CHAPTER - 9

COMPANY ACCOUNTS

Unit 1

Introduction to Company Accounts

Learning Objectives

After studying this unit you will be able to

- Understand the reason for the existence and survival of a company.
- Learn the nature and types of companies.
- Explain the salient features of a company
- Understand the purpose of preparing the financial statements of the company

1. INTRODUCTION

The never-ending human desire to grow and grow further has given rise to the expansion of business activities, which in turn has necessitated the need to increase the scale of operations so as to provide goods and services to the ever increasing needs of the growing population of consumers. Large amount of money, modern technology, large human contribution etc. is required for it, which is not possible to arrange under partnership or proprietorship. To overcome this difficulty, the concept of 'Company' or 'Corporation' came into existence.

While the invention of steam power ignited the human imagination to build big machines for the mass production of goods, the need to separate the management from ownership gave birth to a form of organisation today known as 'company'.

Company form of organisation is one of the ingenious creations of human mind, which has enabled the business to carry on its wealth creation activities through optimum utilisation of resources. In course of time, company has become an important institutional form for business enterprise, which has carved out a key place for itself in the field of business operations as well as in the wealth-generating functions of society.

2. MEANING OF COMPANY

The word 'Company', in everyday usage, implies an assemblage of persons for social purpose, companionship or fellowship. As a form of organisation, the word 'company' implies a group of people who voluntarily agree to form a company.

The word 'company' is derived from the Latin word '*com*' *i.e.* with or together and '*panis*' *i.e.* bread. Originally the word referred to an association of persons or merchant men discussing matters and taking food together. However, in law 'company' is termed as company which is formed and registered under The Companies Act, 1956, or an existing company formed and registered under any of the previous laws (Act or Acts relating to companies before the Indian Companies Act, 1956, The Companies Act, 1882, The Indian Companies Act, 1913 or any law governing companies in the State of Jammu and Kashmir before the commencement of Central Laws Act, 1968 and Portuguese Commercial Code). As per this definition of law, there must be group of persons who agree to form a company under the law and once so formed, it becomes a separate legal entity having perpetual succession with a distinct name of its own and a common seal. Its existence is not affected by the change of members.

Company begs its origin in law. It is an organisation consisting of individuals, called shareholders by virtue of holding the shares of a company, who are authorised by law to elect a board of directors and, through it, to act as a separate legal entity as regards its activities. Generally, the capital of the company consists of transferable shares, and members have limited liabilities.

To get to the heart of the nature of the company, let us examine the concept of company propounded under corporate jurisprudence.

According to Justice Marshal. "*A corporation is an artificial being, invisible, intangible and existing only in the contemplation of law*".

In the same manner, Lord Justice Hanay has defined a company as "*an artificial person created by law with a perpetual succession and a common seal*".

A common thread running through the various definitions of 'company' is that it is an association of persons created by law as a separate body for a special purpose. At the same time, definitions have laid down certain characteristics of a corporate organisation, which make it out as a separate and unique organisation which enables the people to contribute their wealth to the capital of the company by subscribing to its shares and appointing elected representatives to carry out the business.

3. SALIENT FEATURES OF A COMPANY

Following are the salient features of a company:

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

2. *Separate Legal Entity* : A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.

3. *Perpetual Existence* : Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members.

4. *Common Seal* : Company is not a natural person, therefore, it cannot sign the documents in the manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal tool called 'Common Seal'. The common seal is affixed on all documents by the person authorised to do so who in turn puts his signature for and on behalf of the company.

5. *Limited Liability* : The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.

6. *Distinction between Ownership and Management* : Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on a day-to-day basis. This

gives rise to the need of separation of the management and ownership.

7. *Not a citizen* : A company is not a citizen in the same sense as a natural person is, though it is created by the process of law. It has a legal existence but does not enjoy the citizenship rights and duties as are enjoyed by the natural citizens.

8. *Transferability of Shares* : The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.

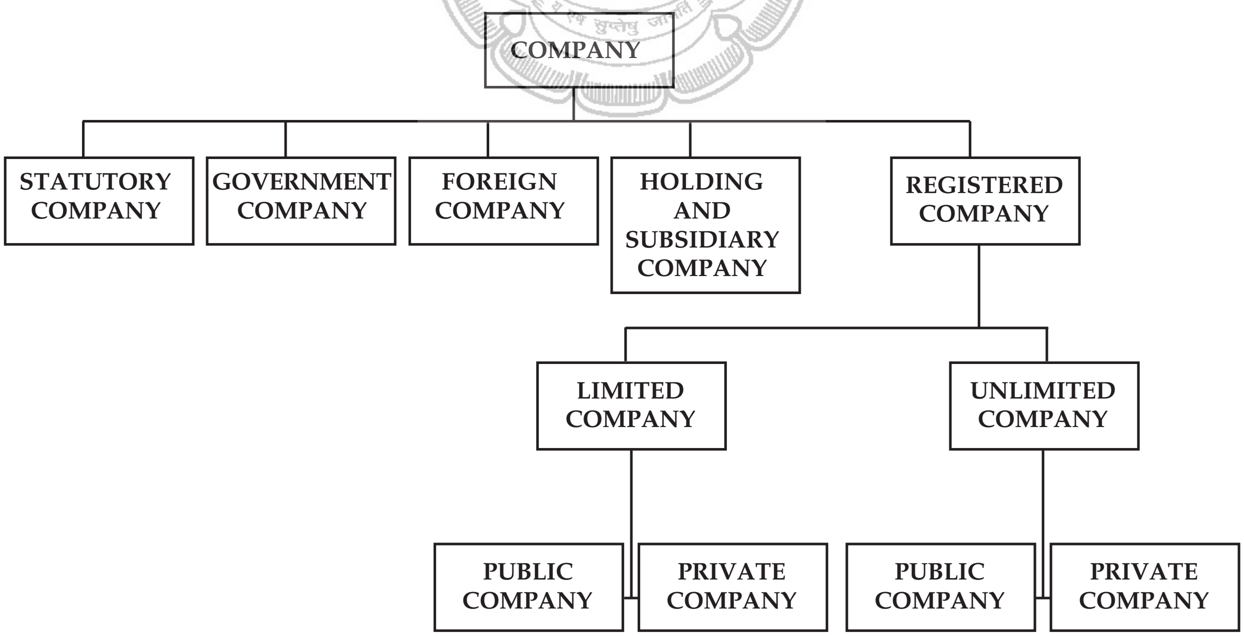
9. *Maintenance of Books* : A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.

10. *Periodic Audit* : A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors.

11. *Right of Access to Information* : The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

4. TYPES OF COMPANIES

1. STATUTORY COMPANY



All those companies, which operate under the special act passed by the State Legislature or Parliament, are called *statutory companies*. They are formed for special purpose by a special Act of Parliament. Included in this category are the Unit Trust of India, Life Insurance Corporation, Reserve Bank of India, State Bank of India and so on. Such companies are not required to use the word 'limited' as part of their name. For example, Reserve Bank of India. Such companies are required to get their accounts audited by Comptroller and Auditor General of India and are publicly accountable to the State Legislature/Parliament.

2. GOVERNMENT COMPANY

According to Section 617 of The Companies Act, 1956. "a Government company means any company in which not less than 51% of the paid-up capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments and includes a company which is a subsidiary of a government Company".

3. FOREIGN COMPANY

A foreign company is one that is incorporated outside India but has place of business or business operations in India.

4. HOLDING COMPANY

Under Section 4(4) of The Companies Act, 1956, a company is deemed to be a holding company if the other company is its subsidiary company. A company becomes a subsidiary company when other company controls 51% or more of its paid-up share capital, has right to appoint directors on its board, or is a subsidiary of another subsidiary company.

