UNIT 7

COMPANY ACCOUNTS

Contents

Points to recall

The following points are to be recalled before learning company accounts:

- Joint stock company
- Double entry system

Learning objectives

To enable the students to

- Understand the statutory provisions regarding issue, forfeiture and reissue of shares.
- Understand the accounting treatment for issue, forfeiture and reissue of shares.

Key terms to know

- Preference shares
- Equity shares
- Over subscription
- Pro rata allotment
- Calls in advance
- Calls in arrear

7.1 Introduction

Student activity 7.1

Read the following. What do you find in common? What do they mean to you?

Tamil Nadu Newsprint and Papers Limited (TNPL)

Bharath Heavy Electricals Limited (BHEL)

Infosys Limited

Indial Oil Corporation Limited

Human needs and wants are ever growing. In order to meet them production must be carried on, on a large scale. For this, large amount of capital, modern technology and managerial skills are needed for business units. Sole proprietorship and partnership firms may not be able to raise large amount of capital to equip themselves with these. To overcome this limitation, the concept of 'Company form of organisation' came into existence. The capital of companies is divided into small units called shares. Capital needed by the company could be raised by inviting the general public to buy shares and invest in the business. These investors are called shareholders or members of the company. The money raised by issuing shares is called share capital. Profits are distributed among the shareholders in the form of dividends.

It is not practical for all the members to take part in the management of the company. So, they appoint, at the annual general meeting, board of directors who take part in the management of the business. The liability of the shareholders is limited to the face value of shares. A limited company differs from other forms of business units. It has a separate legal entity.

7.2 Meaning and definition of a company

Company is a voluntary association of persons which has separate legal entity. It has perpetual succession and the liability of the members is limited.

According to Lord Justice Lindley, "A company is an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business and who share the profit and loss arising there from. The common stock so contributed is denoted in money and is the capital of the company. The persons who contributed in it or form it, or to whom it belongs, are members. The proportion of capital to which each member is entitled is his share".

7.3 Characteristics of a company

Following are the characteristics of a company:

(a) **Voluntary association**: A company is a voluntary association of persons. No law can compel persons to form a company.

(b) **Separate legal entity**: Company is an artificial person. It has a separate legal entity which is separate and distinct from its members.

(c) **Common seal**: A company may have a common seal which can be affixed on the documents.

(d) **Perpetual succession**: A company continues for ever. Its continuity is not affected by the changes in its members. It can be wound up only by law.

(e) **Limited liability**: The liability of the shareholders of the company is limited to the extent of face value of the shares held by them.

(f) **Transferability of shares**: The shares of a company are freely transferable except incase of a private company.

7.4 Meaning and types of shares

The capital of a company is divided into small units of fixed amount. These units are called shares. The shares which can be issued by a company are of two types (i) preference shares and (ii) equity shares.

(i) Preference shares

Preference shares are the shares which have the following two preferential rights over the equity shares:

(a) Preference towards the payment of dividend at a fixed rate during the life time of the company and

(b) Preference towards the repayment of capital on winding up of the company.

(ii) Equity shares

Equity shares are those shares which are not preference shares. These shares do not enjoy any preferential rights. Rate of dividend is not fixed on equity shares and it depends upon the profits earned by the company. Incase of winding up of a company equity shareholders are paid after the payments are made to preference shareholders. Equity shares are also known as ordinary shares.

7.5 Divisions of share capital

The share capital of a company is divided into the following categories:

(i) Authorised capital

It means such capital as is authorised by the memorandum of association. It is the maximum amount which can be raised as capital. It is also known as registered capital or nominal capital.

(ii) Issued capital

This represents that part of authorised capital which is offered for subscription.

(iii) Subscribed capital

It refers to that part of issued capital which has been applied for and also allotted by the company.

(iv) Called up capital

It refers to that part of subscribed capital which has been called up by the company for payment.

(v) Paid up capital

It is that part of called up capital which has been actually paid by the shareholders.

(vi) Reserve capital

The company can reserve a part of its subscribed capital to be called up only at the time of winding up. It is called reserve capital.

Student activity 7.2

A company's annual report contains the following data. The face value of its shares is ₹ 10 each. Identify the company's registered capital, issued capital, subscribed capital and called up capital. Also find out the number of shares the company had issued.

- ₹ 5,00,000
- ₹ 2,00,000
- ₹ 3,00,000
- ₹ 3,50,000

7.6 Issue of equity shares

A public company may raise capital by issue of equity shares through the following ways:

1 Public issue
2 Private placement
3 Rights issue
4 Bonus issue

1. Public issue

Issue of equity shares to the public through prospectus by a public company is called public issue. It includes initial public offer and further public offer.

2. Private placement

Private placement means any offer of equity shares or invitation to subscribe equity shares to a select group of persons by a company (other than by way of public offer) through issue of a private placement offer letter and which satisfies the conditions specified in Section 42 of the Indian Companies Act, 2013.

3. Rights issue

Issue of equity shares to the existing shareholders of the company through a letter of offer is known as rights issue.

4. Bonus issue

Issue of equity shares to the existing shareholders of the company at free of cost out of accumulated profit is known as bonus issue.

7.7 Process of issue of equity shares

A company can issue shares as per the provisions of the Indian Companies Act and as per the guidelines issued by Securities and Exchange Board of India (SEBI).

(i) **Inviting subscription:** A public company has to issue a prospectus and invite the general public to subscribe for its shares.

(ii) **Receipt of application:** On the basis of the prospectus, applications are deposited in a scheduled bank by the applicants along with application money within the time specified. Application money must be at least 5 per cent of the nominal value of the shares.

(iii) **Allotment of shares:** When the minimum subscription stated in the prospectus has been subscribed for by the public, a company can allot shares. For those to whom shares could not be allotted, their application money will be refunded. If the minimum subscription is not received, all the application money received has to be refunded to the applicants.

DO YOU KNOW?

As per Section 39 of the Indian Companies Act, 2013, application money must be at least 5 per cent of the nominal value of shares or such other percentage or amount as may be specified by the Securities Exchange Board by making regulations. As per SEBI guidelines, the minimum application money shall not be less than 25 per cent of the issue price.

A company may issue equity shares either for cash or for consideration other than cash. When shares are issued for cash, the cash may be received (a) in instalments or (b) at one time (lumpsum).

7.8 Issue of shares for cash in instalments

The share capital may be received through instalments as below:

First instalment called application money

Second instalment called allotment money

Third instalment called first call money

The last instalment called final call money

After allotment, whenever the need arises call can be made. Call is a demand by a company to the shareholders holding partly paid up shares to pay further instalments towards the purchase price of shares. There may be more than one call. These calls can be differentiated by serial numbers such as first call, second call, third call and so on. The last instalment will be the final call. The words 'and final' will also be added to the last call. Example, if third call is the final call, it will be termed as 'third and final call'.

DO YOU KNOW?

Calls are to be made as provided in the Articles of Association of a company. In the absence of the required provisions in the Articles, Table F, Schedule I of the Indian Companies Act, 2013 will be applicable which has the following provisions:

Period of one month must elapse between two calls.

The amount of one call should not be more than 25% of the face value of the share.

Equity shares may be issued for cash at par or at premium. When a company issues shares at a price equal to the face value (nominal value), it is known as issue at par. When a company issues shares at a price more than the face value, the shares are said to be issued at premium. The excess is called as premium.

