Hydro Private Limited.

As per new Companies Act one person can form a company, under the necessary legal provisions any one person can form a One Person Company – OPC which has only one member. It is a company incorporated as a private company.

Public Company : A company which is not a private company is called public company. A public company must have at least 7 members. There is no restriction on the maximum number of members. The name of a public company ends with the word 'Limited'. e.g. Karnavati Textiles Limited, Infosys Technologies Limited.

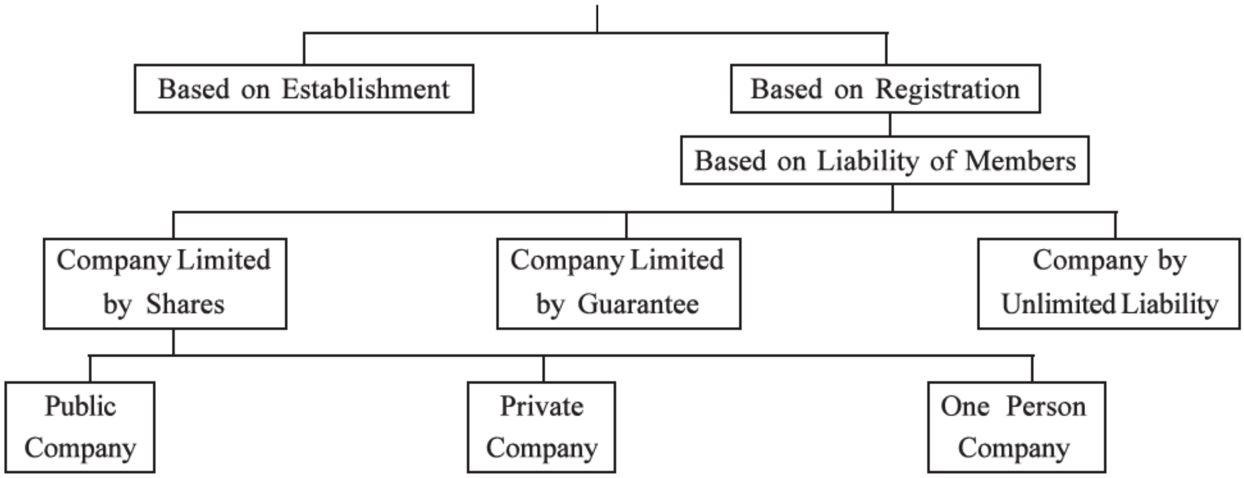
Based on liability of members or shareholders, the companies are mainly of three types :

(1) **Company Limited by Shares :** In these companies, liability of the shareholders is limited upto the extent of the face value of shares held by them. Most of the companies are of this kind.

(2) **Company Limited by Guarantee :** In such companies, at the time of liquidation, the liability of shareholders is limited to a specified amount as guaranteed. Usually, such companies are not for the purpose of earning profit but it is formed for the purpose of promoting different activities like arts, science, sports, culture, social welfare etc. e.g. Board of control for cricket in India.

(3) **Company by Unlimited Liability :** In this type of company there is no limit on the liability of its members. It means, when a company suffers loss and the company's property is not sufficient to pay off its debts, the private property of its members will be used to meet the claims of creditors. As the risk involved in such companies is too high, such companies are not found in India even though permitted by the companies act.

Types of Companies



3. Share and Share Capital : Meaning, Nature and Types

Capital of company is called Share Capital, which can be divided into transferable small denominations. Each such unit of denomination is known as Share.

To raise capital, company issues prospectus as required by law and invites public to purchase its shares. Those who purchase shares of company are called members or shareholders of company. As long as the share(s) are held by this person, he is called shareholder or co-owner of the company. For shareholders, who has purchased or is in possession of the shares, indicate the proportion (ratio) of his ownership in the company. Each share is alloted a distinctive number. Share is an asset which is movable and transferable.

According to the companies act, a company may issue two types of shares : (1) Preference share and (2) Equity share.

(1) **Preference Share :** Preference share is one which gives preferential right to its holder for receiving the dividend at a specified rate before any dividend paid to equity share holder. When the company goes into liquidation the preference share holder has the preferential right for repayment of capital before the equity shareholder.

Types of preference shares are as under :

(i) **Cumulative and Non-cumulative Preference Share :** In case of cumulative preference shares, if in any year the dividend on preference shares is not paid due to insufficient profit, such arrears of dividend shall be paid together with current year dividend in the year when there is sufficient profit.

As against this, in case of non-cumulative preference shares, such arrears of dividend are not accumulated and are not paid in future.

(ii) **Redeemable and Irredeemable Preference Share :** If the amount of preference share is to be repaid (redeemed) by the company at the end of the stipulated period or after giving proper notice to the holder of the preference shares, such shares are called redeemable preference shares.

A preference share which are redeemed only at the time of liquidation of company are called Irredeemable preference shares. After the implementation of Companies Act, 2013, company limited by share does not issue irredeemable preference shares.

(iii) **Participating and Non-participating Preference Share :** Preference shareholders who hold participating preference shares get fixed rate of dividend as decided by the company. In addition to this, they also have a right to participate in surplus profit remaining after distribution of specified dividend to equity shareholders subject to terms of participation. In the event of winding up of the company, if after paying the capital amount of both the preference and equity shareholders, there is still some surplus left, such shareholders are entitled to receive a proportion of surplus. This type of preference shares are called participating preference shares.

Preference shareholder's of non-participating preference shares get only a fixed rate of dividend and do not carry a right to participate in the surplus profits or in any surplus capital.

(iv) **Convertible and Non-convertible Preference Share :** The preference shares which can be convereted partly or fully into equity shares as per agreed terms at the time of issue are known as convertible preference shares.

The preference shares which are not convertible into equity shares are known as non-convertible preference shares. Usually, the preference shares are non-convertible.

(2) Equity Share or Ordinary Share : The shares, which are not preference shares, are known as equity shares. Equity shareholders have voting rights in the company's meeting. Dividend on equity shares which is decided by the board of directors and approved by the shareholders in the general meeting is given only out of the profit remaining after distribution of dividend on preference shares at fixed rate.

Company gives a dividend on equity shares every year on the basis of current year's profit, profit of the previous years, accumulated reserves, possibilities of future profits and also management policy of the company.

At the time of liquidation of company, from the balance funds equity shareholders have right of repayment of capital only after returning preference share capital.

Equity share capital is known as principal share capital of the company. According to current provisions of the companies act, the equity share should have a minimum face value of ₹ 1. In the present scenario, most of the company have face value of each share is ₹ 1 or ₹ 10 or ₹ 100.

Distinction Between Preference Share and Equity Share :

	Basis of Distinction	**Preference Shares**	**Equity Shares**
(1)	Rate of dividend	Dividend on preference shares are paid at a fixed rate.	The rate of dividend on equity shares is not fixed. It may vary from year to year depending upon the availability of profits.
(2)	Arrears of dividend	If dividend is not paid on cumulative shares in any year, the arrears of dividend is paid against company's profit in future.	Arrears of dividend on equity shares can not be accumulated and so it is not paid against company's profit in future.
(3)	Preferential right as to the payment of dividend	They have a right to receive dividend before any dividend is paid on equity shares.	Payment of dividend on equity shares is made after the payment of preference dividend.
(4)	Preferential right as to the payment of capital	Preference shareholders have a right to return of preference share-capital in the case of winding up, before any capital is returned to equity shareholders.	Equity share capital is paid only when preference share capital is paid out fully.
(5)	Voting rights	Preference shareholders do not have any voting rights.	Equity shareholders have voting rights.
(6)	Right to participate in management	They do not have a right to participate in management of the company.	They have full right to participate in management of the company.

Types of Share Capital :

(i) **Authorised/Nominal/Registered Capital :** The maximum amount which a company can accumulate by share capital during its lifetime, is called authorised share capital. It is stated in the memorandum of association and also stated at the time of registration. Hence, it's called registered capital. If there is a need to increase the authorised capital of a company in future, the same can be increased by passing a resolution in the general meeting of shareholders of company and also as per provisions of companies act.

Authorised capital is also called nominal capital. For example, authorised capital of ABC limited is ₹ 1,00,00,000 (one crore) divided into 10,00,000 equity shares of ₹ 10 each.

(ii) **Issued Capital :** The share capital issued by issue of shares out of authorised capital based on the need of the company in full or part is known as issued capital. For example, if 7,00,000 shares are issued out of authorised capital of 10,00,000 shares of ₹ 10 each, ₹ 70,00,000 is known as issued capital of the company, being 7,00,000 shares of ₹ 10 each. Issued capital should not be more than authorised capital.

(iii) **Subscribed Capital :** The value of shares for which applications are received out of issued share capital is known as subscribed capital. Subscribed share capital can be equal to or less than the issued capital. Even if share applications are received for more number of shares than the issued shares, company can allot shares only to the extent of share issued.

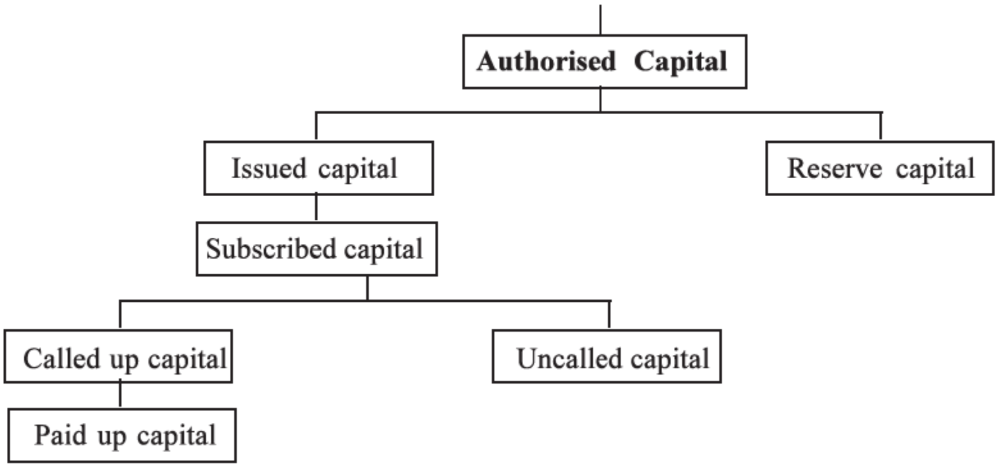
(iv) **Called up Capital :** Company can call up an amount equal to face value of shares or lesser amount from the applicants to whom the share are allotted. When company calls for lesser amount of the share, the balance amount can be called in future from the shareholders. Such amount called up on shares is known as called-up capital. For example, if company has called up ₹ 6 per share on 7,00,000 share of ₹ 10 each, the called up capital will be ₹ 42,00,000.

(v) **Uncalled Capital :** It is a part of subscribed capital. A capital which is not yet called from the shareholders by the board of directors of the company is called uncalled capital. Uncalled capital is difference between subscribed capital and called up capital. E.g. If the company has called for ₹ 6 per share on a share of face value of ₹ 10 each than ₹ 4 per share is considered as uncalled capital.

(vi) **Paid up Capital :** The amount received by the company from shareholders out of called up capital is known as paid up capital. If shareholder does not pay the amount called for any reason, there will be difference between the called up capital and paid up capital. For example, called up capital is ₹ 42,00,000 (7,00,000 share × ₹ 6 per share). If a shareholder holding 1000 shares could not pay first called money of ₹ 2 per share, than paid up capital shall be ₹ 41,98,000 (₹ 42,00,000 – ₹ 2000).

(vii) **Reserve Capital :** When management of the company feels that the called up capital is sufficient for the business requirement of the company and no further capital is required in future, the uncalled capital is converted into reserve capital by passing special resolution in the meeting of shareholders. Capital so reserved is known as **Reserve capital.** Such reserved capital can be called up from shareholders only when the company goes into liquidation. Special resolution passed to this effect can not be cancelled.

Classification of Share Capital



Capital Reserve : Capital reserve are those reserves which are created out of capital profit. Capital profits are those profits which are not earned in the normal course of the business. These reserves can not be utilised for the distribution of dividends. Following transactions give rise to capital profit, which is to be transfered to capital reserved :

(1) Profit on sale of fixed assets

(2) Profit on revaluation of fixed assets

(3) Profit prior to incorporation of company

(4) Premium on issue of shares and debentures

(5) Profit on redemption of debentures

(6) Profit on re-issue of forfeited shares

4. Steps for Issue of Equity Shares

Company raises its capital by issuing equity share to public or by private placement. Detailed discussion/information about this is as under :

(A) For Shares Issued for Public :

(i) Permission for Issue : Government of India made an important amendment in 1991 by repealing capital issues (control) act, 1947 and established Securities and Exchange Board of India - SEBI. Earlier, the companies were required to seek prior approval of government for public issue of shares but now such company will have to prepare an offer document in accordance with SEBI guidelines and other legal requirements and submit the same to SEBI. Only after verification of the offer document by SEBI, they give permission for public issue of shares to the company.

(ii) Details of Proposal to be sent to SEBI : In the offer document or proposal, the company has to disclose the number of shares issued, type of the share issued and issue price of each share. In addition to this, details regarding full amount to be paid at the time of application or amount to be called up in installments is also provided.

(iii) Offer to Public : After complying with the formalities relating to public issue, the company invites public for subscription to shares by issue of prospectus. Company informs the details about subscription of shares to public by newspapers, by T.V. or by hoardings.

(iv) Details Shown in Prospectus : Normally following contents are shows in prospectus : Name and address of the registered office of the company, name and address of the directors, objects of the company, risks involved in the company, consent from SEBI, authorised and issued capital of the company and the number of shares now offered for subscription, dates of opening and closing of the issue, name and address of the merchant's bank, guidelines about past year's and future working of the company, etc.

(v) **For Share Application :** After reading the prospectus, the public applies for shares in the company on a prescribed form. Each application must accompany the number of shares applied, name and address of applicant, their bank account number, their name and number of demat account and also amount of total application money.

The amount of share application money by cheque or draft with application form must be deposited by the applicant in the scheduled bank which is specified by the company. The name of the scheduled bank is mentioned in the prospectus.

Provision for amount to be called up on application are as under :

(i) According to section 39 of Companies Act, 2013 application money on shares should be minimum 5 % of face value of shares.

(ii) As per the present rules of SEBI, the amount to be paid with application of shares by applicant, should not be less than 25 % of issued price of the share.

As per section 24 of Companies Act, 2013 SEBI provisions are applicable for issue of any securities and its transfer, provision as per company law board has not been applicable.

In the present scenario, according to SEBI guidelines new arrangement has been established for share application in the public issue of the company. It's known as ASBA. To make the students familiar about this arrangement a detailed information is given at the end of the chapter.

(vi) **When Shares are Alloted :** When the company receives the application forms, the shares are either fully or partially allotted to the applicant. Those applicants who are alloted shares, are sent 'Letters of Allotment' by the company, in which number of shares allotted by the company to them are indicated. Those who are not allotted any single share by the company are sent 'Letter of Regret' along with a cheque for the refund of application money and now it is directly deposited in the applicant's bank account.

If company receives more or less number of share applicants than total number of issued shares from the applicant then provision for this has been discussed in the next point of this chapter.

(vii) **Balance Amount by Instalments :** Generally company calls for the full amount with share application or allotment. If company has not called up full amount with share application or allotment, the balance can be called up in one or more installments. Calls must be made strictly in accordance with the provisions of the Articles of Association. In the absence of the Articles of Association, the provisions of table F of schedule I of the companies act, 2013 shall apply.

(viii) **Other Important Points :** When shares are issued by company, the company has to necessarily contract with minimum one merchant bank or scheduled bank for its arrangement, for its transparency and also for financial transactions.

Before issue of shares, company has to compulsorily contract with depository for demat of shares. Sometimes company give an option to shareholders to get the shares in demat form or in physical form. In present circumstances it is compulsory to open demat account.

Any person can open or keep the demat account in any bank or any financial institution who holds legal permission to keep the demat accounts.

Demat account is just like saving account or current account in the bank. Entry for money transactions are kept in saving a/c or current a/c. In the same manner entry for purchase and sales transactions of the shares are kept in demat account.

When any person purchases the shares, then number of purchased shares are credited means added to his demat account and when any number of shares are sold then it is debited means deducted from his account.

(B) Shares Issued by Private Placement :

As per the Companies Act, 2013 a company may issue shares on private placement basis also. Sometimes the promoters of a public company are confident of raising capital through private sources and contacts. In such a case the company does not invite the public to subscribe for its shares, but make private placement of shares to promoters, their friends, their relatives, mutual funds, shareholders of group companies, non-resident indians, financial institutions like Life Insurance Corporation of India (LIC), Unit Trust of India (UTI), Industrial Credit and Investment Corporation of India (ICICI), etc.

When the shares are not offered to the public, the company need not issue a prospectus. Instead of issuing a prospectus, the promoters are required to prepare a draft prospectus known as a 'Statement in Lieu of Prospectus' and must file it with the registrar at least 3 days before the first allotment of either shares or debentures.

In case of private placement of shares, the allottees will not sell their shares for a certain minimum period from the date of allotment. This period is known as 'lock-in-period'.

5. Over Subscription and Under Subscription of Shares

If applications are received for more number of shares than the shares issued for public subscription, it is known as over subscription. As company cannot allot more shares than the shares issued, it has to refund excess application money to applicants of shares.

In these circumstances, company may (i) allot full number of shares or (ii) not allot any share or (iii) allot partially number of shares to the share applicants against their share application.

If applications are received for less number of shares than the shares issued, it is known as under subscription. According to the SEBI guidelines, company must get share application money for at least 90 % of the amount called up by public subscription. This minimum amount of subscription should be received within 30 days from the date of issue of prospectus. If company fails to get minimum subscription then company can not allot any share and within 15 days total amount should be returned to the applicants. If company fails to return this amount within 15 days then interest at the rate of 15 % p.a. has to be paid for each day.

6. I.P.O. and F.P.O.

An initial public offering (IPO) is the first time that the share/stock of a private company is offered for purchase to the public.

If a company has already issued the shares to the public through IPO process and wants to increase the capital fund, then "Follow-on Public Offer" (F.P.O.) is issued by the company to public or to investors.

7. Methods for Issue of Shares by Company

Company can issue its shares by three ways :

(1) **At par :** If the total amount payable by share subscribers to company is equal to the total face value of shares, the shares are said to be issued at par. For example, share of face value of ₹ 10 issued at a price of ₹ 10.

(2) **At premium :** If the total amount payable by share subscribers to company is more than the total face value of shares, the shares are said to be issued at premium. For example, if share of face value of ₹ 10 issued at a price of ₹ 14, the additional amount of ₹ 4 shall be considered as premium.

Present provisions as per Companies Act, 2013 and accounting effects of shares issued at premium has been discussed in detail in the following point in this chapter.

(3) **Issue of Shares at Discount :** If the total amount payable by share subscribers to a company is less than the total face value of shares, the shares are said to be issued at discount. For example, if share of face value of ₹ 10 is issued at a price of ₹ 9, the amount of ₹ 1 shall be considered as discount.

As per section 53 of Companies Act, 2013, companies would no longer be permitted to issue shares at a discount.

The only shares that could be issued at a discount are sweat equity wherein shares are issued to employees or directors in lieu of their services under section 54 of 2013 Act.

8. Share Capital Transactions and Its Accounting Effects

The following journal entries shall be passed in the books of the company in respect of share capital transactions :

- **On Share Application :**

(1) When share application money is received,

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share application A/c [Being recepit of share application money on .... shares at ₹ .... per share.]		....	 ....

(2) When applications are received for more shares than the shares issued and excess application money is to be refunded to share applicants,

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share application A/c Dr To Bank A/c [Being refund of share application money at ₹ .... per share on .... shares due to non-allotment of shares.]		....	 ....

(3) When board of directors of the company approves the allotment of shares, then share application money in respect of share alloted is transferred to share capital account.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share application A/c Dr To Share capital A/c [Being transfer of share application money at ₹ ...... per share to share capital account in respect of ...... shares allotted.]		....	 ....

- **On Share Allotment :**

(4) The applicants who are allotted shares become shareholders of the company. When share allotment money is called from shareholders then...

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share allotment A/c Dr To Share capital A/c [Being amount due on allotment on .... shares at the rate of ₹ .... per share.]		....	 ....

(5) When the amount due on allotment is received

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share allotment A/c [Being amount received on allotment on .... shares at the rate of ₹ .... per share.]		....	 ....

- **On Share First Call :**

(6) When the first call is made after receiving the allotment money

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Share first call A/c Dr To Share capital A/c [Being first call due on .... shares at the rate of ₹ .... per share.]		....	 ....

(7) When the share first call money is received

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c Dr To Share first call A/c [Being first call money received.]		....	 ....

When the share second and third calls are made and when the call money is received, journal entries will be passed in the same manner as shown in entries (6) and (7) as above. In such case, in place of 'share first call', share second call or third call or final call shall be written.

Illustration 1 : Shailja company ltd. issued 2,40,000 equity shares of ₹ 10 each, on which the amounts called up was as under :

On application	₹ 3 per share
On allotment	₹ 3 per share
On first call	₹ 2 per share
On final call	₹ 2 per share

Amounts called on allotment and calls were received in full on time. Applications were received for all shares. Pass journal entries in the books of company.

Also prepare equity share capital account, equity share application account, equity share allotment account, equity share first call account and equity share final call account.

Ans. :

Journal Entries in the Books of Shailja Company Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		7,20,000	
	To Equity share application A/c			7,20,000
	[Being money received on application for 2,40,000 shares at ₹ 3 per share.]			
2	Equity share application A/c Dr		7,20,000	
	To Equity share capital A/c			7,20,000
	[Being transfer for share application money to share capital account in respect of share alloted.]			
3	Equity share allotment A/c Dr		7,20,000	
	To Equity share capital A/c			7,20,000
	[Being allotment money due on 2,40,000 equity shares at ₹ 3 per share.]			
4	Bank A/c Dr		7,20,000	
	To Equity share allotment A/c			7,20,000
	[Being allotment money received.]			
5	Equity share first call A/c Dr		4,80,000	
	To Equity share capital A/c			4,80,000
	[Being amount due on first call at ₹ 2 per share on 2,40,000 equity shares.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
6	Bank A/c Dr		4,80,000	
	To Equity share first call A/c			4,80,000
	[Being amount received on first call.]			
7	Equity share final call A/c Dr		4,80,000	
	To Equity share capital A/c			4,80,000
	[Being amount due on final call at ₹ 2 per share on 2,40,000 equity shares.]			
8	Bank A/c Dr		4,80,000	
	To Equity share final call A/c			4,80,000
	[Being amount received on final call.]			
	Total		**48,00,000**	**48,00,000**

Ledger of Shailja Company Ltd.

Equity Share Capital Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
				2	By Equity share application A/c		7,20,000
				3	By Equity share allotment A/c		7,20,000
				5	By Equity share first call A/c		4,80,000
	To balance b/f		24,00,000	7	By Equity share final call A/c		4,80,000
			24,00,000				**24,00,000**

Equity Share Application Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
2	To Equity share capital A/c		7,20,000	1	By Bank A/c		7,20,000
			7,20,000				**7,20,000**

Equity Share Allotment Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
3	To Equity share capital A/c		7,20,000	4	By Bank A/c		7,20,000
			7,20,000				**7,20,000**

Equity Share First Call Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
5	To Equity share capital A/c		4,80,000	6	By Bank A/c		4,80,000
			4,80,000				**4,80,000**

Equity Share Final Call Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
7	To Equity share capital A/c		4,80,000	8	By Bank A/c		4,80,000
			4,80,000				**4,80,000**

Note : In the example dates are not given, so serial number is given to each transaction to understand the posting of each journal entry.

Illustration 2 : Authorised capital of a limited company is divided into 25,00,000 equity shares of ₹ 10 each. Out of this, the company offerred 20,00,000 equity shares for public subscription. Company received applications for 19,00,000 equity shares against the public subscription. Company called up total ₹ 8 per share and all the called up amounts were duly received. From the above information, show classification of share capital.

Ans. :

	₹
Authorised capital :	
25,00,000 equity shares of ₹ 10 each	2,50,00,000
Issued capital :	
20,00,000 equity shares of ₹ 10 each	2,00,00,000
Subscribed capital :	
19,00,000 equity shares of ₹ 10 each	1,90,00,000
Called up and paid up capital :	
19,00,000 equity shares of ₹ 10 each,	
₹ 8 per share called up and paid up	1,52,00,000

* Friends, till now we have discussed simple transactions, relating to share capital, their accounting treatment and their illustrations. In the next part of this chapter, we shall study some special transactions, their accounting treatment and their illustrations.

9. Calls-in-Arrears

When company makes call for allotment money or call money and if some shareholder fails to pay such money on due date, such unpaid amount is transferred to "Calls-in-arrears" account. In such case, there are two methods to deal with accounting effect of calls-in-arrears.

(i) **Without opening calls-in-arrears account :** Under this method, there is no need to open calls-in-arrears account. When company calls for installment amount on any call, then the actual amount received from the shareholders is debited to bank account and is credited to relevant call account.

So, the respective call account will show a debit balance equal to the unpaid amount of the call. When the unpaid amount is received from shareholder in future, the bank account is debited and the relevant call A/c is credited.

(ii) **By Opening Calls-in-Arrears Account :** Under this method, 'Calls in Arrears Account' is opened. Any amount received from shareholders against any call is debited to bank account and amount which is not received from shareholders is debited to calls in arrears account.

On a later date, when the arrears amount on call is received, bank account is debited and the calls-in-arrears account is credited. So, at the end call-in-arrears is closed.

Now, let us understand the above two methods by following illustration.

Illustration 3 : Jay Limited, made a first call of ₹ 2 per share on its 50,000 shares. One shareholder holding 1000 shares did not pay the first call, but he paid due amount on first call after one month. Remaining all shareholders were paid all the amounts due on due dates.

Write journal entries in respect of above transactions in the books of company.

Ans. :

Any one method can be adopted from the following :

	(i) Without Opening Calls-in-Arrears A/c				(ii) By Opening Calls-in-Arrears A/c		
(1)	When amount due on first call, Share first call A/c ...Dr To Share capital A/c	 1,00,000 	 1,00,000	(1)	When amount due on first call, Share first call A/c ...Dr To Share capital A/c	 1,00,000 	 1,00,000
(2)	On receipt of first call, Bank A/c ...Dr To Share first call A/c	 98,000 	 98,000	(2)	On receipt of first call, Bank A/c ...Dr Call-in-arrear A/c ...Dr To Share first call A/c	 98,000 2000 	 1,00,000
(3)	On receipt of arrears of call money from shareholders, Bank A/c ...Dr To Share first call A/c	 2000 	 2000	(3)	On receipt of arrears of call money from shareholders, Bank A/c ...Dr To Call-in-arrear A/c	 2000 	 2000

Note : (1) Balance of call-in-arrears account is shown in the balancesheet as a deduction from the amount of 'subscribed but not fully paid up' under 'subscribed share capital'.

(2) The company if authorised by its Articles of Association may charge interest at the specified rate on calls-in-arrears from the due date to the date of payment.

(3) In case, the Articles of Association of the company is silent, table F of the companies act, 2013 shall apply which provides for interest at 10 % p.a. However, the directors have the right to waive the interest on calls-in-arrears.

- **Calculation and Accounting Effects of Interest on Calls-in-Arrears is not in syllabus.**

Illustration 4 : Pranav Limited of Bhavnagar issued 18,00,000 equity shares of ₹ 10 each. The company received applications for 20,00,000 shares. Shares were allotted at meeting of board of directors.

Excess shares applications were rejected and the application money thereon was refunded to the applicants. Amount on shares was called up as under :

On application ₹ 3 per share

On allotment ₹ 2.50 per share

On first call ₹ 2 per share

On final call ₹ 2.50 per share

Yogesh who was allotted 1600 shares, could not pay first and final call money. Where, Nilam who was allotted 1400 shares could not pay final call money. Except this, all the amounts due from all the shareholders were received on due dates. Yogesh and Nilam paid calls-in-arrears amounts at a later date.

Pass necessary journal entries relating to above transactions in the books of the company.

Ans. :

Journal Entries in Books of Pranav Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being the application money received for 20,00,000 equity shares at ₹ 3 per share.]		60,00,000	 60,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being transfer of share application money in respect of 18,00,000 equity shares allotted to equity share capital account and refund of share application money in respect of 2,00,000 equity shares for rejected applications.]		60,00,000	 54,00,000 6,00,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money due on 18,00,000 allotted equity shares at ₹ 2.50 per share.]		45,00,000	 45,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being full amount received of equity share allotment money.]		45,00,000	 45,00,000
5	Equity share first call A/c Dr To Equity share capital A/c [Being the amount due on first call at ₹ 2 per share on 18,00,000 equity shares.]		36,00,000	 36,00,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
6	Bank A/c (17,98,400 shares × ₹ 2) Dr		35,96,800	
	Calls-in-arrears A/c (1600 shares × ₹ 2) Dr		3200	
	To Equity share first call A/c			36,00,000
	[Being full amount received on equity share first call money except on 1600 shares of Yogesh.]			
7	Equity share final call A/c Dr		45,00,000	
	To Equity share capital A/c			45,00,000
	[Being amount due on final call at ₹ 2.50 per share on 18,00,000 equity shares.]			
8	Bank A/c (17,97,000 shares × ₹ 2.50) Dr		44,92,500	
	Calls-in-arrears A/c Dr		7500	
	(3000 shares × ₹ 2.50)			
	To Equity share final call A/c			45,00,000
	[Being full amount received of equity share final call money on all shares except on 1600 shares of Yogesh and 1400 shares of Nilam.]			
9	Bank A/c Dr		10,700	
	To Calls-in-arrears A/c			10,700
	[Being receipt of arrears of call money from Yogesh and Nilam.]			
	Total		**3,72,10,700**	**3,72,10,700**

10. Calls-in-Advance

If there is provision in the Articles of Association, a company can receive in advance a part or whole of the uncalled amount. In such cases, since the uncalled amount is received by company in advance from shareholders, the same is credited to "calls-in-advance" account.

When amount is received with application as advance of allotment or call money, the journal entry shall be as under :

Share application A/c ...Dr	[Number of shares application × Amount called per share on application]
To share capital A/c	[Number of shares allotted × Amount called per share on application]
To share allotment A/c	[Amount of allotment money received in advance]
To calls-in-advance A/c	[Amount of call money received in advance]

When share call money is received in advance with share allotment money, the following entry shall be passed :

	Bank A/c Dr To Share allotment A/c To Calls-in-advance A/c		....	 ....

When the respective call is made due, then entry for calls-in-advance shall be passed as under :

	Calls-in-advance A/c Dr To Respective call A/c		....	 ....

Note : (1) Calls-in-advance is not share capital of the company, hence dividend can not be given on it.

(2) Balance of calls-in-advance account is shown in the equity and liabilities part of the balance sheet under the head current liabilities and sub-head other current liabilities.

(3) It is compulsory to pay interest on calls-in-advance from the date of receipt till the date when the call is due for payment as per rate specified in the articles of the company. However, if the articles do not contain such rate, table F of schedule I of the Companies Act, 2013 shall be applicable, which leaves the matter to directors of company subject to a maximum rate of 12 % p.a. The interest on calls-in-advance is payable compulsorily even if there are no profits.

Interest calculation and its accounting effects is not in syllabus.

Illustration 5 : Kena Chemical Company of Vadodara issued for public subscription 3,00,000 equity shares of ₹ 100 each. The company decided to collect ₹ 40 per share with application, ₹ 35 per share on allotment and ₹ 25 per share on first and final call.

Company received applications for total 3,20,000 equity shares. Out of the applications, the company rejected applications for 20,000 equity shares and refunded application money thereof. Pranav, a shareholder of the company who was alloted 3000 equity shares by the company, had paid amount due on first and final call in advance along with allotment money.

Except this, allotment money and call money were called up at appropriate times and were all paid on due dates. Show journal entries in respect of above transactions in books of the company.