5. SUBSIDIARY COMPANY

According to Section 4(1), a company is deemed to be a subsidiary of another company if and only if –

(a) That other company controls the composition of its board of directors, it implies that the controlling company (holding company) has the right to exercise the power of appointing or removing any person or a majority of persons from the directorship at its own discretion; or

(b) That other company holds more than half in its nominal value of its equity share capital; or

(c) That other company is a subsidiary of any company, which is that other's subsidiary. For example, Company B is a subsidiary of Company A, and Company C is a subsidiary of Company B. Since, Company B is a subsidiary of Company A, Company C becomes the subsidiary of Company A as well.

(d) In case of a body corporate which is incorporated in a country outside India, a subsidiary or holding company of the body corporate under the law of such country shall be deemed to be a subsidiary or holding company within the meaning and for the purpose of this act whether the requirements of this section are fulfilled or not. It implies that if a company operating in India is a subsidiary of a foreign company, it will be treated as such irrespective of the fact whether in India, if it fulfills conditions (a), (b) and (c) listed above or not.

6. REGISTERED COMPANY

All those companies that are registered under The Companies Act, 1956, are called Registered Companies.

7. LIMITED LIABILITY COMPANY

A company in which the liability of shareholders is restricted to the amount of unpaid calls on shares is known as limited company.

8. UNLIMITED LIABILITY COMPANY

A company in which the liability of shareholders is not restricted only to the value unpaid shares is known as unlimited company

9. PUBLIC COMPANY

According to Section 3(1)(iv) of the Act, 'public company' means a company which (a) is not a private company; (b) has a minimum paid-up capital of Rs.5 lakhs or such higher paid-up capital; and (c) is a private company which is a subsidiary of a company which is not a private company. After Companies (Amendment) Act, 2000, a public company cannot be registered with a capital of less than Rs. 5 lakhs. Public companies invite the public at large to participate and subscribe for the shares in, or debentures of, the company and there are no restrictions on transfer of shares.

10. PRIVATE COMPANY

According to Section 3(1)(iii), a private company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed, and by its articles:

(a) Restricts the rights of members to transfer its shares.

(b) Limits the number of its member to 50 excluding: (i) persons who are in employment of the company; and (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased. For this purpose joint holders of shares will be counted as single members.

(c) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.

(d) Prohibits any invitation or acceptance of deposits from persons other than its member, directors, and relatives.

Private companies do not involve participation of public in general.

Companies (Amendment) Bill, 2003 states that if a company, private or public existing on the commencement of the Companies (Amendment) Act, 2000 with lesser paid-up capital, fails to enhance its minimum paid-up capital to one lakh rupees or five lakh rupees, as the case may be, each director or manager or shareholder will have unlimited liability.

A public company may be a listed company or an unlisted company.

11. LISTED COMPANY

A listed company is a public company which has any of its securities listed in any recognised stock exchange.

12. UNLISTED COMPANY

An unlisted company is one whose securities are not listed on any recognised stock exchange for trading.

In the case of private companies shares are not listed in any stock exchange.

5. BOOKS OF ACCOUNT

Section 209 of the Companies Act, 1956 requires that:

(a) Such books, as are necessary to give a true and fair view of the state of affairs of the company and to explain its transactions, are kept on accrual basis and according to the double-entry system of book-keeping.

(b) Every company maintains proper books of account with respect to:

  (i) all sums of money received and expanded by the company and the matters in respect of which receipts and expenditure take place;

  (ii) all sales and purchases of goods by the company;

  (iii) all assets and liabilities of the company; and

  (iv) utilisation of material or labour or other items of costs in cost accounting records, in case of manufacturing companies.

6. PREPARATION OF FINANCIAL STATEMENTS

Under Section 210 of the Companies Act, at the annual general meeting of a company, the Board of Directors of the company shall lay before the company:

(*a*) a balance sheet as at the end of the period;

(*b*) a profit & loss account for that period.

In case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account.

Section 211 along with Schedule VI of the Companies Act, 1956 deals with the preparation and presentation of profit and loss account and the balance sheet. It requires that final accounts of a company shall give a true and fair view of the state of affairs of the company. Schedule VI does not prescribe any form in which profit and loss account should be prepared. However, it requires that profit and loss should give a true and fair view of the profit and loss of the company for the financial year and should comply with the requirements of Part II of Schedule VI.

Balance sheet of a company should be in form set out in Part I of Schedule VI. It prescribes two alternative forms in which balance sheet can be prepared, namely, horizontal and vertical Main heads in balance sheet in the prescribed order are given below in horizontal form:

Balance Sheet of M/s…..as at……..

Liabilities	Amount	Assets	Amount
Share Capital		Fixed Assets	
Reserves & Surplus		Investments	
Secured Loans		Current Assets, Loans and	
Unsecured Loans		Advances :	
Current Liabilities and Provisions :		a. Current Assets	
a. Current Liabilities		b. Loans and Advances	
b. Provisions		Miscellaneous Expenditure	
		Profit and Loss Account	

SELF EXAMINATION QUESTIONS

1. Which of the following statement is not a feature of a Company?
   (a) Separate legal entity
   (b) Common Seal
   (c) Perpetual Succession
   (d) Members have unlimited liability

2. In a Government Company, the holding of the Central Government in paid-up capital should not be less than
   (a) 25% (b) 50 % (c) 51% (d) 75%

3. Which of the following statement is true in case of a Foreign Company?
   (a) A Company incorporated in India and has place of business outside India.
   (b) A Company incorporated outside India and has a place of business in India.
   (c) A Company incorporated in India and has a place of business in India.
   (d) A Company incorporated outside India and also has a place of business outside India

4. Public Companies should have a minimum paid-up capital of
   (a) Rs. 5 lakhs (b) Rs. 10 lakhs (c) Rs. 15 lakhs (d) Rs. 50 lakhs

5. Private Company shuld have a minimum paid-up capital of
   (a) Rs. 1 lakhs (b) Rs. 5 lakhs (c) Rs. 10 lakhs (d) Rs. 50 lakhs

6. Which of the following statements is not a feature of a private company?
   (a) Restricts the rights of members to transfer its shares
   (b) Prohibits any invitation to the public to subscribe its shares or debentures
   (c) Do not involve participation of public in general
   (d) Do not restricts on the number of its members to any limit.

ANSWERS

1. (d) 2. (c) 3. (b) 4. (a) 5. (a) 6. (d)

CHAPTER – 9

COMPANY ACCOUNTS

Unit 2

Issue, Forfeiture and Reissue of Shares

Learning objectives

After studying this unit you will be able to :

- Appreciate various types of shares and share capital
- Learn the accounting treatment if shares issued under different circumstances like at par, at discount and at premium.
- Differentiate the accounting treatment for under-subscription and over-subscription of shares.
- Understand the concept and accounting treatment of call-in-arrears and call-in-advance.
- Deal with the forfeiture of shares issued with different conditions.
- Journalise the entry for re-issue of shares whether at discount or at premium.
- Learn the various phases of share capital i.e. alteration or conversion of shares into stock and vice-versa.
- Know the concept and accounting treatment of bonus shares.

1. INTRODUCTION

Funds provided by the owner(s) into a business are recorded as capital. Capital of the business depends upon the form of business organisation. Proprietor provides capital in a sole-proprietorship business. In case of a partnership, there is more than one proprietor, called partners. Partners introduce capital in a partnership firm. As the maximum number of members in a partnership firm is restricted, therefore only limited capital can be provided in such form of businesses. Moreover, the liability of the proprietor(s) is unlimited in case of non-corporate business, namely, sole-proprietorship and partnership.

With the onset of industrial revolution, requirement of capital investment soared to a new height and the attached risk of failure increased due to pace of technological developments. Non-corporate entities could not cope with the pressure of increased capital and degree of risk involved. This led to the emergence of corporate form of organisation.

2. SHARE CAPITAL

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a **share**. The fixed value of a share, printed on the share certificate, is called nominal/par/face value of a share. However, a company can issue shares at a price different from the face value of a share. The liability of holder of shares (called shareholders) is limited to the **issue price of shares** acquired by them.