(i) When shares are issued for cash at par:

Following are the journal entries to be passed:

Date	Particulars		L.F.	Debit ₹	Credit ₹
	1. On receipt of application money				
	Bank A/c	Dr.		xxx	
	To Equity share application A/c				xxx
	2. On allotment of shares, to transfer share application money				
	Share application A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	3. On refund of application money for rejected applications				
	Equity share application A/c	Dr.		xxx	
	To Bank A/c				xxx
	4. For allotment money due				
	Equity share allotment A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	5. On receipt of allotment money				
	Bank A/c	Dr.		xxx	
	To Equity share allotment A/c				xxx
	6. On making call for the call money due				
	Equity share call A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	7. On receipt of call money				
	Bank A/c	Dr.		xxx	
	To Equity share call A/c				xxx

Illustration 1

Thai Ltd. issued 1,00,000 equity shares of ₹ 10 each, payable ₹ 5 on application, ₹ 2 on allotment, ₹ 2 on first call and ₹ 1 on final call. All the shares are subscribed and amount was duly received. Pass journal entries.

Solution

In the books of Thai Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c	Dr.		5,00,000	
	To Equity share application A/c				5,00,000
	(Application money received)				
	Equity share application A/c	Dr.		5,00,000	
	To Equity share capital A/c				5,00,000
	(Transfer of share application money to share capital)				
	Equity share allotment A/c	Dr.		2,00,000	
	To Equity share capital A/c				2,00,000
	(Share allotment money due)				
	Bank A/c	Dr.		2,00,000	
	To Equity share allotment A/c				2,00,000
	(Allotment money received)				
	Equity share first call A/c	Dr.		2,00,000	
	To Equity share capital A/c				2,00,000
	(Share first call money due)				
	Bank A/c	Dr.		2,00,000	
	To Equity share first call A/c				2,00,000
	(Share first call money received)				
	Equity share second and final call A/c	Dr.		1,00,000	
	To Equity share capital A/c				1,00,000
	(Share second and final call money due)				
	Bank A/c	Dr.		1,00,000	
	To Equity share second and final call A/c				1,00,000
	(Share second and final call money received)				

7.8.1 Under subscription

All the shares offered to the public may not be subscribed in full. When the number of shares subscribed is less than the number of shares offered, it is known as under subscription. Under such circumstance, all those who have duly applied will obtain allotment provided minimum subscription as mentioned in the prospectus has been subscribed.

Illustration 2

Joy Company issued 10,000 equity shares at ₹ 10 per share payable ₹ 5 on application, ₹ 3 on allotment and ₹ 2 on first and final call. The public subscribed for 9,000 shares. The directors allotted all the 9,000 shares and duly received the money. Pass the necessary journal entries.

Solution

In the books of Joy Company
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (9,000 × 5)	Dr.		45,000	
	To Equity share application A/c				45,000
	(Application money received)				
	Equity share application A/c	Dr.		45,000	
	To Equity share capital A/c				45,000
	(Transfer of application money to share capital A/c)				
	Equity share allotment A/c	Dr.		27,000	
	To Equity share capital A/c				27,000
	(Allotment money due)				
	Bank A/c	Dr.		27,000	
	To Equity share allotment A/c				27,000
	(Allotment money received)				
	Equity share first and final call A/c	Dr.		18,000	
	To Equity share capital A/c				18,000
	(Call money due)				
	Bank A/c	Dr.		18,000	
	To Equity share first and final call A/c				18,000
	(Call money received)				

7.8.2 Over subscription

When the number of shares applied for is more than the number of shares offered for subscription, it is said to be over subscription. This situation can be dealt with as per any of the following three alternatives:

(a) Some applications are accepted in full and others are totally rejected. Application money is returned to the applicants for rejected applications.

(b) All applications are allotted in proportion of shares applied for. This is called pro rata allotment. Excess application money may be returned or may be retained for adjustment towards allotment money and call money.

(c) A combination of the above two may be applied.

Illustration 3

Bharath Ltd. issued 1,00,000 equity shares of ₹ 10 each to the public at par. The details of the amount payable on the shares are as follows:

On application	₹ 5 per share
On allotment	₹ 3 per share
On first and final call	₹ 2 per share

Application money was received for 1,20,000 shares. Excess application money was refunded immediately. Pass journal entries to record the above.

Solution

In the books of Bharath Ltd.

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (1,20,000 × 5)	Dr.		6,00,000	
	To Equity share application A/c				6,00,000
	(Application money received)				
	Equity share application A/c (1,00,000 × 5)	Dr.		5,00,000	
	To Equity share capital A/c				5,00,000
	(Transfer of share application money to share capital)				
	Equity share application A/c (20,000 × 5)	Dr.		1,00,000	
	To Bank A/c				1,00,000
	(Excess share application money refunded)				
	Equity share allotment A/c	Dr.		3,00,000	
	To Equity share capital A/c				3,00,000
	(Share allotment money due)				
	Bank A/c	Dr.		3,00,000	
	To Equity share allotment A/c				3,00,000
	(Allotment money received)				
	Equity share first and final call A/c	Dr.		2,00,000	
	To Equity share capital A/c				2,00,000
	(Share first and final call money due)				
	Bank A/c	Dr.		2,00,000	
	To Equity share first and final call A/c				2,00,000
	(Share first and final call money received)				

Illustration 4

Khan Ltd. issued 50,000 shares of ₹ 10 each to the public payable ₹ 4 on application, ₹ 4 on allotment and ₹ 2 on first and final call. Applications were received for 65,000 shares. The directors decided to allot 50,000 shares on pro rata basis and surplus application money was utilised for allotment. Pass journal entries assuming that the amounts due were received.

Solution

In the books of Khan Ltd.

Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (65,000 × 4) Dr. To Equity share application A/c (Application money received)		2,60,000	 2,60,000
	Equity share application A/c (50,000 × 4) Dr. To Equity share capital A/c (Transfer of share application money to share capital)		2,00,000	 2,00,000
	Equity share application A/c (15,000 × 4) Dr. To Equity share allotment A/c (Excess share application money utilised for allotment)		60,000	 60,000
	Equity share allotment A/c Dr. To Equity share capital A/c (Share allotment money due)		2,00,000	 2,00,000
	Bank A/c (2,00,000 – 60,000) Dr. To Equity share allotment A/c (Allotment money received)		1,40,000	 1,40,000
	Equity share first and final call A/c (50,000 × 2) Dr. To Equity share capital A/c (Share first and final call money due)		1,00,000	 1,00,000
	Bank A/c Dr. To Equity share first and final call A/c (Share first and final call money received)		1,00,000	 1,00,000

Illustration 5

Sudha Ltd. offered 1,00,000 shares of ₹ 10 each to the public payable ₹ 3 on application, ₹ 4 on share allotment and the balance when required. Applications for 1,40,000 shares were received on which the directors allotted as:

Applicants for 60,000 shares - Full
Applicants for 75,000 shares - 40,000 shares (excess money will be utilised for allotment)
Applicants for 5,000 shares - Nil
All the money due was received. Pass journal entries upto the receipt of allotment.