Ans. :

Journal Entries in the Books of Kena Chemicals Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being receipt of share application money for 3,20,000 equity shares at ₹ 40 per share.]		1,28,00,000	 1,28,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being transfer of share application money in respect of 3,00,000 equity shares alloted to equity shares capital account and refund the money to applicants in respect of 20,000 equity shares for rejected applications.]		1,28,00,000	 1,20,00,000 8,00,000

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
3	Equity share allotment A/c	Dr		1,05,00,000	
	To Equity share capital A/c				1,05,00,000
	[Being allotment money of ₹ 35 per share due on 3,00,000 equity shares allotted.]				
4	Bank A/c	Dr		1,05,75,000	
	To Equity share allotment A/c				1,05,00,000
	To Calls-in-advance A/c				75,000
	[Being receipt of full amount of 3,00,000 equity share allotment money and advance money from Pranav for first and final call at ₹ 25 per share on his 3000 equity shares.]				
5	Equity share first and final call A/c	Dr		75,00,000	
	To Equity share capital A/c				75,00,000
	[Being amount due on first and final call at ₹ 25 per share on 3,00,000 equity shares.]				
6	Bank A/c	Dr		74,25,000	
	Calls-in-advance A/c	Dr		75,000	
	To Equity first and final call A/c				75,00,000
	[Being receipt of amount called up on first and final call except the amount received in advance from Pranav.]				
	Total			**6,16,75,000**	**6,16,75,000**

Illustration 6 : Paresh Company of Palanpur issued 2,00,000 equity shares of ₹ 10 each for public subscription. Company decided to call ₹ 3.50 per share on application, ₹ 4 per share on allotment and ₹ 2.50 per share on first and final call.

Applications were received from public for 2,30,000 equity shares, of which applications for 30,000 equity shares were rejected and their application money was refunded to applicants.

Nitin who had applied for 2500 shares had paid entire amount of ₹ 10 per share at the time of applications. Company has alloted him all the shares applied by him. Piyush, who was allotted 1500 shares had paid his first and final call money in advance along with the share allotment money.

Except this, all the amounts due on allotment and call were received on due dates. Write journal entries for above transactions in the books of company.

Ans. :

Journal Entries in the Books of Paresh Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		8,21,250	
	To Equity Share application A/c			8,21,250
	[Being receipt of share application money for 2,30,000 equity shares at ₹ 3.50 per share and advance payment from Nitin at ₹ 6.50 per share on 2500 equity shares.]			
2	Equity share application A/c Dr		8,21,250	
	To Equity share capital A/c (2,00,000 shares × ₹ 3.50)			7,00,000
	To Equity share allotment A/c (2500 shares × ₹ 4)			10,000
	To Call-in-advance A/c (2500 shares × ₹ 2.50)			6250
	To Bank A/c (30,000 shares × ₹ 3.50)			1,05,000
	[Being transfer of share application money in respect of alloted 2,00,000 equity shares and amount paid in advance by Nitin to respective amount, where refund of share application money in respect of 30,000 shares for rejected applications.]			
3	Equity share allotment A/c Dr		8,00,000	
	To Equity share capital A/c			8,00,000
	[Being allotment money of ₹ 4 per share due on 2,00,000 equity shares.]			
4	Bank A/c Dr		7,93,750	
	(Called up on allotment ₹ 8,00,000 − ₹ 10,000 (Advance of Nitin) + ₹ 3750 (First and final call received in advance from Piyush.)			
	To Equity share allotment A/c			7,90,000
	To Call-in-advance A/c (1500 shares × ₹ 2.50)			3750
	[Being receipt of full amount of equity share allotment money due less advance of ₹ 10,000 from Nitin plus call money of ₹ 3750 received in advance from Piyush.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	Equity share first and final call A/c Dr		5,00,000	
	To Equity share capital A/c			5,00,000
	[Being amount due on first and final call at ₹ 2.50 per share on 2,00,000 equity shares.]			
6	Bank A/c Dr		4,90,000	
	(₹ 5,00,000 called – ₹ 10,000 received in advance)			
	Calls-in-advance A/c Dr		10,000	
	(₹ 6250 of Nitin + ₹ 3750 of Piyush)			
	To Equity share first and final call A/c			5,00,000
	[Being receipt remaining money of first and final call on all shares except advance paid by Nitin and Piyush towards call.]			
	Total		**42,36,250**	**42,36,250**

11. For Issue of Shares at Premium

When company has good reputation in market, has high profitability, internal and external factors are favourable and also if company has already issued shares in the past and the market price of its shares was more than the face value of shares, then company can issue shares at a price more than its face value or nominal value. When company issues shares at a price higher than the face value, the shares are said to be issued at premium.

When shares are issued at premium, the amount received in excess of face value of shares is credited to a separate account. As per companies act, such amount is carried to **'Securities Premium Account'** or **'Securities Premium Reserve Account'.**

- **Points to be kept in mind relating to securities premium :**
  (1) Amount of premium on share can be called along with share application or at the time of share allotment or at the time of application and allotment or at the time of share call separately or all together.
  (2) There is no legal restriction on issue of shares at a premium.
  (3) The premium on issue of shares is a capital profit and not a revenue profit.
  (4) The balance of securities premium account is shown in the equity and liabilities part of balance sheet under the head 'Reserve and Surplus' as 'Securities Premium Reserve'.
  (5) Amount of securities premium cannot be utilised for payment of dividend in cash.
- **Under section 52(2) of the Companies Act, 2013, the amount of securities premium reserve may be used only for the following purposes :**
  (1) In writting off the preliminary expenses of the company;
  (2) For writting off the expenses, commission or discount allowed on issue of shares or debentures of the company;
  (3) For issuing fully paid bonus shares to the shareholders of the company;
  (4) For providing the premium payable on redemption of redeemable preference share
  (5) For buy back of its own shares.

- **When shares are issued at premium, the accounting entries in the books of company will be as under :**

(I) With application :

(1) When amount of share premium is called with application money,

Bank A/c ...Dr To Share application A/c	Amount called per share (including share premium amount)

(2) When allotment is made against applications received,

Share application A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares alloted × Amount of premium per share called with application)

(II) On allotment :

(1) When amount of share premium is called with allotment money,

Share allotment A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares alloted × Amount of premium per share called with allotment)

(2) When allotment money is received,

Bank A/c ...Dr To Share allotment A/c	Amount called on allotment (with premium)	×	Number of shares alloted

(III) On share call :

(1) When amount of share premium is called with share call money,

Share call A/c ...Dr To Share capital A/c To Securities premium A/c	(Number of shares alloted × Amount called per share towards premium at the time of call.)

(2) When call money is received,

Bank A/c ...Dr To Share call A/c	Amount called up (with premium)	×	Number of alloted shares

Illustration 7 : Nisarg Pharma Ltd. of Gandhinagar issued 80,000 equity shares of ₹ 10 each at a premium of ₹ 40 per share. The amount was called up as under :

With application ₹ 14 per share (Including premium of ₹ 10)

With allotment of ₹ 33 per share (Including premium ₹ 30)

With final call ₹ 3 per share

Company received applications for 85,000 equity shares. Excess applications received were rejected and amount received with applications on this was refunded.

Amount due on allotment and final call were duly called up. All the amount due on all the shares were duly received except allotment money and final call money on 2000 shares held by Devami.

Pass necessary journal entries in the books of company for above transactions.

Ans. :

Journal Entries in the Books of Nisarg Pharma Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		11,90,000	
	To Equity share application A/c			11,90,000
	[Being share application money received for 85,000 shares at ₹ 14 per share.]			
2	Equity share application A/c Dr		11,90,000	
	To Equity share capital A/c (80,000 shares × ₹ 4)			3,20,000
	To Securities premium A/c (80,000 shares × ₹ 10)			8,00,000
	To Bank A/c (5000 shares × ₹ 14)			70,000
	[Being transfer for share application money in respect of 80,000 equity shares allotted to share capital account and securities premium account and refund of application money in respect of rejected application to applicants.]			
3	Equity share allotment A/c Dr		26,40,000	
	To Equity share capital A/c			2,40,000
	To Securities premium A/c			24,00,000
	[Being allotment money of ₹ 3 per share on share capital and ₹ 30 per share on premium is due on 80,000 equity shares allotted.]			
4	Bank A/c Dr		25,74,000	
	To Equity share allotment A/c			25,74,000
	[Being receipt of amount of equity share allotment money on 78,000 shares, except ₹ 66,000 on 2000 shares of Devami at ₹ 33 per share]			
5	Equity share final call A/c Dr		2,40,000	
	To Equity share capital A/c			2,40,000
	[Being amount due on final call at ₹ 3 per share on 80,000 equity shares.]			
6	Bank A/c Dr		2,34,000	
	To Equity share final call A/c			2,34,000
	[Being receipt of call money on 78,000 equity shares except non-receipt of call money of ₹ 6000 on 2000 shares of Devami at ₹ 3 per share.]			
	Total		**80,68,000**	**80,68,000**

Note : Devami has not paid allotment money and final call money on her 2000 equity shares. Such amount not received can be recorded by debiting to calls-in-arrears account in entry number 4 and 6 above. Alternatively, journal entries can also be made as shown above without creating calls-in-arrears account.

Illustration 8 : Authorised capital of Dishita plastic company is 5,00,000 equity shares of ₹ 10 each. On 11th July, 2017, company issued 4,00,000 equity shares at a premium of ₹ 80 per share for public subscription. Share amount was called up as under :

On 11th July, 2017 with application ₹ 84 per share (including premium of ₹ 80 per share)

On 11th September, 2017 with allotment ₹ 3 per share

On 11th November, 2017 with final call ₹ 3 per share

The subscription was closed after receiving full subscription of shares on 11th July, 2017. On 21st July, 2017 directors made allotment of all the shares applied for. Sum due on allotment, except on 4000 shares was received on 21st September, 2017. Where amount due on final call was fully received by 21st November, 2017 except additional 2000 shares.

Pass necessary journal entries in respect of above transactions except bank transactions and prepare bank account only.

Ans. :

Journal Entries in the Books of Dishita Plastic Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017				
July, 21	Equity share application A/c Dr		3,36,00,000	
	To Equity share capital A/c			16,00,000
	To Securities premium A/c			3,20,00,000
	[Being transfer of ₹ 4 per share to equity share capital account and ₹ 80 per share to securities premium in respect of 4,00,000 equity shares allotted.]			
Sept., 11	Equity share allotment A/c Dr		12,00,000	
	To Equity share capital A/c			12,00,000
	[Being allotment money of ₹ 3 per share due on 4,00,000 equity shares.]			
Sept., 21	Calls-in-arrears A/c Dr		12,000	
	To Equity share allotment A/c			12,000
	[Being amount not received on allotment on 4000 equity share at ₹ 3 per share.]			
Nov., 11	Equity share final call A/c Dr		12,00,000	
	To Equity share capital A/c			12,00,000
	[Being amount due on final call at ₹ 3 per share on 4,00,000 equity shares.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Nov., 21	Calls-in-arrears A/c Dr To Equity share final call A/c [Being amount not received on final call on 6000 (4000 + 2000) equity shares at ₹ 3 per share]		18,000	 18,000
	Total		**3,60,30,000**	**3,60,30,000**

Bank Account in the Books of Dishita Plastic Company

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
2017 July, 11	To Equity share application A/c (Receipt of application money at ₹ 84 per share on 4,00,000 shares)		3,36,00,000				
Sept., 21	To Equity share allotment A/c (Receipt of allotment money on 3,96,000 shares except 4000 shares at ₹ 3 per share)		11,88,000				
Nov., 21	To Equity share final call A/c (Receipt of final call money on 3,94,000 shares except 6000 shares at ₹ 3 per share)		11,82,000				

12. Forfeiture of Shares

Due to any reason, if any shareholder fails to pay the amount due on allotment or on any call within the informed specified period by company, then company can forfeit his share by completing due formalities.

In normal situation (usually), directors of the company are empowered by articles of association of company to forfeit the shares. Follow the rules laid down in the Articles of Association for the procedure of forfeiture of shares or if no rules are given in Articles for this the provisions of table F of schedule I of the Companies Act, 2013 shall apply. So, a process of forfeiture or cancelation of shares by directors of company is called Forfeiture of shares.

After the forfeiture, the name of shareholder is removed from the register of members. It means now this person is not called a shareholder of the company.

For forfeited shares, the amount already paid by the shareholder to the company, is forfeited by the company it means this amount is not returned to the shareholders.

Number of shares decreases due to forfeiture of shares and hence 'Share Capital Account' is debited. The amount already paid by shareholder in the company also gets forfeited with forfeiture of share and the same is credited to 'Share Forfeiture Account'.

- **When shares are forfeited, the following entries are passed in the books of company under different situations :**

(I) When shares are issued at par or at premium and full amount of premium is received,

Share capital A/c ...Dr	[Number of shares forfeited × Amount called up per share on capital account]
To Forfeited shares A/c	[Amount received on forfeited shares towards capital account excluding peremium]
To Share allotment A/c	[Amount called on allotment but not received]
To First and final share call A/c	[Amount called on call but not received]

(II) When shares are issued at premium and share premium amount is not received,

Share capital A/c ...Dr	[Number of shares forfeited × Amount called up per share on capital account]
Securities premium A/c ...Dr	[Number of shares forfeited × Amount of premium called up but not received]
To Forfeited shares A/c	[Total amount received]
To Share allotment A/c	[Amount called on allotment but not received]
To Share call or calls-in-arrears A/c	[Amount called on call but not received]

Let us understand above transactions with the following illustrations :

Illustration 9 :

(1) M Ltd. forfeited 600 equity shares of one shareholder Govind for non-payment of final call of ₹ 3 per share. Company had called up ₹ 10 per share as face value of share from shareholders. Govind had paid ₹ 4 per share on application and ₹ 3 per share on allotment. Pass journal entry for forfeiture of shares.

(2) N Ltd. forfeited 2400 equity shares of ₹ 10 each of Shri Premabhai for non-payment of ₹ 2 per share on share first call. An amount of ₹ 3 per share on application and ₹ 3 per share on allotment is received by company from Shri Premabhai. The company has called up ₹ 8 per share till date. Pass journal entry for forfeiture of shares in the books of company.

(3) Q Ltd. had called total ₹ 22 per share (including premium of ₹ 12 per share) from the shareholders. Kinjal had paid ₹ 15 per share (including premium of ₹ 12 per share) on application and ₹ 4 per share on allotment on her 500 shares. Kinjal failed to pay ₹ 3 per share on final call on her 500 shares, so company forfeited her shares. Pass the journal entries in the books of company for forfeiture of shares.

(4) P Ltd., had issued shares of ₹ 10 each at 50 % premium. Company had called ₹ 4 with application, ₹ 8 (including premium) on allotment and ₹ 3 on first and final call. Shri Jigar who holds 600 shares, paid only application money to company. The company forfeited his shares after first and final call.

Give a journal entry in books of company for forfeiture of shares.

Ans. :

(1) Journal Entry in the Books of M Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr		6000	
	(600 shares × ₹ 10)			
	To Share forfeiture A/c			4200
	(600 share × ₹ 7)			
	To Share final call A/c			1800
	(600 share × ₹ 3)			
	[Being forfeiture of 600 shares of Govind.]			

Explanation : Company forfeited shares of Govind, so his shares are cancelled. Amount called up per share on capital account ₹ 10 per share will be debited to share capital account. Amount of ₹ 7 per share paid by Govind will be credited to share forfeiture account and amount not paid towards capital account for final call at ₹ 3 per share will be credited to share final call account.

(2) Journal Entry in the Books of N Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr		19,200	
	(2400 shares × ₹ 8)			
	To Forfeiture A/c			14,400
	(2400 shares × ₹ 6)			
	To Share first call A/c or			
	call-in-arrears A/c			4800
	(2400 shares × ₹ 2)			
	[Being non-payment of first call money on 2400 shares by Premabhai, his shares forfeited after first call.]			

Explanation : Company forfeited Premabhai's shares immediately after first call. So, in above journal entry, equity share capital account is debited with ₹ 19,200 (Number of share forfeited 2400 shares × ₹ 8 per share called up on capital account).

(3) Journal Entry in the Books of Q Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr		5000	
	(500 shares × ₹ 10)			
	To Share forfeiture A/c			3500
	(500 shares × ₹ 7)			
	To Share final call A/c			1500
	(500 shares × ₹ 3)			
	[Being non-payment of final call amount by Kinjal, her shares are forfeited.]			

Explanation : Kinjal has already paid premium amount at the time of application, so that would not be given any effect of securities premium on forfeiture. Amount paid on application ₹ 3 per share and on allotment ₹ 4 per share, total ₹ 7 per share for face value of share will be credited to share forfeiture account.

(4) Journal Entries in the Books of P Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Equity share capital A/c Dr		6000	
	(600 shares × ₹ 10)			
	Securities premium account A/c Dr		3000	
	(600 shares × ₹ 5)			
	To Share forefiture A/c			2400
	(600 shares × ₹ 4)			
	To Share allotment A/c			4800
	(600 shares × ₹ 8)			
	To Share first and final call A/c			1800
	(600 shares × ₹ 3)			
	[Being forfeiture of 600 shares of Jigar for non-payment of allotment money and call money after paying share application money.]			

Explanation : Shri Jigar has not paid total ₹ 8 per share on allotment with premium. So here, total amount of ₹ 3000 (600 shares × ₹ 5) debited to securities premium A/c, where total amount ₹ 4800 (600 shares × ₹ 8) has been credited to share allotment A/c.

13. For Reissue of Forfeited Shares

Company can reissue forfeited shares. For this, directors of the company have the full authority by law. Directors can reissue these shares at par, at premium or at discount.

On reissue of shares, the company must get at least an amount equal to the amount not received on capital account on forfeited shares. It means, at the time of reissue of forfeited shares, company can give maximum discount to new shareholders upto the amount forfeited.

So, the maximum discount that can be given on reissue of forfeited shares is equal to the amount forfeited on capital account which was received on these shares. In such case, there is no need for any sanction for the discount amount. e.g. a shareholder has paid ₹ 7 per share on face value of ₹ 10 per share and has not paid ₹ 3 per share. If his shares are forfeited and reissued thereafter, maximum discount upto ₹ 7 per share can be given on reissue thereof.

On reissue of forfeited shares, amount received from new shareholder (purchaser) is debited to **'Bank account'**. If these shares are issued at discount then amount of discount is debited to **'Share Forfeiture Account'**. Here, due to reissue of shares, amount of face value of shares is credited to **'Share Capital Account'.**

- **Following journal entries are passed for reissue of forfeited shares under different situations :**

(I) If the forfeited shares are reissued at par,

	Bank A/c Dr To Share capital A/c		....	 ....

(II) If the forfeited shares are reissued at premium,

	Bank A/c Dr To Share capital A/c To Securities premium A/c		....	 ....

(III) If the forfeited shares are reissued at discount,

Bank A/c ...Dr	[Number of share reissued × Amount per share at which shares are issued.]
Share forfeited A/c ...Dr	[Number of shares reissued × Discount amount per share]
To Share capital A/c	[Number of shares reissued × paid up amount per share]

- **Balance of share forfeiture account :**

After the reissue of forfeited shares, the credit balance left in the share forfeiture account for those shares is transferred to 'Capital Reserve Account'.

Share forfeiture is not day-to-day business transaction of a company. Any surplus or profit on account of forfeiture of share is a capital profit. Therefore, the amount of forfeited shares is transferred to capital reserve account. The following entry will be passed in the book of company.

	Share forfeiture A/c Dr To Capital reserve A/c [Being transfer of balance of forfeited share account in respect of reissued shares to capital reserve account.]		....	 ....

- **Other points to be kept in mind while reissuing forfeited shares :**

(I) Unless the forfeited shares are reissued, the balance of the forfeited shares' account is added to paid-up capital under subscribed share capital in the note to accounts on 'share capital'.

(II) When a part of forfeited shares is only reissued, the proportionate amount only in respect of forfeited shares which are reissued, will be transferred to capital reserve account. Credit balance of forfeited shares will continue on other shares which are not yet reissued.

(III) Shares in respect of which any amount is not paid can be forfeited by board of directors by passing a resolution at any time after allotment or first call or final call. Such forfeited shares can be reissued immediately after forfeiture that means after allotment or after first call or after final call.

- **Let us understand journal entries for forfeiture and reissue of forfeited shares in the books of company under different situations with the help of following illustration.**

Illustration 10 : Pass necessary journal entries in the books of company relating to forfeiture and reissue of shares in respect of following transactions :

(A) On 1-3-2017, company forfeited 500 equity shares of ₹ 10 each of Harnish. Harnish did not pay ₹ 3 per share in respect of share final call. On 2-4-2017, company reissued forfeited shares at ₹ 8 per share, which were purchased by Sanjay.

(B) On 10-7-2017, company forfeited 350 equity share of Avadh of face value of ₹ 10 each for non-payment of ₹ 3 per share on first call and ₹ 2 per share on second and final call. On 12-8-2017, all 350 forfeited shares are reissued at ₹ 7 per share which were bought by Dharmesh.

(C) On 14-9-2017, company forfeited 1200 equity share of Dhrumal of face value of ₹ 10 each for non payment of ₹ 3 per share on final call. Dhrumal had paid ₹ 4 per share on application and ₹ 8 per share (including premium of ₹ 5 per share) on allotment. Out of forfeited shares, company reissued 800 equity shares to Minesh on 16-10-2017 at a discount of ₹ 5 per share.

(D) On 1-8-2017 company forfeited 700 equity shares of ₹ 10 each of Hetansh for non-payment of share allotment money of ₹ 54 per share (including premium of ₹ 50 per share) and ₹ 3 per share on final call money. Out of forfeited shares, company reissued 500 equity shares on 10-9-2017 at ₹ 35 per share (including premium of ₹ 25 for each share) to Hiren.

(E) Company forfeited 2000 equity shares of Girish on 11-10-2017 for non-payment of ₹ 3 per share on first call and ₹ 2 per share on final call. Company had originally issued this share at face value of ₹ 10 per share.

Out of forfeited shares, company reissued 1200 equity shares to Neel on 4-11-2017 at ₹ 8 per share and remaining equity shares were reissued on 22-11-2017 to Harsh at ₹ 7 per share.

Ans. :

Journal Entries in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(A)				
1-3-2017	Equity share capital A/c Dr		5000	
	(500 shares × ₹ 10)			
	To Share forfeiture A/c			3500
	(500 shares × ₹ 7)			
	To Share final call A/c			1500
	(500 shares × ₹ 3)			
	[Being forfeited 500 shares of Harnish due to non-payment of share final call amount.]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
2-4-2017	Bank A/c	Dr		4000	
	(500 shares × ₹ 8)				
	Share forfeiture A/c	Dr		1000	
	(500 shares × ₹ 2)				
	To Equity share capital A/c				5000
	(500 shares × ₹ 10)				
	[Being reissue of 500 forfeited shares at ₹ 8 per share.]				
2-4-2017	Share forfeiture A/c	Dr		2500	
	To Capital reserve A/c				2500
	[Being balance of share forfeiture A/c ₹ 3500 credit − ₹ 1000 debit = ₹ 2500 transfer to capital reserve A/c.]				
10(B)					
10-7-2017	Equity share capital A/c	Dr		3500	
	(350 shares × ₹ 10)				
	To Share forfeiture A/c				1750
	(350 shares × ₹ 5)				
	To Shares' first call A/c				1050
	(350 shares × ₹ 3)				
	To Shares' second and final call A/c				700
	(350 shares × ₹ 2)				
	[Being forfeiture of 350 shares of Avadh for non-payment of share first call and share second and final call.]				
12-8-2017	Bank A/c	Dr		2450	
	(350 shares × ₹ 7)				
	Share forfeiture A/c	Dr		1050	
	(350 shares × ₹ 3)				
	To Equity share capital A/c				3500
	(350 shares × ₹ 10)				
	[Being reissue of 350 forfeited shares at ₹ 7 per share.]				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
12-8-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture account ₹ 700 (₹ 1750 credit – ₹ 1050 debit) transfer to capital reserve A/c]		700	 700
10(C) 14-9-2017	Equity share capital A/c Dr (1200 shares × ₹ 10) To Share forfeiture A/c (1200 shares × ₹ 7) To Shares final call A/c (1200 shares × ₹ 3) [Being forfeiture of 1200 shares of Dhrumal for non-payment of final call amount.]		12,000	 8400 3600
16-10-2017	Bank A/c Dr (800 shares × ₹ 5) Share forfeiture A/c Dr (800 shares × ₹ 5) To Equity share capital A/c (800 shares × ₹ 10) [Being reissue of 800 shares at a discount of ₹ 5 per share out of 1200 forfeited shares.]		4000 4000	 8000
16-10-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being transfer of proportionate credit balance of share forfeiture account in respect of 800 shares out of 1200 shares of Dhrumal to capital reserve A/c.] *Credit balance of share forfeiture is ₹ 8400 for 1200 shares. Out of this 800 shares are reissued, so proportionate credit balance of share forfeiture is ₹ 5600. From this subtract debit balance of share forfeiture ₹ 4000, credit balance of share forfeiture of ₹ 1600 transfer to capital reserve account. Credit balance of share forfeiture a/c of ₹ 2800 will continue on 400 shares, which are not reissued.		1600	 1600

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(D)				
1-8-2017	Equity share capital A/c Dr		7000	
	(700 shares × ₹ 10)			
	Securities premium A/c Dr		35,000	
	(700 shares × ₹ 50)			
	To Share forfeiture A/c			2100
	(700 shares × ₹ 3)			
	To Share allotment A/c			37,800
	(700 shares × ₹ 54)			
	To Shares final call A/c			2100
	(700 shares × ₹ 3)			
	[Being forfeited 700 shares of Hetansh for non-payment of amount on share allotment and share final call.]			
10-9-2017	Bank A/c Dr		17,500	
	(500 shares × ₹ 35)			
	To Equity share capital A/c			5000
	(500 shares × ₹ 10)			
	To Securities premium A/c			12,500
	(500 shares × ₹ 25)			
	[Being reissue of 500 share at ₹ 35 per share (including premium of ₹ 25) out of 700 forfeited shares.]			
10-9-2017	Share forfeiture A/c Dr		1500	
	To Capital reserve A/c			1500
	[Being transfer of proportionate amount of ₹ 1500 to capital reserve account on reissued 500 shares against credit balance of share forfeiture a/c of ₹ 2100 on 700 forfeiture shares.]			
	* Credit balance of share forfeiture account (700 shares × ₹ 3) = ₹ 2100			
	Less : Credit balance of share forfeiture a/c on reissued forfeited shares (500 shares × ₹ 3) = ₹ 1500			
	Balance of share forfeiture account will continue of balance 200 shares = ₹ 600			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
10(E)				
11-10-2017	Equity share capital A/c Dr		20,000	
	(2000 shares × ₹ 10)			
	To Share forfeiture A/c			10,000
	(2000 shares × ₹ 5)			
	To Shares' first call A/c			6000
	(2000 shares × ₹ 3)			
	To Shares' final call A/c			4000
	(2000 shares × ₹ 2)			
	[Being forfeiture of 2000 shares of Girish for non-payment of share first call and share final call.]			
4-11-2017	Bank A/c Dr		9600	
	(1200 shares × ₹ 8)			
	Share forfeiture A/c Dr		2400	
	(1200 shares × ₹ 2)			
	To Equity share capital A/c			12,000
	(1200 shares × ₹ 10)			
	[Being reissue of 1200 shares to Neel at ₹ 8 per share out of 2000 forfeited shares.]			
4-11-2017	Share forfeiture A/c Dr		3600	
	To Capital reserve A/c			3600
	[Being balance of share forfeiture for 1200 equity shares transfer to capital reserve A/c.]			
	Calculation :			
	Proportional amount of share forfeiture for 1200 shares ₹ 6000			
	Less : Amt. debited to share forfeiture A/c ₹ 2400			
	Capital reserve A/c ₹ 3600			
22-11-2017	Bank A/c Dr		5600	
	(800 shares × ₹ 7)			
	Share forfeiture A/c Dr		2400	
	(800 shares × ₹ 3)			
	To Equity share capital A/c			8000
	(800 shares × ₹ 10)			
	[Being reissue of balance 800 shares to Harsh at ₹ 7 per share out of 2000 forfeited shares.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
22-11-2017	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture A/c of 800 equity shares' transfer to capital reserve A/c.] Calculation : Proportional amount of share forfeiture for 800 shares ₹ 4000 Less : Amt. debited to share forfeiture A/c ₹ 2400 To capital reserve A/c ₹ 1600		1600	 1600

Illustration 11 : Naznin Textiles Limited issued 12,00,000 equity shares of ₹ 10 each. On which amount was payable as under :

On application ₹ 4 per share

On allotment ₹ 4 per share and

On final call ₹ 2 per share

Company received application for 15,50,000 equity shares from public. Excess applications were rejected and amount paid on application thereon was refunded.

Harun, who was allotted 8000 shares, had not paid allotment and final call amount.

Salim, who was allotted 2000 shares, had not paid amount on final call. Company forfeited shares of Harun and Salim and all the forfeited shares were reissued at ₹ 7.50 per share as fully paid up. All these shares were purchased by Shahrukh.

Pass necessary journal entries in the books of company to record above transactions and also prepare share forfeiture account.

Ans. :

Journal Entries in the Book of Naznin Textiles Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being amount received on 15,50,000 equity shares' application at ₹ 4 per share.]		62,00,000	 62,00,000
2	Equity share application A/c Dr To Equity share capital A/c To Bank A/c [Being application money on rejected 3,50,000 shares at ₹ 4 per share refunded to share applicants after alloting 12,00,000 shares.]		62,00,000	 48,00,000 14,00,000

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
3	Share allotment A/c	Dr		48,00,000	
	To Equity share capital A/c				48,00,000
	[Being allotment money at ₹ 4 per share due on 12,00,000 shares.]				
4	Bank A/c	Dr		47,68,000	
	Calls-in-arrears A/c	Dr		32,000	
	To Share allotment A/c				48,00,000
	[Being receipt of allotment money except on 8000 shares of Harun.]				
5	Shares final call A/c	Dr		24,00,000	
	To Equity share capital A/c				24,00,000
	[Being amount due on final call at ₹ 2 per share on 12,00,000 shares.]				
6	Bank A/c	Dr		23,80,000	
	Call-in-arrears A/c	Dr		20,000	
	To Shares' final call A/c				24,00,000
	[Being amount received on share final call except amount on 8000 shares of Harun and on 2000 shares of Salim.]				
7	Equity share capital A/c (10,000 shares × ₹ 10)	Dr		1,00,000	
	To Share forfeiture A/c (Paid by Harun (8000 × 4) 32,000 + Paid by Salim (2000 × 8) 16,000 = 48,000)				48,000
	To Calls-in-arrears A/c (on allotment ₹ 32,000 + on final call ₹ 20,000 = ₹ 52,000)				52,000
	[Being forfeited shares of Harun and Salim after final call.]				
8	Bank A/c (10,000 shares × ₹ 7.5)	Dr		75,000	
	Share forfeiture A/c (10,000 shares × ₹ 2.5)	Dr		25,000	
	To Equity share capital A/c (10,000 shares × ₹ 10)				1,00,000
	[Being reissue of 10,000 forfeited shares at ₹ 7.50 per share.]				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
9	Share forfeiture A/c Dr		23,000	
	To Capital reserve A/c			23,000
	[Being credit balance of share forfeiture account transfer to capital reserve account.]			
	* Credit balance of share forfeiture account ₹ 48,000 less debit balance ₹ 25,000 = ₹ 23,000 credit balance			
	Total		**2,70,23,000**	**2,70,23,000**

Note : Sometimes, when amount is not received on called amount on allotment or calls for shares, then amount which was not received, is transfered to 'Calls-in-Arrears A/c.' In case 'Calls-in-Arrears' account is maintained by a company, then at the time of forfeiture of shares, 'Calls-in-Arrears A/c' would be credited instead of respective calls account. Same effect is given in above illustration.

Share Forfeiture Account

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
8	To Equity share capital A/c		25,000	7	By Equity share capital A/c		48,000
9	To Capital reserve A/c		23,000				
			48,000				**48,000**

Illustration 12 : Dhyani Ceramic Limited issued 3,00,000 equity shares of ₹ 10 each at a premium of ₹ 150 per share. Amount called up per share was as under :

On application ₹ 74 (Including ₹ 70 for premium)

On allotment ₹ 44 and (Including ₹ 40 for premium)

On final call ₹ 42 (Including ₹ 40 for premium)

Company received application for 3,00,000 shares. All amounts due were received except final call on 2000 shares held by Vishal. Company forfeited Vishal's shares after carrying out necessary formalities and reissued those shares to Avani as full paid up at ₹ 80 per share.

Pass necessary journal entries for above transaction in the books of company and also prepare securities premium account.