As per SEBI guidelines, a company is free to price its issue, if it has a three years track record of consistent profitability and in case of new company, if it is promoted by a company with a five years track record of consistent profitability. As the total capital of the company is divided into shares, the capital of the company is called 'Share Capital'.

Share capital of a company is divided into following categories:

(i) *Authorised Share Capital* : A company estimates its maximum capital requirements. This amount of capital is mentioned in 'Capital Clause' of the 'Memorandum of Association' registered with the Registrar of Companies. It puts a limit on the amount of capital, which a company is authorised to raise during its lifetime and is called 'Authorised Capital'. It is also referred to as 'Registered Capital' or 'Nominal Capital'. It is shown in the balance sheet at face value.

(ii) *Issued Share Capital* : A company need not issue total authorised capital. Whatever portion of the share capital is issued by the company, it is called 'Issued Capital'. Issued capital means and includes the nominal value of shares issued by the company for:

1. Cash, and
2. Consideration other than cash to:
   (i) Promoters of a company; and
   (ii) Others.

It is also shown in the balance sheet at nominal value.

The remaining portion of the authorised capital which is not issued either in cash or consideration may be termed as **'Un-issued Capital'**. It is ***not*** shown in the balance sheet.

(iii) *Subscribed Share Capital* : It is that part of the issued share capital, which is subscribed by the public i.e., applied by the public and allotted by the company. It also includes the face value of shares issued by the company for consideration other than cash.

(iv) *Called-up Share Capital :* Companies generally receive the issue price of shares in installments. The portion of the issue price of shares which a company has demanded or called from shareholders is known as 'Called-up Capital' and the balance, which the company has decided to demand in future may be referred to as ***Uncalled Capital***.

(v) *Paid-up Share Capital* : It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the shareholder(s) fails to pay the amount fully or partially, it is known as ***'unpaid calls' or 'installments (or Calls) in Arrears'***. Thus, installments in arrears mean the amount not paid although it has been demanded by the company as payment towards the issue price of shares. To calculate paid-up capital, the amount of installments in arrears is deducted from called up capital.

In balance sheet, called-up and paid-up capital are shown together.

(vi) *Reserve Share Capital* : As per Section 99 of the Companies Act, 1956, a company may decide by passing a special resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Liability/Reserve Capital.

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend. These reserves may be used to write off capital losses such as discount on issue of shares. These can also be used to issue bonus shares, subject of the condition, that reserve is realized in cash. Thus, reserve capital which is portion of the uncalled capital to be called up in the event of winding up of the company is entirely different in nature from capital reserve which is created out of profits only.

Illustration 1

A company had a registered capital of Rs.1,00,000 divided into 10,000 equity shares of Rs.10 each. It decided to issue 6,000 shares for subscription and received applications for 7,000 shares. It allotted 6,000 shares and rejected remaining applications. Upto 31-12-2005, it has demanded or called Rs.9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 500 shares who has paid only Rs.7 per share.

Prepare a balance sheet assuming there are no other details.

Solution

Balance Sheet as at December 31, 2005

Liabilities		*Amount*	*Assets*	*Amount*
Share Capital				
Authorised share capital			Fixed Assets	Nil
10,000 equity shares of Rs.10 each		1,00,000	Investments	Nil
Issued Capital :			Current Assets loans and	
6,000 equity shares of Rs.10 each		60,000	Advances:	
Subscribed Capital: 6,000 equity			*A. Current Assets:*	
shares of Rs.10 each		60,000	Bank	53,000
Called-up and paid up capital:			B. *Loans and Advances*	Nil
6,000 shares of Rs.10 each Rs.9			Miscellaneous Expenditure	Nil
called-up	54,000		Profit and Loss Account	Nil
Less : calls in arrears (unpaid				
calls) on 500 shares @Rs.2				
per share	1,000	53,000		
Reserves and Surplus		Nil		
Secured loans		Nil		
Current liabilities and Provisions		Nil		
		53,000		53,000

It is clear from above, that details of authorised, issued and subscribed capital are given in the balance sheet but are not counted. It is only the paid-up capital i.e., the portion of the issued capital subscribed by shareholders which is taken into account while totalling the liabilities side of the balance sheet.

3. TYPES OF SHARES

Share issued by a company can be divided into following categories :

(i) Preference Shares: According to section 85 of the Companies Act, 1956, persons holding preference shares, called preference shareholders, are assured of a preferential dividend at a fixed rate during the life of the company. They also carry a preferential right over other shareholders to be paid first in case of winding up of the company. Thus, they enjoy preferential rights in the matter of :

(a) Payment of dividend, and

(b) Repayment of capital

Generally, holders of these shares do not get voting rights. Companies use this mode of financing as it is cheaper than raising debt. Dividend is generally cumulative in nature and need not be paid every year in case of deficiency of profits. The Companies Act, 1956, prohibits the issue of any preference share which is irredeemable. Preference shares are cumulative and non-participating unless expressly stated otherwise.

Types of Preference Shares

Preference shares can be of various types, which are as follows :

(a) Cumulative Preference Shares : A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose. This means that dividend on these shares accumulates unless it is paid in full and, therefore, the shares are called Cumulative Preference Shares. The arrears of dividend are then shown in the balance sheet as a contingent liability. In India, a preference share is always cumulative unless otherwise stated. In case, the dividend remains in arrears for a period of not less than two years, holders of such shares will be entitled to take part and vote on every resolution on every matter in the general body meeting of the shareholders.

(b) Non-cumulative Preference Shares : A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future. In case, the dividend remains in arrears for a period of not less than two years or an aggregate period of not less than three years comprised in the six years ending with the expiry of the financial year, holders of such shares will be entitled to take part and vote on every resolution at any meeting of the shareholders.

(c) Participating Preference Shares : Notwithstanding the right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid off.

(d) **Non-participating Preference Shares :** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares.' Unless otherwise specified, the preference shares are generally non-participating.

(e) **Redeemable Preference Shares :** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. The repayment on these shares is called redemption and is governed by Section 80 of The Companies Act, 1956. In India, companies can now issue only this category of preference shares.

(f) **Non-redeemable Preference Shares :** The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-redeemable Preference Shares. According to Section 80(5A), no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.

(g) **Convertible Preference Shares :** These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.

(h) **Non-convertible Preference Shares :** When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non-convertible Preference Shares. Preference shares are non-convertible unless otherwise stated.

(ii) **Equity Shares :** Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital. The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders. These shares carry voting rights. Companies (Amendment) Act, 2000 permits issue of equity share capital with differential rights as to dividend, voting or otherwise.

The shares can be issued by a company either

(1) for cash or

(2) for consideration other than cash.

4. ISSUE OF SHARES FOR CASH

To issue shares, private companies depend upon 'Private Placement' of shares. Public companies issue a 'Prospectus' and invite general public to subscribe for shares. To discuss accounting treatment, we shall concentrate on public companies who invite general public to subscribe for equity shares. Similar accounting treatment is applicable in other cases. However, in case of issue of preference shares, the word 'Equity' is replaced with the word 'Preference'.

A public company issues a prospectus inviting general public to subscribe for its shares. On the basis of prospectus, applications are deposited in a scheduled bank by the interested parties alongwith the amount payable at the time of application, in cash. First installment paid alongwith application is called 'Application Money'. *As per Section 69 (3) of the Companies Act 1956, Application money must be atleast 5% of the face value of shares.* After the closing date of the issue (the last date for filing applications), company decides about allotment of shares in consultation with the SEBI and stock exchange concerned. According to the Companies Act, 1956, a company cannot proceed to allot shares unless minimum subscription is received by the company.

Minimum Subscription : A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company. The amount of minimum subscription to be disclosed in prospectus by the Board of Directors taking into account the following:

(a) Preliminary expenses of the company,

(b) Commission payable on issue of shares,

(c) Cost of fixed assets purchased or to be purchased,

(d) Working capital requirements of the company, and

(e) Any other expenditure for the day to day operation of the business.