Solution

In the books of Sudha Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (1,40,000 × 3) To Equity share application A/c (Application money received)	Dr.		4,20,000	4,20,000
	Equity share application A/c (1,00,000 × 3) To Equity share capital A/c (Transfer of share application money to share capital)	Dr.		3,00,000	3,00,000
	Equity share application A/c (5,000 × 3) To Bank A/c (Excess application money refunded)	Dr.		15,000	15,000
	Equity share application A/c (35,000 × 3) To Equity share allotment A/c (Excess share application money utilised for allotment)	Dr.		1,05,000	1,05,000
	Equity share allotment A/c (1,00,000 × 4) To Equity share capital A/c (Share allotment money due)	Dr.		4,00,000	4,00,000
	Bank A/c To Equity share allotment A/c (Allotment money received)	Dr.		2,95,000	2,95,000

Working note:

Shares applied for	Shares Allotted	Application money received	Application money	Appropriation towards Allotment money	Refunded
60,000	60,000	1,80,000	1,80,000	-	-
75,000	40,000	2,25,000	1,20,000	1,05,000	
5,000	-	15,000	-	-	15,000

7.8.3 Calls in advance

The excess amount paid over the called up value of a share is known as calls in advance. It is the excess money paid on application or allotment or calls. Such excess amount can be returned or adjusted towards future payment. If the company decides to adjust such amount towards future payment, the excess amount may also be transferred to a separate account called calls in advance account.

Calls in advance does not form part of the company's share capital and no dividend is payable on such amount. In the balance sheet, it should be shown under current liabilities.

As per Section 50 of the Indian Companies Act, 2013, the company can accept calls in advance only if it is authorised by its Articles of Association. As per Table F of the Indian Companies Act, 2013, interest may be paid on calls in advance if Articles of Association so provide not exceeding 12% per annum.

Tutorial note

The excess application money on allotted shares after adjustment for allotment money should be transferred to calls in advance account.

Following are the journal entries to be passed:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	(a) For money received in advance on allotment and call			
	Bank A/c Dr.		xxx	
	To Call in advance A/c			xxx
	(b) For adjusting towards call(s)			
	Calls in advance A/c Dr.		xxx	
	To Share call A/c			xxx

Illustration 6

Aruna Mills Ltd. with a registered capital of ₹ 5,00,000 in equity shares of ₹ 10 each, issued 20,000 of such shares payable as follows; ₹ 4 per share on application, ₹ 4 per share on allotment and ₹ 2 per share on first and final call. The issue was duly subscribed.

All the money payable was duly received. But on allotment, one shareholder paid the entire balance on his holding of 300 shares.

Give journal entries to record the above.

Solution

In the books of Aruna Mills Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (20,000 × 4)	Dr.		80,000	
	To Share application A/c				80,000
	(Application money received)				
	Share application A/c	Dr.		80,000	
	To Share capital A/c				80,000
	(Application money transferred to share capital A/c)				
	Share allotment A/c (20,000 × 4)	Dr.		80,000	
	To Share capital A/c				80,000
	(Allotment money due)				
	Bank A/c (20,000 × 4) + (300x2)	Dr.		80,600	
	To Share allotment A/c				80,000
	To Calls in advance A/c (300 × 2)				600
	(Allotment money received)				
	Share first and final call A/c (20,000 × 2)	Dr.		40,000	
	To Share capital A/c				40,000
	(First and final call money due)				
	Bank A/c (19,700 × 2)	Dr.		39,400	
	Calls in advance A/c	Dr.		600	
	To Share first and final call A/c				40,000
	(First and final call money received and calls in advance adjusted)				

7.8.4 Calls in arrear

When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears. In other words, the amount called up but not paid is calls in arrear.

As per Table F of the Indian Companies Act, 2013, interest may be charged on calls in arrear if Articles of Association so provide not exceeding 10% per annum.
There are two methods of accounting of calls in arrear.

(i) By not opening calls in arrear account

Under this method, amount unpaid by the shareholders remains in the respective call account until the amount is collected or the shares are forfeited.

(ii) By opening calls in arrear account

Under this method, amount unpaid by the shareholders is transferred by debiting it to a separate account called calls in arrear account. When calls in arrear is collected or when the share is forfeited, the calls in arrear account is credited.

Illustration 7

Jeyam Tyres issued 15,000 ordinary shares of ₹ 10 each payable as follows:
₹ 3 on application; ₹ 5 on allotment; ₹ 2 on first and final call. All money were duly received except one shareholder holding 100 shares failed to pay the call money. Pass the necessary journal entries for call (using calls in arrear account).

Solution

Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Equity share first and final call A/c (15,000 × 2)	Dr.		30,000	
	To Share capital A/c				30,000
	(Share first and final call money due)				
	Bank A/c (14,900 × 2)	Dr.		29,800	
	Calls in arrear A/c (100 × 2)	Dr.		200	
	To Equity share first and final call A/c				30,000
	(Amount received on calls and amount not received transferred to calls in arrear account)				

7.8.5 Forfeiture of shares

When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited. On forfeiture, the share allotment is cancelled and to that extent, share capital is reduced. The person ceases to be a shareholder of the company after the shares are forfeited.

On forfeiture, the amount so far paid by the shareholder is forfeited which is a gain to the company and is credited to forfeited shares account. Forfeited shares account is shown under share capital as a separate head in the Note to Accounts to the balance sheet.

The following journal entry is to be passed in the books of the company:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity share capital A/c (called up amount) Dr.		xxx	
	To Equity share allotment A/c (amount unpaid)			xxx
	To Equity share call A/c (amount unpaid)			xxx
	To Forfeited shares A/c (amount so far paid)			xxx
	(Forfeiture of shares for non payment of allotment and call)			

Illustration 8

Anitha was holding 500 equity shares of ₹ 10 each of Thanjavur Motors Ltd, issued at par. She paid ₹ 3 on application, ₹ 5 on allotment but could not pay the first and final call of ₹ 2. The directors forfeited the shares for nonpayment of call money. Give Journal entry for forfeiture of shares.

Solution

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity share capital A/c (500 × 10) Dr.		5,000	
	To Equity share call A/c (500 × 2)			1,000
	To Forfeited shares A/c (500 × 8)			4,000
	(500 shares forfeited for non payment of call money)			

Illustration 9

Muthu was holding 20 equity shares of ₹ 10 each on which he paid ₹ 2 on application but could not pay ₹ 3 on allotment and ₹ 1 on first call. Directors forfeited the shares after the first call. Give journal entry for recording the forfeiture of shares.

Solution

Journal entry

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity share capital A/c (20 × 6) Dr.		120	
	To Equity share allotment A/c (20 × 3)			60
	To Equity share first call A/c (20 × 1)			20
	To Forfeited shares A/c (20 × 2)			40
	(Shares forfeited)			

Tutorial note

Equity share capital is debited with the called up amount of ₹ 6.

7.8.6 Re-issue of forfeited shares

Shares forfeited can be reissued by the company. The shares can be reissued at any price. But, the reissue price cannot be less than the amount unpaid on forfeited shares.