Ans. :

Journal Entries in the Books of Dhyani Ceramic Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		2,22,00,000	
	To Equity share application A/c			2,22,00,000
	[Being receipt of share application money on 3,00,000 equity shares at ₹ 74 per share.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Equity share application A/c Dr To Equity share capital A/c To Securities premium A/c [Being transfer of ₹ 4 per share to share capital account and ₹ 70 per share to securities premium account out of total share application money on 3,00,000 alloted shares.]		2,22,00,000	 12,00,000 2,10,00,000
3	Equity share allotment A/c Dr To Equity share capital A/c To Securities premium A/c [Being allotment money of ₹ 44 per share (including premium of ₹ 40) due on 3,00,000 shares.]		1,32,00,000	 12,00,000 1,20,00,000
4	Bank A/c Dr To Equity share allotment A/c [Being receipt of full amount of share allotment.]		1,32,00,000	 1,32,00,000
5	Equity shares final call A/c Dr To Equity share capital A/c To Securities premium A/c [Being final call of ₹ 42 (including premium of ₹ 40) per share due on 3,00,000 shares.]		1,26,00,000	 6,00,000 1,20,00,000
6	Bank A/c Dr To Equity shares' final call A/c [Being receipt of share final call amount on 2,98,000 shares except 2000 shares of Vishal.]		1,25,16,000	 1,25,16,000
7	Equity share capital A/c Dr (2000 shares × ₹ 10) Securities premium A/c Dr (2000 shares × ₹ 40) To Share forfeiture A/c (2000 shares × ₹ 8) To Equity shares final call A/c (2000 shares × ₹ 42) [Being forfeiture of 2000 shares of Vishal for non-receipt of final call.]		20,000 80,000	 16,000 84,000

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
8	Bank A/c	Dr		1,60,000	
	To Equity share capital A/c				20,000
	(2000 shares × ₹ 10)				
	To Securities premium A/c				1,40,000
	(2000 shares × ₹ 70)				
	[Being reissue of 2000 shares at ₹ 80 per share.]				
9	Share forfeiture A/c	Dr		16,000	
	To Capital reserve A/c				16,000
	[Being balance of share forfeiture account transfer to capital reserve account.]				
		Total		**9,61,92,000**	**9,61,92,000**

In the Ledger of Dhyani Ceramic Limited

Securities Premium Account

Debit Credit

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
7	To Equity shares final call A/c		80,000	2	By Equity share application A/c		2,10,00,000
	To Balance c/d		4,50,60,000	3	By Equity shares allotment A/c		1,20,00,000
				5	By Equity shares' final call A/c		1,20,00,000
				8	By Bank A/c		1,40,000
			4,51,40,000				**4,51,40,000**

Illustration 13 : A limited company issued 18,00,000 equity shares of ₹ 10 each. Amount called up per share was as under :

₹ 3 per share on application ₹ 3 per share on first call

₹ 2 per share on allotment ₹ 2 per share on final call

All amounts due were received on due dates except from the following persons.

Ami, who was holding 1200 shares did not pay money due on allotment, first call and final call.

Rami, who was holding 800 shares did not pay money due on first call and final call.

Gami, who was holding 1600 shares did not pay amount due on final call.

After necessary formalities, all the shares of these three persons were forfeited and were reissued at ₹ 8 per share.

Write journal entries in the books of company for forfeiture and reissue of forfeited shares.

Ans. : Calculation of amount which is received and which is not received on shares forfeited.

(**Note :** Amount not received is shown in brackets.)

	No. of shares	On application ₹ 3 per share	On allotment ₹ 2 per share	On first call ₹ 3 per share	On final call ₹ 2 per share	Total Amt. Received (₹)
Ami	1200	3600	(2400)	(3600)	(2400)	**3600**
Rami	800	2400	1600	(2400)	(1600)	**4000**
Gami	1600	4800	3200	4800	(3200)	**12,800**
Amt. not received		–	(2400)	(6000)	(7200)	–
Amt. received →		10,800	4800	4800	–	**20,400**
Total no.of shares	3600					

Journal Entries in Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Equity share capital A/c Dr		36,000	
	(3600 shares × ₹ 10)			
	To Forfeited shares' A/c			20,400
	(Total amount received)			
	To Share allotment A/c			2400
	To Shares first call A/c			6000
	To Shares final call A/c			7200
	[Being total 3600 shares of Ami, Rami and Gami which were forfeited because of non-receipt of full amount due on shares.]			
2	Bank A/c Dr		28,800	
	(3600 shares × ₹ 8)			
	Forfeited shares' A/c Dr		7200	
	(3600 shares × ₹ 2)			
	To Equity share capital A/c			36,000
	(3600 shares × ₹ 10)			
	[Being reissue of forfeited shares at ₹ 8 per shares.]			
3	Forfeited share' A/c Dr		13,200	
	To Capital reserve A/c			13,200
	[Being balance of forfeited share a/c ₹ 13,200 (₹ 20,400 – ₹ 7200) transferred to capital reserve account.]			

Illustration 14 : Dipak Limited issued 5,00,000 equity shares of ₹ 10 each at a premium of ₹ 25 per share. Amount payable on shares was as under :

On application ₹ 13 per share (Including premium ₹ 10)

On allotment ₹ 17 per share (Including premium ₹ 15)

On first call ₹ 2 per share

On final call ₹ 3 per share

Applications were received for total 5,80,000 shares. Excess applications were rejected and amount paid thereon was refunded.

Anup, who was allotted 4000 shares, could not pay allotment money hence shares were forfeited after allotment.

Purvi, who was alloted 3000 shares, could not pay first call money and hence her shares were forfeited after first call.

Amount due on final call on remaining shares was received in full.

Pass necessary journal entries in books of company for recording above transactions.

Ans. :

Journal Entries in Books of Dipak Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		75,40,000	
	To Share application A/c			75,40,000
	[Being share application money received on 5,80,000 shares at ₹ 13 per share.]			
2	Share application A/c Dr		75,40,000	
	To Equity share capital A/c			15,00,000
	To Securities premium A/c			50,00,000
	To Bank A/c			10,40,000
	[Being ₹ 3 per share to share capital account and ₹ 10 per share to securities premium account on 5,00,000 allotted shares and refund ₹ 13 per shares on rejected 80,000 shares.]			
3	Share allotment A/c Dr		85,00,000	
	To Equity share capital A/c			10,00,000
	To Securities premium A/c			75,00,000
	[Being allotment money due on 5,00,000 shares at ₹ 17 per share (including ₹ 15 for premium)]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
4	Bank A/c	Dr		84,32,000	
	To Share allotment A/c				84,32,000
	[Being receipt of full amount of share allotment money on balance 4,96,000 shares except 4000 shares of Anup.]				
5	Equity share capital A/c	Dr		20,000	
	(4000 shares × ₹ 5)				
	Securities premium A/c	Dr		60,000	
	(4000 shares × ₹ 15)				
	To Share forfeiture A/c				12,000
	(4000 shares × ₹ 3)				
	To Share allotment A/c				68,000
	(4000 shares × ₹ 17)				
	[Being non receipt of allotment amount on 4000 shares of Anup, these shares were forfeited after allotment.]				
6	Shares first call A/c	Dr		9,92,000	
	To Equity share capital A/c				9,92,000
	[Being amount called on first call on 4,96,000 shares at ₹ 2 per share.]				
	* Due to forfeited 4000 shares of Anup, first call has not been called.				
7	Bank A/c	Dr		9,86,000	
	To Shares' first call A/c				9,86,000
	[Being receipt of full amount on share first call on balance 4,93,000 shares except 3000 shares of Purvi.]				
8	Equity share capital A/c	Dr		21,000	
	(3000 shares × ₹ 7)				
	To Share forfeiture A/c				15,000
	(3000 shares × ₹ 5)				
	To Shares first call A/c				6000
	(3000 shares × ₹ 2)				
	[Being non-receipt of first call amount on 3000 shares of Purvi, these shares were forfeited after first call.]				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
9	Shares final call A/c Dr		14,79,000	
	To Equity share capital A/c			14,79,000
	[Being amount due on final call on 4,93,000 shares at ₹ 3 per share.]			
10	Bank A/c Dr		14,79,000	
	To Shares final call A/c			14,79,000
	[Being receipt of full amount called on share final call.]			
	Total		**3,70,49,000**	**3,70,49,000**

Note : In transaction no. 9, final call on 4000 forfeited shares of Anup and 3000 shares of Purvi has not called.

14. Pro-rata Allotment of Shares

We have seen in previous point that, when the number of shares applied for is more than the number of shares offered for subscription by company is said to be over subscribed. In this situation, shares can be alloted by the company by any of the following alternatives :

(i) Full allotment of shares against shares applied by applicants. e.g. allotment of 500 shares to applicants of 500 shares.

(ii) Not a single share alloted to shares applicants against their application. e.g. not to allot single share to applicants of 200 shares.

(iii) Allotted shares in proportion to share applicants against their application. e.g. Allotment to 300 shares to applicants of 500 shares.

So, as per (iii) situation, some shares are allotted on pro-rata basis to share applicants against their share application.

In this situation, the excess amount received on application from applicants is utilised towards the even amount due on allotment. After this, even if there is any surplus amount, then it will be adjusted towards share calls. If still any surplus amount remains, then it will be refunded to share applicants. Let us understand the above points by following illustration.

Illustration 15 : Bharti Food Products Ltd. issued 80,000 equity shares to the public at ₹ 10 per share.

Company called up the amount as under :

On application ₹ 4 per share, on allotment ₹ 3 per share and on final call ₹ 3 per share.

Applications were received from public for 1,20,000 shares, its allotment was made by company as under :

Full allotment was made to applicants of 32,000 shares.

Not a single share was alloted to applicants of 24,000 shares.

48,000 shares were alloted to applicants of 64,000 shares.

All amounts were received in time. Pass journal entries in book of the company from above information.

Ans. :

Journal Entries in the Books of Bharti Food Product Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Equity share application A/c [Being application money received on 1,20,000 shares at ₹ 4 per share.]		4,80,000	 4,80,000
2	Equity share application A/c Dr To Equity share capital A/c (80,000 shares × ₹ 4) To Equity allotment A/c (16,000 shares × ₹ 4) To Bank A/c (24,000 shares × ₹ 4) [Being transfer share application money to equity share capital account for 80,000 alloted shares at ₹ 4 per share, refund money on 24,000 shares at ₹ 4 per share and excess amount of applicants of 16,000 shares to share allotment account at ₹ 4 per share.]		4,80,000	 3,20,000 64,000 96,000
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment money due on 80,000 shares at ₹ 3 per share.]		2,40,000	 2,40,000
4	Bank A/c Dr To Equity share allotment A/c [Being after deducting ₹ 64,000 of advance allotment money, balance amount fully received on allotment.]		1,76,000	 1,76,000
5	Shares' final call A/c Dr To Equity share capital A/c [Being amount due on final call at ₹ 3 per share.]		2,40,000	 2,40,000
6	Bank A/c Dr To Shares final call A/c [Being full amount is received on final call..]		2,40,000	 2,40,000
	Total		**18,56,000**	**18,56,000**

Calculation :

	Number of share application	Amount paid on application (₹)	Share allotted	Transfer to share application (₹)	Transfer to share allotment (₹)	Transfer to share final call (₹)	Amount refunded (₹)
	32,000	1,28,000	32,000	1,28,000	–	–	–
	24,000	96,000	–	–	–	–	96,000
	64,000	2,56,000	48,000	1,92,000	64,000	–	–
Total	**1,20,000**	**4,80,000**	**80,000**	**3,20,000**	**64,000**	–	**96,000**

Illustration 16 : Bhadresh Diamond Ltd. of Surat issued 3,00,000 equity shares of ₹ 10 per share. Amount called up on application at ₹ 3 per share, on allotment ₹ 2.50 per share, on first call at ₹ 2.50 per share and on final call at ₹ 2 per share.

Applications were received from public of 4,56,000 shares. Allotment of 3,00,000 shares was made pro-rata to 4,50,000 applicants. Application for 6000 shares were rejected. Full amounts were received from all shareholders except from a shareholder named Daxa. Daxa who was allotted 600 shares, did not pay final call money. Her shares were forfeited. Total shares of Daxa were reissued as fully paid up at ₹ 9 per share.

Pass journal entries in the books of company for the above transactions.

Ans. :

Journal Entries in the Book of Bhadresh Diamond Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		13,68,000	
	To Equity share application A/c			13,68,000
	[Being application money received on 4,56,000 shares at ₹ 3 per share.]			
2	Equity share application A/c Dr		13,68,000	
	To Equity share capital A/c (3,00,000 shares × ₹ 3)			9,00,000
	To Equity share allotment A/c (1,50,000 shares × ₹ 3)			4,50,000
	To Bank A/c (6000 shares × ₹ 3)			18,000
	[Being form application money, amount transfer to share capital account of allotted shares, excess amount of share application transfer to share allotment account and amount refunded to applicants of 6000 shares.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
3	Equity share allotment A/c Dr To Equity share capital A/c [Being allotment amount due on 3,00,000 shares at ₹ 2.50 per share.]		7,50,000	 7,50,000
4	Bank A/c Dr To Equity share allotment A/c [Being amount received on share allotment.]		3,00,000	 3,00,000
5	Equity shares first call A/c Dr To Equity share capital A/c [Being first call amount due on 3,00,000 shares at ₹ 2.50 per share.]		7,50,000	 7,50,000
6	Bank A/c Dr To Equity shares first call A/c [Being full amount received on amount due on first call.]		7,50,000	 7,50,000
7	Equity shares final call A/c Dr To Equity share capital A/c [Being final call amount due on 3,00,000 shares at ₹ 2 per share.]		6,00,000	 6,00,000
8	Bank A/c Dr To Shares' equity shares final call A/c [Being amount received on final call except 600 shares of Daxa at ₹ 2 per shares total ₹ 1200.]		5,98,800	 5,98,800
9	Equity share capital A/c Dr (600 shares × ₹ 10) To Share forfeiture A/c (600 shares × ₹ 8) To Final call A/c (600 shares × ₹ 2) [Being forfeited 600 shares of Daxa.]		6000	 4800 1200
10	Bank A/c (600 shares × ₹ 9) Dr Share forfeiture A/c (600 shares × ₹ 1) Dr To Equity share capital A/c [Being reissue of 600 forfeited shares of Daxa.]		5400 600	 6000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
11	Share forfeiture A/c Dr To Capital reserve A/c [Being balance of share forfeiture account transfer to capital reserve account.]		4200	4200
	Total		**65,01,000**	**65,01,000**

Illustration 17 : Nupur Limited issued 5,00,000 equity shares of ₹ 10 each at a premium of 100 %. Amount called up per share is as under :

On application ₹ 5

On allotment ₹ 2 + premium

On first and final call ₹ 3

Applications were received two and half times. Out of which $\frac{2}{5}$th share applications were rejected fully and pro-rata allotment was made to the remaining applications. Excess application money were credited to allotment money and still if any surplus then credited to share calls.

Write necessary journal entries in the books of Nupur Limited.

Ans. :

Calculation : 100 % premium on ₹ 10 per share means ₹ 10.

Total application received	**Share allotment**	
$12,50,000 \times \frac{2}{5} = 5,00,000$	–	
7,50,000	5,00,000	(3:2 ratio)
12,50,000	5,00,000	

Working of amount received by company on allotment :

Amount received on application [7,50,000 shares × ₹ 5] = ₹ 37,50,000

Less : Application amount of allotted shares
Amt. [5,00,000 shares × ₹ 5] = ₹ 25,00,000

Surplus amount transfer to share allotment = $\boxed{₹ 12,50,000}$

- Amount called on share allotment [5,00,000 shares × ₹ 12] = ₹ 60,00,000

Less : Advance amount received on share allotment = ₹ 12,50,000

Amount received on share allotment = $\boxed{₹ 47,50,000}$

Journal Entries in the Books of Nupur Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		62,50,000	
	To Equity share application A/c			62,50,000
	[Being amount received on 12,50,000 shares at ₹ 5 per share for application.]			
2	Equity share application A/c Dr		62,50,000	
	To Equity share capital A/c (5,00,000 shares × ₹ 5)			25,00,000
	To Equity share allotment A/c (Surplus amount)			12,50,000
	To Bank A/c (Refund to applicants)			25,00,000
	[Being amount on 5,00,000 allotted shares to share capital account, surplus amount to share allotment account where amount refunded on 5,00,000 rejected shares to applicants.]			
3	Equity share allotment A/c Dr		60,00,000	
	To Equity share capital A/c			10,00,000
	To Securities premium A/c			50,00,000
	[Being amount called on 5,00,000 shares at ₹ 12 per share (including premium of ₹ 10.]			
4	Bank A/c Dr		47,50,000	
	To Equity share allotment A/c			47,50,000
	[Being amount received for share allotment.]			
5	Equity first and final call A/c Dr		15,00,000	
	To Equity share capital A/c			15,00,000
	[Being amount called on 5,00,000 shares at ₹ 3 per share.]			
6	Bank A/c Dr		15,00,000	
	To Equity first and final call A/c			15,00,000
	[Being amount received on call.]			
	Total		**2,62,50,000**	**2,62,50,000**

- **For Opening Share Application and Allotment Account :**

Now-a-days it is a practice to keep a common account for application and allotment instead of two separate accounts. In such a case a joint account named "Share Application and Allotment Account" is opened. Then all entries relating to application and allotment are made in this account.

When a joint account is maintained, the journal entries are recorded in the following manner :

(i) **On receipt of application money :**

Bank A/c ...Dr To share application and allotment A/c	[No. of shares applied × Application money per share]

(ii) **On transfer of application money to share capital and allotment money due :**

Share application and allotment A/c ...Dr To share capital A/c	[No. of shares allotted × (Application money per share + Allotment money per share)]

(iii) **On refund of money to applicants on rejected applications :**

Share application and allotment A/c ...Dr To bank A/c	[No. of shares rejected × Application money per share]

(iv) **On receipt of allotment money :**

Bank A/c ...Dr To share application and allotment A/c	[Actual amount received from shareholders on allotment.]

Illustration 18 : The authorised capital of Sanjay Limited of Patan is 1,60,000 shares of ₹ 5 each. On April 3, 2017, company issued 1,20,000 shares at a premium of ₹ 200 per share to public. Amount payable per share was as follows :

On application	₹ 102 per share (including premium of ₹ 100)
On allotment	₹ 103 per share (including premium ₹ 100) (As on May 1, 2017)

Upto April 5, 2017, company received application for 1,84,000 shares from public, from these applications 4000 shares were rejected and on balance share application 1,20,000 shares were allotted.

All called up amount were received in proper time. Company maintains the combined 'Share application and allotment account'.

Journalise the above mentioned transactions.

Ans. : Calculation :

	(₹)
Total amount received on share application (1,84,000 shares × ₹ 102)	1,87,68,000
Less : Amount on rejected share application (4000 shares × ₹ 102)	4,08,000
	1,83,60,000
Less : Amount of share application on allotted shares (1,20,000 shares × ₹ 102)	1,22,40,000
	61,20,000
Amount due on share allotment (1,20,000 shares × ₹ 103)	1,23,60,000
Less : Advance of allotment	61,20,000
Amount received on allotment	**62,40,000**

Journal Entries in the Books of Sanjay Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 April, 5	Bank A/c Dr To Share application and allotment A/c [Being application money received on 1,84,000 shares at ₹ 102 per share.]		1,87,68,000	1,87,68,000
May, 1	Share application and allotment A/c Dr To Share capital A/c (1,20,000 shares × ₹ 5) To Securities premium A/c (1,20,000 shares × ₹ 200) [Being application amount on allotted shares at ₹ 2 per share and amount called on allotment at ₹ 3 per share transfer to share capital account, where amount on application ₹ 100 per share and called up amount on allotment ₹ 100 per share transfer to securities premium account.]		2,46,00,000	6,00,000 2,40,00,000
May, 1	Share application and allotment A/c Dr To Bank A/c [Being amount refunded on rejected application of 4000 shares at ₹ 102 per share.]		4,08,000	4,08,000
May, 1	Bank A/c Dr To Share application and allotment A/c [Being balance amount received on amount due on allotment (as per working).]		62,40,000	62,40,000
	Total		**5,00,16,000**	**5,00,16,000**

15. Issue of Shares for Consideration Other Than Cash

Usually, when company issue shares, it gets cash against such issue of shares. However, in some circumstances, company does not get cash against issue of shares. Such situations could be as under :

(i) When company does not pay cash and issues shares for purchases of any assets or business.

(ii) When company issues shares in lieu of remuneration payable to promoters.

(iii) When company issues shares towards under-writing commission to underwriters.

(iv) When company issues bonus shares to existing shareholders.

Note : Shares issued for consideration other than cash has to be shown separately in balance sheet of company under the heading 'Share capital'.

(i) Shares issued against purchase of assets or business :

When company purchases any assets or purchases any business, it may issue shares against consideration instead of giving cash. e.g. company issued some of equity shares in consideration of machinery purchased of ₹ 2,00,000. Here, following journal entries are made.

(I)

Machinery A/c ...Dr	2,00,000	
To Vendor's A/c		2,00,000

(II)

Vendor's A/c ...Dr	2,00,000	
To Equity share capital A/c		2,00,000

If company issues equity shares of ₹ 1,50,000 and balance amount by cheque in consideration of machinery purchased of ₹ 2,00,000, the entry will be as under :

Vendor's A/c ...Dr	2,00,000	
To Equity share capital A/c		1,50,000
To Bank A/c		50,000

When company purchases any business and shares are issued for consideration then, if value of issued shares is higher than the net assets of business, the amount of difference is transferred to 'Goodwill account', but if the value of issued shares is less than the net assets of business, the difference is transferred to 'Capital Reserve Account'.

Illustration 19 : Aakash Limited issued 8,00,000 equity shares of ₹ 10 each towards purchase of business of Patel Brothers. Company purchased following assets and liabilities of the firm.

	(₹)		(₹)
Land and building	28,00,000	Creditors	8,00,000
Plant and machinery	16,00,000	Stock	8,00,000
Vehicles and furniture	20,00,000	Bills receivable	8,00,000
Debtors	4,00,000		

Write journal entries in the books of company.

If company issue 3,50,000 shares of ₹ 10 each at a premium of ₹ 10 per share towards purchase of business of Patel Brother, then pass journal entries in the books of company.

Ans. : Net assets of business purchased by the company shall be calculated as under :

	(₹)
Land and building	28,00,000
Plant and machinery	16,00,000
Vehicles and furniture	20,00,000
Debtors	4,00,000
Stock	8,00,000
Bills receivable	8,00,000
	84,00,000
Less : Creditors	8,00,000
Net assets	76,00,000

Purchase consideration = 8,00,000 equity shares × ₹ 10 = ₹ 80,00,000

Purchase consideration − Net assets = Goodwill

₹ 80,00,000 − ₹ 76,00,000 = ₹ 4,00,000

Journal Entries in the Books of Aakash Ltd.

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Land and building A/c	Dr		28,00,000	
	Plant and machinery A/c	Dr		16,00,000	
	Vehicle and furniture A/c	Dr		20,00,000	
	Debtors A/c	Dr		4,00,000	
	Stock A/c	Dr		8,00,000	
	Bills receivable A/c	Dr		8,00,000	
	Goodwill A/c	Dr		4,00,000	
	To Creditors A/c				8,00,000
	To Patel Brothers A/c				80,00,000
	[Being purchase of business of Patel Brothers' firm.]				
2	Patel Brothers A/c	Dr		80,00,000	
	To Equity share capital A/c				80,00,000
	[Being issue of 8,00,000 equity shares of ₹ 10 each against purchase consideration.]				

Here, if company issues 3,50,000 shares, face value of share is ₹ 10 at a premium of ₹ 10 per share to Patel Brother then,

Purchase consideration	=	3,50,000 shares × ₹ 10 = (share capital A/c)	₹ 35,00,000
		3,50,000 shares × ₹ 10 = (premium A/c)	₹ 35,00,000
		Total purchase consideration	₹ 70,00,000

Net assets = ₹ 76,00,000

New assets − Purchase consideration = Capital reserve

₹ 76,00,000 − ₹ 70,00,000 = ₹ 6,00,000

Journal Entries in the Books of Aakash Ltd.

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Land and building A/c	Dr		28,00,000	
	Plant and machinery A/c	Dr		16,00,000	
	Vehicles and furnitue A/c	Dr		20,00,000	
	Debtors A/c	Dr		4,00,000	
	Stock A/c	Dr		8,00,000	
	Bills receivable A/c	Dr		8,00,000	
	To Creditors A/c				8,00,000
	To Capital reserve A/c				6,00,000
	To Patel Brothers A/c				70,00,000
	[Being purchase of business of Patel Brothers' firm.]				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	Patel Brothers A/c Dr To Equity share capital A/c To Securities premium A/c [Being issue of 3,50,000 shares of ₹ 10 each, with a premium of ₹ 10 per share against purchase consideration.]		70,00,000	 35,00,000 35,00,000

(ii) Company may issue shares as remuneration to promoters or others who render their services :

Sometimes, company issues shares to its promoters for their services. Similarly, company may issue shares towards remuneration to other persons who render managerial services or any other services.

For example, company issue 12,000 equity shares of ₹ 10 each to its promoter for his services. In this case, the journal entry will be as under :

Incorporation or formation expenses A/c ...Dr	1,20,000	
To Equity share capital A/c		1,20,000

For example, company issue equity shares of ₹ 80,000 towards remuneration to a person who render services for company, in such case the journal entry will be as under :

Remuneration to respective service A/c ...Dr	80,000	
To Equity share capital A/c		80,000

(iii) Issue of shares to underwriters towards underwriting commission :

Public company issues their shares in the public after getting certificate of incorporation. As per company act, at least 90 % subscription should be received from the issued shares. It is known as minimum subscription.

If company does not receive minimum subscription, company can not commence business or total subscription would be cancelled. To avoid such situation, underwriting agreement is entered into so that if shares are not fully subscribed, the brokers underwriting the shares will purchase the remaining shares. For this work, underwriters are paid some fixed commission.

Sometimes, such commission is given by issue of shares instead of paying the same in cash. In such case, journal entry in the books of company shall be passed as under :

(I) When liability to pay commission to underwriters has been deceided,

Underwriting commission A/c ...Dr	....	
To Underwriters A/c		....

(II) When company pays such commission by issue of shares,

Underwriters A/c ...Dr	....	
To Equity share capital A/c		....

(iv) Issue of bonus shares to existing shareholders :

Shares issued without any consideration by a company to its present shareholders out of accumulated profits are known as bonus shares. The following two journal entries are written when bonus shares are issued by company :

(I) For providing for bonus out of general reserve or profit and loss account,

General reserve A/c ...Dr	....	
Profit and loss A/c ...Dr	....	
To Bonus to shareholder's A/c		....

(II) For issue of bonus shares,

Bonus to sharesholder's A/c ...Dr	....	
To Equity share capital A/c		....

Important notes : Following,

(i) Point no. 16 is given here only for information for the students. Items related to share capital in balance-sheet of company is presented here. This point is not expected for examination.

(ii) In point no. 17, some important issues are given here only with the object that students can know present scenario of this chapter. This point (information) is also not expected for examination.

16. Presentation of Share Capital in Company's Vertical Balance Sheet

As per schedule III of Companies Act, 2013, share capital is to be disclosed in a company's balance sheet in the following manner.

Company's Balance Sheet of .... Company as on ....

Particulars	**Note No.**	**Amount current year (₹)**	**Amount previous year (₹)**
1. Equity and Liabilities :			
Shareholder's Fund :			
(a) Share capital	1	....	....
(b) Reserve and surplus	2	....	....
(c) Money received against share warrants		....	....
Non-current Liabilities :			
Current Liabilities :			
Other Current Liabilities :			
Balance of calls-in-advance		....	....

As per schedule III disclosure requirements pertaining to share capital are to be provided in notes to accounts.

Notes to Accounts :

(1) **Share Capital :**

	(₹)	(₹)
Authorised Capital :		
.... equity shares of ₹ .... each	....	
.... preference shares of ₹ .... each	....	....
Issued Capital :		
.... equity shares of ₹ .... each	....	
.... preference shares of ₹ .... each	....	....
Subscribed Capital :		
Subscribed and Fully Paid Capital :		
.... equity shares of ₹ .... each	....	
.... preference shares of ₹ .... each	....	
(Of the above shares .... shares are allotted as fully paid up pursuant to a contract without payments being received in cash.)		
Subscribed But Not Fully Paid Capital :		
.... shares of ₹ .... each		
₹ .... per share called-up ₹		
Less : Calls in arrears :		
(i) By directors and officers of the company ₹		
(ii) By others ₹		
Add : Forfeited shares ₹	....	....

(2) **Reserve and Surplus :**

	(₹)	(₹)
Securities premium reserve	....	
Capital reserve	....	
		....

17. Some Important Issues

(1) **Preferential Allotment :** Preferential allotment means allotment of shares at a predetermined price to the pre-identified people. Here preferential people means who are interested in taking a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of company's products or its suppliers. The company is required to pass special resolution in the meeting of shareholders before proceeding with preferential allotment.

(2) Sweat Equity Shares : A company may issue sweat equity shares as per sec. 54 of Companies Act, 2013. Sweat equity shares means equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available intellectual property rights.

The issue of such shares is authorised by a special resolution passed by the company. The class of such shares should be of the class already issued earlier. The resolution so passed should specify the number of shares issued, what is current market price of it, how much consideration is decided against this issue, if any other matter and classes of directors or employees to whom such shares are to be issued.

If this type of shares are listed on a stock exchange then it should be issued in accordance with the regulations made by the SEBI. Company may issue this type of shares at a price lower than the nominal value of equity share. Such shares cannot be resold by their holders within a period of 3 years from the date of shares received, this is called lock-in-period.

The entries for issue of sweat equity shares are the same as for issue of other equity shares.

(3) Employees Stock Option Plan - ESOP : Employees Stock Option Plan means option granted by the company to its employees and to subscribe the shares at a price that is lower than the market price, i.e. fair value. It is option or right granted by the company in good faith but it is not an obligation on the employee to subscribe it. The employees may or may not exercise the option.

These shares are of the same class of shares already issued. It is authorised by a special resolution passed by the company. Employees stock option plan is a category of sweat equity shares.

(4) Applications Supported by Blocked Amount - ASBA : ASBA is a process developed by the Indian stock market regulator SEBI for applying to IPO. In ASBA, an IPO applicant's account doesn't get debited until shares are allotted to them.

Earlier Qualified Institutional Buyers (QIBs) were not allowed to participate in IPOs through ASBA facility.

Currently as per SEBI guidelines, non-retail investors i.e. Qualified Institutional Buyers and Non-institutional Investors, making application in public/rights issue shall mandatory make use of ASBA facility.

ASBA process facilitates retail individual investors bidding at a cut-off, with a single option, to apply through Self Certified Syndicate Banks (SCSBs), in which the investors have bank accounts. SCSBs are those banks which satisfy the conditions laid by SEBI. SCSBs would accept the applications, verify the application, block the fund to the extent of bid payment amount, upload the details in the web based bidding system of NSE, unblock once basis of allotment is finalized and transfer the amount for all shares to the issuer.

ASBA means "Applications Supported by Blocked Amount". ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money on allotted shares shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized or when shares is not allotted, then control on block amount is withdrawn.

ASBA is stipulated by SEBI and available from most of the banks operating in India. This allows the investors money to remain with the bank till the shares are allotted after the IPO. This amount cannot be utilised by applicants. When shares are allotted only then required amount is transfered out of the investors account to the company's account. This eliminates the need for refunds on shares not being allotted.

In present scenario, investors may submit their ASBA applications to these SCSBs in order to apply for public issues. The list of SCSBs include banks likes Axis Bank, HDFC Bank, ICICI Bank, State Bank of India, Punjab National Bank, IDBI Bank and others.

There is no difference in both the methods of application, by ASBA and without ASBA for allotment of shares.

EXERCISE

1. Select right answer for each question :

(1) At what minimum price per share company can issue shares according to current provisions of Companies Act ?

(a) ₹ 100 (b) ₹ 1000

(c) ₹ 1 (d) ₹ 0.50

(2) For public issue of shares company has to take a permission from whom ?

(a) Central government (b) SEBI

(ca) State government (d) Reserve Bank

(3) As per SEBI guidelines, the minimum amount on each share called by company on application must be at least .... % of the issue price.

(a) 25 (b) 30

(c) 5 (d) 20

(4) If the company does not receive subscription for at least .... of the public issue, then share issue would be cancelled.