As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public. It is applicable for public and right issue, and not in case of offer for sale of securities. If the Company does not receive the minimum subscription of 90% of the issue, the entire subscription shall be refunded to the applicants within 15 days after the date of closure of issue w.e.f. 28.8.2008. In case of delayed refund, interest for the delayed period as per section 73 of the Companies Act shall be payable.

The company reserves the right to reject or accept an application fully or partially. Successful applicants become shareholders of the company and are required to pay the second instalment which is known as 'Allotment Money' and unsuccessful applicants get back their money. However, in case of delay in refunding the money, the Company becomes liable to pay interest ranging from 4% to 15% (having regard to the length of the period in delay) on the amount of refund. Subsequent instalments, if any, to be called by the company are known as 'Calls'. The Companies Act, 1956, requires that the period of at least one month must be there between two calls. The Securities and Exchange Board of India (SEBI) Guidelines, dated 27-1-2000 require the shares issued are made fully paid up within twelve months of the date of allotment if size of the issue is upto 500 crores. The minimum application moneys to be paid by an applicant alongwith the application money shall not be less than 25% of the issue price. Companies (Amendment) Bill, 2003 require application money to be not less than 5% of the nominal value of security. According to Section 55A, matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.

The issue price of shares is generally received by the company in instalments and these instalments are known as under :

First instalment	…………..	Application Money
Second Instalment	…………..	Allotment Money
Third Instalment	…………..	First Call Money
Fourth Instalment	…………..	Second Call Money and so on.
Last Instalment		Final Call Money

4.1 JOURNAL ENTRIES FOR ISSUE OF SHARES FOR CASH

Upon the issue of share capital by a company, the undermentioned entries are made in the financial books:

(1) *On receipt of the application money*

Bank Account — Dr. (With the actual amount received.)

To Shares Application Account

(2) *On allotment of share*

Share Allotment Account — Dr. (With the amount due on allotment.)

Share Application Account — Dr. (With the application amount received on allotted shares.)

To Share Capital Account — (With the amount due on allotment and application.)

(3) *On receipt of allotment money*

Bank Account — Dr. (With the amount actually received on allotment.)

To Share Allotment Account

Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.

(4) *On a call being made*

Share Call Account — Dr. (With the amount due on the call.)

To Share Capital Account

(5) On receipt of call money

Bank Account — Dr. (with the due amount actually received on call)

To Share Call Account

5. SUBSCRIPTION OF SHARES

Accounting for issue of shares depends upon the type of subscription. Whenever a company decides to issue shares to public, it invites applications for subscription by issuing a prospectus. It is not necessary that company receives applications for the number of shares to be issued by it. There are three possibilities :

5.1 FULL SUBSCRIPTION

Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same. To start discussion on accounting treatment for issue of shares, let us assume that the issue is fully subscribed.

Illustration 2

A company invited applications for 10,000 equity shares of Rs. 50 each payable on application Rs. 15, on Allotment Rs. 20, on first and final call Rs. 15. Applications are received for 10,000 shares and all the applicants are allotted the number of shares they have applied for and installment money was duly received by the company. Show Journal entries in the books of the company.

Solution

Journal entries in the books of a company

For application money received: Amount received alongwith application is accounted as follows:

Bank A/c	Dr.	(Application money on allotted share i.e.,
To Equity Share Application A/c		10,0000 × 15 = 1,50,000)

At the time of allotment: Application money received from successful applicants become part of share capital and is transferred to share capital as under:

Equity Share Application A/c	Dr.	(Application money on allotted share i.e.,
To Equity Share Capital A/c		10,0000 × 15 = 1,50,000)

To record amount due on allotment: When the decision is taken to allot shares, allotment money on allotted shares falls due and is recorded as follows:

Equity Share Allotment A/c	Dr.	(Application due at the allotted share i.e.,
To Equity Share Capital A/c		10,0000 × 20 = 2,00,000)

For allotment money received: Allotment money received from shareholders is recorded as follows:

Bank A/c	Dr.	(Allotment money received from shareholders i.e.
To Equity Share Allotment A/c		10,000 × 20 =2,00,000)

When decision to demand first call is made: After allotment of share, when the Board of Directors decide to demand the next instalment from shareholders, first call money falls due and is accounted for, as under:

Equity Share First Call A/c	Dr.	(No. of shares × first call money per share i.e.,
To Equity Share Capital A/c		10,000 × 15 = 1,50,000)

On receiving first and final call money: The journal entry passed to record the money received on account of first call is as under:

Bank A/c	Dr.	(Amount actually received on account of first call
To Equity Share Capital A/c		i.e., Rs.10,000 × 15 = 1,50,000)

5.2 UNDERSUBSCRIPTION

It means the number of shares offered for subscription is more than the number of shares subscribed by the public. In this case, the journal entries as discussed above are passed but with one change i.e., calculation of application, allotment and for that matter, the call money is based on number of shares actually applied and allotted. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

Illustration 3

On 1st April, 2005, A Ltd. issued 43,000 shares of Rs. 100 each payable as follows:

Rs. 20 on application;

Rs. 30 on allotment;

Rs. 25 on 1st October, 2005; and

Rs. 25 on 1st February, 2006.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2006.

Solution

A Ltd.
Journal

2005			*Dr.* *Rs.*	*Cr.* *Rs.*
May 20	Bank Account To Share Application & Allotment A/c (Application money on 40,000 shares at Rs. 20 per share.)	Dr.	8,00,000	8,00,000
June 1	Share Application & Allotment A/c To Share Capital A/c (The amount transferred to Capital Account on 40,000 shares at Rs. 50 per share-Rs. 20 on application and Rs. 30 on allotment. Directors' resolution no...... dated ......)	Dr.	20,00,000	20,00,000
July 15	Bank Account To Share Application and Allotment A/c (The sums due on allotment received.)	Dr.	12,00,000	12,00,000
Oct. 1	Share First Call Account To Share Capital Account (Amount due from members in respect of	Dr.	10,00,000	10,00,000

	first call-on 40,000 shares at Rs. 25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account To Share First Call Account (Receipt of the amounts due on first call.)	Dr.	10,00,000	10,00,000
2006				
Feb. 1	Share Second and Final Call A/c To Share Capital A/c (Amount due on 40,000 share at Rs. 25 per share on second and final call, as per Directors resolution no... dated...)	Dr.	10,00,000	10,00,000
Mar. 31	Bank Account To Share Second & Final Call A/c (Amount received against the final call on 40,000 shares at Rs. 25 per share.)	Dr.	10,00,000	10,00,000

5.3 OVERSUBSCRIPTION

In actual practice, issue of shares is either under or over subscribed. If an issue is over-subscribed, some applications may be rejected and application money refunded and in respect of others, only a part of the shares applied for may be allotted and the excess amount received can be utilised towards allotment or call money which has fallen or will soon fall due for payment. The entries are:

(1) On refund of application money to applicants to whom shares have not been allotted :

Share Application A/c Dr.
  To Bank Account

(2) When only a part of shares applied for are allowed:

Share Application A/c Dr. (With the amount received in advance for allotment)
  To Share Allotment A/c
  To Share Calls-in-Advance Account

Illustration 4

The Delhi Artware Ltd. issued 500 equity shares of Rs. 100 each and 1,000 preference shares of Rs. 100 each. The Share Capital was to be collected as under:

	Equity Shares	*Preference Shares*
	Rs.	*Rs.*
On Application	25	20
On Allotment	20	30
First Call	30	20
Final Call	25	30

All these shares were subscribed. Prepare the cash book and journalise the remaining transactions in the books of the company.