Example: If a share of ₹ 10 on which ₹ 4 has already been paid as application money is forfeited and reissued as fully paid up, then a minimum of ₹ 6 must be fixed as the new price (10 – 4 = 6). When forfeited shares are reissued at a loss, such loss is to be debited to forfeited shares account. When forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium account. The following journal entries are passed on reissue:

Date	Particulars		L.F.	Debit ₹	Credit ₹
	(i) When reissue is made at par				
	Bank A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	(ii) When reissue is made at premium				
	Bank A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	To Securities premium A/c				xxx
	(iii) When reissue is made at loss				
	Bank A/c	Dr.		xxx	
	Forfeited shares A/c (loss on reissue)	Dr.		xxx	
	To Equity share capital A/c				xxx

If the reissue price is more than the amount unpaid on forfeited shares, it results in profit on reissue which is treated as capital profit and is transferred to capital reserve account. The following journal entry is passed:

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Forfeited shares A/c	Dr.		xxx	
	To Capital reserve A/c				xxx

When only a part of the forfeited shares are reissued, the proportionate amount of profit on the shares reissued should be transferred to capital reserve account. Proportionate amount of profit is computed as follows:

$$\frac{\text{Total amount forfeited}}{\text{Total number of shares forfeited}} \times \text{Number of shares reissued}$$

The remaining amount in the forfeited shares account is shown under share capital as a separate head under share capital in the Note to Accounts to the balance sheet.

Illustration 10

Anu Company forfeited 200 equity shares of ₹ 10 each issued at par held by Thiyagu for nonpayment of the final call of ₹ 3 per share. The shares were reissued to Laxman at ₹ 6 per share. Show the journal entries for forfeiture and reissue.

Solution

In the books of Anu Company

Journal entries

Date	Particulars			L.F.	Debit ₹	Credit ₹
	Equity share capital A/c	(200 × 10)	Dr.		2,000	
	To Equity share final call A/c	(200 × 3)				600
	To Forfeited shares A/c	(200 × 7)				1,400
	(200 shares forfeited)					
	Bank A/c	(200 × 6)	Dr.		1,200	
	Forfeited shares A/c	(200 × 4)	Dr.		800	
	To Share capital A/c	(200 × 10)				2,000
	(Forfeited shares reissued)					
	Forfeited shares A/c	(1,400-800)	Dr.		600	
	To Capital reserve A/c					600
	(Gain on reissue of forfeited shares transferred to capital reserve account)					

Illustration 11

Maruthu Ltd. forfeited 150 equity shares of ₹ 10 each for non payment of final call of ₹ 4 per share. Of these 100 shares were reissued @ ₹ 9 per share. Pass journal entries for forfeiture and reissue.

Solution

In the books of Maruthu Ltd.

Journal entries

Date	Particulars			L.F.	Debit ₹	Credit ₹
	Equity share capital A/c	(150 × 10)	Dr.		1,500	
	To Equity share final call A/c	(150 × 4)				600
	To Forfeited shares A/c	(150 × 6)				900
	(50 shares forfeited)					
	Bank A/c	(100 × 9)	Dr.		900	
	Forfeited shares A/c	(100 × 1)	Dr.		100	
	To Equity share capital A/c	(100 × 10)				1,000
	(100 forfeited shares reissued @ ₹ 9 per share)					

	Forfeited shares A/c Dr.		500	
	To Capital reserve A/c			500
	(Gain on reissue of forfeited shares transferred to capital reserve account)			

Working note:

Forfeited amount for 150 shares = ₹ 900

Forfeited amount for 100 shares = $\frac{900}{150}$ x 100 = ₹ 600

Gain or loss = Amount forfeited– loss on reissue

= 600 – 100

Net gain = ₹ 500

Illustration 12

Gemini Ltd. forfeited 20 equity shares of ₹ 10 each, ₹ 7 called up, on which Mahesh had paid application and allotment money of ₹ 5 per share. Of these 15 shares were reissued to Naresh by receiving ₹ 6 per share paid up as ₹ 7 per share. Pass journal entries for forfeiture and reissue.

Solution

In the books of Gemini Ltd.
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity share capital A/c (20 × 7) Dr.		140	
	To Equity share first call A/c (20 × 2)			40
	To Forfeited shares A/c (20 × 5)			100
	(Forfeiture of 20 shares, ₹ 7 called up)			
	Bank A/c (15 × 6) Dr.		90	
	Forfeited shares A/c Dr.		15	
	To Equity share capital A/c (15 × 7)			105
	(Reissue of 15 forfeited shares @ ₹ 6 per share)			
	Forfeited shares A/c Dr.		60	
	To Capital reserve A/c			60
	(Gain on reissue of forfeited shares transferred to capital reserve account)			

Note: Computation of transfer to capital reserve

Forfeited amount for reissued shares of 15 = $\frac{100}{20} \times 15 = 75$

Less: Loss on reissue 15

Transfer to capital reserve 60

Remaining balance in shares forfeited account ₹ 25 will appear in the balance sheet.

Illustration 13

Jenifer Ltd. issued 10,000 equity shares of ₹ 10 each at par payable on application ₹ 3 per share, on allotment ₹ 3 per share, on first call ₹ 2 per share and on second and final call ₹ 2 per share. The issue was fully subscribed and all the amounts were duly received with the exception of 100 shares held by Subbu, who failed to pay the second and final call. His shares were forfeited and reissued to Hema at ₹ 7 per share. Journalise the above transactions.

Solution

In the books of Aruna Mills Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (10,000 × 3)	Dr.		30,000	
	To Equity share application A/c				30,000
	(Application money received)				
	Equity share application A/c	Dr.		30,000	
	To Equity share capital A/c				30,000
	(Application money transferred to share capital A/c)				
	Equity share allotment A/c (10,000 × 3)	Dr.		30,000	
	To Equity share capital A/c				30,000
	(Allotment money due)				
	Bank A/c (10,000 × 3)	Dr.		30,000	
	To Equity share allotment A/c				30,000
	(Allotment money received)				
	Equity share first call A/c (10,000 × 2)	Dr.		20,000	
	To Equity share capital A/c				20,000
	(First call money due)				
	Bank A/c (10,000 × 2)	Dr.		20,000	
	To Equity share first call A/c				20,000
	(First call money received)				
	Equity share second and final call A/c (10,000 × 2)	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Second and final call money due)				
	Bank A/c (9,900 × 2)	Dr.		19,800	
	To Equity share second and final call A/c				19,800
	(Second and final call money received)				

	Equity share capital A/c (100 × 10) Dr. To Equity share second and final call A/c To Forfeited shares A/c (100 shares forfeited)		1,000	 200 800
	Bank A/c (100 × 7) Dr. Forfeited shares A/c Dr. To Equity share capital A/c (100 × 10) (Shares forfeited reissued)		700 300	 1,000
	Forfeited shares A/c (800-300) Dr. To Capital reserve A/c (Gain on reissue of forfeited shares transferred to capital reserve account)		500	 500

Illustration 14

X company issued 10,000 equity shares of ₹ 10 each payable as under:

On application	₹ 2
On allotment	₹ 4
On first call	₹ 2
On second and final call	₹ 2

Applications were received for 30,000 shares. Applications for 10,000 shares were rejected and allotment was made proportionately towards remaining applications and the excess application money is adjusted towards allotment money. The directors made both the calls and the all the amount were received except the final call on 600 shares which were subsequently forfeited. Later 400 forfeited shares were reissued as fully paid by receiving ₹ 7 per share. Give journal entries.