(a) 50 % (b) 75 %

(c) 90 % (d) 100 %

(5) At what maximum rate of percentage for premium on the face value of shares can be declared by the company on their issue shares ?

(a) 10 % (b) 100 %

(c) 25 % (d) No limit

(6) When shares are forfeited then amount called up on forfeited shares is ....

(a) debited to share forfeiture A/c (b) credited to share forfeiture A/c

(c) credited to share capital A/c (d) debited to share capital A/c

(7) What is the maximum rate of interest charged by company on calls-in-arrears as per schedule I of Table F ?

(a) at 15 % p.a. (b) at 10 % p.a.

(c) at 2 % p.m. (d) at 1 % p.m.

(8) When all the forfeited shares are reissued then balance of share forfeiture account is transfered to .... account.

(a) share capital (b) profit-loss

(c) capital reserve (d) general reserve

(9) If premium amount has not been received on forfeited shares then proportionate amount of premium is ....

(a) debited to securities premium account

(b) credited to securities premium account

(c) credited to capital reserve account

(d) debited to share capital account

(10) Which of the following is not shown under the heading 'Share Capital' in a balance sheet ?

(a) Authorised capital (b) Issued capital

(c) Reserve capital (d) Subscribed capital

2. Write answer in two or three sentences :

(1) What is share and share capital ?

(2) What is securities premium ?

(3) What is meant by share forfeiture ?

(4) In which circumstances do companies issue shares for consideration other than cash ?

(5) Under which circumstances do companies issue shares for consideration other than cash ?

(6) What is under-subscription and over-subscription of shares ?

(7) What is pro-rata allotment of shares ?

(8) Give any two uses of amount of securities premium reserve.

3. Give differences :

(1) Over-subscription and under-subscription

(2) Preference share and equity share

(3) Reserved capital and capital reserve

4. Give answer of the following questions in detail :

(1) What do you mean by share capital ? State the types of share capital.

(2) What is a share ? State the types of shares.

(3) Explain in details the method of issuing shares by private placement.

(4) Write a short note on calls-in-arrears.

(5) What is meant by calls-in-advance ? State the provisons of it under companies act.

(6) What is meant by securities premium ? State the points to be kept in mind relating to securities premium.

5. Vaidya Limited of Nadiad company issued 7,50,000 equity shares of ₹ 10 each and the amount thereon was payable as under :

₹ 3 per share on application

₹ 4 per share on allotment

₹ 3 per share on first and final call

Company received applications for 7,50,000 shares and all the applicants were allotted shares. Amounts due on allotment and calls were called at appropriate time and were all received on due dates.

Pass journal entries for above transactions in the books of company.

6. Authorised capital of Mewada Ltd. of Himatnagar was divided into 4,00,000 equity shares of ₹ 10 each. Out of this, company issued 3,00,000 equity shares. Amount called up per share was as under :

₹ 4 on application

₹ 3 on allotment

₹ 3 on final call

Company received applications for 3,60,000 shares. Excess applications were rejected and money paid thereon was refunded to applicants. All the sums due on allotment and final call were received in full except final call on 2000 equity shares held by Aasha.

Pass journal entries in the books of company to record above transactions. Also prepare equity share capital account, equity share application account, equity share allotment account and equity share final call account.

7. Pagedar Sugar Limited of Nagpur issued 12,00,000 equity shares in the public of ₹ 10 each. Company received applications for 13,50,000 shares. Shares were allotted at a meeting of board of directors. Excess share applications were rejected and amount received thereon was refunded.

Amount called up against shares was as under :

On application ₹ 2.50 per share

On allotment ₹ 2.50 per share

On first call ₹ 2 per share

On final call ₹ 3 per share

Aishwarya, who was allotted 960 shares, could not pay first call and final call money, where Vinay, who was allotted 1200 shares, could not pay final call money. Except this, all sums due from other shareholders were received. Aishwarya and Vinay had paid their arrears amount to company afterwards. Pass necessary journal entries to record above transactions in the books of company without giving effect of interest.

8. Chaudhari Agro Company of Vyara issued 5,00,000 equity shares of ₹ 10 each to public. Company called ₹ 3 per share on application, ₹ 4 per share on allotment and ₹ 3 per share on first and final call.

Company received application for 5,75,000 equity shares from public. Excess applications were rejected and money paid on them was refunded.

Viral, who had applied for 2000 shares, had paid full amount ₹ 10 per share along with application. Company had allotted him all the shares applied for. Yagnesh, who was allotted 2500 shares, had paid amount due on first and final call along with share allotment money. Except this, amount due on allotment and calls were duly received from time to time.

Pass necessary journal entries in the books of company for above transactions.

9. Nanavati Limited of Junagadh issued 3,00,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. Amount was called up as under :

On application ₹ 4 per share

On allotment ₹ 8 per share (including premium)

On final call ₹ 3 per share

Company received application for 3,50,000 shares. Excess applications were rejected and money paid thereon was refunded to applicants. All the sums due were received in full except allotment and final call on 3000 equity shares held by Ishira.

Pass journal entries in books of company.

10. Vala Manuf. Limited of Dhandhuka issued 4,00,000 equity shares of ₹ 10 each at a premium of ₹ 60 per share. Amount was called up per share as under :

On application ₹ 23 (including premium ₹ 20)

On allotment ₹ 34 (including premium ₹ 30)

On final call ₹ 13 (including premium ₹ 10)

Company received applications for 6,00,000 shares. Excess applications were rejected and money paid thereon was refunded. Amount due on allotment and final call were called up in time. All amounts due on allotment and call were received except allotment and final call money on 500 shares held by Himmatbhai and final call money on 300 shares held by Hima.

Pass necessary journal entries in books of company for above transactions.

11. Authorised capital of Mansuri Limited of Dahod was 7,00,000 equity shares of ₹ 10 each. On 4th July, 2017, company issued 4,50,000 equity shares at a premium of ₹ 16 per share for public subscription. Amount was called up for share as under.

On 4th July, 2017 ₹ 10 per share (including premium of ₹ 6 per share) with application.

On 4th August, 2017 ₹ 14 per share (including premium of ₹ 10 per share) with allotment.

On 4th September, 2017 ₹ 2 per share with first and final call.

The subscription was closed on 6th July, 2017 as it was fully subscribed. Board of directors allotted all the shares of share application.

Abdul holding 600 shares did not pay money due on allotment and first and final call. Where, Harun holding 400 shares had not paid first and final call money.

Except this, all the sums due were received by the following dates.

Share allotment money by 7th August, 2017.

Share first and final call money by 7th September, 2017.

Pass necessary journal entries except for cash in the books of company for above transactions and also prepare bank account.

12. Write journal entries in the books of company for forfeiture and reissue of forfeited shares from the following information :

(i) Company forfeited 800 equity shares of ₹ 10 each of a shareholder for non-payment of allotment money of ₹ 4 per share and call money of ₹ 3 per share. This shareholder had paid ₹ 3 per share with application. Forfeited shares were reissued at ₹ 8 per share.

(ii) R. K. Company Limited forfeited 600 shares of ₹ 10 each of Sunil. Sunil had paid application and allotment money of ₹ 5 per share, but had not paid ₹ 3 per share and ₹ 2 per share on first call and second call respectively. Out of the forfeited shares, 400 shares were reissued at ₹ 6 per share to Mittal.

(iii) A shareholder holding 3000 equity shares of ₹ 10 each has paid application money at ₹ 13 per share (including premium ₹ 10) and allotment money at ₹ 13 per share (including premium ₹ 10), his shares were forfeited for non-payment of call of ₹ 4 per share. Forfeited shares were reissued at ₹ 7 per share.

13. Write journal entries in the books of company for forfeiture and reissue of forfeited shares from the following information :

(i) Company forfeited 1200 equity shares of ₹ 10 each held by Katara for non-payment of allotment money of ₹ 14 per share (including premium ₹ 10) and first and final call money of ₹ 3 per share. Company reissued all the forfeited shares after giving maximum permissible discount. These shares were purchased by Kanu.

(ii) Ramesh holds 600 equity shares of ₹ 10 each in company. He had paid application money at ₹ 3 per share and allotment money at ₹ 2.50 per share but could not pay first call money of ₹ 2 per share. Company forfeited above shares before making final call after necessary formalities. Company reissued all these shares at a discount of ₹ 4 per share.

(iii) Company forfeited 400 equity shares of ₹ 100 each, issued at a premium of 20 % on face value. ₹ 80 per share (including premium) are called up on these shares. For non-payment of allotment money at ₹ 50 (including premium) these shares were forfeited before making share first and final call. These shares reissued before first and final call at ₹ 36,000 as fully paid up.

14. Raj Machine Limited issues 12,00,000 equity shares of ₹ 10 each on which amount was payable as under :

₹ 3 per share on application

₹ 4 per share on allotment

₹ 3 per share on first and final call

Company received application for 14,70,000 shares from public. Excess applications were rejected and money paid on them was refunded.

Aakash, who was allotted 2000 shares, did not pay allotment and final call money. Sunny, who was allotted 1200 shares, did not pay final call money.

Company forfeited all the shares on which calls were unpaid and reissued all forfeited shares at ₹ 7 per share as fully paid up.

Pass necessary journal entries in the books of company for above transactions.

15. Rustom Limited of Valsad issued 2,40,000 equity shares of ₹ 10 each at a premium of ₹ 70 per share. Amount called up per share was as under :

₹ 38 on application (including premium of ₹ 35)

₹ 28 on allotment (including premium of ₹ 25)

₹ 14 on final call (including premium of ₹ 10)

All the sums due were duly received except money due on allotment and final call on 2000 shares held by Jahangir. After carrying out necessary formalities, company forfeited Jahangir's shares. These shares were reissued to Joshef at 40 % premium as fully paid up.

Pass journal entries for above transactions in the books of company.

16. Dharam Metals Ltd. of Jamnagar issued 8,00,000 equity shares of ₹ 10 each at a premium of ₹ 30 per share. The amount was payable as under :

₹ 13 (including premium of ₹ 10) per share on application

₹ 23 (including premium of ₹ 20) per share on allotment

₹ 4 per share on final call

Company received share application for 8,00,000 shares and all the applications were allotted shares. Vipul, who was allotted 1500 shares, did not pay money due on allotment and hence his shares were forfeited by company after allotment. Company reissued all these 1500 shares before final call at ₹ 5 per share.

Hema, who was allotted 500 shares, did not pay money due on final call and therefore her shares were forfeited by company. Company reissued these 500 shares at maximum permissible discount.

Pass journal entries for above transactions in the books of company.

17. Siddhapur Isabgul Limited issued 6,00,000 equity shares of ₹ 10 each at a premium of ₹ 7 per share. The amount was payable as under :

₹ 10 per share on application (including premium)

₹ 4 per share on allotment

₹ 3 per share on final call

Applicaitons were received for 9,00,000 shares. Excess applications were rejected and money paid thereon was refunded.

Siddharaj, who was allotted 6000 shares, did not pay money due on allotment and hence his shares were forfeited after allotment. Jaysinh, who was allotted 4000 shares, did not pay money due on final call and hence his shares were forfeited after final call. Allotment and final call amount was received on remaining shares.

Company reissued 6000 shares of Siddharaj at ₹ 7 per share to Minal and 4000 shares of Jaysinh at ₹ 6 per share to Rudra.

Pass necessary journal entries in the books of company to record above transactions and also prepare shares forfeiture account.

18. Kapoor Media Limited issued 1,20,000 equity shares of ₹ 10 each at a premium of ₹ 80 per share for public subscription. Company called up the amount including share premium in four equal installments it means on application, on allotment, on first call and on final call.

Company received application for 1,60,000 equity shares. Excess applications were rejected and money paid thereon was refunded.

Shahid, who was holding 4000 shares, failed to pay first call and final call on shares held by him. His shares were forfeited after due formalities.

These forfeited shares were issued to Ranbir at a premium of ₹ 70 per share and the amount on this was received by the company.

Write necessary journal entries in the books of company to record above transactions and also prepare securities premium account.

19. Sheetal Electronics Limited issued 1,20,000 equity shares to the public at ₹ 10 per share. Company called up the amount as under :

On application ₹ 3 per share

On allotment ₹ 3 per share and on final call ₹ 4 per share

Applications were received from public for 1,80,000 shares, in this reference allocation was made by company as under :

Full allotment was made to applicants of 48,000 shares.

Not a single share was allotted to applicants of 36,000 shares.

72,000 shares were allotted to applicants of 96,000 shares.

All amounts were received in time. From the above information, pass necessary journal entries in the books of the company.

20. Gujarat Fertilizers Ltd. of Bharuch issued 4,50,000 shares of ₹ 10 per share. Amount called up on application ₹ 3 per share, on allotment ₹ 3 per share, on first call ₹ 2 per share and on final call ₹ 2 per share.

Applications were received from public of 6,20,000 shares. Allotment of 4,50,000 shares was made pro-rata to 5,40,000 share applicants. Amount paid on applications by remaining applicants were refunded by company.

Mahesh, to whom 1000 shares were allotted failed to pay the final call, his shares were forfeited and all these shares were reissued at ₹ 5 per share.

Pass journal entries for the above transactions in the books of company.

21. Sharda Limited issued 6,00,000 equity shares at ₹ 10 each, at a premium of ₹ 4 per share.

Amount called up per share is as under :

On application ₹ 4

On allotment ₹ 3 + premium

On share first and final call ₹ 3

Subscription were received 3.5 times, out of which $\frac{4}{7}$th the share applications were rejected fully and pro-rata allotment was made to the remaining applicants. Excess application money were credited to share allotment and share calls.

Write the necessary journal entries in the books of Sharda Limited.

22. The authorised capital of Shubha Limited of Mumbai is 18,00,000 shares of ₹ 1 each. Company issued 12,00,000 shares at a premium ₹ 580 per share to public. Amount payable on this was as under :

On application ₹ 290.50 per share (including premium of ₹ 290)

On allotment ₹ 290.50 per share (including premium of ₹ 290)

Company received 16,50,000 share application from public, out of this applications of 1,50,000 shares were rejected and on balance share application 12,00,000 shares were allotted.

All called up amount were received in proper time. Company maintains the combined 'Share Application and Allotment Account'.

Pass journal entries in the books of company for above transactions.

23. Panchvilla Manuf. Limited issued 7,50,000 equity shares at ₹ 10 each, at a premium of 20 % for public. Amount called up per share is as under :

With application ₹ 5

On allotment ₹ 4 (including premium)

On final call ₹ 3

Applications received for 11,25,000 shares. Applications for 75,000 shares were rejected and amount paid on them was refunded. Pro-rata allotment was made for 7,50,000 shares to the remaining applicants and excess application money were adjusted against the amount due on allotment.

A shareholder, Vishal could not pay final call money on his 7500 allotted shares.

Vishal's shares were forfeited by company and reissued at 10 % discount.

Pass necessary journal entries in the books of the company for the above transactions. **or**

Write journal entries in the books of the company for following :

(i) For share forfeiture

(ii) For reissue of shares

(iii) For close of the share forfeiture account.

24. Ahmedabad Chemical Limited issue 1,50,000 equity shares of ₹ 100 each at a premium of ₹ 30 per share. Amount payable was as under :

On share application and allotment ₹ 85 per share (including premium)

On share first and final call - balance amount.

Applications were received for 2,55,000 shares. Applications for 55,000 shares were rejected and allotment was made pro-rata to the remaining applicants. The excess share application and allotment money was to be credited to share first and final call. Amount was called on calls. Entire called up amount was received in time.

Pass necessary journal entries for recording the above transactions in the books of Ahmedabad Chemical Ltd.

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Accounting for Debentures

1. Introduction

Normally the company issues share capital for the requirement of long term funds. Sometimes, in addition to share capital, if company requires more fund then these fund can be met by loan or borrowed amount. Financially sound companies get long term loan from bank or financial institutions. Mostly instead of borrowing such loan from financial institutions or in addition to borrowing such loan for large investments, company can raise funds from public by issue of securities. Such a security is popularly known as **Debenture or Bond.**

Companies carrying on business have the inherent power or authority to borrow money. Based on this inherent power, companies borrow long term funds from the public. Against the money so borrowed or investment, the company issues a document or certificate acknowledging its debt to the investor. Such a certificate is known as debenture.

Those who get the debentures by giving money to the company or have purchased from the market are known as holder of the debenture or debentureholder. Debentureholder is not considered as the owner of the company.

Debenture is a document that confirms the debt of the company and its acknowledgement of the debt. It is issued under the common seal of the company. Company has to pay interest at a specified rate and on specified time on the amount invested by debentureholders in the company in accordance with the agreed terms, it is an expense for the company and is income for debentureholder. The company repays the money borrowed against a debenture at a future date as per the terms of issue of debentures to the holders of the debentures.

A certificate which is issued to debentureholder by company contains Name of debentureholder, Number of debenture, Amount per debenture, Serial number of debentures, Rate of interest payable, Time for payment of interest and also shows when the debenture money will be paid at a future date.

In present scenario, a debenture certificate is issued to debentureholders in dematerialisation form instead of physical copy. It means, purchase of debentures is directly credited to demat account of debentureholders. By allotment letter company informs the debentureholders about how many debentures are allotted to them, its number and amount and also conditions for debentures.

2. Important Points Relating to Debenture

(1) Debenture is a document relating to the money lent or given as a loan to the company. It means debenture is a document that confirms the debt of the company.

(2) Debenture is a security that bears a fixed rate of interest on which the interest is payable on a predetermined date. Company has to pay the interest on the debentures even if it has earned profit or not earned a profit.

(3) Interest on debentures is payable at a fixed rate and so debentures are known by that rate. e.g. If interest is payable at the rate 8 % p.a. on debentures then it is known as or written as 8 % debentures.

(4) When debentures are issued for a fixed term, the money borrowed against such debentures is repaid at the end of a fixed term in accordance with the agreed terms.

(5) As per Companies Act, 2013, no company is allowed to issue debentures having a maturity date of more than 10 years from the date of issue. However, a company engaged in infrastructure projects can issue debentures for more than 10 years but not exceeding 30 years.

(6) Debentures can be issued with or without charge on the assets of the company. Charge on the assets means mortgage or hypothecation.

(7) Usually, debentures are listed on the stock exchange after the issue thereof and puchase or sales of debentures are traded at the stock exchanges. The market value of such debentures could be more or less than the price of the issue.

(8) If the terms of the issue of debentures so provide, the debentures can be converted into shares.

(9) Debentures are shown as long term borrowings under the heading 'Non-current Liabilities' on 'Equity and Liabilities' side in the balance sheet.

(10) Debentureholders do not have any voting right in any matter of the company.

(11) Debentures can not be forfeited if any debentureholder does not pay any amount on debentures.

(12) In the event of the liquidation of a company, the debentureholders are repaid their money before the payment to equity shareholders.

3. Types of Debenture

Classification of debentures is made as under :

(A) On the Basis of Security :

(i) **Secured or Mortgage Debenture :** When this type of debentures are issued, some or all of the assets of the company are given as security. In other words, a charge is created on the assets of the company. Such a charge could be of two types : Fixed charge, in this, only some assets of company are given as security and floating charge, in which usually all the assets of company are given as security. If the company is unable to repay the debentures on the due date then the debentureholders are repaid the amount from the money realised on the sale of mortgaged assets.

First Mortgage Debentures are those that have a first claim on the assets charged.

Second Mortgage Debentures are those having a second claim (after first mortgage debentures) on the assets charged.

(ii) **Unsecured or Simple or Naked Debenture :** Such debentures are issued without giving any security or creating any charge on the assets of the company. From the investor's viewpoints, such debentures are risky. So, such type of debentures are not very common. The holders of such debentures are treated as unsecured creditors at the time of liquidation of the company.

(B) **As per Negotiability and Procedure for Redemption :**

(i) **Registered Debenture :** The company maintains a register of debentureholders. The register contains the name, address and other particulars related to debentureholders. The transfer of such debentures requires the execution of a proper transfer deed to give entry in company's register. Principal amount and interest on such a debenture is paid to the person whose name appears in the company's register.

(ii) **Bearer Debenture :** There is no need for any procedure for the transfer of such debentures with the company. The purchaser has to make a payment to the seller of the debentures and take the delivery of the debentures. Thus, bearer debentures are like currency notes and can be transferred by mere delivery. The person who possesses such debentures enjoys all the rights thereof. The interest coupons are attached with debentures certificate for periodic interest payments on such debentures and such coupons are like cheques or orders for payment of interest which can be encashed by debentureholder through the prescribed bank by the company on due dates for the payment of the interest.

(C) **As per Conditions of Redemptions :**

(i) **Redeemable Debenture :** The debentures which are issued with a condition that the amount of debentures can be repaid after a certain period are known as redeemable debentures. This amount will be repaid in lump sum or by installments. The period of redemption is stated in the Debenture or Trust deed.

(ii) **Perpetual or Irredeemable Debenture :** Irredeemable debentures are those debentures which are not repayable by the company during its life time. Generally, these type of debentures are repayable only at the time of liquidation of the company.

(D) **On the Basis of Conditions for Convertibility :**

(i) **Convertible Debenture :** Convertible debentures are those debentures which are convertible into equity shares or other securities at a stated rate of exchange either at the option of debentureholders or at the option of the company after a specified period.

When only a part of the amount of debenture is convertible into shares, such debentures are called 'Partly Convertible Debentures'. When the full amount of debenture is convertible into shares, such debentures are called 'Fully Convertible Debentures'.

Convertible debentures are very popular in present time, as they provide liquidity, safety, capital appreciation and assured return to the investors.

(ii) **Non-convertible Debenture :** Such debentures cannot be converted into shares or any other securities.

4. Procedure for Issue of Debentures

(i) When company has decided to issue debentures, a resolution is passed at the meetting of Board of Directors of the company. The resolution should state the number of debentures, amount per debenture and also total amount of debenture issued, rate of interest thereon, date of redemption and other terms related to the issue of the debentures.

(ii) Companies Act and provisions of SEBI should be consider at the time of issue of debenture. A company should issue a prospectus or a statement in lieu of the prospectus with proper information inviting the public to subscribe for debentures.

(iii) The procedure for the issue of debentures is very much similar to that of the issue of shares. Company has to prepare a separate application form for the public to subscribe for debentures.

(iv) Allotment of debentures should be equal the numbers of issued debentures against the number of debentures application received. For this, company has to open seperate bank account in any scheduled bank.

(v) As per rule of Companies Act, 2013, minimum subscription should be 90 % of the issued amount.

(vi) Full amount of debentures may be called by the company on application or may be called in installments.

(vii) When debentures are issued to the public subscription, then money received on this has to be kept in a scheduled bank in a separate account. So, money received on application at the time of debentures subscription has to be kept directly in a separate bank account like subscription of shares. After subscription or issue is closed, allotment letter is sent to applicants to whom debentures were allotted and debenture application money is refunded to those applicants to whom debentures were not allotted.

(viii) Debentures may be issued either at par, at a premium or at a discount. Shares can not be issued at discount except sweat equity share but debentures can be issued at a discount. The rate of premium or discount is to be decided by the directors.

5. Accounting Effects for Issue of Debentures

Procedure, Transactions and Name of accounts for issue of debentures are the same as share capital transactions. Such as, Debenture Application Account, Debenture Allotment Account, Debenture Calls Account etc.

Debenture percentage is always mentioned before the word debenture.

Following accounting entries will be passed in the books of company on the issue of debentures under different circumstances.

(A) Issue of Debentures at Par :

- **When the full amount of the debentures is called up at a time :**

(i) Bank A/c ...Dr ....
    To .... % debentures application and allotment A/c ....

(ii) .... % debenture application and allotment A/c ...Dr ....
    To .... % debentures A/c ....

For example, a company issued 8000, 9 % debentures of ₹ 100 each. The full amount on debenture was called up on application, it was received.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr To 9 % debenture application and allotment A/c [Being application money fully received on 8000 debentures at ₹ 100 per debenture.]		8,00,000	8,00,000

(ii)	9 % debenture application and allotment A/c Dr To 9 % debentures A/c [Being application money transfer to debentures A/c.]		8,00,000	8,00,000

Note : When the full amount of the debentures is called up at the time of application then that amount will be credited to 'Debenture Application and Allotment A/c'.

- **When the amount of debentures is called up in installments :**

  Following entries will be passed on the issue of debentures (Here, assume that the debentures carry 9 % interest).

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	**On receipt of application money,** Bank A/c ... Dr To 9 % debenture application A/c [Being application money received.]		....	....
(ii)	**On transfer of application money to debenture account it means allotment of debentures,** 9 % debenture application A/c ... Dr To 9 % debenture A/c [Being allotment of debentures.]		....	....
(iii)	**On refund of money to applicants of rejected applications,** 9 % debenture application A/c ... Dr To Bank A/c [Being application money returned to applicants on rejected applications.]		....	....
(iv)	**On the transfer of surplus application money on partially accepted application,** 9 % debenture application A/c ... Dr To 9 % debenture allotment A/c [Being excess application money transfer to allotment account.]		....	....
(v)	**When allotment money due,** 9 % debenture allotment A/c ... Dr To 9 % debenture A/c [Being allotment money due.]		....	....
(vi)	**On receipt of allotment money,** Bank A/c ... Dr To 9 % debenture allotment A/c [Being allotment money received.]		....	....

(vii)	**When amount due on call,** 9 % debenture call A/c ... Dr To 9 % debenture A/c [Being respective call amount due on debentures.]		....	....
(viii)	**On receipt of call money,** Bank A/c ... Dr To 9 % debenture call A/c [Being money received on calls on debentures.]		....	....

Let us understand the above journal entries with the help of following illustration :

Illustration 1 : Ashok Mills Limited issued 8000 debentures of ₹ 100 each for public subscription. Interest is to be paid at the rate 8 % p.a. on debentures. The amount were called up per debenture as under :

With application ₹ 30

On allotment ₹ 40

On call ₹ 30

Application were received by company of 10,000 debentures. After allotment of 8000 debentures, rejected excess applications of debentures and refunded the money to applicants. All the amounts due on allotment and call were duly received.

Write journal entries in the books of the company.

Ans. :

Journal Entries in the Books of Ashok Mills Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To 8 % debenture application A/c [Being receipt of applicaiton money on 10,000 debentures at ₹ 30 per debenture.]		3,00,000	3,00,000
2	8 % debenture application A/c Dr To 8 % debenture A/c To Bank A/c [Being transfer money to debenture account on the allotment of 8000 debentures and refund money on rejected 2000 debentures.]		3,00,000	2,40,000 60,000
3	8 % debenture allotment A/c Dr To 8 % debenture A/c [Being allotment money due on 8000 debentures at ₹ 40 per debenture.]		3,20,000	3,20,000

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Bank A/c Dr		3,20,000	
	To 8 % debenture allotment A/c			3,20,000
	[Being receipt of full amount of allotment money.]			
5	8 % debenture call A/c Dr		2,40,000	
	To 8 % debenture A/c			2,40,000
	[Being call money due on 8000 debentures at ₹ 30 per debenture.]			
6	Bank A/c Dr		2,40,000	
	To 8 % debenture call A/c			2,40,000
	[Being receipt of full amount on call money on debentures.]			
	Total		**17,20,000**	**17,20,000**

(B) Issue of Debentures at Premium :

When the debentures are issued at more than their face value, they are said to have been issued at premium. For example, if a debenture of ₹ 100 is issued at ₹ 130, then it us called, this debenture issued at premium of ₹ 30.

As per Companies Act, 2013, premium amount on debentures is transfered to 'Securities Premium Reserve Account'.

Like share premium, debenture premium is also a capital profit and hence the same can not be used for distribution of dividend but can be used for writing off capital expenses or loss like discount on issue of debentures, premium on redemption of debentures, preliminary expenses, goodwill, patent etc.

"Securities Premium Reserve A/c" is shown on the equity and liabilities side of the balance sheet under the head "Reserve and Surplus".

- **When the full amount of the debentures is called up at a time :**

  For example, a company issued 6000 10 % debentures of ₹ 100 each at a 'premium of ₹ 20 per debenture. The full amount of the debenture was called up on application on all the debentures and the same was received. The journal entry in the books of the company will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr		7,20,000	
	To 10 % debenture application and allotment A/c			7,20,000
	[Being receipt of application money on 6000 debentures at ₹ 120 per debenture.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(ii)	10 % debenture application and allotment A/c Dr		7,20,000	
	To 10 % debenture A/c			6,00,000
	To Securities premium reserve A/c			1,20,000
	[Being application money transfer to debenture account and premium account.]			

- **When the amount of the debentures is called up in installments :**

Illustration 2 : Gujarat Limited issued 5000; 10 % debentures of ₹ 200 each at premium of 20 %. On which the amount per debenture was called up as under :

₹ 60 on application

₹ 100 on allotment (including premium)

₹ 80 on final call

Applications were received for a total of 8000 debentures, from this excess applications were rejected and refunded the money received thereon. All the amounts due on allotment and call were duly received. Pass journal entries in the books of the company.

Ans. :

Journal of Gujarat Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		4,80,000	
	To 10 % debenture application A/c			4,80,000
	[Being application money received on 8000 debentures at ₹ 60 per debenture.]			
2	10 % debenture application A/c Dr		4,80,000	
	To 10 % debenture A/c			3,00,000
	To Bank A/c			1,80,000
	[Being money on 5000 alloted debentures transfer to debenture account and money on 3000 rejected debentures refunded to applicants.]			
3	10 % debenture allotment A/c Dr		5,00,000	
	To 10 % debenture A/c			3,00,000
	To Securities premium reserve A/c			2,00,000
	[Being amount due on allotment including premium ₹ 100 per debenture.]			
4	Bank A/c Dr		5,00,000	
	To 10 % debenture allotment A/c			5,00,000
	[Being receipt of full amount of allotment money due.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
5	10 % debenture final call A/c Dr		4,00,000	
	To 10 % debenture A/c			4,00,000
	[Being amount due on final call at ₹ 80 per debenture.]			
6	Bank A/c Dr		4,00,000	
	To 10 % debenture final call A/c			4,00,000
	[Being full amount received on final call.]			
	Total		**27,60,000**	**27,60,000**

(C) Issue of Debentures at Discount :

When the company issues debentures at a price which is less than their face value or nominal value, the debentures are said to have been issued at a discount. For example, a debenture of ₹ 100 face value is issued at ₹ 90, here ₹ 10 would be discount.

Amount of discount on debentures is debited to **'Discount on Debentures A/c'**.

- There is no restriction in the companies act as regards the maximum discount which can be given on the issue of the debentures. If there is no restriction in the Articles of Association of the company, debentures can be issued at a discount.

  If there is no clarification, discount on debenture is recorded at the time of debenture allotment entry.

- Amount of debenture discount or loss on issue of debenture is shown in the balance sheet as per Accounting Standard 26. Debenture discount amount is shown under different heads, which depends on terms of debentures. Let us understand this by an illustration.

  Example : Amount of discount on debenture is ₹ 2,40,000, it is to be writen off in 6 years.

  Here, ₹ 2,40,000 ÷ 6 years = ₹ 40,000 for each year.

  ₹ 40,000 debited to current year statement of profit and loss.

  Remaining amount of ₹ 2,00,000 is shown under the head 'Non-current Assets' and sub head 'Other non-current Assets' in the balance sheet.

Note : How to show amount of discount on debentures in the balance sheet is not in syllabus (This type of questions are not to be asked in the exam).

- **For writting off discount on issue of debentures :**

Discount or loss on issue of debentures is a capital loss. It should be written off as early as possible but within the lifetime of the debentures. e.g. If debenture issued at discount with a condition that debentures are redeemed after 6 years, then the period of writing off total amount of discount, should not be more than 6 years. Usually this amount is written off against securities premium reserve account or statement of profit or loss. For this, following journal entries is to be passed :

	Securities premium reserve A/c ...Dr or Statement of profit or loss A/c ...Dr To Discount on debentures or Loss on issue of debentures A/c		....	....

- **When the full amount of the debentures is called up at a time :**

For example, a company issued 2000, 8 % debentures of ₹ 100 each at a price of ₹ 80 per debenture, on which the full amount was called up and the same was received.

The journal entry in the books of the company will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr		1,60,000	
	To Debenture application and allotment A/c			1,60,000
	[Being application money received on 2000 debentures at ₹ 80 per debenture.]			
(ii)	Debenture application and allotment A/c Dr		1,60,000	
	Discount on debenture A/c Dr		40,000	
	To 8 % debentures A/c			2,00,000
	[Being issue of 2000, 8 % debentures of ₹ 100 each at a discount of ₹ 20 per debenture.]			