Solution

Delhi Artware Ltd.
Cash Book

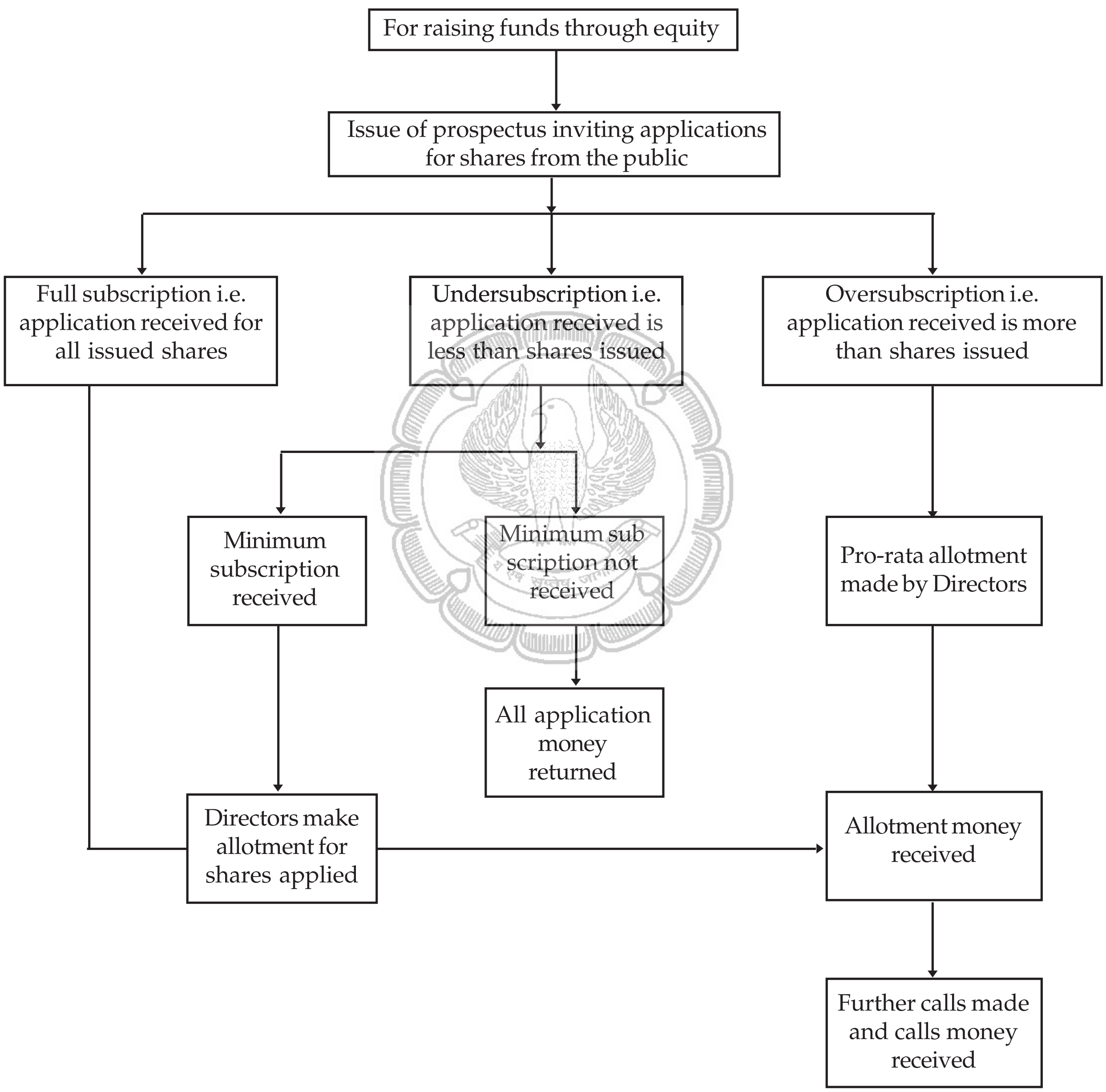
Dr.	*Rs.*		*Cr.* *Rs.*
To Equity Shares Applications & Allotment Account (application money on 500 shares at Rs. 25)	12,500	By Balance c/d	1,44,400
To Preference Share Application & Allotment A/c (application money on 1,000 shares at Rs. 20)	20,000		
To Equity Share Applications & Allotment A/c (allotment money on 500 shares at Rs. 20)	10,000		
To Preference Share Application & Allotment A/c (allotment money on 1,000 shares at Rs. 30)	30,000		
To Equity Shares First Call A/c (Rs. 30 on 500 shares)	15,000		
To Preference Share First Call A/c (Rs. 20 on 1,000 shares)	20,000		
To Equity Shares Final Call A/c (Rs. 25 on 420 shares)	10,500		
To Preference Share Final A/c (Rs. 30 on 880 shares)	26,400		
	1,44,400		1,44,400
To Balance b/d	1,44,400		

Journal

		Dr. Rs.	Cr. Rs.
Equity Share Application & Allotment A/c	Dr.	22,500	
To Equity Share Capital A/c			22,500
[The Credit to share capital on allotment of 500 equity shares at Rs. 45 per share (Rs. 25 on application and Rs. 20 on allotment) allotted as per Directors resolution no.... dated.....]			
Preference Share Application & Allotment A/c	Dr.	50,000	
To Preference Share Capital A/c			50,000
[The credit to Preference Share Capital on allotment of 1,000 preference shares at Rs. 50 per share (Rs. 20 on application and Rs.30 on allotment), allotted as per Directors' resolution no... dated...]			
Equity Share First Call A/c	Dr.	15,000	
To Equity Share Capital A/c			15,000
(Amount due on 500 equity shares at Rs. 30 per share as per Directors' resolution no... dated...)			
Preference Share First Call A/c	Dr.	20,000	
To Preference Share Capital A/c			20,000
(Amount due on 1,000 preference shares at Rs.20 per share, as per Directors' resolution no...dated...)			
Equity Share Final Call A/c	Dr.	12,500	
To Equity Share Capital A/c			12,500
(Amount due on final call on 500 equity shares at Rs. 25 per share, as per Directors' resolution no... dated...)			
Preference Share Final Call A/c	Dr.	30,000	
To Preference Share Capital A/c			30,000
(Amount due on final call on 1,000 preference shares at Rs. 30 per share, as per Directors' resolution no... dated...)			

Note: Students may note that cash transactions have not been journalised as these have been entered in the Cash Book.

An overview of the procedure for raising funds through equity can be depicted with the help of following chart :



6. SHARES ISSUED AT DISCOUNT

There are instances when the shares of a company can also be issued at a discount, i.e., at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example, when a share of the nominal value of Rs. 100 is issued at Rs. 98, it is said to have been issued at a discount of 2 per cent.

According to Section 79, a company is permitted to issue shares at a discount provided the following conditions are satisfied:

(a) The issue of shares at a discount is authorised by a resolution passed by the company at its general meeting and sanctioned by the Central Government.

(b) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares. The rate of discount can be more than 10 per cent if the Central Government is convinced that a higher rate is called for under special circumstances of the case.

(c) At least one year must have elapsed since the company was entitled to commence the business.

(d) The shares are of a class, which has already been issued.

(e) The shares are issued within two months from the date of receiving sanction for the same from the Central Government.

The clear implications of the restrictions placed on the issues of shares at a discount are that

– a new company cannot issue shares at a discount; and
– a new class of shares cannot be issued at a discount.

In case a company issues shares at a discount, its every prospectus concerning the public issue of shares must clearly state the amount of discount allowed on the issue of shares or of the balance of discount not written off at the date of the prospectus.

6.1 ACCOUNTING TREATMENT

Whenever shares are issued at a discount the amount of discount is brought into the books at the time of allotment by debiting an account called *"Discount on the issue of shares account"*. Therefore, the journal entry to record discount on the issue of shares is as given below:

Share Allotment A/c	Dr.
Discount on the issue of Shares A/c	Dr.
To Share Capital A/c	
(Amount due on allotment of ____Shares @Rs.____ per share and discount on issue brought into account)	

"Discount on the Issue of Shares Account", showing a debit balance, denotes a loss to the company, which is in the nature of capital loss. Therefore, the account is presented on the asset side of the company's balance sheet under "Miscellaneous Expenditure". It is written off by charging it to the Securities Premium Account of any, and, in its absence, by charging to the Profit and Loss Account over a period of time.