Solution

In the books of X company
Journal entries

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (30,000 × 2) Dr. To Equity share application A/c (Application money received on 30,000 shares @ ₹ 2 per share)		60,000	 60,000
	Equity share application A/c (10,000 × 2) Dr. To Equity share capital A/c (Share application transferred to share capital)		20,000	 20,000
	Equity share application A/c Dr. To Bank A/c (10,000 × 2) To Equity share allotment A/c (10,000 × 2) (Application money refunded for rejected applications and excess application money adjusted towards allotment)		40,000	 20,000 20,000

	Equity share Allotment A/c (10,000 × 4)	Dr.		40,000	
	To Equity share capital A/c				40,000
	(Allotment money due)				
	Bank A/c (40,000-20,000)	Dr.		20,000	
	To Equity share allotment A/c				20,000
	(Allotment money received)				
	Equity share first call A/c (10,000 × 2)	Dr.		20,000	
	To Equity share capital A/c				20,000
	(First call money due)				
	Bank A/c	Dr.		20,000	
	To Equity share first call A/c				20,000
	(First call money received)				
	Equity share second and final call A/c (10,000 × 2)	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Share second and final call due)				
	Bank A/c (9,400 × 2)	Dr.		18,800	
	To Equity share second and final call A/c				18,800
	(Second and final call money received on 9,400 shares)				
	Equity share capital A/c (600 × 10)	Dr.		6,000	
	To Equity share second and final call A/c (600 × 2)				1,200
	To Forfeited shares A/c (600 × 8)				4,800
	(Shares forfeited for nonpayment of final call money)				
	Bank A/c (400 × 7)	Dr.		2,800	
	Forfeited shares A/c (400 × 3)	Dr.		1,200	
	To Equity share capital A/c				4,000
	(400 forfeited shares reissued at ₹ 7 per share)				
	Forfeited shares A/c	Dr.		2,000	
	To Capital reserve A/c				2,000
	(Gain on reissue credited to capital reserve A/c)				

Working note:

Amount forfeited for 600 shares = ₹ 4,800

Amount forfeited for 400 shares = $\frac{4,800}{600} \times 400$ ₹ 3,200

Less: Loss on reissue	1,200
Net gain transferred to capital reserve	2,000

7.8.7 Shares issued at premium

When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium. The excess is called as premium amount and is transferred to securities premium account. The amount of securities premium may be included in application money or allotment money or in a call. Securities premium account is shown under reserves and surplus as a separate head in the Note to Accounts to the balance sheet.

Following are the journal entries for recording securities premium:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	(i) If premium is collected with application money			
	(a) For receiving application money			
	(application money + premium)			
	Bank A/c Dr.		xxx	
	To Equity share application A/c			xxx
	(b) For transfer of application money			
	Equity share application A/c Dr.		xxx	
	To Equity share capital A/c			xxx
	To Securities premium A/c			xxx
	(ii) If premium is collected with allotment money/call money			
	(a) For allotment/ call money due			
	(allotment/call money + premium)			
	Equity share allotment/call A/c Dr.		xxx	
	To Equity share capital A/c			xxx
	To Securities premium A/c			xxx
	(b) For receiving allotment/call money			
	Bank A/c Dr.		xxx	
	To Equity share allotment/call A/c			xxx
	(iii) When shares are forfeited (for which premium is not received)			
	Equity share capital A/c Dr.		xxx	
	Securities premium A/c Dr.		xxx	
	To Equity share allotment A/c			xxx
	To Equity share call A/c			xxx
	To Forfeited shares A/c			xxx

Tutorial note While forfeiting shares for which premium had already been received, securities premium account should not be debited.

Illustration 15

Shero Health Care Ltd. invited applications for 3,00,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

₹ 3 on application

₹ 5 (including premium) on allotment

₹ 4 on first and final call

There was over subscription and applications were received for 4,00,000 shares and the excess applications were rejected by the directors. All the money due were received. Pass the journal entries.

Solution

Note: Number of shares rejected = 4,00,000 - 3,00,000 = 1,00,000

In the books os Shero Health Care Ltd
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (4,00,000 × 3)	Dr.		12,00,000	
	To Equity share application A/c				12,00,000
	(Application money on 4,00,000 shares @ ₹ 3 per share received)				
	Equity share application A/c (3,00,000 × 3)	Dr.		9,00,000	
	To Equity share capital A/c				9,00,000
	(Share application transferred to share capital)				
	Equity share application A/c (1,00,000 × 3)			3,00,000	
	To Bank A/c				3,00,000
	(Money refunded for rejected applications)				
	Equity share allotment A/c (3,00,000 × 5)	Dr.		15,00,000	
	To Equity share capital A/c (3,00,000 × 3)				9,00,000
	To Securities premium A/c (3,00,000 × 2)				6,00,000
	(Share allotment money ₹ 5 per share including ₹ 2 premium receivable for 3,00,000 shares)				
	Bank A/c (3,00,000 × 5)	Dr.		15,00,000	
	To Equity share allotment A/c				15,00,000
	(Allotment money received)				
	Equity share first and final call A/c	Dr.		12,00,000	
	To Equity share capital A/c (3,00,000 × 4)				12,00,000
	(Call money receivable)				

	Bank A/c Dr. To Equity share first and final call A/c (Call money received)		12,00,000	 12,00,000

Illustration 16

Keerthiga Company issued equity shares of ₹ 10 each at 10% premium, payable ₹ 2 on application, ₹ 3 on allotment (including premium), ₹ 3 on first call and ₹ 3 on second and final call. Journalise the transactions relating to forfeiture of shares for the following situations:

(i) Mohan who holds 50 shares failed to pay the second and final call and his shares were forfeited.

(ii) Mohan who holds 50 shares failed to pay the allotment money, first call and second and final call money and his shares were forfeited.

(iii) Mohan who holds 50 shares failed to pay the allotment money and first call and his shares were forfeited after the first call.

Solution

In the books of Keerthiga Company

Journal entries

(i) When final call money is not paid

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity share capital A/c (50 × 10) Dr. To Equity share second and final call A/c (50 × 3) To Forfeited shares A/c (50 × 7) (50 shares forfeited)		500	 150 350

Note: Since the premium amount is received by the company, premium should not be cancelled.

(ii) When allotment, first call money and second and final call money is not paid

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share capital A/c (50 × 10) Dr. Securities premium A/c (50 × 1) Dr. To Share allotment A/c (50 × 3) To Share first call A/c (50 × 3) To Share second and final call A/c (50 × 3) To Shares forfeited A/c (50 × 2) (50 shares forfeited)		500 50	 150 150 150 100

(iii) When allotment and first call money is not paid

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Share capital A/c (50 × 7)	Dr.		350	
	Securities premium A/c (50 × 1)	Dr.		50	
	To Share allotment A/c (50 × 3)				150
	To Share first call A/c (50 × 3)				150
	To Shares forfeited A/c (50 × 2)				100
	(50 shares forfeited)				

Illustration 17

Divya Ltd. allotted 10,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share to applicants of 14,000 shares on a pro rata basis. The excess application money will be adjusted towards allotment money. The amount payable was ₹ 2 on application, ₹ 5 on allotment (including premium of ₹ 2 each) and ₹ 3 on first call and ₹ 2 on final call. Vikas, a shareholder failed to pay the first call and final call on his 300 shares. All the shares were forfeited and out of them 200 shares were reissued @ ₹ 9 per share. Pass the necessary journal entries.