- **When the amount of the debentures is called up in installments :**

Illustration 3 : Rajkot Oil Limited issued 8000 10 % debentures of ₹ 100 each at a price of ₹ 90 per debenture. The amount per debenture was payable as under :

₹ 30 with application

₹ 40 on allotment (after discount)

₹ 20 on call

The company received application of 8000 debentures. The company received the full money called on allotment. Except on 300 debentures, the company received full amount 'due on call'.

Pass necessary journal entries in the books of company.

Ans. :

Journal Entries in Books of Rajkot Oil Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		2,40,000	
	To 10 % debenture application A/c			2,40,000
	[Being allotment money received on 8000 debentures at ₹ 30 per debenture.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	10 % debenture application A/c Dr		2,40,000	
	To 10 % debenture A/c			2,40,000
	[Being application money transfer to debenture amount.]			
3	10 % debenture allotment A/c Dr		3,20,000	
	Discount on debentures A/c Dr		80,000	
	To 10 % debenture A/c			4,00,000
	[Being allotment money due at ₹ 40 per debenture, after a discount of ₹ 10.]			
4	Bank A/c Dr		3,20,000	
	To 10 % debenture allotment A/c			3,20,000
	[Being receipt of full amount of allotment money due.]			
5	10 % debenture final call A/c Dr		1,60,000	
	To 10 % debenture A/c			1,60,000
	[Being final call amount due on 8000 debentures at ₹ 20 per debenture.]			
6	Bank A/c Dr		1,54,000	
	Call-in-arrears on debenture A/c Dr		6000	
	To 10 % debenture call A/c			1,60,000
	[Being call money received on 7700 debentures and call money not received on 300 debentures.]			
	Total		**15,20,000**	**15,20,000**

Illustration 4 : Punjab Limited issued 25,000, 11 % debentures of ₹ 100 each, the money per debenture was payable as under :

₹ 30 on application; ₹ 35 on allotment and ₹ 35 on first and final call.

All the debentures were applied. Jogindar, the holder of 800 debentures paid the entire amount on his holding on allotment. Where, Harjitsinh, the holder of 200 debentures failed to pay the allotment and call amount.

All the amount on allotment and call were duly received on all remaining debentures.

Pass necessary journal entries for the above transactions in the books of company.

Ans. :

Journal Entries in the Book of Punjab Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		7,50,000	
	To 11 % debenture application A/c			7,50,000
	[Being application money received on 25,000 debentures at ₹ 30 per debenture.]			
2	11 % debenture application A/c Dr		7,50,000	
	To 11 % debenture A/c			7,50,000
	[Being application money on debenture transfer to debenture account.]			
3	11 % debenture allotment A/c Dr		8,75,000	
	To 11 % debenture A/c			8,75,000
	[Being allotment amount due on debenture at ₹ 35 per debenture.]			
4	Bank A/c Dr		8,96,000	
	Calls-in-arrears on debenture A/c Dr		7000	
	To 11 % debenture allotment A/c			8,75,000
	To Calls-in-advance A/c			28,000
	[Being allotment money received on 24,800 debentures and call amount received in advance on 800 debentures at ₹ 35 per debenture.]			
5	11 % debenture first and final call A/c Dr		8,75,000	
	To 11 % debenture A/c			8,75,000
	[Being call amount due on debentures at ₹ 35 per debenture.]			
6	Bank A/c Dr		8,40,000	
	Call-in-arrears on debentures A/c Dr		7000	
	Call-in advance on debentures A/c Dr		28,000	
	To 11 % debenture first and final call A/c			8,75,000
	[Being balance amount received on final call after deducting calls-in-advance on 800 debentures and also amount not paid on 200 debentures on final call.]			
	Total		**50,28,000**	**50,28,000**

Illustration 5 : Mohan Krishna Limited issued 80,000, 10 % debentures at the face value of ₹ 500 each at a premium of 10 %. Amount was payable as under :

₹ 250 on application (including premium) and balance amount on allotment.

These debentures are redeemable after 8 years. Applications are received by company for 1,00,000 debentures and the allotment of 80,000 debentures is made on pro-rata basis.

Excess amount on application is credited to allotment account. Amount due on allotments is fully received. Pass journal entries on the issue of debentures in the books of company.

Ans. :

Journal Entries in the Books of Mohan Krisha Ltd.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		2,50,00,000	
	To 10 % debenture application A/c			2,50,00,000
	[Being amount received on applications for 1,00,000 debentures at ₹ 250 per debenture.]			
2	10 % debenture application A/c Dr		2,50,00,000	
	To 10 % debenture A/c (80,000 debentures × ₹ 200)			1,60,00,000
	To Securities premium reserve A/c (80,000 debentures × ₹ 50)			40,00,000
	To 10 % debenture allotment A/c (20,000 debentures × ₹ 250)			50,00,000
	[Being money on debenture application transfer to debenture A/c and premium A/c, money on excess application transfer to debenture allotment A/c.]			
3	10 % debenture allotment A/c Dr		2,40,00,000	
	To 10 % debenture A/c			2,40,00,000
	[Being allotment money due on 80,000 debentures at ₹ 300 per debenture.]			
4	Bank A/c Dr		1,90,00,000	
	To 10 % debenture allotment A/c			1,90,00,000
	[Being allotment money received.]			
	Total		**9,30,00,000**	**9,30,00,000**

Illustration 6 : Kaveesh Limited issued 20,000, 8 % debentures of ₹ 100 each at a premium of ₹ 30 per debenture. The full amount was payable on application. Applications were received by company for 24,000 debentures. Applications for 4000 debentures were rejected and amount thereon was refunded to the applicants. Debentures were allotted to the remaining applications. Pass necessary journal entries for the above transactions in the books of Kaveesh Limited.

Ans. :

Note : When company called up full amount of debentures at the time of application then, this amount is to be credited to 'Debenture Application and Allotment Account' instead of 'Debenture Application Account'.

Journal of Kaveesh Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		31,20,000	
	To 8 % debenture application and allotment A/c			31,20,000
	[Being receipt of application money on 24,000 debentures at ₹ 130 per debenture.]			
2	8 % debenture application and allotment A/c Dr		31,20,000	
	To 8 % debenture A/c (20,000 debentures × ₹ 100)			20,00,000
	To Securities premium reserve A/c (20,000 debentures × ₹ 30)			6,00,000
	To Bank A/c (4000 debentures × ₹ 130)			5,20,000
	[Being on 20,000 debentures, ₹ 100 per debenture transfer to debenture A/c and ₹ 30 per debenture transfer to premium A/c. Amount refunded on non-allotted 4000 debentures at ₹ 130 per debenture.]			

Illustration 7 : Ankush Limited of Amreli issued 5000, 9 % debentures of ₹ 100 each at a discount of 10 % as on 1-4-2017. The money were payable on debenture as follows :

₹ 25 on application;

₹ 25 on allotment and the balance amount on final call.

Applications were received for 5000 debentures and the allotment was made. All the money due on debentures were duly received. Expenses on issue of debentures amounted to ₹ 16,000. Directors decided to write off $\frac{1}{5}$th amount of "Expenses on Issue A/c" and "Discount on Debentures A/c" from statement of profit and loss each year.

Write journal entries for first year only from the above transactions in the books of company.

Ans. :

Journal Entries in the Books of Ankush Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		1,25,000	
	To 9 % debenture application A/c			1,25,000
	[Being application money received on 5000 debentures at ₹ 25 per debenture.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2	9 % debenture application A/c Dr		1,25,000	
	To 9 % debenture A/c			1,25,000
	[Being application amount on allotted debentures transfer to debenture account.]			
3	9 % debenture allotment A/c Dr		1,25,000	
	(5000 debentures × ₹ 25)			
	Discount on debentures A/c Dr		50,000	
	(5000 debentures × ₹ 10)			
	To 9 % debenture A/c			1,75,000
	(5000 debentures × ₹ 35)			
	[Being amount due on allotment (after discount) of ₹ 25 per debenture.]			
4	Bank A/c Dr		1,25,000	
	To 9 % debenture allotment A/c			1,25,000
	[Being receipt of full amount on allotment.]			
5	9 % debenture final call A/c Dr		2,00,000	
	To 9 % debenture A/c			2,00,000
	[Being amount due on final call at ₹ 40 per debenture.]			
6	Bank A/c Dr		2,00,000	
	To 9 % debenture final call A/c			2,00,000
	[Being receipt of full amount on final call.]			
7	Expenses on issue A/c Dr		16,000	
	To Bank A/c			16,000
	[Being expenses paid on issue of debentures.]			
8	Statement of profit and loss A/c Dr		13,200	
	To Discount on debenture A/c			10,000
	($\frac{1}{5}$th of 50,000)			
	To Expenses on issue of debentures A/c			3200
	($\frac{1}{5}$th of 16,000)			
	[Being $\frac{1}{5}$th of 'Discount on Debenture' and $\frac{1}{5}$th of "Expenses on Issue" written off by transfer to statement of profit and loss for the current year.]			
	Total		**9,79,200**	**9,79,200**

6. Issue of Debentures for Consideration Other than Cash

Like shares, debentures are also sometimes issued for consideration other than cash. For example, the issue of debentures to vendor against the purchase of assets like land-building, plant and machinery etc. Similarly issue of debentures to vendor's against purchase consideration at the time of purchase of business. Debentures can be issued to vendors at par, at a premium or at a discount.

Following entries will be passed for this purpose :

(1)	**At the time of purchase of any business,**			
	(i) Sundry assets A/c ...Dr (Business assets taken over)		....	
	To Sundry liabilities A/c (Business liabilities taken over)			....
	To Vendor's A/c (Purchase consideration)			....
	[Being business assets and liabilities taken over on purchase of business.]			
	(ii) Vendor's A/c ...Dr		....	
	To Debentures' A/c			....
	[Being issue of debentures by the company for purchase consideration.]			
(2)	**When any asset is purchased then,**			
	(i) On purchase of asset,			
	Asset A/c ...Dr		....	
	To Vendor's A/c			....
	[Being purchase of asset.]			
	(ii) Vendor's A/c ...Dr		....	
	To Debenture A/c			....
	[Being issue of debentures to vendor for asset.]			

Illustration 8 : Mansi Limited purchased machinery worth ₹ 6,00,000 from Suman Manufacturing Ltd. on 1-12-2017. ₹ 2,00,000 were paid immediately and the balance was paid by issue of ₹ 3,70,000 11 % debentures in Mansi Limited. Pass the necessary journal entries in the books of Mansi Limited. If the balance will be paid by issue of ₹ 4,20,000, 11 % debentures by Mansi Limited, then how to write journal entry for this ?

Ans. :

Journal Entries in the Book of Mansi Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017 Dec. 1	Machinery A/c Dr		6,00,000	
	To Suman Manufacturing Ltd. A/c			6,00,000
	[Being purchase machinery from Suman Manuf. Ltd.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
Dec. 1	Suman Manuf. Ltd. A/c Dr		2,00,000	
	To Bank A/c			2,00,000
	[Being ₹ 2,00,000 paid immediately against purchase of machinery.]			
Dec. 1	Suman Manuf. Ltd. A/c Dr		4,00,000	
	To 11 % debentures A/c			3,70,000
	To Securities premium reserve A/c			30,000
	[Being issue of debentures of ₹ 3,70,000 against balance amount of ₹ 4,00,000. So, difference amount transfer to premium account.]			

If Mansi Ltd. issued 11 % debentures of ₹ 4,20,000 for the balance amount, then only last entry will be changed in the above illustration.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
2017				
Dec. 1	Suman Manuf. Ltd. A/c Dr		4,00,000	
	Discount on debenture A/c Dr		20,000	
	To 11 % debenture A/c			4,20,000
	[Being issue of debentures of ₹ 4,20,000 against balance amount of ₹ 4,00,000.]			

Illustration 9 : Nitin Metals Limited purchased assets worth ₹ 8,80,000 and also took over the liabilities (creditors) of ₹ 1,60,000 of Patel Traders. Decided to pay for a purchase consideration of ₹ 7,68,000. Nitin Metals Ltd. paid the purchase consideration by issuing 12 % debentures of ₹ 100 each at a premium of 20 %.

Pass journal entries in the books of company.

Ans. : Necessary working :

Purchase consideration = ₹ 7,68,000 it is given.

Net assets = Total assets − Liabilities

= ₹ 8,80,000 − ₹ 1,60,000

= ₹ 7,20,000

Purchase consideration − Net assets = Goodwill

₹ 7,68,000 − ₹ 7,20,000 = **₹ 48,000 (Goodwill)**

Here, purchase consideration of ₹ 7,68,000 is paid by issuing 12 % debentures of ₹ 100 each at a premium of 20 %. Number of debentures is not given.

$$\text{Number of debentures} = \frac{\text{Purchase consideration}}{\text{Amount per debenture}} = \frac{7,68,000}{120\ (100 + 20)}$$

= 6400 debenture

Journal Entries in the Books of Company

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Sundry assets A/c	Dr		8,80,000	
	Goodwill A/c	Dr		48,000	
	To Liabilities (creditors) A/c				1,60,000
	To Patel Traders A/c				7,68,000
	[Being purchase of assets and liabilities of Patel Traders.]				
2	Patel Traders A/c	Dr		7,68,000	
	To 12 % debenture A/c (6400 debentures × ₹ 100)				6,40,000
	To Securities premium reserve A/c (6400 debentures × ₹ 20)				1,28,000
	[Being issue of 6400 debentures at 20 % premium for purchase consideration.]				

7. Issue of Debentures as Collateral Security

When a company takes a loan from a bank or from some other party, the company may have to issue debentures as a subsidiary or secondary security in addition to the principal security. The debenture so issued are known as debentures issued as collateral security.

If the company repays its dues to the bank in right time, the bank will return the debentures to the company and the debentures received this way are cancelled by the company.

However, if the company fails to repay the amount of loan or interest on this in proper time then, the lender will first realise its debt from the principal security. But if the full amount of debt is not realised from the principal security then lender may claim all the rights of a debentureholder on the debentures received as a secondary security. It means lender can recover balance amount from the sale of debentures.

There are two methods of dealing with such issued debentures in the books of account :

(1) Debentures given to a bank as security are only for the safety of the loan. No entry is passed for the issue of debentures in the books of accounts. Entry is passed only for bank loan. On the equity and liabilities side of the balance-sheet, it is shown under "Long term Borrowings" under the main heading "Non-current Liabilities". It is shown in illustration 10.

(2) In this method, the entry for issuing debentures as collateral security is recorded in the books of company. This entry will be as under :

	Debenture suspense A/c	Dr		....	
	To debentures A/c				....
	[Being issue of debentures as collateral security against loan.]				

In the balance sheet, debentures suspense A/c will be shown as a deduction from the debentures account on the equity and liabilities side. As and when the loan is repaid by the company then, bank will return all the debentures to the company and this debentures will be cancelled by the company. Entry passed above is reversed.

Illustration 10 : A company had ₹ 14,00,000 issued 11 % debentures as on 1st April, 2017. During the year company took a loan of ₹ 3,00,000 from the bank as on 15 July, 2017. Against this, company issued new 11 % debentures of ₹ 2,00,000 as collateral security.

Pass necessary journal entries under both the methods from the above transactions in the books of the company. Show the details about debentures and bank loan in the company's balance sheet as at 31st March, 2018.

Ans. : (As per first method)

Journal Entry in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
20-7-2017	Bank A/c Dr To Bank loan A/c [Being loan taken from the bank.]		3,00,000	 3,00,000

In this method, no entry is passed for the issue of debentures as security against loan.

Balance Sheet as on 31st March, 2018

Particulars	Note No.	31st March 2018	31st March 2017
(I) Equity and liabilities :			
Shareholders' funds :			
Non-current liabilities :			
Long-term borrowings :			
11 % debentures (Above this debentures of ₹ 2,00,000 issued as collateral security)		14,00,000	
Bank loan (Debentures of ₹ 2,00,000 as collateral security)		3,00,000	

(As per second method) Journal of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr To Bank loan A/c [Being loan obtain from the bank.]		3,00,000	 3,00,000
2	Debenture suspense A/c Dr To 11 % debenture A/c [Being issue 11 % debentures of ₹ 2,00,000 as collateral security against a loan from the bank.]		2,00,000	 2,00,000

Balance Sheet as on 31st March, 2018

Particulars		Note No.	31st March 2018	31st March 2017
(I) **Equity and liabilities :**				
Shareholders' funds :				
Non-current liabilities :				
Long-term borrowings :				
11 % debentures	14,00,000		14,00,000	
11 % debentures issued as collateral security	2,00,000			
Less : Debenture suspense A/c	2,00,000		–	
Bank loan (On collateral security of debentures ₹ 2,00,000)			3,00,000	

8. Interest on Debenture

Interest on debentures is usually paid half-yearly. Interest on debentures is recorded in statement of profit and loss. This interest is expense against profit. Interest on debentures has to be paid regularly even if the company suffers a loss or does not earn a profit. The rate of interest payable on debentures is prefixed on debentures. For example, 9 % debentures. Here, interest is to be calculated at the rate of 9 % on debentures.

As per Income Tax Act, a company is required to deduct income tax at the prescribed rate from the gross amount of debenture interest before any amount is paid to the debentureholders. This tax amount is to be deposited with the income tax department on behalf of the debentureholders. It's called as TDS means Tax Deducted at Source.

While preparing the final accounts for an accounting period, provision or effects must be made for any accrued interest on debentures due to variation of the dates.

Methods of accrued interest :

(1) **Interest Accrued and Due :** If a company pays interest on debentures half-yearly on 30th June and 31st December, while preparing the balance sheet on 31st March, 2018, if the interest for the period ending 31st December, 2017 remains unpaid, it will be called "Interest accrued and due".

(2) **Interest Accrued but Not Due :** As per above (1), the interest on debentures for the period from 1st January, 2018 to 31st March, 2018 will be called "Interest accrued but not due".

Illustration 11 : Sinoy Limited issued 15,000, 11 % debentures of ₹ 100 each as on 1st April, 2017.

Interest on these debentures is paid on 30th September and 31st March.

Pass journal entries of the above transactions for the year ended on 31st March, 2018. Assuming income tax rate is 20 % on the amount of interest.

Ans. :

Journal Entries in the Book of Sinoy Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2017	Bank A/c Dr		15,00,000	
	To Debentures' application and allotment A/c			15,00,000
	[Being application money received on 15,000 debentures at ₹ 100 per debenture.]			
1-4-2017	Debenture application and allotment A/c Dr		15,00,000	
	To 11 % debenture A/c			15,00,000
	[Being debenture application money transfer to debenture account.]			
30-9-2017	Interest on debenture A/c Dr		82,500	
	To Debentureholders A/c			66,000
	To TDS payable A/c			16,500
	[Being interest due on 30st September on 11 % debentures and income tax deducted at source.]			
30-9-2017	Debentureholders A/c Dr		66,000	
	To Bank A/c			66,000
	[Being payment of interest.]			
30-9-2017	TDS payable A/c Dr		16,500	
	To Bank A/c			16,500
	[Being TDS deposited in income tax department.]			
31-3-2018	Interest on debenture A/c Dr		82,500	
	To Debentureholders A/c			66,000
	To TDS payable A/c			16,500
	[Being interest due on 31st March on 11 % debentures and income tax deducted at source.]			
31-3-2018	Debentureholders A/c Dr		66,000	
	To Bank A/c			66,000
	[Being payment of interest.]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-2018	TDS payable A/c Dr To Bank A/c [Being TDS deposited in income tax department.]		16,500	16,500
31-3-2018	Statement of profit and loss A/c Dr To Interest on debentures A/c [Being amount of interest for the full year transfer to statement of profit and loss.] (82,500 + 82,500)		1,65,000	1,65,000
	Total		**34,95,000**	**34,95,000**

9. For Redemption of Debentures

Following entries are passed for the redemption of debentures :

(i)	At the time of redemption of debentures, the debenture account should be closed and transferred to the debentureholder's account, Debenture A/c ...Dr To Debentureholders A/c		....	....
(ii)	To repay money to the debentureholders, Debentureholders A/c ...Dr To Bank A/c		....	....

10. Accounting Effects at the Time of Issue of Redeemable Debentures

Debentures are issued at par, at a premium or at a discount, but when debentures are to be redeemed to the debentureholders then it is redeemed at par or at a premium only. Debentures can not be redeemed at a discount.

- **When debentures are to be redeemed at par,** at that situation no other journal entry for additional effect is given at the time of issue of debentures. This point can be learnt by following table.

Situation (Condition)	Entry at the time of Issue	Entry at the time of Redemption	Entry at the time of debentureholders are paid
(1) When debentures are issued at par and redeemable at par	(i) Bank A/c ...Dr To debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr To debenture A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To bank A/c

Situation (Condition)	Entry at the time of Issue	Entry at the time of Redemption	Entry at the time of debentureholders are paid
(2) When debentures are issued at premium and redeemable at par	(i) Bank A/c ...Dr To Debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr To Debenture A/c To Security pre. reserve A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To Bank A/c
(3) When debentures are issued at discount and redeemable at par	(i) Bank A/c ...Dr To Debenture application and allotment A/c (ii) Debenture application and allotment A/c...Dr Discount on debenture A/c ...Dr To Debenture A/c	Debenture A/c ...Dr To Debentureholders A/c	Debentureholders A/c ...Dr To Bank A/c

- **When debentures are issued at par or at a premium or at a discount and are redeemable at a premium then,**

Premium payable at the time of redemption of debentures is a loss for the company. Hence, that amount is debited to 'Loss on Issue of Debentures Account'. Such premium payable at a future date is a liability to the company. So, this amount of premium is credited to **'Premium on redemption of debentures account.'**

Here, students should keep in mind that the premium called or received at the time of issue of debentures and transferred to 'securities premium reserve account' is a gain or profit for the company. Whereas, premium payable on redemption of debentures which is transferred to 'premium on redemption of debentures account' is a liability to the company. When debentures are redeemable at a premium, then following entries will be written under different situation.

(1) **When debentures are issued at par and are redeemable at a premium,**

(i) **At the time of issue of debentures :**

(a) Bank A/c ...Dr To Debenture application and allotment A/c	(At face value of debentures) (At face value of debentures)
(b) Debenture application and allotment A/c ...Dr Loss on issue of debentures A/c ...Dr To Debentures A/c To Premium on redemption of debentures A/c	(At face value of debentures) (Premium amount to be paid at the time of redemption) (At face value of debentures) (Premium amount to be paid at the time of redemption of debentures)

(ii) **At the time of redemption :**

Debenture A/c ...Dr Premium on redemption of debentures A/c ...Dr To Debentureholders A/c	(At face value of debentures) (Premium amount to be paid at redemption) (Total payable amount)

(iii) **When amount paid to debentureholders :**

Debentureholders A/c ...Dr To Bank A/c	(Total payable amount)

(2) **When debentures are issued at a premium and are redeemable at a premium,**

(i) **At the time of issue of debentures :**

(a) Bank A/c ...Dr To Debentures' application and allotment A/c	(Face value + premium amount)
(b) Debenture application and allotment A/c...Dr Loss on issue of debentures A/c...Dr To Debenture A/c To Securities premium reserve A/c To Premium on redemption of debenture A/c	(Face value + premium amount) (Premium amount to be paid at the time of redemption of debentures) (Face value of debentures) (Premium received at the time of issue of debentures) (Premium amount to be paid at the time of redemption of debentures)

Journal entries at the time of redemption of debentures and payment to debentureholders will be passed as above point 1(ii) and 1(iii).

(3) **When debentures are issued at discount and are redeemable at premium,**

(i) **At the time of issue of debentures :**

(a) Bank A/c ...Dr To debentures application and allotment A/c	(Face value less amount of discount)
(b) Debentures application and allotment A/c ...Dr Discount on debentures A/c ...Dr Loss on issue of debentures A/c ...Dr To debentures A/c To premium on redemption of debentures A/c	(Face value less amount of discount) (Discount at the time of issue) (Premium amount to be paid at the time of redemption of debentures) (Face value of debentures) (Premium amount to be paid at the time of redemption of debentures)

Journal entries at the time of redemption of debentures and payment to debentureholders will be passed as above point 1(ii) and 1(iii).

- **Position in the balance-sheet of company :**

From the amount of discount on debentures account and from the amount of loss on issue of debentures account, some amount is written off every year as per terms of debentures against statement of profit and loss or securities premium reserve account.

	Statement of profit and loss A/c Dr		....	
	or securities premium reserve A/c Dr		....	
	To discount on debentures A/c			....
	To loss on issue of debentures A/c			....

The balances of both the accounts namely, discount on debenture account and loss on issue of debenture account are shown as "Other non-current assets" on the assets side of the balance sheet in every year.

"Premium on redemption of debentures A/c" is a personal account and shows a credit balance. It is a liability of the company. It appears under the head "Non-current liabilities" under sub-head "Other long term liabilities" on the equity and liability side of the balance sheet each year, until the debentures are repaid.

When debentures are redeemed then premium on redemption of debentures account is debited and debentureholders account is credited. So, this account is closed off.

Illustration 12 : Write the journal entries only for the issue of debentures from the following transaction (without narration).

(1) Issued 5000, 10 % debentures of ₹ 100 each at par, redeemable also at par.

(2) Issued 5000, 10 % debentures of ₹ 100 each at a discount of 5 %, redeemable at par.

(3) Issued 5000, 10 % debentures of ₹ 100 each at a premium of 8 %, redeemable at par.

Ans. :

Journal of Company

(1) Debentures issued price of ₹ 100 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr		5,00,000	
	To Debenture application and allotment A/c			5,00,000
	(5000 debentures × ₹ 100)			
(ii)	Debenture application and allotment A/c Dr		5,00,000	
	To 10 % Debenture A/c			5,00,000
	(5000 debentures × ₹ 100)			

(2) Debentures issued price of ₹ 95 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr		4,75,000	
	To Debenture application and allotment A/c			4,75,000
	(5000 debenture × ₹ 95)			
(ii)	Debenture application and allotment A/c Dr		4,75,000	
	Discount on debenture A/c Dr		25,000	
	(5000 debenture × ₹ 5 discount A/c)			
	To 10 % debenture A/c			5,00,000

(3) Debentures issued price of ₹ 108 each, redeemable at ₹ 100 each.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	Bank A/c Dr		5,40,000	
	To Debenture application and allotment A/c			5,40,000
	(5000 debenture × ₹ 108)			
(ii)	Debenture application and allotment A/c Dr		5,40,000	
	To 10 % debenture A/c			5,00,000
	To Security premium reserve A/c			40,000
	(5000 Debenture × ₹ 8)			

In the above three situations the journal entries for redemption of debentures and payment to debentureholders will be passed same as under.

- **At the time of redemption of debentures :**

	10 % debentures A/c Dr		5,00,000	
	To Debentureholders A/c			5,00,000

- **On payment to debentureholders :**

	Debentureholders A/c Dr		5,00,000	
	To Bank A/c			5,00,000

- **Debentures were issued at par and redeemed at a premium :**

Illustration 13 : On 1-8-2017 Namaskar Limited issued 8000, 9 % debentures of ₹ 100 each at par.

These debentures are to be redeemed on 31-7-2022 at ₹ 120 per debenture.

Pass the necessary journal entries in the books of the company for the issue and redemption of debentures (without narration).

Ans. : **Journal of Namaskar Limited**

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-8-2017	Bank A/c (8000 debentures × ₹ 100) Dr		8,00,000	
	To Debentures' application and allotment A/c			8,00,000
1-8-2017	Debenture application and allotment A/c Dr		8,00,000	
	(8000 debentures × ₹ 100)			
	Loss on issue of debentures A/c Dr		1,60,000	
	(8000 Debentures × ₹ 20)			
	To 9 % debentures A/c			8,00,000
	(8000 debentures × ₹ 100)			
	To Premium on redemption of debentures			1,60,000
	A/c (8000 Debentures × ₹ 20)			
31-7-2022	9 % debentures A/c Dr		8,00,000	
	Premium on redemption of debentures A/c Dr		1,60,000	
	To Debentureholders A/c			9,60,000
31-7-2022	Debentureholders A/c Dr		9,60,000	
	To Bank A/c			9,60,000

- **Debentures issued at a discount and redeemed at a premium :**

Illustration 14 : On 1-4-2017 Prathana Limited issued 6000, 11 % debentures of ₹ 100 each at a discount of 5 %. All the debentures are to be redeemed after 6 years as on 31-3-2023 at a premium of 10 %. Pass the necessary journal entries in the books of the company. (Without narration).

Ans. :

Journal of Prathana Limited

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-4-2017	Bank A/c	Dr		5,70,000	
	To debenture application and allotment A/c				5,70,000
	(6000 Debentures × ₹ 95)				
1-4-2017	Debenture application and allotment A/c	Dr		5,70,000	
	Discount on debentures A/c	Dr		30,000	
	(6000 debentures × ₹ 5)				
	Loss on issue of debentures A/c	Dr		60,000	
	(6000 debentures × ₹ 10)				
	To 11 % debentures A/c				6,00,000
	(6000 debentures × ₹ 100)				
	To Premium on redemption of debentures				60,000
	A/c (6000 debentures × ₹ 10)				
31-3-2023	11 % debentures A/c	Dr		6,00,000	
	Premium on redemption of debentures A/c	Dr		60,000	
	To Debentureholders A/c				6,60,000
31-3-2023	Debentureholders A/c	Dr		6,60,000	
	To Bank A/c				6,60,000
	(6000 debentures × ₹ 110)				

- **Debentures are issued at premium and are redeemable at a premium :**

Illustration 15 : On 1-6-2017 Vandana Limited issued 10,000, 8 % debentures of ₹ 200 each at a premium of 5 %. The debentures are redeemed on 31-5-2022 at ₹ 220 per debenture. Write the necessary journal entries in the books of company (without narration).

Ans. :

Journal of Vandana Limited

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-6-2017	Bank A/c	Dr		21,00,000	
	To Debentures' application and allotment A/c				21,00,000
	(10,000 debenture × ₹ 210)				

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-6-2017	Debenture application and allotment A/c	Dr		21,00,000	
	Loss on issue of debentures A/c	Dr		2,00,000	
	(10,000 debentures × ₹ 20)				
	To 8 % debentures A/c				20,00,000
	(10,000 Debentures × ₹ 200)				
	To Securities premium reserve A/c				1,00,000
	(10,000 Debentures × ₹ 10)				
	To Premium on redemption of debentures A/c				2,00,000
	(10,000 Debentures × ₹ 20)				
31-5-2022	8 % debentures A/c	Dr		20,00,000	
	Premium on redemption of debentures A/c	Dr		2,00,000	
	To Debentureholders A/c				22,00,000
	(10,000 Debentures × ₹ 220)				
31-5-2022	Debentureholders A/c	Dr		22,00,000	
	To Bank A/c				22,00,000
	(10,000 Debentures × ₹ 220)				

Illustration 16 : On 1-7-2017 Natasha Cosmetics Limited issued 50,000 8 % debentures of ₹ 1000 each, are to be redeemed after 8 years at a premium of 10 %. As per conditions in prospectus the amount is payable on application ₹ 400 per debenture and balance amount at the time of allotment. Write the necessary journal entries for the issue of debentures in the books of the company.

Ans. :

Journal of Natasha Cosmetics Limited

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1	Bank A/c	Dr		2,00,00,000	
	To 8 % debenture application A/c				2,00,00,000
	[Being application money received on 50,000 debentures at ₹ 400 per debenture.]				
2	8 % debenture application A/c	Dr		2,00,00,000	
	To 8 % debenture A/c				2,00,00,000
	[Being application money on allotted 50,000 debentures transfer to debentures A/c.]				

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
3	8 % debenture allotment A/c	Dr		3,00,00,000	
	Loss on issue of debentures A/c	Dr		50,00,000	
	To 8 % debenture A/c				3,00,00,000
	To Premium on redemption of debentures A/c				50,00,000
	[Being amount called on 50,000 debentures at ₹ 600 per debenture and debentures to be redeemed at 10 % premium.]				
4	Bank A/c	Dr		3,00,00,000	
	To 8 % debenture allotment A/c				3,00,00,000
	[Being receipt of allotment money.]				

Illustration 17 : Dixit Electric Limited issued 7000, 7 % debentures as on 1-1-2017 of ₹ 500 each at a discount of 6 %. All the debentures are redeemable at a premium of 5 % after six years. The amount was payable as follows :

On application ₹ 300 per debenture; On allotment balance amount per debenture.