Illustration 5

DM Limited issued 25,000 Equity Shares of Rs.20 each, at a discount of 10 per cent, payable as follows:

On Application	Rs.5 per share
On Allotment	Rs.6 per share
On First Call	Rs.7 per share

Applications were received for 37,500 shares and the Directors made pro-rata allotment to the applicants for 30,000 shares.

Record journal entries for above transactions in the books of the Company.

Solution

Books of DM Limited

Journal

Particulars		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
Bank A/c	Dr.		1,87,500	
To Equity Share Application A/c				1,87,500
(Money received on applications for 37,500 shares @ Rs.5 per share)				
Equity Share Application A/c	Dr.		1,87,500	
To Equity Share Capital A/c				1,25,000
To Equity Share Allotment A/c				25,000
To Bank A/c				37,500
(Transfer of application money on shares allotted to share capital, excess application amount adjusted to allotment and money refunded on rejected applications)				
Equity Share Allotment A/c	Dr.		1,50,000	
Discount on Issue of Shares A/c	Dr.		50,000	
To Equity Share Capital A/c				2,00,000
(Amount due on the allotment of 25,000 shares @ Rs. 6 per share and discount on issue brought into account)				
Bank A/c	Dr.		1,25,000	
To Equity Share Allotment A/c				1,25,000
(Money received consequent upon allotment)				
Equity Share First call A/c	Dr.		1,75,000	
To Equity Share Capital A/c				1,75,000
(First call money due on 25,000 shares @ Rs. 4 per share)				
Bank A/c	Dr.		1,75,000	
To Equity Share First Call A/c				1,75,000
(Money received on first call)				

Working Notes :

(i)	Application Money received	= 37,500 shares x 5 = Rs. 1,87,500
(ii)	Amount refunded for 7,500 shares	= Rs. 5 x 7,500 = 37,500
(iii)	Amount to be adjusted on allotment	= (30,000 – 25,000) x Rs.5
		= 5,000 x Rs. 5 = Rs. 25,000

A company can issue shares at a discount subject to the provision contained in sub-section (3) of Section 79. Whenever shares are issued at a discount, Application and Allotment of Call Account is debited only with the net amount due and the discount allowed is debited to the Discount on Issue of Shares Account and credited to Share Capital Account to make up the nominal amount of shares subscribed. The discount on shares, till the same is written off, is shown as a separate item in the Balance Sheet.

7. SHARES ISSUED AT PREMIUM

When a company issues its securities at a price more than the face value, it is said to be an issue at a premium. Premium is the excess of issue price over face value of the security. It is quite common for the financially strong, and well-managed companies to issue their shares at a premium, i.e. at an amount more than the nominal or par value of shares. Thus, where a share of the nominal value of Rs. 100 is issued at Rs. 105, it is said to have been issued at a premium of 5 per cent.

When the issue is at a premium, the amount of premium may technically be called at any stage of share capital transactions. However, premium is generally called with the amount due on allotment, sometimes with the application of money and rarely with the call money.

7.1 ACCOUNTING TREATMENT

When shares are issued at a premium, the premium amount is credited to a separate account called *"Securities Premium Account"* because it is ***not*** a part of share capital. Rather, it represents a gain of a capital nature to the company.

Being a credit balance, Securities premium Account is shown on the liabilities side of the company's Balance Sheet under the heading "Reserves and Surplus". According to Section 78 of The Companies Act, 1956, Securities Premium Account may be used by the company:

(a) In paying up un-issued securities of the company to be issued to members of the company as fully paid bonus securities.

(b) To write off preliminary expenses of the company.

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

(d) To pay premium on the redemption of preference securities or debentures of the company.

When shares are issued at a premium, the journal entries are as follows:

(a) Premium amount called with Application money

(i)	Bank A/c	Dr.	[Total Application money + Premium Amount]
	To Share Application A/c		[Amount received]
	[Money received on applications for_____Shares @ Rs._______ per share including premium]		
(ii)	Share Application A/c	Dr.	[No. of Shares Applied for x Application Amount per share]
	To Securities Premium A/c		[No. of Shares allotted x Premium Amount per share]
	To Share Capital A/c		[No. of Shares allotted x per share for capital]

(b) Premium Amount called with Allotment Money

(i)	Share Allotment A/c	Dr.	[No. of Shares Allotted x Allotment and Premium Money per share]
	To Share Capital A/c		[No. of Shares Allotted x Allotment Amount per share]
	To Securities Premium A/c		[No. of Share Allotted x Premium Amount per share]
	(Amount due on allotment of shares @ Rs.____ per share including premium)		
(ii)	Bank A/c	Dr.	
	To Share Allotment A/c		
	(Money received including premium consequent upon allotment).		

Illustration 6

Pioneer Equipment Limited received on October 1, 2005 applications for 25,000 Equity Shares of Rs. 100 each to be issued at a premium of 25 per cent payable at thus:

On Application	Rs. 25
On Allotment	Rs. 75 (including premium)
Balance Amount on Shares	As and when required

The shares were allotted by the Company on October 20, 2005 and the allotment money was duly received on October 31, 2005.

Record journal entries in the books of the company to record the transactions in connection with the issue of shares.

Solution

Pioneer Equipment Limited

Journal

Date 2005	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
Oct. 1	Bank A/c	Dr.		6,25,000	
	To Equity Share Application A/c				6,25,000
	(Money received on applications for 25,000 shares @ Rs. 25 per share)				
Oct. 20	Equity Share Application A/c	Dr.		6,25,000	
	To Equity Share Capital A/c				6,25,000
	(Transfer of application money on allotment to share capital)				
Oct. 20	Equity Share Allotment A/c	Dr.		18,75,000	
	To Equity Share Capital A/c				12,50,000
	To Securities Premium A/c				6,25,000
	(Amount due on allotment of 25,000 shares @ Rs. 75 per share including premium)				
Oct. 31	Bank A/c	Dr.		18,75,000	
	To Equity Share Allotment A/c				18,75,000
	(Money received including premium consequent upon allotment)				

Illustration 7

X Ltd. invited applications for 10,000 shares of Rs. 100 each payable as follows :

	Rs.
On Application	20
On Allotment (on 1st May, 2005)	30
On First Call (on 1st Oct., 2005)	30
On Final Call (on 1st Feb., 2006)	20

All the shares were applied for and allotted. A shareholder holding 200 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2006.

Solution :

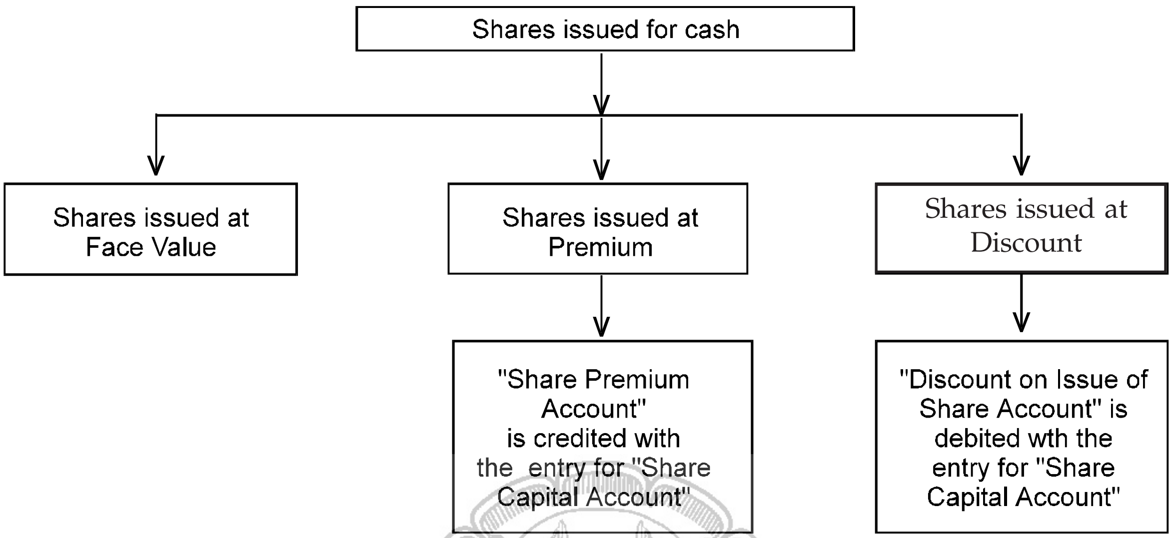
Journal of X Ltd.