Solution

In the books of Divya Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (14,000 × 2)	Dr.		28,000	
	To Equity share application A/c				28,000
	(Application money for 14,000 shares received)				
	Equity share application A/c (10,000 × 2)	Dr.		20,000	
	To Equity share capital A/c				20,000
	(Application money transferred to share capital)				
	Equity share application A/c (4,000 × 2)	Dr.		8,000	
	To Equity share allotment A/c				8,000
	(Excess application money adjusted towards allotment)				
	Equity share allotment A/c (10,000 × 5)	Dr.		50,000	
	To Equity share capital A/c (10,000 × 3)				30,000
	To Securities premium A/c (10,000 × 2)				20,000
	(Allotment money due)				
	Bank A/c (50,000 – 8,000)	Dr.		42,000	
	To Equity share allotment A/c				42,000
	(Allotment money received)				

	Equity share first call A/c (10,000 × 3) Dr. To Equity share capital A/c (First call amount due)		30,000	30,000
	Bank A/c (9,700 × 3) Dr. To Equity share first call A/c (First call money received for 9,700 shares)		29,100	29,100
	Equity share second and final call A/c (10,000 × 2) Dr. To Equity share capital A/c (Second and final call amount due)		20,000	20,000
	Bank A/c (9,700 × 2) Dr. To Equity share second and final call A/c (Second and final call money received for 9,700 shares)		19,400	19,400
	Equity share capital A/c (300 × 10) Dr. To Equity share first call A/c (300 × 3) To Equity share second and final call A/c (300 × 2) To Shares forfeited A/c (Forfeiture of 300 shares for non-payment first and second calls)		3,000	 900 600 1,500
	Bank A/c (200 × 9) Dr. Shares forfeited A/c Dr. To Equity share capital A/c (Re-issue of 200 forfeited shares)		1,800 200	 2,000
	Shares forfeited A/c Dr. To Capital reserve A/c (Profit on re-issue of 200 forfeited shares transferred to capital reserve account)		800	 800

Working note:

Amount forfeited for 300 shares = ₹ 1,500

Amount forfeited for 200 shares = $\frac{1,500}{300} \times 200$ = 1,000

Less: Loss on reissue 200

Net gain transferred to capital reserve 800

Illustration 18

Thangam Ltd. issued 50,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On application	₹ 5
On allotment	₹ 5 (including premium)
On first and final call	₹ 2

Issue was fully subscribed and the amounts due were received except Priya to whom 500 shares were allotted who failed to pay the allotment money and fist and final call money. Her shares were forfeited. All the forfeited shares were reissued to Devi at ₹ 8 per share. Pass journal entries.

Solution

In the books of Thangam Ltd.
Journal entries

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (50,000 × 5)	Dr.		2,50,000	
	To Equity share application A/c				2,50,000
	(Application money received)				
	Equity share application A/c	Dr.		2,50,000	
	To Equity share capital A/c				2,50,000
	(Transfer of application money to share capital)				
	Equity share allotment A/c (50,000 × 5)	Dr.		2,50,000	
	To Equity share capital A/c (50,000 × 3)				1,50,000
	To Securities premium A/c (50,000 × 2)				1,00,000
	(Allotment money due)				
	Bank A/c (49,500 × 5)	Dr.		2,47,500	
	To Equity share allotment A/c				2,47,500
	(Allotment money received except on 500 shares)				
	Equity share first and final call A/c (50,000 × 2)	Dr.		1,00,000	
	To Equity share capital A/c				1,00,000
	(First and final call money due)				
	Bank A/c (49,500 × 2)	Dr.		99,000	
	To Equity share first and final call A/c				99,000
	(First and final call money received)				
	Equity share capital A/c (500 × 10)	Dr.		5,000	
	Securities Premium A/c (500 × 2)	Dr.		1,000	
	To Equity share allotment A/c (500 × 5)				2,500
	To Equity share first and final call A/c (500 × 2)				1,000
	To Forfeited shares A/c (500 × 5)				2,500
	(500 shares forfeited for nonpayment of allotment and first and final call money)				
	Bank A/c (500 × 8)	Dr.		4,000	
	Forfeited shares A/c (500 × 2)	Dr.		1,000	
	To Equity share capital A/c (500 × 10)				5,000
	(500 forfeited shares reissued)				

	Forfeited shares A/c (2,500-1,000) Dr. To Capital reserve A/c (Gain on reissue of forfeited shares transferred to capital reserve)		1,500	 1,500

7.9 Issue of shares for cash in lumpsum

When shares issued either at par or at premium are payable in single payment, the shares are said to be issued against lumpsum payment.

The following journal entries are passed:

Date	Particulars	L.F.	Debit ₹	Credit ₹
	(i) For receipt of application money Bank A/c Dr. To Equity share application A/c		 xxx	 xxx
	(ii) For transfer of application money Equity share application A/c Dr. To Equity share capital A/c To Securities premium A/c (if issued at premium)		 xxx	 xxx

Illustration 19

Sara Company issues 10,000 equity shares of ₹ 10 each payable fully on application.

Pass journal entries if the shares are issued

(i) at par

(ii) at a premium of ₹ 2 per share.

Solution

In the books of Sara Company
Journal entries

(i) Issued at par

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank A/c (10,000 x10) Dr. To Equity share application A/c (Application money received)		1,00,000	 1,00,000
	Equity share application A/c Dr. To Equity share capital A/c (Application money transferred to share capital)		1,00,000	 1,00,000

(ii) Issued at a premium

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Bank A/c (10,000 × 12)	Dr.		1,20,000	
	To Equity share application A/c				1,20,000
	(Application money received)				
	Equity share application A/c	Dr.		1,20,000	
	To Equity share capital A/c (10,000 × 10)				1,00,000
	To Securities premium A/c (10,000 × 2)				20,000
	(Application money transferred to share capital)				

7.10 Issue of shares for consideration other than cash

A company may issue shares for consideration other than cash when the company acquires fixed assets such as land and buildings, machinery, etc. Under such situation, the following journal entries are to be passed.

Date	Particulars		L.F.	Debit ₹	Credit ₹
	(i) For purchase of asset				
	Respective asset A/c	Dr.		xxx	
	To Vendor A/c				xxx
	(ii) For issue of shares				
	Vendor A/c	Dr.		xxx	
	To Equity share capital A/c				xxx
	To Securities premium A/c (if issued at premium)				xxx

A company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.

Illustration 20

Rajan Ltd. purchased machinery of ₹ 6,00,000 from Jagan Traders. It issued equity shares of ₹ 10 each fully paid in satisfaction of their claim. What entries will be made if such issue is made: (a) at par and (b) at a premium of 50%.