Pass the necessary journal entries for issue of debentures in the books of company.

Ans. :

Journal of Dixit Electrical Limited

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1 (1-1-2017)	Bank A/c	Dr		21,00,000	
	To 7 % debentures' application A/c				21,00,000
	[Being application money received on 7000 debentures at ₹ 300 per debenture.]				
2 (1-1-2017)	7 % debenture application A/c	Dr		21,00,000	
	To 7 % debenture A/c				21,00,000
	[Being application money transfer to debenture A/c.]				
3	7 % debenture allotment A/c	Dr		11,90,000	
	Discount on debentures A/c	Dr		2,10,000	
	Loss on issue of debentures A/c	Dr		1,75,000	
	To 7 % debenture A/c				14,00,000
	To Premium on redemption of debentures A/c				1,75,000
	[Being ₹ 170 called after discount on allotment of debenture, discount amount became ₹ 30 (500 × 6 %) and premium on redemption of debenture became ₹ 25 (500 × 5 %) per debenture.]				

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
4	Bank A/c Dr To 7 % debenture allotment A/c [Being receipt of allotment money.]		11,90,000	 11,90,000

11. Provision of finance for the Redemption of Debentures

Debentures are the liabilities of the company. The repayment of debentures to the debentureholders is made by the company in accordance with the terms and conditions, as stated in the prospectus at the time of issue of debentures. When debentures are to be redeemed after a fixed period, the company is aware about the time and amount of money required for such redemption.

In this reference, there are some new provisions under Companies Act, 2013. Earlier before this act, there was a system for arrangement of Debenture Redemption Fund and Debenture Redemption Fund Investment by the company. To increase the effectiveness of this system, there are new provisions introduced under section 71(4) of the Companies Act, 2013 along with Rule 18(7)(C) of the companies (share capital and debentures) Rules, 2014. Explanation is given according to this provisions.

Amount required for the redemption of debentures may be managed by a company from the following sources :

(1) Redemption of debentures from the fresh issue of shares and debentures

(2) Redemption of debentures out of capital

(3) Redemption of debentures out of profit

(1) Redemption of Debentures from the Proceeds of Fresh Issue of Shares and Debentures : When a company is in need of additional funds for the redemption of debentures, it may decide to issue new equity shares, preference shares or debentures. The proceeds of the fresh issue of share capital and debentures are utilised for redeeming the old debentures. In such type of redemption, the financial position of the company is not adversely affected.

(2) Redemption of Debentures out of Capital : When no profits are set aside for redemption of debentures it is called redemption out of capital. But according to section 71(4) of the Companies Act, 2013 and as per SEBI - Securities and Exchange Board of India guidelines requiring creation of **Debenture Redemption Reserve Account** equivalent to at least 25 % of the total face value of issued debentures before redemption commences. This amount is transfered from **Surplus in Statement of Profit and Loss.** So, full amount for redemption of debentures is not purely out of capital, but balance amount payable from capital of company after compliance of the above provisions.

(3) Redemption of Debentures out of Profits : Redemption out of profits means provision for an amount equal to debentures issued is transferred from surplus in statement of profit and loss by the company. This provision is to be executed before redemption commences.

For this, company has to create one new 'Debenture Redemption Reserve Account'. In which required full amount for redemption of debentures is transfered from surplus in statement of profit and loss to Debenture Redemption Reserve Account.

Due to this effect, company reduces the amount of profits available for dividend and it is used for redemption of debentures. This amount is not available for payment of dividend. Thus, existing liquid resources of the company are not affected by the redemption of debentures.

- **SEBI guidelines for redemption of debentures :**
  (1) The creation of debenture redemption reserve is obligatory only for non-convertible debentures and non-convertible portion of partly convertible debentures.
  (2) A company shall create Debenture Redemption Reserve equivalent to at least 25 % of the amount of debentures issued **before starting the redemption of debentures.**

Following categories of companies are exempted from creating 'Debenture Redemption Reserve' : (1) All India Financial Institutions (AIFIs) regulated by Resevse Bank of India. (2) Other financial institutions regulated by Reserve Bank of India. (3) Banking companies for both public as well as privately placed debentures. (4) Housing finance companies registered with the National Housing Bank. (**Note :** This is given only for information to the students, not expected in the exam.)

- Balance of Debenture Redemption Reserve is shown on the 'Equity and Liabilities' part of the balance sheet under the head 'Reserve and Surplus'.

  When all the debentures have been redeemed, then Debenture Redemption Reserve Account is closed by transferring the amount to 'General Reserve Account'.

	Debenture redemption reserve A/c Dr		....	
	To General reserve A/c			....

- **For Debentures Redemption Investment :**

As per Rule 18(7)(C) of the companies (share capital and debentures) Rules 2014, company required to deposit or invest, a sum which shall not be less than 15 % of the total face value of the debentures to be redeemed at the end of the year. i.e. during the year ending on 31st March, on or before 30th April i.e. at the beginning of the year. This investment is called **'Debenture Redemption Investment Account.'**

The amount so deposited or invested can be utilized only for the purpose of repayment of debentures maturing during the year.

The amount should be invested in the specified securities which are mentioned in the companies act for the redemption of debentures. The amount invested or deposited shall not be used for any purpose other than for redemption of debentures.

Securities specified for investment :

(1) In deposit with any scheduled bank, free from any charge
(2) In unencumbered securities of the central government or any state government
(3) In unencumbered securities mentioned in sub-clauses (a) to (d) and (ee) of section 20 of Indian Trust Act, 1882.
(4) In unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of Indian Trust Act, 1882.

12. Methods of Redemption of Debentures

The methods of redemption of debentures are as under :

(1) Lump-sum payment at the end of fixed period
(2) Payment in installments by drawing of lots

(3) By purchase of own debentures in the open market

(4) By conversion into shares

To understand above all methods by different illustrations :

(1) Lump-sum Payment at the End of Fixed Period :

Under this method, the company redeems whole of its debentures in one lump-sum at the expiry of a specified period or earlier at the option of the company.

Such redemption may be made at par or at premium, according to the terms of issue. Here, debentures are to be redeemed according to provisions of Companies Act and also as per SEBI guidelines.

The journal entries in this method are as follows :

(I)	**At the beginning of financial year (Upto 30th April) :** (Note : The year in which debentures are redeemed.) **On making investment at 15 % of the face value of debentures to be redeemed,**			
	Debenture redemption investment A/c ... Dr		....	
	To Bank A/c			....
(II)	**At the time of redemption :**			
	(i) **When debentures are to be sold,**			
	Bank A/c ... Dr		....	
	To Debenture redemption investment A/c			....
(ii)	**On transfer of profits from surplus in statement of profit and loss at the rate of 25 % of the face value of debentures issued :**			
	Surplus in statement of profit and loss A/c ...Dr			....
	To Debenture redemption reserve A/c			....
(III)	**On redemption of debentures :**			
	(i) Debenture A/c ... Dr		....	
	To Debentureholders A/c			....
	(ii) Debentureholders A/c ... Dr		....	
	To Bank A/c			....
(IV)	**When all the debentures are redeemed then,**			
	Debenture redemption reserve A/c ... Dr		....	
	To General reserve A/c			....

- **When the provision of money for the redemption of debentures is out of capital :**

Illustration 18 : Shailja Limited issued 12,000, 8 % debentures of ₹ 100 each at a premium of 5 % on 1st April, 2011, redeemable on March 31, 2017. The issue was fully subscribed. The board of directors decided to transfer the required amount to Debenture Redemption Reserve as on March 31, 2017 and debentures to be redeemed out of capital. They also decided to invest required amount into Debenture Redemption Investment on 30th April, 2016.

Investments were sold on the date of redemption of debentures and required amount for redemption of debentures were paid to debentureholders.

Pass necessary journal entries for issue and redemption of debentures in the books of company and also prepare debenture redemption investment A/c and debenture redemption reserve A/c.

Ans. :

Journal of Shailja Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-11	Bank A/c Dr		12,60,000	
	To 8 % debenture application and allotment A/c			12,60,000
	[Being application money received on 12,000 debentures at ₹ 105 per debenture.]			
1-4-11	8 % debentures application and allotment A/c Dr		12,60,000	
	To 8 % debenture A/c			12,00,000
	To Securities premium reserve A/c			60,000
	[Being application money transfer to debenture A/c and premium A/c.]			
30-4-16	Debenture redemption investment A/c Dr		1,80,000	
	To Bank A/c			1,80,000
	[Being investment made 15 % of the face value (12,00,000) of debentures.]			
31-3-17	Bank A/c Dr		1,80,000	
	To Debentures redemption investment A/c			1,80,000
	[Being investment for the redemption of debentures is sold.]			
31-3-17	Surplus in statement of profit and loss A/c Dr		3,00,000	
	To Debenture redemption reserve A/c			3,00,000
	[Being transfer of profits equal to 25 % of the nominal value of debentures issued to debenture redemption reserve account.] (12,00,000 × 25 %)			
31-3-17	8 % debenture A/c Dr		12,00,000	
	To Debentureholders A/c			12,00,000
	[Being amount due on redemption of debentures.]			
31-3-17	Debentureholders A/c Dr		12,00,000	
	To Bank A/c			12,00,000
	[Being due amount paid to debentureholders.]			
31-3-17	Debenture redemption reserve A/c Dr		3,00,000	
	To General reserve A/c			3,00,000
	[Being after redemption of all the debentures, amount of debenture redemption reserve A/c transfer to general reserve A/c.]			
	Total		**58,80,000**	**58,80,000**

Note : Interest on investments and its effect is not calculated because rate of interest on debenture redemption investments is not given.

Dr **Debenture Redemption Investment A/c** Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-16	To Bank A/c		1,80,000	31-3-17	By Bank A/c		1,80,000
			1,80,000				**1,80,000**

Dr **Debenture Redemption Reserve A/c** Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
31-3-17	To General reserve A/c		3,00,000	31-3-17	By Surplus in statement of profit & loss		3,00,000
			3,00,000				**3,00,000**

Illustration 19 : Nirja Limited issued ₹ 7,00,000, 9 % debentures of ₹ 100 each on April 1, 2013 at a premium of 5 %, which redeemable at a premium of 10 % on 31st March, 2018. According to provisions of Companies Act, the required investment was made in 8 % government securities on April 30 of the financial year in which redemption is due. Debentures were redeemed on the due date. Pass journal entries at the time of issue and redemption of debentures in the books of company. Also prepare debenture redemption investments account and debenture redemption reserve A/c.

Ans. :

Journal of Nirja Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-13	Bank A/c Dr		7,35,000	
	To 9 % debenture application and allotment A/c			7,35,000
	[Being application money received on 7000 debentures at ₹ 105 per debenture.]			
1-4-13	9 % debenture application and allotment A/c Dr		7,35,000	
	Loss on issue of debentures A/c Dr		70,000	
	To 9 % debenture A/c			7,00,000
	To Securities premium reserve A/c			35,000
	To Premium on redemption of debentures A/c			70,000
	[Being transfer to debentures account and secirities premium account from application money and also to give an effect of premium on redemption of debentures account.]			
30-4-17	Debenture redemption investment A/c Dr		1,05,000	
	To Bank A/c			1,05,000
	[Being investment made in 8 % government securities at the rate of 15 % of the face value of debentures (7,00,000 × 15 %).]			

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
31-3-18	Bank A/c Dr		1,12,700	
	To Debentures redemption investment A/c			1,05,000
	To Interest earned A/c			7700
	[Being investment for debenture redemption is sold and on this interest received for 11 months.]			
31-3-18	Surplus in statement of profit and loss A/c Dr		1,75,000	
	To Debenture redemption reserve A/c			1,75,000
	[Being 25 % of total face value of debentures transfer to debenture redemption reserve A/c (7,00,000 × 25 %).]			
31-3-18	9 % debentures A/c Dr		7,00,000	
	Debenture on redemption of debentures A/c Dr		70,000	
	To Debentureholders A/c			7,70,000
	[Being amount due for redemption of debentures.]			
31-3-18	Debentureholders A/c Dr		7,70,000	
	To Bank A/c			7,70,000
	[Being payment of amount due to debentureholders.]			
31-3-18	Debenture redemption reserve A/c Dr		1,75,000	
	To General reserve A/c			1,75,000
	[Being transfer amount of debenture redemption reserve to general reserve account after the redemption of the debentures.]			
31-3-18	Interest earned A/c Dr		7700	
	To Statement of profit and loss A/c			7700
	[Being interest transfer to statement of profit and loss.]			

Debenture Redemption Investment A/c

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To Bank A/c		1,05,000	31-3-18	By Bank A/c		1,05,000
			1,05,000				**1,05,000**

Dr **Debenture Redemption Reserve A/c** Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
31-3-18	To General reserve A/c		1,75,000	31-3-18	By Surplus in statement of profit and loss A/c		1,75,000
			1,75,000				**1,75,000**

Note : (1) As per section 17(4) with Rule 18(7) a banking company is not requird to create Debenture Redemption Reserve.

(2) As per new guidelines, infrastructure companies are also required to create debenture redemption reserve at 25 % of the nominal value of debentures. (Not expected in the exam)

- **When the provision of money for the redemption of debentures is out of profit :**

Illustration 20 : Pragna Limited redeemed 7 % debentures of ₹ 34,00,000 (face value) at a premium of 8 % as on 31-3-2018. For this, provision for money was made out of profit of the company. The company invested the required amount as on 30th April, 2017.

Pass journal entries for the redemption of debentures in the book of company with the assumptions that its fulfull provisions of Companies Act. Also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.

Ans. :

Journal of the Pragna Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
30-4-17	Debenture redemption investment A/c Dr		5,10,000	
	To Bank A/c			5,10,000
	[Being investment made at 15 % on ₹ 34,00,000, before redemption of debentures.]			
31-3-18	Bank A/c Dr		5,10,000	
	To Debenture redemption investment A/c			5,10,000
	[Being investment encashed for redemption of debentures.]			
31-3-18	Surplus in statement of profit and loss A/c Dr		34,00,000	
	To Debenture redemption reserve A/c			34,00,000
	[Being amount to create debenture redemption reserve A/c from profits, amount equal to the nominal value of redeemable debentures.]			
31-3-18	7 % debentures A/c Dr		34,00,000	
	Premium on redemption of debentures A/c Dr		2,72,000	
	To Debentureholders A/c			36,72,000
	[Being amount due on redemption of debentures with premium.]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
31-3-18	Debentureholders A/c	Dr		36,72,000	
	To Bank A/c				36,72,000
	[Being payment of amount due to debentureholders.]				
31-3-18	Debenture redemption reserve A/c	Dr		34,00,000	
	To General reserve A/c				34,00,000
	[Being transfer of balance of debenture redemption reserve A/c to general reserve A/c on the redemption of all the debentures.]				

Debenture Redemption Investment A/c

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To bank A/c		5,10,000	31-3-18	By bank A/c		5,10,000
			5,10,000				**5,10,000**

Debenture Redemption Reserve A/c

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
31-3-18	To general reserve A/c		34,00,000	31-3-18	To surplus in statement of profit and loss A/c		34,00,000
			34,00,000				**34,00,000**

Illustration 21 : Morbi Tiles Limited had issued 8 % debentures of ₹· 16,00,000, which are due to be redeemed out of profits on 1-11-2017 at a premium of 5 %. The company had a Debenture Redemption Reserve of ₹ 5,60,000. It was decided to invest the required amount in proper time in Debenture Redemption Investment.

Pass necessary journal entries for the redemption of debentures in the books of company and also prepare debenture redemption reserve A/c and debenture redemption investment A/c.

Ans. :

Journal Entries in the Books of Morbi Tiles Ltd.

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
31-3-17	Surplus in statement of profit and loss A/c	Dr		10,40,000	
	To Debenture redemption reserve A/c				10,40,000
	[Being necessary amount out of profit transfer to debenture redemption reserve A/c. (Working note no. 1)]				

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
30-4-17	Debenture redemption investment A/c	Dr		2,40,000	
	To Bank A/c				2,40,000
	[Being investment made at 15 % on ₹ 16,00,000 i.e. total face value of the redeemable debentures.]				
1-11-17	Bank A/c	Dr		2,40,000	
	To Debenture redemption investment A/c				2,40,000
	[Being amount received on investment for the redemption of debentures.]				
1-11-17	8 % debentures A/c	Dr		16,00,000	
	Premium on redemption of debentures A/c	Dr		80,000	
	To Debentureholders A/c				16,80,000
	[Being amount due on redemption of debentures.]				
1-11-17	Debentureholders A/c	Dr		16,80,000	
	To Bank A/c				16,80,000
	[Being payment of amount due to debentureholders.]				
1-11-17	Debenture redemption reserve A/c	Dr		16,00,000	
	To General reserve A/c				16,00,000
	[Being transfer amount of debenture redemption reverse account to general reserve account on the redemption of all the debentures.]				

Debenture Redemption Reserve A/c

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
1-11-17	To General reserve A/c		16,00,000	1-4-16	By Balance b/d		5,60,000
				31-3-17	By Surplus in statement of profit and loss A/c		10,40,000
			16,00,000				**16,00,000**

Debenture Redemption Investment A/c

Dr Cr

Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
30-4-17	To Bank A/c		2,40,000	1-11-17	By Bank A/c		2,40,000
			2,40,000				**2,40,000**

Working note no. 1 : Here, required amount for the redemption of debentures is allocated out of company's profit.

Total face value = ₹ 16,00,000

	₹
Required amount to create debenture redemption reserve A/c (100 %)	16,00,000
Less : Balance of debenture redemption reserve A/c, was in books of company	5,60,000
Balance amount transfer from surplus in statement of profit and loss	10,40,000

Note : (1) When debentures are redeemable at the end of the financial year then, at the end of the year amount transfered to debenture redemption reserve A/c is from surplus in statement of profit and loss of the respective year.

(2) If payment of redemption of debentures is to be done from capital then, an amount transfered from surplus in statement of profit and loss to debenture redemption reserve A/c is 25 % of total face value or nominal value of redemption of debentures.

(3) If payment of redemption of debentures is to be done from profit then, an amount transfered from surplus in statement of profit and loss to Debenture Redemption Reserve A/c is 100 % of total face value or nominal value of redemption of debentures.

(4) When debentures are redeemable during any time in between the financial year then, required amount is to be transfered from surplus in statement of profit and loss of the previous year to Debenture Redemption Reserve A/c. The amount to be transfered to Debenture Redemption Reserve Account has to be calculated as per note. no. 2 and no. 3.

(5) Required amount for Debenture Redemption Reserve can be transfered from surplus in statement of profit and loss of the current financial year or previous financial year by the company but before starting the redemption of debentures.

(6) If there is no clarification regarding required amount of redemption of debentures which is out of capital or out of profit then, calculate with the assumption that company has paid out of capital.

(2) Redemption of Debentures in Installments by Drawing of Lots : (Only theoretical)

According to this method, the debentures are redeemed by the company in annual installments. For example, if total debentures of ₹ 25,00,000 then from this ₹ 5,00,000 may be redeemed every year. The serial number of debentures which should be redeemed each year are selected by lottery. This procedure is known as "drawings by lots". Debentures are redeemed at par or at a premium, according to the terms of issue. Required amount is transfered to debenture redemption reserve account for redemption of debentures. For this, necessary rules are depicted earlier.

(3) Redemption of Debentures by the Purchase of Own Debentures in the Open Market :

According to the Companies Act, if authorised by company's articles of association, a company can purchase the own debentures in the open market. i.e. from recognised stock exchange instead of to redeem the debentures. This procedure is usually adopted by the company only when its debentures are quoted at a less price or at a discount on the stock exchange as compare to face value of debenture or amount of redemption of debenture.

After purchasing the debentures from the open market, the company may use either of the following two options :

(1) Company may immediately cancel the debentures purchased, after passing the resolution by Board of Directors.

(2) Company may not cancel the debentures but may keep with them. Company can issue them in future. When the company purchases own debentures in the market then, that debentures shall be treated as an **'Investment in the Own Debentures'** by the company.

(1) **When own debentures are purchased for immediate cancellation :**

In this situation, the following entries will be passed in the books of company :

- **When debentures are purchased at less price as compare to face value of the debentures :**

For example, if a company purchased its own 700 debentures of ₹ 100 each at ₹ 97 in the open market and immediately cancel them after purchase.

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Own debentures A/c Dr		67,900	
	To Bank A/c			67,900
	[Being 700 debentures purchased in the open market at ₹ 97 per debenture.]			
	Debenture A/c Dr		70,000	
	To Own debentures A/c			67,900
	To Profit on redemption of debentures A/c			2100
	[Being cancellation of own purchased debentures.]			

❐ Profit on redemption of debenture is a capital profit. This capital profit should be used to write off any capital loss in the company. e.g. discount on issue of debentures, premium on redemption of debentures etc.

❐ This capital profit if it is not used to write off any capital loss or if it is not used fully then, the balance will be transferred to capital reserve. The entry will be as under :

Profit on redemption of debentures A/c	Dr	....	
To Capital reserve A/c			....
To Capital loss A/c (if any)			....

- **When debentures are purchased at more price as compared to face value of the debentures :**

For example, if a company purchases its own 8000 debentures of ₹ 100 each at ₹ 104 in the open market and immediately cancels them after purchase then its accounting effects are shown here under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Own debentures A/c Dr		8,32,000	
	To Bank A/c			8,32,000
	[Being purchased 8000 debentures from the market at ₹ 104 per debenture.]			
	Debenture A/c Dr		8,00,000	
	Loss on redemption of debentures A/c Dr		32,000	
	To Own debentures A/c			8,32,000
	[Being cancellation of own purchased debentures.]			

- 'Loss on Redemption of Debentures A/c' is a capital loss. This capital loss is written off against capital profit or in the absence of capital profit is written off from statement of profit and loss :

	Capital profit (if any) A/c Dr **or** Statement of profit and loss A/c Dr To loss on redemption of debentures A/c		.... 	 ....

Note : When the company purchases own debentures in the open market and cancels this debentures then, as per the discussion in the earlier points, the required amount should be transfered to Debentures Redemption Reserve A/c and also to make debentures redemption investment according to provisions of Companies Act and SEBI guidelines.

If there is no clarification about this matter in an example or question, then give the effect for the given transaction with the assumption that company has made both these provisions.

(2) When the company purchases own debentures in the open market and these debentures are kept as 'Investment' :

Own debentures are purchased by the company from the open market and kept as investment instead of cancellation of these debentures. When a company has surplus funds, instead of investing these funds in the securities of other companies or any other securities, it buys its own debentures as investment. Due to this following are the advantages :

(i) Sometimes, the own debentures are available in the open market at discount i.e. at less than the face value.

(ii) Company has not to pay interest on own purchased debentures. Because company itself became a debentureholder.

(iii) Such debentures are kept alive and can again be sold off in the market.

Accounting effects :

For example, if a company purchases ₹ 80,000 of its own debentures at ₹ 76,000 from open market and kept this debentures as investment then, the entry will be :

	Investment in own debentures A/c Dr To Bank A/c		76,000 	 76,000

Here, investment will be shown at the same price i.e. price for the purchase of debentures. Profit or loss on the purchase is not recorded.

Investments in the own debentures will be shown normally as non-current assets on the assets side in the balance sheet as follows :

Balance Sheet of the Company

(II) Assets	(₹)
Non-current Assets :	
Own debentures (Face value ₹ 80,000)	76,000

Own debentures will be shown in the balance sheet as current or non-current assets depending on the time of cancellation.

Investment in own debentures used for debentures cancellation : When the company uses its investment in the own debentures for the cancellation of debentures in future then journal entries are to be passed as in following illustration :

For example, a company issued 9 % debentures of ₹ 1,60,000. The company purchased this debentures at ₹ 1,55,000 from the market for the investment.

The company has used this investment in the own debentures for the cancellation of issued debentures. Journal entries for cancellation of the debentures will be as under :

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
(i)	9 % debentures A/c Dr		1,60,000	
	To Investment in own debentures A/c			1,55,000
	To Profit on redemption of debentures A/c			5000
(ii)	Profit on redemption of debentures A/c Dr		5000	
	To Capital reserve A/c			5000

When investment in own debentures may be sold by company in open market :

When investment is done in the own debentures by the company itself and these debentures may be sold by the company in the open market then profit or loss realised from it, is treated as revenue profit or revenue loss. Which is transferred to statement of profit and loss.

Effect in statement of profit and loss : Profit on sale of "Investment in own debentures" in the market is shown under "Other Income" in the statement of Profit and loss.

Illustration 22 : Poojan Motors Limited issued 4000, 8 % debentures of ₹ 250 each. The board of directors purchased 1500 own debentures from the market at a price of ₹ 225 each for investment purpose. After few months, company sold these purchased debentures at ₹ 270 per debenture in the market.

Record necessary entries from the above transactions.

Ans. :

Journal of Poojan Motors Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1	Bank A/c Dr		10,00,000	
	To Debenture application and allotment A/c			10,00,000
	[Being application money received on 4000 debentures at ₹ 250 per debenture.]			
2	Debenture application and allotment A/c Dr		10,00,000	
	To 8 % debenture A/c			10,00,000
	[Being application money transfered to debenture A/c.]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
3	Investments in own debentures A/c	Dr		3,37,500	
	To Bank A/c				3,37,500
	[Being purchase of 1500 debentures at ₹ 225 each from the market for investment.]				
4	Bank A/c	Dr		4,05,000	
	To Investment in own debentures A/c				3,37,500
	To Profit on sale of investment A/c				67,500
	[Being investment in own debentures sold at ₹ 270 each.]				
5	Profit on sale of investment A/c	Dr		67,500	
	To Statement of profit and loss A/c				67,500
	[Being profit on sale of investment, due to revenue profit transferred to statement of profit and loss.]				

Note : The company is not required to create debenture redemption reserve and also there is no need to invest the 15 % amount because the debentures are purchased for investment and not for cancellation.

(4) Conversion of Debentures into Shares :

This is a method of redemption of debentures, where debentures can be redeemed by the issue of shares in lieu of debentures. As per the terms of the issue of debentures, a company can issue its equity or preference shares in lieu of debentures to the debentureholders.

When debentures are converted into shares, the following journal entries are passed :

(i)	Debenture A/c	Dr		....	
	To Debentureholders A/c				....
(ii)	Debentureholders A/c	Dr		....	
	To Equity share capital A/c				....
	or To Preference share capital A/c				....

Note : When debentures are converted into shares by the company then shares may be issued to debentureholders at par or at a premium. It means, when debentures are converted into shares then these shares may not be issued at a discount, otherwise it violates the provisions of Companies Act.

Illustration 23 : Prakhar Limited issued 8000; 7.5 % convertible debentures of ₹ 200 each at par as on April 1, 2014. As per the terms of issue of debentures, all the debentures will be converted into shares after 4 years and for this one equity share of ₹ 10 each will be issued at a premium of 25 % against each debenture.

As per the agreed terms, all the debentures are converted into shares as on April 1, 2018. Write necessary journal entries in the books of company.

Ans. : Calculation :

Total amount received on issue of debentures

8000 debentures × ₹ 200 = **₹ 16,00,000**

Price of each equity share to be issued against debentures

= ₹ 10 original price + ₹ 2.50 premium

= ₹ 12.50

No. of equity share to be issued against debentures

$= \frac{16,00,000}{12.50}$ = **1,28,000 shares**

Journal Entries in the Books of Company

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-4-2014	Bank A/c Dr To Debentures application and allotment A/c [Being receipt of application money on 8000 debentures of ₹ 200 each.]		16,00,000	 16,00,000
1-4-2014	Debentures application and allotment A/c Dr To 7.5 % debentures A/c [Being application money transfer to debenture A/c.]		16,00,000	 16,00,000
1-4-2018	7.5 % debentures A/c Dr To Debentureholders A/c [Being 8000 debentures to be converted at face value into equity shares.]		16,00,000	 16,00,000
1-4-2018	Debentureholders A/c Dr To Equity share capital A/c (1,28,000 shares × ₹ 10) To Securities premium reserve A/c (1,28,000 shares × ₹ 2.50) [Being 1,28,000 shares at ₹ 10 each at a premium of 25 % on it issued against 8000 debentures.]		16,00,000	 12,80,000 3,20,000

- **Redemption of debentures by different considerations :**

A company normally redeemed it's debentures by cash payment to the debentureholders at the time of redemption of debentures. However, sometimes, instead of paying cash for the redemption of debentures, the company might give consideration other than cash to debentureholders. For example, issue of new shares or new debentures as consideration to debentureholders. Thus, amount due on redemption of the debentures can be discharged by different considerations. For this, necessary terms should be mentioned at the time of issue of debentures.

Illustration 24 : On 1st January, 2014 R. K. P. Ltd. issued 30,000, 9 % debentures of ₹ 100 each. According to the terms of the issue of debentures, the debentures were to be redeemed at 5 % premium by giving 6 months notice at any time after 5 years. The redemption was to be made by cash or by issue of new shares or by issue of new debentures as per the option to be exercised by the debentureholders.

On 1st March, 2019 the company issued the required notice to the debentureholders for the redemption of the debentures. The company gave three options for the redemption of the debentures on 1st September, 2019 : (1) Redemption money will be paid in cash (2) Equity shares of ₹ 10 each will be issued at ₹ 12 per share (3) New 8 % debentures of ₹ 100 each will be issued at a price of ₹ 96 per debenture.

Holders of 9000 debentures accepted equity shares, holders of 12,000 debentures accepted the new 8 % debentures and the rest of debentureholders opted for cash as consideration.

With the assumption that company has fulfilled the provisions of Companies Act and SEBI guidelines, write the necessary journal entries to record the above transactions in the books of the company.

Ans. :

Journal Entries in the Books of R. K. P. Limited

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
1-1-2014	Bank A/c Dr		30,00,000	
	To Debentures application and allotment A/c			30,00,000
	[Being application money received on 30,000 debentures.]			
1-1-2014	Debenture application and allotment A/c Dr		30,00,000	
	Loss on issue of debentures A/c Dr		1,50,000	
	To 9 % debentures A/c			30,00,000
	To Premium on redemption of debentures A/c			1,50,000
	[Being application money transfer to debentures A/c and premium to be paid on redemption of debentures.]			
1-9-2019	9 % debenture A/c Dr		30,00,000	
	Premium on redemption of debentures A/c Dr		1,50,000	
	To Debentureholders A/c			31,50,000
	[Being amount due on 30,000 debentures with 5 % premium.]			
1-9-2019	Debentureholders A/c Dr		9,45,000	
	To Equity share capital A/c			7,87,500
	To Securities premium A/c			1,57,500
	[Being issue of 78,750 equity shares of ₹ 12 each to holders of 9000 debentures. (Note 1)]			

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
1-9-2019	Debentureholders A/c	Dr		12,60,000	
	Discount on debentures A/c	Dr		52,500	
	To 8 % debentures A/c				13,12,500
	[Being issue of 13,125 new debentures of ₹ 96 each to holders of 12,000 debentures. (Note 2)]				
1-9-2019	Debentureholders A/c	Dr		9,45,000	
	To Bank A/c				9,45,000
	[Being cash paid to holders of remaining 9000 debentures. (Note 3)]				

Note : (1) The amount payable to holders of 9000 debentures at the time of redemption

$= 9000 \times ₹\ 105 = ₹\ 9{,}45{,}000$. Against this equity shares are issued at ₹ 12 (₹ 10 + ₹ 2 premium) per share.

No. of equity shares $= \frac{9{,}45{,}000}{12} = \mathbf{78{,}750}$.

(2) The amount payable at the itme of redemption to holders of 12,000 debentures.

$= 12{,}000 \times ₹\ 105 = ₹\ 12{,}60{,}000$. Against this new 8 % debentures are issued at ₹ 96 (₹ 100 – ₹ 4 discount) per debenture.

No. of new debentures $= \frac{12{,}60{,}000}{96} = \mathbf{13{,}125}$.

(3) The amount payable at the time of redemption to holders of 9000 debentures in cash

$= 9000 \times ₹\ 105 =$ **₹ 9,45,000.**

13. Difference Between Share and Debenture

Point of Distinction	Shares	Debenture
(1) Type of capital	Share is a capital showing ownership and is called ownership security. A shareholder is considered as an owner of company.	Debenture is a borrowed capital. It is called creditorship security. The debentureholder is a creditor of the company.
(2) Certainity of return	No return will be available to the shareholder if the company does not make any profit. Moreover, even if the company makes a profit, dividend will be paid to the shareholders only if the board of directors recommend the dividend. Thus, there is no surety of the return.	Debentureholders are to be paid interest as per the terms of issue of the debentures irrespective of the fact whether the company makes a profit or loss.
(3) Charge or Security	Share being an ownership security, the company has not to offer any security against this.	Debenture being creditorship security, the company is generally required to create a fixed or floating charge on assets.