2005			Dr. Rs.	Cr. Rs.
May 1	Bank A/c	Dr.	2,00,000	
	To Shares Application & Allotment A/c			2,00,000
	(Receipt of applications for 10,000 shares along with application money of Rs. 20 per share.)			
May 1	Share Application and Allotment A/c	Dr.	5,00,000	
	To Share Capital A/c			5,00,000
	(The allotment of 10,000 shares : payable on application Rs. 20 and on allotment Rs. 30 per share, as per Directors' resolution no... dated...)			
May 1	Bank A/c	Dr.	3,10,000	
	To Shares Application & Allotment A/c			3,00,000
	To Calls in Advance A/c			10,000
	[Receipt of money due on allotment, also the two calls (Rs. 30 and Rs. 20) on 200 shares.]			
Oct. 1	Share First Call A/c	Dr.	3,00,000	
	To Share Capital A/c			3,00,000
	(The amount due on 10,000 shares @ Rs. 30 on first call, as per Directors, resolution no... dated...)			
	Bank A/c	Dr.	2,94,000	
	Calls in Advance A/c	Dr.	6,000	
	To Share First Call A/c			3,00,000
	(Receipt of the first call on 9,800 shares, the balance having been previously received and now debited to call in advance account.)			
2006 Feb. 1	Share Final Call A/c	Dr.	2,00,000	
	To Share Capital A/c			2,00,000
	(The amount due on Final Call on 10,000 shares @ Rs. 20 per share, as per Directors' resolution no... dated...)			
Feb. 1	Bank A/c	Dr.	1,96,000	
	Calls in Advance A/c	Dr.	4,000	
	To Share Final Call A/c			2,00,000
	(Receipt of the moneys due on final call on 9,800 shares, the balance having been previously received.)			
Feb. 1	Interest A/c	Dr.	330	
	To Bank A/c			330

The interest on calls in advance paid @ 6% on :

Rs. 6,000 (first call) from 1st May to 1st Oct., 2005–5 months	150
Rs. 4,000 (final call) from 1st May to 1st Feb., 2006–9 months	180
	330

Thus shares can be issued either at face value or at premium or at discount. The following chart depicts the three categories as follows :



8. OVERSUBSCRIPTION AND PRO-RATA ALLOTMENT

Over subscription is the application money received for more than the number of shares offered to the public by a company. It usually occurs in the case of good issues and depends on many other factors like investors confidence in the company, general economic conditions, pricing of the issue etc. When the shares are oversubscribed, the company cannot satisfy all the applicants. It means that a decision is to be made on how the shares are going to be allotted. Shares can be allotted to the applicants by a company in any manner it thinks proper. The company may reject some applicants in full, i.e., no shares are allotted to some applicants and application money is refunded. Usually, multiple applications by the same persons are not considered. Allotment may be given to the rest of the applicants in full, i.e., for the number of shares they have applied for. A third alternative is that a company may allot shares to the applicants on ***pro-rata*** basis. 'Pro-rata allotment' means allotment in proportion of shares applied for.

For example, a company offers to the public 10,000 shares for subscription. The company receives applications for 12,000 shares. If the shares are to be allotted on *pro-rata* basis, applicants for 12,000 shares are to be allotted 10,000 shares, i.e., on the 12,000 : 10,000 or 6:5 ratio. Any applicant who has applied for 6 shares will be allotted 5 shares.

Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls. Surplus money after making adjustment against future calls is returned to the applicants. The applicants are informed about the allotment procedure through an advertisement in leading newspapers.

There is no separate journal entry for forfeiture of shares when there is a pro-rata allotment. But it requires to calculate the net amount due on allotment or any other call, and also the total amount forfeited. When there is a pro-rata allotment, the total application money paid by an applicant is more than the exact amount due on application. The excess amount is treated as an advance against allotment or any other future calls. The net amount due on allotment or any other calls is the difference between the amount due on allotment or any other calls and the excess amount received in application.

Accounting Entries

(a) *For rejected application:*

Share Application Account Dr.

To Bank Account

(b) *For pro-rata allotment*

Share Application Account Dr.

To Share Allotment Account

(Being excess application money adjusted against allotment money as per Board's Resolution No….dated….)

Illustration 8

JHP Limited is a company with an authorised share capital of Rs. 10,00,000 in equity shares of Rs. 10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2005. The company proposed to make a further issue of 1,00,000 of these Rs. 10 shares at a price of Rs.14 each, the arrangements for payment being:

(a) Rs. 2 per share payable on application, to be received by 1st July, 2005;

(b) Allotment to be made on 10th July, 2005 and a further Rs. 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2006.

Applications were received for 3,55,000 shares and were dealt with as follows:

(i) Applicants for 5,000 shares received allotment in full;

(ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

(iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and

(iv) the money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

Solution

Journal of JHP Limited

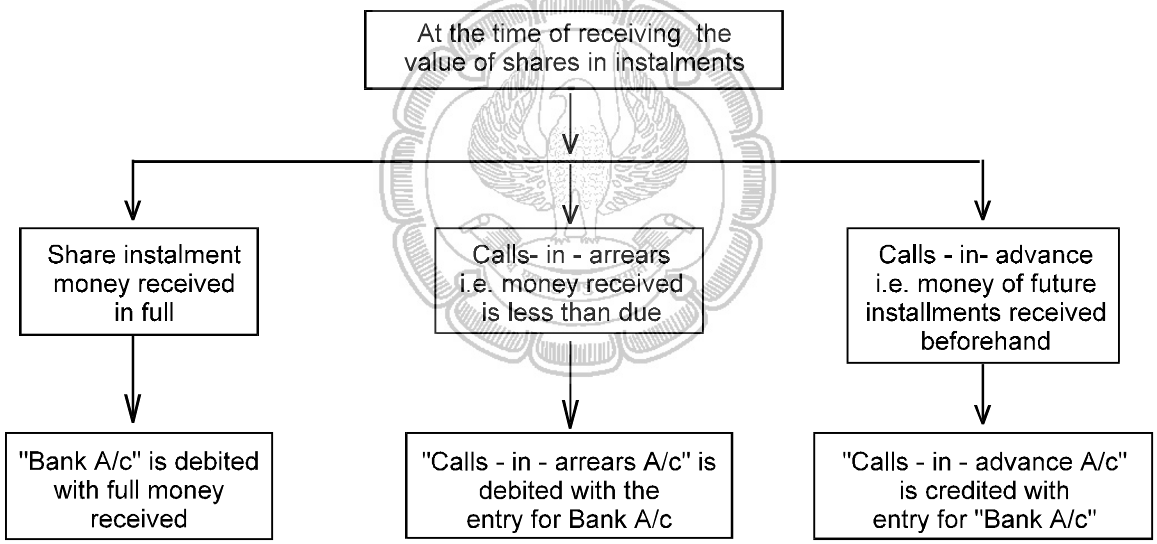
Date 2005	Particulars		Dr. Rs.	Cr. Rs.
	Bank A/c (Note 1 – Column 3)	Dr.	7,10,000	
July 1	To Equity Share Application A/c			7,10,000
	(Being application money received on 3,55,000 shares @ Rs. 2 per share)			
July 10	Equity Share Application A/c	Dr.	7,10,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c (Note 1 Column 5)			4,30,000
	To Bank A/c (Note 1 – Column 6)			80,000
	(Being application money on 1,00,000 shares transferred to Equity Share Capital Account; on 2,15,000 shares adjusted with allotment and on 40,000 shares refunded as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	5,00,000	
	To Equity Share Capital A/c			1,00,000
	To Securities Premium a/c			4,00,000
	(Being allotment money due on 1,00,000 shares @ Rs. 5 each including premium as per Board's Resolution No….dated….)			
	Bank A/c (Note 1 – Column 8)	Dr.	70,000	
	To Equity Share Allotment A/c			70,000
	(Being balance allotment money received)			
2006 ?	Equity Share Final Call A/c	Dr.	7,00,000	
	To Equity Share Capital A/c			7,00,000
	(Being final call money due on 1,00,000 shares @Rs. 7 per share as per Board's Resolution No…..dated….)			
April 30	Bank A/c	Dr.	7,00,000	
	To Equity Share Final Call A/c			7,00,000
	(Being final call money on 1,00,000 shares @ Rs. 7 each received)			