Solution

In the books of Rajan Ltd
Journal entries

(a) When shares are issued at par:

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Machinery A/c	Dr.		6,00,000	
	To Jagan Traders A/c				6,00,000
	(Purchase of machinery)				
	Jagan Traders A/c	Dr.		6,00,000	
	To Equity share capital A/c				6,00,000
	(Issue of 60,000 shares of ₹ 10 each fully paid)				

(b) When shares are issued at a premium of 50%

Date	Particulars		L.F.	Debit ₹	Credit ₹
	Machinery A/c	Dr.		6,00,000	
	To Jagan Traders A/c				6,00,000
	(Purchase of machinery)				
	Jagan Traders A/c	Dr.		6,00,000	
	To Equity share capital A/c (40,000 × 10)				4,00,000
	To Securities premium A/c (40,000 × 5)				2,00,000
	(Issue of 40,000 shares of ₹ 10 each at a premium of 50%)				

Tutorial note

Computation of number of shares to be issued

Total amount = ₹ 6,00,000

Face value of the shares = ₹ 10

Premium = 50%; Therefore, premium amount = 10 × 50% = ₹ 5

Issue price = Face value + premium = 10 + 5 = ₹ 15

$$\text{Number of equity shares to be issued} = \frac{\text{Total amount}}{\text{Issue price}} = \frac{6{,}00{,}000}{15} = 40{,}000 \text{ shares}$$

Student activity 7.3

Collect the prospectus of three limited companies. Read them and identify the terms that you have learnt in this unit. Analyse the data and information given in them.

Points to remember

- ❖ Authorised capital is the maximum amount that can be raised as capital as is authorised by the memorandum of association
- ❖ Reserve capital is part of subscribed capital to be called up at the time of winding up of the company.
- ❖ Issue of equity shares to public through prospectus by a public company is called public issue.
- ❖ When the share capital is received through instalments, first instalment is called application money.
- ❖ When the number of shares subscribed is less than the number of shares offered, it is known as under subscription.
- ❖ When the minimum subscription stated in the prospectus has been subscribed for by the public, a company can allot shares.
- ❖ When applications are allotted in proportion of shares applied for it is called pro-rata allotment.
- ❖ The excess amount paid over the called up value of a share is known as calls in advance.
- ❖ When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears.
- ❖ When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium.

Self-examination questions

I Multiple choice questions

Choose the correct answer

1. A preference share is one

(i) which carries preferential right with respect to payment of dividend at fixed rate

(ii) which carries preferential right with respect to repayment of capital on winding up

(a) Only (i) is correct (b) Only (ii) is correct

(c) Both (i) and (ii) are correct (d) Both (i) and (ii) are incorrect

2. That part of share capital which can be called up only on the winding up of a company is called:

(a) Authorised capital (b) Called up capital

(c) Capital reserve (d) Reserve capital

3. At the time of forfeiture, share capital account is debited with

(a) Face value (b) Nominal value

(c) Paid up amount (d) Called up amount

4. After the forfeited shares are reissued, the balance in the forfeited shares account should be transferred to

(a) General reserve account (b) Capital reserve account

(c) Securities premium account (d) Surplus account

5. The amount received over and above the par value is credited to

(a) Securities premium account (b) Calls in advance account

(c) Share capital account (d) Forfeited shares account

6. Which of the following statement is false?

(a) Issued capital can never be more than the authorised capital

(b) In case of under subscription, issued capital will be less than the subscribed capital

(c) Reserve capital can be called at the time of winding up

(d) Paid up capital is part of called up capital

7. When shares are issued for purchase of assets, the amount should be credited to

(a) Vendor's A/c (b) Sundry assets A/c

(c) Share capital A/c (d) Bank A/c

8. Match the pair and identify the correct option

(1) Under subscription - (i) Amount prepaid for calls

(2) Over subscription - (ii) Subscription above the offered shares

(3) Calls in arrear - (iii) Subscription below the offered shares

(4) Calls in advance - (iv) Amount unpaid on calls

	(1)	(2)	(3)	(4)
(a)	(i)	(ii)	(iii)	(iv)
(b)	(iv)	(iii)	(ii)	(i)
(c)	(iii)	(ii)	(iv)	(i)
(d)	(iii)	(iv)	(i)	(ii)

9. If a share of ₹ 10 on which ₹ 8 has been paid up is forfeited. Minimum reissue price is

(a) ₹ 10 per share (b) ₹ 8 per share

(c) ₹ 5 per share (d) ₹ 2 per share

10. Supreme Ltd. forfeited 100 shares of ₹ 10 each for non-payment of final call of ₹ 2 per share. All these shares were re-issued at ₹ 9 per share. What amount will be transferred to capital reserve account?

(a) ₹ 700 (b) ₹ 800

(c) ₹ 900 (d) ₹ 1,000

Answers

1 (c)	**2(d)**	**3(d)**	**4(b)**	**5 (a)**	**6(b)**	**7(c)**	**8(c)**	**9(d)**	**10(a)**

II Very short answer questions

1. What is a share?
2. What is over-subscription?
3. What is meant by calls in arrear?
4. Write a short note on securities premium account.
5. Why are the shares forfeited?

III Short answer questions

1. State the differences between preference shares and equity shares.
2. Write a brief note on calls in advance.
3. What is reissue of forfeited shares?
4. Write a short note on (a) Authorised capital (b) Reserve capital
5. What is meant by issue of shares for consideration other than cash?

IV Exercises

1. Progress Ltd. issued 50,000 ordinary shares of ₹ 10 each, payable ₹ 2 on application, ₹ 4 on allotment, ₹ 2 on first call and ₹ 2 on final call. All the shares are subscribed and amount was duly received. Pass journal entries.

Under subscription

2. Sampath company issued 25,000 equity shares at ₹ 10 per share payable ₹ 3 on application, ₹ 4 on allotment, ₹ 3 on first and final call. The public subscribed for 24,000 shares. The directors allotted all the 24,000 shares and received the money duly. Pass necessary journal entries.

Over subscription

3. Saranya Ltd. issued 20,000 equity shares of ₹ 10 each to the public at par. The details of the amount payable on the shares are as follows:

On application	₹ 3 per share
On allotment	₹ 4 per share
On first and final call	₹ 3 per share

Application money was received on 30,000 shares. Excess application money was refunded immediately. Pass journal entries to record the above.

4. Gaja Ltd issued 40,000 equity shares of ₹ 10 each to the public payable ₹ 2 on application, ₹ 5 on allotment and ₹ 3 on first and final call. Applications were received for 50,000 shares. The Directors decided to allot 40,000 shares on pro rata basis and surplus of application money was utilised for allotment. Pass journal entries assuming that the amounts due were received.

5. Lalitha Ltd. offered 30,000 equity shares of ₹ 10 each to the public payable ₹ 2 per share on application, ₹ 3 on share allotment and the balance when required. Applications for 50,000 shares were received on which the directors allotted as:

Applicants for 10,000 shares	- Full
Applicants for 35,000 shares	- 20,000 shares (excess money will be utilised for allotment)
Applicants for 5,000 shares	- Nil

All the money due was received. Pass journal entries upto the receipt of allotment.

Calls in advance

6. Anjali Flour Ltd. with a registered capital of ₹ 4,00,000 in equity shares of ₹ 10 each, issued 30,000 of such shares; payable ₹ 2 per share on application, ₹ 5 per share on allotment and ₹ 3 share on first call. The issue was duly subscribed.

All the money payable was duly received but on allotment, one shareholder paid the entire balance on his holding of 500 shares. Give journal entries to record the transactions.

Calls in arrear

7. Muthu Ltd. issued 50,000 equity shares of ₹ 10 each payable as follows;
₹ 2 on application; ₹ 4 on allotment; ₹ 4 on first and final call.
All money were duly received except one shareholder holding 1,000 shares failed to pay the call money. Pass the necessary journal entries for calls by using calls in arrear account.