Point of Distinction	Shares	Debenture
(4) Rights	The shareholders have a right to take part in the administration of the company and have voting right.	Debentureholders do not have voting rights or the right to take part in the administration of the company.
(5) Restriction on issue at discount	Except SWEAT equity shares, Shares cannot be issued at discount. (As per companies act, 2013)	Debentures can be issued at a discount.
(6) Convertibility	Shares cannot be converted into debentures. So, this type of shares can not be issued.	Debentures can be converted into shares. So, this type of debentures can be issued.
(7) For redemption	A company is not required to return the share capital during its life time.	Generally, proceeds of debentures are to be repaid after a fixed period.
(8) At the time of liquidation	In case of liquidation or winding up of a company, the shareholders are paid any sum only if any amount is left after paying off all outside liabilities.	In case of liquidation of a company, the debentureholders are paid in priority to the shareholders.

EXERCISE

1. Select the correct option for each equation :

(1) Debenture is .... for a company.

(a) capital (b) receivable

(c) liability (d) asset

(2) Company gives .... on their debentures to debentureholders.

(a) dividend (b) interest

(c) share in profit (d) both interest and dividend

(3) At what rate debentures would be issued at discount ?

(a) 10 % (b) 5 %

(c) 20 % (d) rates as decided by board of directors

(4) The issued debentures by the company are shown under which head in the balance sheet ?

(a) Non-current liabilities (b) Share capital and reserves

(c) Current liabilities (d) Investments

(5) The amount of premium received on issuing debentures at premium is transferred to which account ?

(a) Capital reserve A/c (b) General reserve A/c

(c) Securities premium reserve A/c (d) Statement of profit and loss A/c

(6) The amount of premium received on issuing debentures at premium is ....

(a) revenue profit (b) capital loss

(c) revenue loss (d) capital profit

(7) When full amount of the debenture is called on application by the company then, that amount is credited to which account ?

(a) Debenture application A/c | (b) Debenture application and allotment A/c
(c) Debenture allotment A/c | (d) Debentureholders A/c

(8) Before the company decides to redeem the debentures out of capital, the company has to transfer .... % of total face value of issued debentures to debenture redemption reserve A/c.

(a) 10 | (b) 25
(c) 100 | (d) 15

(9) Before the company decides to redeem the debentures out of profit, the company has to transfer .... % of total face value of issued debentures to debenture redemption reserve A/c.

(a) 10 | (b) 25
(c) 100 | (d) 15

(10) As per companies rules 2014, the amount that is at least .... % of face value of the debentures to be redeemed by the end of financial year. i.e. 31st March, should be invested at the beginning of the year i.e. upto 30th April.

(a) 25 | (b) 15
(c) 100 | (d) 10

2. Give answer in two or three sentences :

(1) What is debenture ?
(2) Who is called debentureholder ?
(3) According to Companies Act, 2013, for what duration can a company issue debentures ?
(4) Under which head 'Securities premium reserve account' appears in the balance sheet ?
(5) What is meant by debenture discount ?
(6) Give the provision for writting off the amount of discount on debentures.
(7) What is meant by 'Issue of debentures for consideration other than cash' ?
(8) What is meant by 'Loss on issue of debentures' ?
(9) What are the arrangements by the company to fulfil the required amount for the redemption of debentures.
(10) Explain the methods of redemption of debentures.

3. Give answer of the following questions in detail :

(1) Explain the types of debentures.
(2) Explain the procedure for issue of debentures.
(3) Write a note on 'Debentures issued at a premium'.
(4) Write a note on 'Debentures issued at a discount'.
(5) Explain the accounting treatment of debentures issued as collateral security.
(6) Write a note on – 'Interest on debentures'.
(7) Write a note on – 'Redemption of debentures by the purchase of own debentures in the open market'.
(8) Distinguish between shares and debentures.

4. Sachin Marbel Limited issued 12,000 debentures of ₹ 100 each for public subscription. Interest is to be paid at the rate of 10 % p.a. The amount were called up per debenture as under :

with application ₹ 30

on allotment ₹ 45

on call ₹ 25

Application were received by company of 15,000 debentures. After allotment of 12,000 debentures, rejected excess application of debentures and refunded the money to applicants. All the amounts due on allotment and call were duly received. Write journal entries in the books of the company.

5. Garvi Cotton Limited issued 6000; 10 % debentures of ₹ 500 each at a premium of 40 %. On which the amount per debenture was payable as under :

with application ₹ 200

on allotment ₹ 300 (including premium)

on final call ₹ 200

Applications were received for a total of 9000 debentures, from this excess applications were rejected and refunded the money received theoreon. All the amounts due on allotment and call were duly received. Pass journal entries in the books of the company.

6. Pasvadal Steel Limited issued 15,000, 9 % debentures of ₹ 100 each at a price of ₹ 80 per debenture. The amount per debenture was payable as under :

₹ 25 with application

₹ 35 on allotment (after discount)

₹ 20 on call

The company received application for 15,000 debentures and all are sanctioned. The company received the full money called on allotment and received full amount on call. Except call on 800 debentures. Pass necessary journal entries in the books of company.

7. Dynamic Limited of Ankleshwar issued 30,000, 12 % debentures of ₹ 100 each, on which the amount per debenture was payable as under :

with application ₹ 35

on allotment ₹ 40

on first and final call ₹ 25

All the debentures were applied. Palak, the holder of 1000 debentures paid the entire amount on his holding on allotment. Where, Akash, the holder of 400 debentures failed to pay the allotment and call amount.

All the amount on allotment and call were duly received on all remaining debentures.

Pass necessary journal entries for the above transactions in the books of company.

8. Charmi Fashion Limited issued 1,20,000, 10 % debentures at the face value of ₹ 200 each at a premium of 10 %. Amount was payable as under :

with application ₹ 100 (including premium) and balance amount on allotment.

These debentures are redeemable after 7 years.

Applications are received by company for 1,50,000 debentures and the allotment of 1,20,000 debentures is made on pro-rata basis.

Excess amount on application is credited to allotment account. Amount due on allotment is fully received. Pass journal entries on the issue of debentures in the books of company.

9. Janki Marbal Ltd. of Palanpur issued 50,000, 11 % Debentures of ₹ 100 each at a premium of ₹ 20 per debenture. The full amount was payable on application. Applications were received by company for 60,000 debentures. Application for 10,000 debentures were rejected and the amount thereon was refunded to the applicants. Debentures were allotted to the remaining applications.

Pass necessary journal entries for the above transactions in the books of Janki Marbal Ltd.

10. Mansuri Limited of Dahod issued 8000, 10 % debentures of ₹ 100 each at a discount of 10 % as on 1-4-2017. The amount were payable as under :

₹ 30 with application;

₹ 35 on allotment and balance amount on final call.

Company received application of 10,500 debentures, of which 8000 debentures are allotted. Amount was refunded to the applicants on rejected applictions. All the moneys due on debentures were duly received.

Expenses on issue of debentures amounted to ₹ 22,000. Directors decided to write off $\frac{1}{5}$th amount of "Expenses on Issue A/c" and "Discount on debentures A/c" from statement of profit and loss each year.

Write journal entries for first year only from the above transactions in the books of company.

11. Aadinath Limited purchased machinery worth ₹ 18,00,000 from Shikhar Machinery Ltd. on 10-9-2017. ₹ 3,00,000 were paid immediately and the balance was paid by issue of ₹ 15,80,000, 9 % debentures in Aadinath Limited. Pass necessary journal entries in the books of Aadinath Ltd. If for the balance amount Adinath Ltd. pays ₹ 14,10,000 by 9 % debentures, then how will they write journal entry.

12. Voltas Electric Limited purchased following assets and liabilities from Navrang Traders :

Land-Building	₹ 8,00,000	Stock	₹ 2,25,000
Machinery	₹ 2,75,000	Debtors	₹ 80,000
Furniture	₹ 1,20,000	Creditors	₹ 80,000

Decided to pay for a purchase consideration of ₹ 15,36,000. Voltas Electric Ltd. paid the purchase consideration by issuing 11 % debentures of ₹ 100 each at a premium of 20 %.

Pass journal entries in the books of company.

13. A company had ₹ 21,00,000 issued 10.5 % debentures as on 1st April, 2017. During the year company took a loan of ₹ 5,50,000 from the bank as on 10th August, 2017. Against this company issued new 10.5 % debentures of ₹ 5,00,000 as collateral security.

Pass necessary journal entries under following methods from the above transactions in the books of the company.

If debentures are issued as collateral security : (1) is recorded in the books of company and (2) is not recorded in the books of company.

Show the details about debentures and bank loan in the company's balance sheet as on 31st March, 2018.

14. Alibaba Limited issued 18,000, 12 % debentures at the face value of ₹ 100 as on 1st April, 2017. Interest on these debentures is paid on 30th September and 31st March.

Pass journal entries of the above transactions for the year ended 31st March, 2018. Assuming income tax rate is 20 % for the calculation.

15. Write the journal entries only for the issue of debentures from the following transactions. (Without narration)

(1) Issued 8500, 9.5 % debentures of ₹ 100 each at par, redeemable also at par.

(2) Issued 9500, 9.5 % debentures of ₹ 100 each at discount of 10 %, redeemable at par.

(3) Issued 8000, 10 % debentures of ₹ 200 each at a premium of 10 %, redeemable at par.

16. Satyam Limited issued 12,000, 8 % debentures of ₹ 100 each at par as on 1-7-2017. These debentures are to be redeemed on 30-6-2023 at ₹ 115 per debenture.

Pass the necessary journal entries in the books of the company for issued and redemption of debentures (without narration).

17. On 1-4-2017 Shivam Limited issued 8000, 7.5 % debentures of ₹ 250 each at a discount of 5 %. All the debentures are to be redeemed after 5 years as on 31-3-2022 at a premium of 10 %. Write the necessary journal entries in the books of company (without narration).

18. On 1-7-2017 Sundaram Limited issued 14,000, 8 % debentures of ₹ 300 each at a premium of 5 %. These debentures are redeemed on 30-6-2023 at ₹ 330 per debenture.

Write the necesary journal entries in the books of company (without narration).

19. On 1-7-2017 Paras Pharma Limited issued 20,000, 9 % debentures of ₹ 400 each, are to be redeemed after 7 years at a premium of 12 %. As per conditions in prospectus the amount is payable on application ₹ 125 per debenture and balance amount at the time of allotment.

Pass the necessary journal entries for the issue of debentures in the books of the company.

20. Star Technology Limited issued 16,000, 8.5 % debentures of ₹ 100 each at a discount of 10 % as on 1-9-2017. All the debentures are redeemable at a premium of 8 % after 6 years. The amount was payable as follows :

On application ₹ 60 per debenture;

on allotment balance amount per debenture.

Pass the necessary journal entries for issue of debentures in the books of company.

21. Nupur Limited issued 16,000, 9 % debentures of ₹ 100 each at a premium of 10 % on 1st April, 2013, redeemable on 31st March, 2018. The issue was fully subscribed. The board of directors decided to transfer the required amount to Debenture Redemption Reserve as on 31st March, 2018 and debentures to be redeemed out of capital. They were also decided to invest required amount into Debenture Redemption Investment on 30th April, 2017.

Investments were sold on the date of redemption of debentures and required amount for redemption of debentures were paid to debentureholders.

Pass necessary journal entries for issue and redemption of debentures in the books of company and also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.

22. Hiteshi Limited issued 10,000, 11 % debentures of ₹ 200 each on April 1, 2014 at a premium of 6 %, which redeemable at a premium of 10 % on March 31, 2020.

According to provisions of Companies Act, the required investment was made in 7 % Gujarat State Government unencumbered securities on April 30 of the financial year in which redemption is due. For the redemption of debentures, the provision for money is to be made out of capital. Debentures were redeemed on the due date.

Pass journal entries for issue and redemption of debentures. Also prepare Debenture Redemption Investment A/c and debenture redemption reserve A/c.

23. Parth Engineering Limited redeemed 9 % debentures at face value of ₹ 30,00,000 at a premium of 12 % as on 31-3-2018. For this, provision for money was made out of profit of the company. The company invested the required amount as on 30th April, 2017.

Pass journal entries for the redemption of debentures in the books of company with the assumption that company has fulfilled provisions of Companies Act. Also prepare Debenture Redemption Investment A/c and Debenture Redemption Reserve A/c.

24. Munj software Limited redeemed ₹ 24,00,000, 12 % debentures at a premium of 8 % out of profit on 1-10-2017. The company had a Debenture Redemption Reserve of ₹ 11,00,000. It was decided to invest the required amount in proper time in debenture redemption investment as per companies act.

Pass necessary journal entries for the redemption of debentures in the books of company.

25. A company purchased its own 1500 debentures of ₹ 100 each at ₹ 96 in the open market and immediately cancels them after purchase. Pass journal entries in the books of company.

26. A company purchaed its own 6000 debentures of ₹ 400 each at ₹ 415 in the open market and immediately cancels them after purchase. Pass journal entries in the books of company.

27. Jaspreet Aperals Limited issued 6000, 12 % debentures of ₹ 300 each. The board of directors was purchased 2500 own debentures from the market at a price of ₹ 280 each for investment purpose. After few months, company sold these purchased debentures at ₹ 310 per debenture in the market.

Record necessary journal entries from the above transactions.

28. As on 1st April, 2014, Ravindra Copper Limited issued 12,000, 12.5 % convertible debentures of ₹ 400 each at par. As per the terms of issue of debentures, all the debentures will be converted into equity shares of ₹ 10 each at a premium of 50 % after 5 years.

On 1st April, 2019, debentures were converted into equity shares as per the agreed terms. Pass the necessary journal entries in the books of company.

29. On 1st January, 2014, Rajan Limited issued 8000, 11 % debentures of ₹ 100 each. According to terms of the issue of debentures, the debentures were to be redeemed at 6 % premium by giving 6 months notice at any time after 4 years. The redemption of debentures was to be made by cash or by preference shares or by new debentures as per the option to be exercised by the debentureholders.

On 1st March, 2018, the company issued the required notice to the debentureholders for the redemption of the debentures.

The company gave three option for the redemption of the debentures on 1st March, 2018.

(1) Amount will be paid in cash.

(2) 9 % preference shares of ₹ 100 each will be issued at ₹ 130 per share.

(3) New 7 % debentures of ₹ 100 each will be issued at ₹ 96 each.

Holders of 3600 debentures accepted new debentures, holders of 3315 debentures accepted preference shares and rest opted for cash.

Write the necessary journal entries to record above transactions.

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3

Company Final Accounts

1. Introduction

Financial statements of a company are of atmost importance for its shareholders, tax authorities, analysts, management and other stackeholders. They give information about financial performance and position of a company. Section 129(1) of the Companies Act, 2013 lays down that the financial statements shall give a true and fair view of the statement of affairs of the company or companies. They should also comply with the accounting standards notified under section 133 and shall be in the form or forms as may be provided for different class or classes of companies in schedule III. Items contained in such financial statements shall be in accordance with the accounting standards. Section 129(1) also provides that nothing contained in this sub-section shall apply to any insurance or banking company or any company engaged in the generation or supply of electricity or to any other class of company for which a form of financial statement has been specified in or under the act governing such class of company.

In this chapter, we shall discuss about preparation of balance sheet and statement of profit and loss of company as per Companies Act, 2013.

2. Meaning of Financial Statements

Financial statements are statements presenting accounting information in brief at the end of accounting process for an accounting period. Financial statements provide information regarding financial results to its internal and external users.

As per section 2(40) of the Companies Act, 2013, "Financial statement" in relation to company includes –

(i) A balance sheet as at the end of the financial year

(ii) A profit and loss account or in case of a entity carrying on any activity not for profit, an income and expenditure account for the financial year

(iii) Cash flow statement for the financial year

(iv) A statement of changes in equity, if applicable

(v) Notes related to the accounts

It should be noted that balance sheet shows the financial position as at a particular point of time and hence its title should be "Balance Sheet as at ....". Profit and loss statement shows financial performance for the period ended on a particular date which is usually a year end hence its title should be "Profit and Loss Statement for the Year Ended ....". If profit and loss account is prepared for any period, shorter or longer than a year, the word "Period" issued. For example, a company is incorporated on 1st October, 2016 and its first profit and loss statement is prepared for 6 months upto 31-3-2017. In this case the title should be "Profit and Loss Statement for Period Ended 31-3-2017" or "Profit and Loss Statement for Six Months Ended 31-3-2017".

3. Financial Year

According to section 2(41) of the Companies Act, 2013, "Financial year" in relation to any company or body corporate, means the period ending on the 31st March of every year. If company is incorporated on or after the 1st day of January of a year, the financial period ends on the 31st day of March of the following year. Generally financial year is of 12 months for the period starting from 1st April and ending on 31st March.

4. Characteristics of Financial Statements

Following are some of the characteristics of financial statements :

(1) Financial statements are called historical statements as they are related to past period.

(2) Figures stated in financial statements are expressed in terms of money.

(3) Financial statements are based on recorded facts and do not include even significant facts which are not recorded in the books. For example, self generated goodwill of the company is not recorded as no cost is incurred for acquisition thereof.

(4) Profit and Loss Account shows profit or loss for a given period and thus gives idea about the financial performance of a company.

(5) Balance sheet shows position of equity, liabilities and assets as at a particular point in time, thus gives an idea about the financial position of a company.

(6) Financial statements are prepared based on generally accepted accounting principles.

(7) Preparation of financial statement involves personal judgement in respect of some items where options are available under law for different treatments. For example, the person preparing accounts is free to select any alternative out of alternatives available for method of valuation of inventory and method of providing depreciation.

5. Objectives of Preparing Financial Statements

Following are some of the objectives of preparation of financial statements :

(1) To know about true and fair view of financial performance of a company.

(2) To know the true and fair view of financial position of a company.

(3) To comply with legal requirements.

(4) To communicate financial information of the company to various interested parties.

6. Form of Balance Sheet and General Instructions

Part I of schedule III to the Companies Act, 2013 gives form of Balance sheet. Balance sheet of a company must be prepared as per this format. Schedule III gives only vertical format. The format of balance sheet is given on page no. 118.

Balance Sheet

Name of the company ....

Balance Sheet as at : ....

Particulars (1)	**Note No.** (2)	**Figures as at the end of current year** (₹) (3)	**Figures as at the end of previous year** (₹) (4)
I Equity and Liabilities :			
(1) Shareholders' funds :			
(a) Share capital			
(b) Reserves and surplus			
(c) Money received against share warrants			
(2) Share Application Money Pending Allotment			
(3) Non-current Liabilities			
(a) Long term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other long term liabilities			
(d) Long-term provisions			
(4) Current Liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
Total			
II Assets :			
(1) Non-current Assets :			
(a) Fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work in progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			

(2) Current Assets :			
(a) Current investments			
(b) Inventories			
(c) Trade receivables			
(d) Cash and cash equivalents			
(e) Short-term loans and advances			
(f) Other current assets			
Total			

Note : There are four columns in vertical profit and loss account of a company. Balance sheet has two main headings : (i) Equity and Liabilities (ii) Assets. Equity and liabilities and assets and their sub heads are shown in first column of particulars. Every head has subheads. Subheads also comprise of various items. The size of balance sheet becomes abnormal if all items are shown at one place. Therefore subheads are shown under main head. Notes to the accounts are prepared for every number shown against subhead to show various items of each such subhead. Which is explained later on. Third column shows figures for current year and figures for previous year are shown in fourth column, so that the figures of two years can be compared by a person who wants to study financial statements. Statements of profit and loss is prepared in the same manner by preparing same columns.

- **General Instructions for Preparation of Balance Sheet :**

(1) An asset shall be classified as current if it satisfies any of the following criteria :

(a) When it is expected to be realised in, or is intended for sale or consumption in, the company's normal operating cycle. (b) If it is held primarily for the purpose of being traded. (c) If it is expected to be realised within 12 months after the reporting date.

The process of conversion of cash into raw material, conversion of raw material into finished goods, conversion of finished goods into debtor and finally conversion of debtor into cash is called as operating cycle.

Assets other than current assets are classified as non-current assets.

(2) A liability shall be classified as current, if it satisfies any of the following criteria :

(a) If it is expected to be setteled in the company's normal operating cycle. (b) If it is held primarily for the purpose of being traded. (c) If it is due to be settled within twelve months after the reporting date. All other liabilities except current liabilities are classified as non-current liabilities.

(3) A receivable shall be classified as a "Trade receivable" if it is in respect of the amount due on account of goods sold or services rendered in the normal course of business.

(4) A payable shall be classified as a "Trade payable" if it is in respect of the amount due on account of goods purchased or services received in normal course of business.

(5) A company shall disclose the following in the notes to accounts.

(I) Equity and liabilities :

(1) Shareholders' funds :

(A) Share capital :

For each class of share capital (Different classes of preference shares to be treated seperately.)

(a) the number and amount of shares authorised

(b) the number of shares issued, subscribed and fully paid and subscribed but not fully paid

(c) Par value per share

(d) a reconciliation of the number of shares outstanding at the beginning and at the end of the reporting period
(e) the rights, preferences and restrictions attaching to each class of shares including restrictions on the distribution of dividends and the repayment of capital
(f) shares in the company held by each shareholder holding more than 5 percent shares specifying the number of shares held
(g) terms of any securities convertible into equity/preference shares issued along with the earliest date of conversion in descending order starting from the farthest such date
(h) calls unpaid
(i) forfeited shares (amount originally paid-up)

(B) Reserves and surplus

(i) Reserves and surplus shall be classified as :
(a) Capital reserves
(b) Capital redemption reserves
(c) Securities premium reserve
(d) Debenture redemption reserve
(e) Revaluation reserve
(f) Share options outstanding account
(g) Other reserves like dividend equalisation reserve, investment reserve etc.
(h) Surplus i.e. balance in statement of profit and loss discolsing allocations and appropriations such as dividend, bonus shares and transfer to/from reserves etc.

(ii) A reserve specifically represented by earmarked investments shall be termed as a "fund".

(iii) Debit balance of statement of profit and loss shall be shown as a negative figure under the head "surplus". Similarly, the balance of "Reserves and surplus", after adjusting negative balance of surplus, if any, shall be shown under the head "Reserves and surplus" even if the resulting figure is in the negative.

(C) Money received against share warrants :

(2) Share application money pending allotment :

(3) Non-current liabilities :

(a) Long-term borrowings :

(i) Long-term borrowings shall be classified as :
(a) Bond/debentures
(b) Term loans : (A) from banks (B) from other parties
(c) Deferred payment / liabilities
(d) Deposits
(e) Loans and advances from related parties
(f) Long term maturities of financial lease obligations
(g) Other loan and advances

(ii) Borrowings shall further be sub-classified as secured and unsecured.

(iii) Where loans and advances have been guaranteed by directors or others, the aggregate amount of such loans under each head shall be disclosed.

(iv) Bonds/debentures along with the rate of interest and particulars of redemption or conversion shall be stated in descending order of maturity.

(v) Terms of repayment of term loans

(vi) Particulars of default in repayment of loans and interest, as on the balance sheet date.

(b) **Deferred tax liabilities :**

(c) **Other long-term liabilities :**

Other long-term liabilities shall be classified as :

(a) Trade payables

(b) Others like provident fund, pension fund, gratuity fund etc.

(d) **Long-term provisions :**

(4) **Current liabilities :**

(a) **Short-term borrowings :**

(i) Short-term borrowings shall be classified as :

(a) Loans repayable on demand

(A) from banks (B) from other parties

(b) Loans and advances from related parties

(c) Deposits

(d) Other loans and advances

(ii) Borrowings shall further be sub-classified as secured and unsecured. Nature of security shall be specified seperately in each case.

(iii) Where loans have been guaranteed by directors or others, the aggregate amount of such loans and advances.

(iv) Period and amount of default as on the balance sheet date in repayments of loans and interest shall be specified seperately in each case.

(b) **Trade payables :**

(c) **Other current liabilities :**

Other current liabilities shall be classified as :

(a) Current maturities of long term debt

(b) Current maturities of finance lease obligations

(c) Interest accrued but not due on borrowings

(d) Interest accrued and due on borrowings

(e) Income received in advance

(f) Unpaid dividends

(g) Application money received for allotment of securities and due for refund and interest accrued thereon.

(h) Unpaid matured deposits and interest accrued thereon.

(i) Unpaid matured debentures and interest accrued thereon.

(j) Other payables.

(k) Others like calls received in advance.

(d) **Short-term provisions :**

Short-term provisions shall be classified as :

(a) Provision for employee benefit

(b) Other provisions like provision for tax, proposed dividend, provision for bad debt etc

(II) **Assets :**

(1) **Non-current assets :**

(a) **Fixed assets :**

(i) **Tangible assets :**

Tangible assets shall be classifed as :

(i) (a) Land (b) Building (c) Plant and equipments

(d) Furniture and fixtures (e) Vehicles (f) Office equipments

(g) Others

(ii) Lease hold assets

(ii) **Intangible assets :**

Intangible assets shall be classified as :

(a) Goodwill

(b) Brand / Trademark

(c) Computer software

(d) Publishing rights

(e) Mining rights

(f) Copyrights and Patents

(g) Recipes, formulae and technical know-how

(h) Licenses and franchise

(i) Others

(iii) **Capital work in process :**

(iv) **Intangible assets under development :**

(b) **Non-current investments :**

Intangible assets shall be classified as :

(a) Investments in property

(b) Investments in equity instruments

(c) Investments in preference shares

(d) Investments in government and trust securities

(e) Investments in debentures and bonds

(f) Investments in mutual funds

(g) Investments in partnership firms

(h) Other non-current investments

(c) **Deferred tax assets (Net) :**

(d) **Long-term loans and advances :**

(i) Long-term loans and advances shall be classified as :

(a) Capital advances

(b) Loans and advances to related parties

(c) Other loans and advances

(ii) The above loans and advances shall also be seperately sub-classified as :

(a) Secured

(b) Unsecured

(c) Doubtful

(e) **Others non-current assets :**

Other non-current assets shall be classified as :

(a) Long-term trade receivables

(b) Others

(2) **Current assets :**

(a) **Current investments :**

Current investments shall be classified as :

(a) Investments in equity instruments

(b) Investments in preference shares

(c) Investments in government and trust securities

(d) Investments in debentures or bonds

(e) Investments in mutual funds

(f) Investments in partnership firms

(g) Other investments e.g. short-term investments

(b) **Inventories :**

Inventories shall be classified as :

(a) Raw materials

(b) Work-in-progress

(c) Finished goods

(d) Stock-in-trade

(e) Stores and spares

(f) Loose tools

(g) Others e.g. goods in transit

(c) **Trade receivables :**

Trade receivables shall be classified as :

(a) Debtors

(b) Bills receivables

(d) **Cash and cash equivalents :**

Cash and cash equivalents shall be classified as :

(a) Balances with banks

(b) Cheques, drafts on hand

(c) Cash on hand

(d) Others

(e) **Short-term loans and advances :**

Loans and advances given for a period of less than 12 months shall be included in short-term loans and advances.

(f) **Other current assets :**

Prepaid expenses, income due but not received, tax paid in advance, deferred revenue expenditure or fictitious assets to be written off during 12 months after the date of balance sheet. e.g. Debenture discount, Advertisement suspense account etc.

- **Contingent liabilities (To the extent not provided for)**

Contingent liabilities shall be classified as :

(a) Claims against the company not acknowledged as debt

(b) Guarantees given by the company

(c) Unpaid calls on shares purchased as investments

(d) Liabilities of incomplete contract

Note : Money received against share warrant, share application money pending allotment, deferred tax liability and deferred tax assets etc. are not expected to be asked in the exam in the question of preparation of balance sheet. These balances are mentioned here as they are given in the format of balance sheet as per schedule III of Companies Act, 2013.

7. Form of Profit and Loss Statement and General Instructions :

Part II of schedule III to the Companies Act, 2013 gives form of statement of profit and loss. Profit and loss account of a company must be prepared as per this format. Schedule III gives only vertical format. This form is as under :

Statement of Profit and Loss

Name of the Company ....

Profit and Loss Statement for the Year Ended ....

Particulars (1)	Note No. (2)	Figures of current year (₹) (3)	Figures of previous year (₹) (4)
I Revenue from Operations (Sales)			
II Other Income			
III Total Revenue (I + II)			
IV Expenses			
Cost of material consumed			
Purchase of stock-in-trade			
Changes in inventories work-in-progress, finished goods and stock-in-trade.			
Employee benefit expense			
Finance costs			
Depreciation and amortisation expense			
Other expenses			
Total expenses			
V Profit before exceptional and extraordinary items and tax (III − IV)			
VI Exceptional items			
VII Profit before extraordinary items and tax (V − VI)			
VIII Extraordinary items			
IX Profit before tax (VII − VIII)			
X Tax expense :			
(a) Current tax			
(b) Deferred tax			

XI Profit (loss) for the period from continuing operations (IX − X) **XII Profit (loss) from discontinuing operations** **XIII Tax expense of discontinuing operations** **XIV Profit (loss) from discontinuing operations** **XV Profit (loss) for the period (XI − XIV)** **XVI Earning per equity share :** (a) Basic (b) Diluted			

- **General Instructions for Preparation of Statement of Profit and Loss :**

(1) This instructions shall apply to the income and expenditure account in the similar manner as they apply to a statement of profit and loss.

(2) (A) In respect of a company other than a finance company revenue from operations shall disclose seperately in the notes revenue from :

(a) Sale of product

(b) Sale of services

(c) Other operating revenues

(B) In respect of finance company, revenue from operations shall include revenue from

(a) Interest and

(b) Other financial services

(3) **Finance Expenses :**

Finance costs shall be classified as :

(a) Interest expense

(b) Other borrowing costs

(c) Applicable net gain/loss on foreign currency transactions and translation

(4) **Other Income :**

Other income shall be classified as :

(a) Interest income

(b) Dividend income

(c) Net gain/loss on sale of investments

(d) Other non-operating income e.g. bad debt return

(5) **Employee Benefit Expenses :**

Employee benefit expenses shall be classified as :

(a) Salary and wages

(b) Contribution to provident fund

(c) Expense on employee stock option scheme

(d) Staff welfare expenses

(6) **Finance Cost :**

Interest paid and outstanding interest on loan, debentures, public deposits, bonds and bank overdraft shall be shown as finance cost.

(7) **Depreciation and Amortisation Expenses :**

Depreciation on fixed assets for current year, intangible assets written off, leasehold assets written off and fictitious assets written off like research and developemnt expenses, advertisement campaign expenses, debenture discount etc. shall be shown as depreciation and amortisation expenses.

(8) **Other Expenses :**

Office and administrative expenses, selling and distribution expenses, audit fee, bad debt, provision for bad debt for current year, loss on sale of assets, bank charges and commission etc. shall be shown as other expenses.

Note : Exceptional items, extraordinary items, deferred tax, profit or loss of continuing and discontinuing operations and earning per share is not expected in the question of preparation of statement of profit and loss and hence these items will not be asked in the examination. These items are shown here because they are given in schedule III of Companies Act, 2013.

Balance sheet and statement of profit and loss as per schedule III of Companies Act, 2013 are given only for explanation. For the purpose of examinations, balance sheet and statement of profit and loss and their subheads shown below are to be considered.

Balance Sheet

Name of Company

Balance sheet as at ....

Particulars	**Note No.**	**As at .... (₹)**
I Equity and Liabilities :		
(1) Shareholder's funds :		
(a) Share capital	1	
(b) Reserves and surplus	2	
(2) Non-current liabilities :		
(a) Long-term borrowings	3	
(b) Other long-term liabilities	4	
(c) Long-term provisions	5	
(3) Current liabilities :		
(a) Short-term borrowings	6	
(b) Trade payables	7	
(c) Other current liabilities	8	
(d) Short-term provisions	9	
Total		

II Assets :		
(1) Non-current Assets :		
(a) Fixed assets		
(i) Tangible assets	10	
(ii) Intangible assets	11	
(b) Non-current investments	12	
(c) Long-term loans and advances	13	
(d) Others non-current assets	14	
(2) Current Assets :		
(a) Current investments	15	
(b) Inventories	16	
(c) Trade receivables	17	
(d) Cash and cash equivalents	18	
(e) Short-term loans and advances	19	
(f) Others current assets	20	
Total		

Following information is expected to be studied as notes on heads and subheads of balance sheet.

1. Share Capital :		
Authorised share capital :		
.... Equity shares of ₹ .... each		✓
.... Preference shares of ₹ .... each		✓
Issued share capital :		
.... Equity shares of ₹ .... each		✓
.... Preference shares of ₹ .... each		✓
Subscribed share capital :		
(i) Subscribed and fully paid up share capital :		
.... Equity shares of ₹ .... each		✓
.... Preference shares ₹ .... each		✓
(ii) Subscribed but not fully paid up share capital :		
.... Equity shares of ₹ .... each		
₹ .... per share called up	✓	
Less : Calls in arrears	✓	✓
.... Preference shares of ₹ .... each		
₹ .... per share called up	✓	
Less : Calls in arrears	✓	✓
(iii) Forfeited shares account :		✓
		✓✓✓

2.	**Reserves and Surplus :**		
	Surplus : As per statement of profit-loss	✓	
	Less : Appropriation of profit		
	General reserve	✓	
	Proposed dividend	✓	✓
	Security premium reserve		✓
	General reserve	✓	
	+ Appropriation	✓	✓
	Capital reserve		✓
	Debenture redemption reserve		✓
	Dividend equalisation fund		✓
	Reserve fund		✓
	Workers' accident compensation fund		✓
	Investment fluctuation reserve		✓
	Loss as per statement of profit and loss		(✓)
			✓
3.	**Long-Term Borrowings :**		
	Debenture		✓
	Long-term loan or term loan		✓
	Bond		✓
	Public deposit		✓
			✓
4.	**Other Long-Term Liabilities :**		
	Premium on redemption of debentures		✓
	Premium on redemption of preference shares		✓
			✓
5.	**Long-Term Provisions :**		
	Provident fund, gratuity fund		✓
	Pension fund		✓
	Workers' profit sharing fund		✓
	Workers' savings account		✓
			✓
6.	**Short-Term Borrowings :**		
	Short-term loans (for less than 12 months)		✓
	Bank overdraft, cash credits		✓
			✓

7.	**Trade payables :**	
	Creditors	✓
	Bills payable	✓
		✓
8.	**Other Current Liabilities :**	
	Outstanding expenses, income received in advance	✓
	Unclaimed dividend	✓
	Debenture and premium on redemption payable during next 12 months	✓
	Calls in advance, advance received from customers, outstanding interest on debentures	✓
		✓
9.	**Short-Term Provisions**	
	Provision for tax	✓
	Proposed dividend	✓
		✓
II	**Assets :**	
10.	**Fixed assets : Tangible :**	
	Land-building	✓
	Plant-machinery	✓
	Furniture and fixtures	✓
	Vehicles	✓
	Tools and equipments	✓
	Lease hold asset	✓
		✓
11.	**Fixed assets : Intangible :**	
	Goodwill	✓
	Patents	✓
	Trademark	✓
	Copyright	✓
	Licence	✓
	Software	✓
	Frenchise	✓
		✓

12. Non-Current Investments :	
Provident fund investments	✓
Debenture redemption fund investments	✓
Shares of subsidiary company	✓
Shares and debentures of other company (for more than 12 months)	✓
Fixed deposit with bank (for more than 12 months)	✓
Government securities (for more than 12 months)	✓
Units of mutual fund (for more than 12 months)	✓
	✓
13. Long-Term Loans and Advances :	
Loan to employee (for more than 12 months)	✓
Custom deposit	✓
Telephone deposit	✓
Electricity deposit	✓
	✓
14. Other Non-Current Assets :	
Debenture discount (to be written off after next 12 months)	✓
Advertisement campaign expenditure (to be written off after next 12 months)	✓
Research and development expenditure (to be written off after next 12 months)	✓
	✓
15. Current Investments :	
Shares and debentures of other company (for less than 12 months)	✓
Marketable securities (for less than 12 months)	✓
Government securities (for less than 12 months)	✓
Units of mutual fund (for less than 12 months)	✓
	✓
16. Inventories :	
Stock of raw material	✓
Stock of semi finished goods	✓
Stock of finished goods	✓
Stock in trade	✓
Loose tools	✓
Spare parts	✓
Consumable stores	✓
Goods in transit	✓
	✓

17. Trade Receivables :	
Debtors	✓
Bills receivables	✓
	✓
18. Cash and Cash Equivalents :	
Cash on hand	✓
Bank balance	✓
Cheques and drafts on hand	✓
	✓
19. Short-Term Loans and Advances :	
Loan advanced for less than 12 months	✓
Advances to suppliers (for less than 12 months)	✓
	✓
20. Other Current Assets :	
Prepaid expenses	✓
Income due but not received	✓
Advertisement campaign expenditure to be written off during next 12 months	✓
Debenture discount to be written off during next 12 months	✓
Research and development expenditure to be written off during next 12 months	✓
	✓

Statement of profit and loss for the purpose of examination is to be prepared containing following details :

Name of Company ....

Statement of Profit and Loss for the Year Ending ....

	Particulars	**Note No.**	**As on .... (₹)**
I	Revenue from operations (sales)	1	
II	Other incomes	2	
III	Total revenue (I + II)		
IV	Expenses		
	Purchase	3	
	Changes in stock	4	
	Direct expenses	5	
	Employee benefit expenses	6	
	Finance cost	7	

	Depreciation and amortisation	8	
	Others expenses	9	
	Total expenses		
V	Profit before tax (III – IV)		
VI	Provision for tax		
VII	Profit after tax (V – VI)		

Following particulars of revenue and expenses in the statement of profit and loss are to be considered for the purpose of examination :

	Particulars	(₹)
(1)	**Revenue From Operation :**	
	Sales	✓
	Less : Sales return	✓
		✓
(2)	**Other Incomes :**	
	Interest and dividend received	✓
	Bad debt recovered	✓
	Profit on sale of asset	✓
		✓
(3)	**Net Purchases :**	
	Total purchases	✓
	Less : Purchase return	✓
		✓
(4)	**Change in Stock :**	
	Opening stock	✓
	Less : Closing stock	✓
		✓
(5)	**Direct Expenses :**	
	Wages	✓
	Carriage inward, freight	✓
		✓
(6)	**Employee Benefit Expenses :**	
	Salary	✓
	Bonus, Commission	✓
	Contribution to provident fund	✓
		✓
(7)	**Finance Cost :**	
	Interest on bond or debenture	✓
	Interest on loan or public deposit	✓
	Interest on bank overdraft	✓
	Interest on short-term loan	✓
		✓

(8) **Depreciation and Amortisation :**	
Depreciation on fixed assets	✓
Goodwill, Patents, Trademark etc. intangible assets written off	✓
Debenture discount written off	✓
Advertisement campaign expenses written off	✓
Research and development expenses written off	✓
	✓
(9) **Others Expenses :**	
Postage, stationery	✓
Rent	✓
Audit fee	✓
Office and administrative expenses	✓
Sales expenses	✓
Bad debt written off	✓
	✓

Illustration 1 : How will you show following balances in balance sheet of a company as per shedule III of Companies Act, 2013.

(1) Equity share capital
(2) Calls in arrears
(3) Forfeited shares account
(4) Calls in advance
(5) Securities premium
(6) General reserve
(7) Debenture
(8) Creditors
(9) Loss as per statement of profit and loss
(10) Public deposit

Ans. :

Particulars	Balance sheet head	Main head	Sub head
(1) Equity share capital	Equity and liabilities	Shareholders' funds	Share capital
(2) Calls in arrears	Equity and liabilities	Shareholders' funds	Deducted from share capital
(3) Forfeited shares A/c	Equity and liabilities	Shareholders' funds	Share capital
(4) Calls in advance	Equity and liabilities	Current liabilities	Other current liabilities
(5) Securities premium	Equity and liabilities	Shareholders' funds	Reserves and surplus
(6) General reserve	Equity and liabilities	Shareholders' funds	Reserves and surplus
(7) Debentures	Equity and liabilities	Non-current liabilities	Long-term borrowings
(8) Creditors	Equity and liabilities	Current liabilities	Trade payables
(9) Loss as per statement of profit and loss	Equity and liabilities	Shareholders' funds	Reserves and surplus (Deducted from sum of reserve balances.)
(10) Public deposit	Equity and liabilities	Non-current liabilities	Long-term borrowings

Illustration 2 : How will you show following balances in balance sheet of a company as per schedule III of Companies Act, 2013 ?

(1) Proposed dividend
(2) Unclaimed dividend
(3) Bond
(4) Bills payable
(5) Debenture redemption reserve
(6) Term loan
(7) Reserve fund
(8) Advance received from customers
(9) Outstanding interest on debentures
(10) Bank overdraft

Ans. :

Particulars	Balance sheet head	Main head	Sub head
(1) Proposed dividend	Equity and liabilities	Current liability	Short-term provisions
(2) Unclaimed dividend	Equity and liabilities	Current liability	Other current liability
(3) Bond	Equity and liabilities	Non-current liability	Long-term borrowings
(4) Bills payable	Equity and liabilities	Current liability	Trade payables
(5) Debenture redemption reserve	Equity and liabilities	Shareholders' funds	Reserves and surplus
(6) Term loan	Equity and liabilities	Non-current liability	Long-term borrowings
(7) Reserve fund	Equity and liabilities	Shareholders' funds	Reserves and surplus
(8) Advance received from customers	Equity and liabilities	Current liability	Others current liabilities
(9) Outstanding interest on debentures	Equity and liabilities	Current liability	Others current liabilities
(10) Bank overdraft	Equity and liabilities	Current liability	Short-term borrowings

Illustration 3 : How will you show following balances in balance sheet of a company as per schedule III of Companies Act, 2013 ?

(1) Debenture redeemable during next year
(2) Cash credit from bank
(3) Provision for tax
(4) Rent received in advance
(5) Short-term loan (credit balance)
(6) Provision for gratuity
(7) Workmen accident compensation fund
(8) Preference share capital
(9) General reserve
(10) Premium on debentures, redeemable during next year
(11) Calls in advance on shares

Ans. :

Particulars	Balance sheet head	Main head	Sub head
(1) Debentures redeemable during next year	Equity and liabilities	Current liability	Other current liability
(2) Cash credit from bank	Equity and liabilities	Current liability	Short-term borrowings
(3) Provision for tax	Equity and liabilities	Current liability	Short-term provision
(4) Rent received in advance	Equity and liabilities	Current liability	Other current liability

Particulars	Balance sheet head	Main head	Sub head
(5) Short-term loan (credit balance)	Equity and liabilities	Current liability	Short-term borrowings
(6) Provision for gratuity	Equity and liabilities	Non-current liability	Long-term provisions
(7) Workmen accident compensation fund	Equity and liabilities	Shareholders' funds	Reserves and surplus
(8) Preference share capital	Equity and Liabilities	Shareholders' funds	Share capital
(9) General reserve	Equity and liabilities	Shareholder's funds	Reserves and surplus
(10) Premium on redemption of debentures, redeemable during next year	Equity and liabilities	Current Liability	Other current liability
(11) Calls in advance on shares	Equity and liabilities	Current Liability	Other current liability

Illustration 4 : Prepare statement indicating equity and liabilities of balance sheet as per schedule III of Companies Act, 2013 from the following balances :

Trade payables	₹ 30,000	Share capital	₹ 2,00,000
Long-term provisions	₹ 60,000	Short-term provisions	₹ 35,000
Reserves and surplus	₹ 80,000	Long-term borrowings	₹ 1,20,000
Other Current Liabilities	₹ 25,000	Other long-term liabilities	₹ 76,000
Short-term borrowings	₹ 24,000		

Ans. :

Balance Sheet

Particulars	Note No.	Amt. (₹)	As on ....(₹)
Equity and Liabilities :			
(1) Shareholders' funds :			
(a) Share capital		2,00,000	
(b) Reserves and surplus		80,000	2,80,000
(2) Non-current Liabilities :			
(a) Long-term borrowings		1,20,000	
(b) Other long-term liabilities		76,000	
(c) Long-term provisions		60,000	2,56,000
(3) Current Liabilities			
(a) Short-term borrowings		24,000	
(b) Trade payables		30,000	
(c) Other Current Liabilities		25,000	
(d) Short-term provisions		35,000	1,14,000
Total			**6,50,000**

Illustration 5 : Following balances are extracted from books of Shaan Ltd. on 31-3-2017. From these balances, prepare statement indicating equity and liabilities of balance sheet as per schedule III of Companies Act, 2013.

Particulars	(₹)
26,000 equity shares of ₹ 10 each	2,60,000
9 % loan from Bank of Baroda	50,000
Proposed dividend	18,000
Bills payable	10,000
Surplus as per statement of profit and loss	50,000
Provident fund	70,000
Bank overdraft	17,000
Outstanding salary	30,000

Ans. :

Balance Sheet of Shaan Ltd. as on 31-3-2017

Particulars	Note No.	Amt. (₹)	Amt. (₹)
Equity and Liabilities :			
(1) **Shareholders' funds :**			
(a) Share capital (Equity share capital)		2,60,000	
(b) Reserves and surplus (Surplus as per statement of profit and loss)		50,000	3,10,000
(2) **Non-current liabilities :**			
(a) Long-term borrowings (9 % loan from Bank of Baroda)		50,000	
(b) Other long-term liabilities		–	
(c) Long-term provisions (Provident fund)		70,000	1,20,000
(3) **Current liabilities :**			
(a) Short-term borrowings (Bank overdraft)		17,000	
(b) Trade payables (Bills payable)		10,000	
(c) Other Current Liabilities (Outstanding salary)		30,000	
(d) Short-term provisions (Proposed dividend)		18,000	75,000
Total			**5,05,000**

Illustration 6 : Following balances are taken from books of Kuber Limited as on 31-3-2017. State how these balances will be shown as per schedule III of Companies Act, 2013.

(1) Land-building
(2) Shares of subsidiary company
(3) Debtors
(4) Closing stock
(5) Short-term investments
(6) Bank balance
(7) Goodwill
(8) Furniture
(9) Custom deposit
(10) Trademark
(11) Prepaid insurance premium
(12) Bills receivable

(13) Stores and spare parts
(14) Loan to employees
(15) Government securities (Maturity date 30-6-2017)
(16) Prepaid taxes
(17) Fixed deposit with bank (Maturity date 31-3-2020)
(18) Loose tools
(19) Loan to directors (Temporary)
(20) Investments in provident fund

Ans. :

Particulars	Balance sheet head	Main head	Sub head
(1) Land-building	Assets	Non-current assets	Fixed assets - tangible
(2) Share of subsidiary	Assets	Non-current assets	Non-current investments
(3) Debtors	Assets	Current assets	Trade receivables
(4) Closing stock	Assets	Current assets	Inventories
(5) Short-term investments	Assets	Current assets	Current investments
(6) Bank balance	Assets	Current assets	Cash and cash equivalents
(7) Goodwill	Assets	Non-current assets	Fixed assets - intangible
(8) Furniture	Assets	Non-current assets	Fixed assets - tangible
(9) Custom deposit	Assets	Non-current assets	Long-term loan and advances
(10) Trademark	Assets	Non-current assets	Fixed assets - intangible
(11) Prepaid insurance premium	Assets	Current assets	Others Current Assets
(12) Bills receivable	Assets	Current assets	Trade receivables
(13) Stores and spare parts	Assets	Current assets	Inventories
(14) Loan to employees	Assets	Non-current assets	Long-term loans and advances
(15) Government securities (Maturity date 30-6-2017)	Assets	Current assets	Current investments
(16) Prepaid Taxes	Assets	Current assets	Other current assets
(17) Fixed deposit with bank (Maturity date 31-3-2020)	Assets	Non-current assets	Non-current Investments
(18) Loose tools	Assets	Current assets	Inventories
(19) Loan to director (Temporary)	Assets	Current assets	Short-term loans and advances
(20) Investment in provident fund	Assets	Non-current assets	Non-current investments

Illustration 7 : How will you show following balances in balance sheet of a company as per Schedule III of Companies Act, 2013 ?

(1) Loose tools
(2) Leasehold Assets
(3) Debenture redemption fund investments
(4) Electricity deposit
(5) Debentures of other company (Redeemable during next year)
(6) Advance given to creditors
(7) Copyrights
(8) Debenture discount (To be written off during next year)
(9) Debenture discount (To be written off after next year)
(10) Units of mutual fund (For short period)
(11) Shares of other company (For long term)
(12) Work-in-progress
(13) Vehicles
(14) Chqeue received from debtors
(15) Interest accrued on investment
(16) Computer
(17) Computer software
(18) Rent paid in advance
(19) Machinery
(20) Machinery (To be sold during next year)

Ans. :

Particulars	Balance sheet head	Main head	Sub head
(1) Lose tools	Assets	Current assets	Inventories
(2) Leasehold assets	Assets	Non-current assets	Fixed assets - tangible
(3) Debenture redemption fund investments	Assets	Non-current assets	Non-current investments
(4) Electricity deposit	Assets	Non-current assets	Long-term loans and advances
(5) Debentures of other company (Redeemable during next year)	Assets	Current assets	Current investments
(6) Advance given to creditors	Assets	Current assets	Short-term loans and advances
(7) Copyrights	Assets	Non-current Assets	Fixed assets - intangible

Particulars	Balance sheet head	Main head	Sub head
(8) Debenture discount (To be written off during next year)	Assets	Current assets	Others current assets
(9) Debenture discount (To be written off after next year)	Assets	Non-current assets	Others non-current assets
(10) Units of mutual fund (for short-term)	Assets	Current assets	Current investments
(11) Shares of other company (for long-term)	Assets	Non-current assets	Non-current investments
(12) Work-in-progress	Assets	Current assets	Inventories
(13) Vehicles	Assets	Non-current assets	Fixed assets - tangible
(14) Cheque received from debtors	Assets	Current assets	Cash and cash equivalents
(15) Interest accrued on investment	Assets	Current assets	Others current assets
(16) Computer	Assets	Non-current assets	Fixed assets - tangible
(17) Computer software	Assets	Non-current assets	Fixed assets - intangible
(18) Rent paid in advance	Assets	Current assets	Other aurrent assets
(19) Machinery	Assets	Non-current assets	Fixed assets - tangible
(20) Machinery (To be sold next year)	Assets	Current assets	Other current assets

Illustration 8 : Following balances are taken from books of Vijay Ltd. as on 31-3-2017. Prepare statement indicating assets of balance sheet as on 31-3-2017 as per scheduled-III of Companies Act, 2013.

Balances	(₹)
(1) Fixed assets - tangible	8,00,000
(2) Cash and cash equivalents	60,000
(3) Long-term loans and advances	34,000
(4) Inventory	43,000
(5) Other non-current assets	31,000
(6) Non-current investments	27,000
(7) Current investments	29,000
(8) Trade receivables	56,000
(9) Short-term loans and advances	40,000
(10) Other current assets	10,000
(11) Fixed assets - intangible	50,000

Ans. :

Balance Sheet of Vijay Ltd. as at 31-3-2017

Particulars	Note No.	Amt. (₹)	As on 31-3-2017 (₹)
Assets :			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible		8,00,000	
(ii) Intangible		50,000	
(b) Non-current investments		27,000	
(c) Long-term loans and advances		34,000	
(d) Others non-current assets		31,000	9,42,000
(2) Current assets :			
(a) Current investments		29,000	
(b) Inventories		43,000	
(c) Trade receivables		56,000	
(d) Cash and cash equivalents		60,000	
(e) Short-term loans-advances		40,000	
(f) Other current assets		10,000	2,38,000
Total			**11,80,000**

Illustration 9 : Following balances are extracted from books of Gujarat Ltd. as on 31-3-2017. Prepare statement indicating assets of balance sheet as per schedule-III of Companies Act, 2013.

Balances	(₹)
(1) Interest accrued	3000
(2) Plant-machinery	6,00,000
(3) Cash on hand	37,000
(4) Trademark	20,000
(5) Debtors	42,000
(6) 10 % Narmada bond	70,000
(7) Loose tools	18,000
(8) Telephone deposit	30,000
(9) Units of mutual fund (Temporary)	10,000

Ans. :

Balance Sheet of Gujarat Ltd. as at 31-3-2017

Particulars	**Note No.**	**Amt. (₹)**	**Amt. (₹)**
Assets :			
(1) Non-current assets :			
(a) Fixed assets			
(i) Tangible (Plant-machinery)		6,00,000	
(ii) Intangible (Trademark)		20,000	
(b) Non-current investments (10 % Narmada bond)		70,000	
(c) Long-term loans and advances (Telephone deposit)		30,000	
(d) Other non-current assets		–	7,20,000
(2) Current assets :			
(a) Current investments (Units of mutual fund - Temporary)		10,000	
(b) Inventory (Loose tools)		18,000	
(c) Trade receivables (Debtors)		42,000	
(d) Cash and cash equivalents (Cash on hand)		37,000	
(e) Short-term loans and advances		–	
(f) Other current assets (Interest accrued)		3000	1,10,000
Total			**8,30,000**

Illustration 10 : Following balances are extracted from books of Star Ltd. Prepare balance sheet as per Schedule-III of Companies Act, 2013 as at 31-3-2017.

Balances	**(₹)**
(1) Accrued commission	20,000
(2) Land-building	10,00,000
(3) Equity share capital	10,00,000
(4) Bank balance	45,000
(5) General reserve	20,000
(6) Closing stock	1,80,000
(7) Creditors	4,00,000
(8) Debtors	2,30,000
(9) 10 % Debentures	1,30,000
(10) Debenture redemption fund investments	30,000
(11) Custom deposit	1,25,000
(12) Gratuity fund	20,000
(13) Provision for taxation	60,000

Ans. :

Balance Sheet of Star Ltd. as at 31-3-2017

		Particulars	Note No.	Amt. (₹)	Amt. (₹)
I	**Equity and Liabilities :**				
(1)	**Shareholders' funds :**				
	(a)	Share capital (Equity share capital)		10,00,000	
	(b)	Reserves and surplus (General reserve))		20,000	10,20,000
(2)	**Non-current liabilities :**				
	(a)	Long-term borrowings (10 % Debentures)		1,30,000	
	(b)	Other long-term liabilities		–	
	(c)	Long-term provisions (Gratuity fund)		20,000	1,50,000
(3)	**Current liabilities**				
	(a)	Short-term borrowings		–	
	(b)	Trade payables (Creditors)		4,00,000	
	(c)	Others Current Liabilities		–	
	(d)	Short-term provisions (Provision for tax)		60,000	4,60,000
		Total			**16,30,000**
II	**Assets :**				
(1)	**Non-current assets :**				
	(a)	Fixed assets			
		(i) Tangible (Land-building)		10,00,000	
		(ii) Intangible		–	
	(b)	Non-current investments (Debenture redemption fund investments)		30,000	
	(c)	Long-term loans-advances (Custom deposit)		1,25,000	
	(d)	Other non-current assets		–	11,55,000
(2)	**Current assets :**				
	(a)	Current investments		–	
	(b)	Inventory (Closing stock)		1,80,000	
	(c)	Trade receivables (Debtors)		2,30,000	
	(d)	Cash and cash equivalents (Bank balance)		45,000	
	(e)	Short-term loans and advances		–	
	(f)	Other current assets		20,000	4,75,000
		Total			**16,30,000**

Illustration 11 : Under which head will you show following balances in statement of profit and loss as per schedule III of Companies Act, 2013 ?

(1) Sales
(2) Salary
(3) Interest and dividend received
(4) Income from scrap
(5) Depreciation
(6) Telegram and postage
(7) Interest on loan
(8) Bonus
(9) Bank charges
(10) Sales expenses

Ans. :

Balance	Head
(1) Sales	Revenue from operation
(2) Salary	Employee benefit expenses
(3) Interest and dividend received	Other incomes
(4) Income from scrap	Other incomes
(5) Depreciation	Depreciation and amortisation
(6) Telegram and postage	Other expenses
(7) Interest on loan	Finance costs
(8) Bonus	Employee benefit expenses
(9) Bank charges	Other expenses
(10) Sales expenses	Other expenses

Illustration 12 : Prepare statement of profit and loss of Paras Ltd. from the following information for the year ended on 31-3-2017 as per schedule-III of Companies Act, 2013.

Particulars	Amt. (₹)
Cost of material consumed	6,25,000
Change in stock of finished goods	40,000
Employees salary and provisions for employees	2,60,000
Sales	12,70,000
Interest paid	30,000
Office and sales expenses	52,000
Depreciation on fixed assets	28,000
Profit on sale of asset	35,000
Provision for tax, 50 % of profit	

Ans. :

Statement of Profit and Loss for the Year Ended on 31-3-2017

	Particulars	Note No.	Amt. (₹)	For the year ended on 31-3-2017 (₹)
I	Revenue from operation		12,70,000	
II	Other incomes		35,000	
III	**Total revenue (I + II)**			**13,05,000**
IV	**Expenses :**			
	Cost of material consumed		6,25,000	
	Change in stock of finished goods		40,000	
	Employee benefit expenses		2,60,000	
	Finance costs		30,000	
	Depreciation		28,000	
	Other expenses		52,000	
	Total expenses			**10,35,000**
V	Profit before tax (III – IV)			2,70,000
VI	Provision for tax			1,35,000
VII	Profit after tax (V – VI)			1,35,000

Illustration 13 : Prepare statement of profit and loss of Shree Sahjanand Ltd. from the following balances for the year ending on 31st March, 2017 as per schedule-III of Companies Act, 2013.

Particulars	Amt. (₹)
Office and sales expenses	40,000
Sales	16,00,000
Salary	5,00,000
Wages	40,000
Purchase	7,10,000
Opening stock	60,000
Debenture interest	20,000
Profit on sale of investments	26,000
Closing stock	70,000
Provision for tax	1,63,000

Ans. : Statement of Profit and Loss of Shree Sahjanand Ltd. for the Year Ending on 31-3-2017

	Particulars	Note No.	Amt. (₹)	Amt. (₹)
I	Revenue from operation (Sales)		16,00,000	
II	Other incomes (Profit on sale of investments)		26,000	
III	**Total revenue (I + II)**			**16,26,000**
IV	**Expenses :**			
	Purchase		7,10,000	
	Change in stock of finished goods		(10,000)	
	(Opening stock ₹ 60,000 − Closing stock ₹ 70,000)			
	Employee benefit expenses (Salary + Wages)		5,40,000	
	Finance costs (Debenture interest)		20,000	
	Depreciation		–	
	Other expenses (Office and sales expenses)		40,000	
	Total expenses			**13,00,000**
V	Profit before tax (III − IV)			3,26,000
VI	Provision for tax			1,63,000
VII	Profit after tax (V − VI)			**1,63,000**
	(Transferred to Balance sheet)			

Illustration 14 : Following is the trial balance of Shivam Ltd. as on 31-3-2017 :

Particulars	Debit (₹)	Credit (₹)
Inventories	1,10,000	
Fixed assets - tangible	8,00,000	
5000 equity shares of ₹ 100 each		5,00,000
Sales		7,50,000
Other incomes		20,000
Employee benefit expenses	1,30,000	
Long-term borrowings		3,50,000
Finance costs	17,500	
Trade payables		1,00,000
Trade receivables	40,000	
Cash and bank balance	60,000	
Depreciation	22,500	
Cost of goods sold	4,00,000	
Non-current investments	1,40,000	
	17,20,000	**17,20,000**

Additional Information : Provision for tax ₹ 80,000.

Prepare final accounts of the company as per schedule-III of Companies Act, 2013.

Ans. : **Statement of Profit and Loss of Shivam Ltd. for the Year Ending on 31-3-2017**

	Particulars	Note No.	Amt. (₹)	Amt. (₹)
I	Revenue from operation (Sales)		7,50,000	
II	Other income		20,000	
III	**Total incomes (I + II)**			**7,70,000**
IV	**Expenses :**			
	Cost of goods sold		4,00,000	
	Employee benefit expenses		1,30,000	
	Finance costs		17,500	
	Depreciation		22,500	
	Other expenses		–	
	Total expenses			**5,70,000**
V	Profit before tax (III – IV)			2,00,000
VI	Provision for tax			80,000
VII	Profit after tax (V – VI)			**1,20,000**
	(Transferred to Balance sheet)			

Balance Sheet of Shivam Ltd. as at 31-3-2017

	Particulars	Note No.	Amt. (₹)	Amt. (₹)
I	**Equity and Liabilities :**			
(1)	**Shareholders' funds :**			
	(a) Share capital		5,00,000	
	(b) Reserves and surplus (Net profit)		1,20,000	6,20,000
(2)	**Non-current liabilities :**			
	(a) Long-term borrowings		3,50,000	3,50,000
(3)	**Current liabilities**			
	(a) Trade payables		1,00,000	
	(b) Short-term Provision		80,000	1,80,000
	Total			**11,50,000**

Particulars	Note No.	Amt. (₹)	Amt. (₹)
II Assets :			
(1) Non-current assets :			
(a) Fixed assets : Tangible		8,00,000	
(b) Non-current investments		1,40,000	9,40,000
(2) Current assets :			
(b) Inventory		1,10,000	
(c) Trade receivables		40,000	
(d) Cash and cash equivalents (Cash and bank balance)		60,000	2,10,000
Total			**11,50,000**

Explanation :

(1) As cost of goods sold is given in the question, purchase and change in stock will not be recorded in statement of profit and loss because cost of goods sold = purchase + opening stock – closing stock.

(2) Provision for tax ₹ 80,000 is given as an adjustment, therefore it will have two effects : (i) Deducted from profit before tax in the statement of profit and loss (ii) Shown as short-term provision in balance sheet.

(3) Other expenses, other long-term liabilities, long-term provisions, other current liabilities, intangible fixed assets, long-term loans and advances, other non-current assets, short-term loan are not given in the question.

Exericse

1. Select correct alternative for each question :

(1) Financial statements of a company includes ....
- (a) statement of profit and loss and balance sheet
- (b) cash flow statement and statement showing changes in equity
- (c) notes to the accounts
- (d) all of above

(2) It is compulsory to prepare statement of profit and loss and balance sheet in .... form as per schedule III of Companies Act, 2013.
- (a) horinzontal or T
- (b) vertical
- (c) statement of profit and loss is horizontal and balance sheet vertical
- (d) statement of profit and loss is vertical and balance sheet horizontal

(3) .... is/are compulsory to prepare in specified form as per schedule III of Companies Act, 2013.
- (a) Balance sheet
- (b) Statement of profit and loss
- (c) Balance sheet and statement of profit and loss both
- (d) Neither balance sheet nor statement of profit and loss

(4) For .... it is compulsory to prepare statement of profit and loss and balance sheet in specified vertical form.

(a) sole proprietorship

(b) partnership

(c) all companies

(d) companies except insurance company, electricity company and banking company

(5) Balance sheet is prepared .... while statement of profit and loss is prepared ....

(a) for a particular accounting period, as at particular date

(b) as at particular date, for a particular accounting period

(c) as at particular date, as at particular date

(d) for a particular accounting period, for a particular accounting period

(6) .... shows financial position of a company while .... shows financial performance of a company.

(a) Statement of profit and loss, cash flow statement

(b) Balance sheet, cash flow statement

(c) Statement of profit and loss, balance sheet

(d) Balance sheet, statement of profit and loss

(7) Assets and liabilities of a company are classified into .... and .... as per Companies Act, 2013.

(a) current, fixed (b) fixed, fixed

(c) for short-term, for long-term (d) current, non-current

(8) .... assets is considered as current asset.

(a) Convertible into cash during 12 months after the date of balance sheet

(b) Realisable during 12 months after the date of balance sheet

(c) Consumable within 12 months after the date of balance sheet

(d) All of above

(9) A machine to be sold during 12 months after the date of balance sheet is considered as .... as per Companies Act, 2013.

(a) fixed asset (b) non-current asset

(c) current asset (d) expense

2. Answer in two or three sentences :

(1) What is financial statements ?

(2) What is included in financial statements ?

(3) State characteristics of financial statements.

(4) State objectives of preparing financial statements.

(5) State main headings of equity and liabilities side of balance sheet as per schedule-III of Companies Act, 2013.

(6) Show the classification of non-current liabilities.

(7) Show the classification of current liabilities as per schedule-III of Companies Act, 2013.