(Answer: Calls in arrear: ₹ 4,000)

Forfeiture of Shares

8. Arjun was holding 1,000 equity shares of ₹ 10 each of Vanavil Electronics Ltd, issued at par. He paid ₹ 3 on application, ₹ 4 on allotment but could not pay the first and final call of

₹ 3. The directors forfeited the shares for nonpayment of call money. Give Journal entry for forfeiture of shares.

(Answer: Forfeited shares account: ₹ 7,000)

9. Lakshith was holding 50 shares of ₹ 10 each on which he paid ₹ 2 on application but could not pay ₹ 4 on allotment and ₹ 2 on first call. Directors forfeited the shares after the first call. Give journal entry for recording the forfeiture of shares.

(Answer: Forfeited shares account : ₹ 100)

Reissue of shares

10. Goutham Ltd. forfeited 500 equity shares of ₹ 10 each issued at par held by Ragav for nonpayment of the final call of ₹ 2 per share. The shares were forfeited and reissued to Madhan at ₹ 8 per share. Show the journal entries for forfeiture and reissue.

(Answer: Capital reserve account : ₹ 3,000)

11. Nivetha Ltd. forfeited 1,000 equity shares of ₹ 10 each for non payment of call of ₹ 4 per share. Of these 800 shares were reissued @ ₹ 7 per share. Pass journal entries for forfeiture and reissue.

(Answer: Capital reserve account : ₹ 2,400)

12. Nathiya Textiles Ltd. forfeited 100 shares of ₹ 10 each, ₹ 8 called up, on which Mayuri had paid application and allotment money of ₹ 6 per share. Of these 75 shares were re-issued to Soundarya by receiving ₹ 7 per share paid up as ₹ 8 per share. Pass journal entries for forfeiture and reissue.

(Answer: Capital reserve account : ₹ 375)

13. Simon Ltd issued 50,000 equity shares of ₹ 10 each at par payable on application ₹ 1 per share, on allotment ₹ 5 per share, on first call ₹ 2 per share and on second and final call ₹ 2 per share. The issue was fully subscribed and all the amounts were duly received with the exception of 2,000 shares held by Chezhian, who failed to pay the second and final call. His shares were forfeited and reissued to Elango at ₹ 8 per share. Journalise the above transactions.

(Answer: Capital reserve account: ₹ 12,000)

14. Kanchana Ltd. issued 50,000 equity shares of ₹ 10 each payable as under.

On application	₹ 1
On allotment	₹ 5
On first call	₹ 2
On second and final call	₹ 2

Applications were received for 70,000 shares. Applications for 8,000 shares were rejected and allotment was made proportionately towards remaining applications. The directors made both the calls and the all the amount were received except the final call on 1,500 shares which were subsequently forfeited. Later 1,200 forfeited shares were reissued by receiving ₹ 8 per share. Give journal entries.

(Answer: Capital reserve account: ₹ 7,200)

Shares issued at premium

15. Viswanath Furniture Ltd. invited applications for 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable.

₹ 2 on application

₹ 5 (including premium) on allotment

₹ 5 on first and final call

There was over subscription and applications were received for 30,000 shares and the excess applications were rejected by the directors. All the money due were received. Pass the journal entries.

16. United Industries Ltd. issued equity shares of ₹ 10 each at 10% premium payable ₹ 3 on application, ₹ 4 on allotment (including premium), ₹ 2 on first call and ₹ 2 on second and final call.

Journalise the transactions relating to forfeiture of shares for the following situations:

(i) Manoj who holds 250 shares failed to pay the second and final call and his shares were forfeited.

(ii) Manoj who holds 250 shares failed to pay the allotment money and first call and second and final call and his shares were forfeited.

(iii) Manoj who holds 250 shares failed to pay the allotment money and first call money and his shares were forfeited after the first call.

(Answer: Forfeited shares account: (i) ₹ 2,000; (ii) ₹ 750; (iii) ₹750)

17. Kasthuri Ltd. had allotted 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 each to applicants of 30,000 shares on a pro rata basis. The amount payable was ₹ 3 on application, ₹ 5 on allotment (including premium of ₹ 2 each) and ₹ 2 on first call and ₹ 2 on final call. Subin, a shareholder failed to pay the first call and final call on his 500 shares. All the shares were forfeited and out of them 400 shares were reissued @ ₹ 8 per share. Pass necessary journal entries.

(Answer: Capital reserve account: ₹ 1,600)

18. Vairam Ltd. issued 60,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On application	₹ 6
On allotment	₹ 4 (including premium)
On first and final call	₹ 2

Issue was fully subscribed and the amounts due were received except Saritha to whom 1,000 shares were allotted who failed to pay the allotment money and first and final call money. Her shares were forfeited. All the forfeited shares were reissued to Parimala at ₹ 7 per share. Pass journal entries.

(Answer: Capital reserve account: ₹ 3,000)

Issue of shares for cash in lumpsum

19. Abdul Ltd. issues 50,000 equity shares of ₹ 10 each payable fully on application. Pass journal entries if shares are issued (i) at par (ii) at a premium of ₹ 3 per share.

Issue of shares for consideration other than cash

20. Paradise Ltd. purchased assets of ₹ 4,40,000 from Suguna Furniture Ltd. It issued equity shares of ₹ 10 each fully paid in satisfaction of their claim. What entries will be made if such issue is: (a) at par and (b) at premium of 10%.

(Answer: (a) Share capital account ₹ 4,40,000;
(b) Share capital account ₹ 4,00,000; Securities premium account ₹ 40,000)

Student activity 7.4

Complete the following journal entries by filling the missing information.

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	______________________ Dr. To Share application A/c (Application money received @ 2 per share)		2,00,000	 __________
2.	Share application A/c Dr. To Share capital A/c (Share application money for __________ shares transferred to __________)		__________	 2,00,000

CASE STUDY

Mala and Mary entered into a partnership business. The performance and profitably of the business were good. They wanted to expand their firm by investing more capital. But, they both had less personal savings, which was not sufficient to expand their business. So, they decided to convert their business into a limited company and registered it as M&M Ltd. The company is authorised to raise ₹ 10,00,000 divided into 1,00,000 units. To start with, M&M Ltd. bought some fixed assets such as land, furniture and fixtures from a vendor. But, M&M Ltd. did not pay cash or cheque for this.

The advertisement was given in the newspaper inviting public to buy shares of M&M Ltd. 50,000 shares were offered to the public for subscription. However, due to its profitability and popularity, M&M Ltd. received applications for 60,000 shares.

Now, discuss on the following:

1. State one reason, other than raising more capital, why may a partnership firm be converted into a limited company?
2. Apart from the issue of shares, what other sources are available for raising finance?
3. What is M&M Ltd.'s registered capital?
4. What is the value of each share?
5. Is there any other way M&M Ltd. could pay the vendor, other than credit terms, for buying the fixed assets?
6. Is M&M Ltd. allowed to issue more than 1,00,000 shares?
7. What is M&M Ltd.'s issued share capital?
8. How will the directors deal with over-subscription?

To explore further

Before investing in any company, the shareholders or any potential investors may want to know the performance of the company. From where do they get such information?

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