Working Notes:

(1) Calculation for Adjustment and Refund

Category	No. of Shares Applied for (1)	No. of Shares Allotted (2)	Amount Received on Application (3)	Amount Required on Application (4)	Amount adjusted on Allotment (5)	Refund [3 - 4 + 5] (6)	Amount due on Allotment (7)	Amount received on Allotment (8)
(i)	5,000	5,000	10,000	10,000	–	Nil	25,000	25,000
(ii)	30,000	15,000	60,000	30,000	30,000	Nil	75,000	45,000
(iii)	3,20,000	80,000	6,40,000	1,60,000	4,00,000	80,000	4,00,000	–
TOTAL	3,55,000	1,00,000	7,10,000	2,00,000	4,30,000	80,000	5,00,000	70,000

9. CALLS-IN-ARREARS AND CALLS-IN-ADVANCE



CALLS-IN-ARREARS

Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as *Calls-in-Arrears or Unpaid Calls*. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital to be shown in the balance sheet.

For recording 'Calls-in-Arrears', the following journal entry is recorded :

Calls-in-Arrears A/c Dr. [Amount of Unpaid Calls]

To Share Allotment A/c

To Share Calls A/c

The Articles of Association of a company usually empower the directors to charge interest at a stipulated rate on calls-in-arrears. According to Table A interest at the rate of 5 per cent per annum is to be charged on unpaid calls for the period intervening between the due date of the call and the time of actual payment. However, the directors have the authority to waive the application of this rule in individual cases at their discretion or charge at a higher rate of interest.

The journal entries for calls-in-arrears are as follows :

(i) For interest receivable on calls-in-arrears

Shareholders' A/c Dr.

To Interest on calls-in-arrears A/c

(ii) *For receipt of interest*

Bank A/c Dr.

To Shareholders' A/c

CALLS-IN-ADVANCE

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. According to Table A, interest at the rate of 6 per cent is to be paid on such advance call money. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c Dr.

To Call-in-Advance A/c

When calls become actually due, calls-in-advance account is adjusted at the time of the call. For this the following journal entry is recorded:

Calls-in-Advance A/c Dr. [Call amount due]

To Particular Call A/c

The balance in Calls-in-Advance account is shown as a separate item on the liabilities side of the company's balance sheet under the heading 'Share Capital' but is not added to the amount of paid-up capital.

The accounting treatment of interest on Calls-in-Advance is as follows:

(i) *Interest Due*

Interest on Calls-in-Advance A/c Dr. [Amount of interest due for payment]

To Shareholder's A/c

(ii) *Payment of Interest*

Shareholder's A/c Dr. [Amount of interest paid]

To Bank A/c

(Interest paid on calls-in-advance)

10. INTEREST ON CALLS-IN-ARREARS AND CALLS-IN-ADVANCE

Interest on calls in arrear is recoverable and that in respect of calls in advance is payable, according to provisions in this regard in the articles of the company, at the rates mentioned therein or those to be fixed by the directors, within the limits prescribed by the Articles. Table A prescribes 5% and 6% p.a. as the maximum rates respectively for calls in arrears and those in advance.

Directors, however, have the right to waive the payment of interest on calls in arrear. Calls received in advance are not entitled to any dividend. The book entries to be passed for the adjustment of such interest are much the same as those in case of temporary borrowings or loans raised, the only difference being that debits are raised and credits are given to Sundry Members Account (and not the individual accounts of shareholders) in respect of interest recoverable on calls in arrear or that payable on call received in advance, the corresponding entries being made in the Interest Receivable on Calls in Arrears and Interest Payable on Calls in Advance, respectively.

Illustration 9

Rashmi Limited issued at par 10,000 Equity shares of Rs. 10 each payable Rs. 2.50 on application; Rs. 3 on allotment; and balance on the final call. All the shares were fully subscribed and paid except a shareholder having 100 shares could not pay the final call. Give journal entries to record these transactions.

Solution

Book of Rashmi Limited
Journal

Date	*Particulars*		*L.F.*	*Debit Amount (Rs.)*	*Credit Amount (Rs.)*
	Bank A/c	Dr.		25,000	
	To Equity Share Application A/c				25,000
	(Money received on applications for 10,000 shares @Rs. 2.50 per share)				
	Equity Share Application A/c	Dr.		25,000	
	To Equity Share Capital A/c				25,000
	(Transfer of application money on 10,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		30,000	
	To Equity Share Capital A/c				30,000
	(Amount due on the allotment of 10,000 shares @ Rs. 3 per share)				

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c	Dr.		30,000	
	To Equity Share Allotment A/c				30,000
	(Allotment money received)				
	Share Final Call A/c	Dr.		45,000	
	To Equity Share Capital A/c				45,000
	(Final call money due)				
	Bank A/c	Dr.		44,750	
	Cash-in-Arrears A/c	Dr.		250	
	To Share Final Call A/c				45,000
	(Final call money received and arrears on 100 shares)				

Illustration 10

A limited Company, with an authorized capital of Rs. 2,00,000 divided into shares of Rs. 100 each, issued for subscription 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs.20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2006 when application money on 1,000 shares was duly received and all9otment was made on March 1, 2006.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions assuming that all amounts due were received within one month of the date they were called.

Solution

Books of the Company
Journal

Date	Particulars		L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
Jan. 31	Bank A/c	Dr.		25,000	
	To Equity Share Application A/c				25,000
	(Money received on applications for 1,000 shares @ Rs. 25 per share)				

March 1	Equity Share Application A/c	Dr.		25,000	
	To Equity Share Capital A/c				25,000
	(Transfer of application money on 1,000 shares to share capital)				
March 1	Equity Share Allotment A/c	Dr.		30,000	
	To Equity Share Capital A/c				30,000
	(Amount due on the allotment of 1,000 shares @ Rs. 30 per share)				
April 1	Bank A/c	Dr.		30,000	
	To Equity Share Allotment A/c				30,000
	(Allotment money received)				
June 1	Equity Share First Call A/c	Dr.		20,000	
	To Equity Share Capital A/c				20,000
	(First call money due on 1,000 shares @ Rs. 20 per share)				
July 1	Bank A/c	Dr.		19,250	
	Calls-in-Arrears A/c	Dr.		2,000	
	To Equity Share First Call A/c				20,000
	To Calls-in-Advance A/c				1,250
	(First call money received on 900 shares and calls-in-advance on 50 shares @ Rs. 25 per share)				

11. FORFEITURE OF SHARES

The term 'forfeit' actually means taking away of property on breach of a condition. It is very common that one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares. Forfeiture of shares is the action taken by a company to cancel the shares. The directors are usually empowered by the Articles of Association to forfeit those shares by serving proper notice to the defaulting shareholder(s). When shares are forfeited, the title of such shareholder is extinguished but the amount paid to date is not refunded to him. The shareholder then has no further claim on the company. The power of forfeiture must be exercised strictly having regard to the rules and regulations provided in the Articles of Association and it should be ***bonafide*** in the interests of the company.

The Articles of a company usually authorise the Directors to forfeit shares of a member on account of non-payment of a call or interest thereon after serving him a prior notice as prescribed by the Articles. Directors also have the right to cancel such forfeiture before the forfeited shares are re-allotted.

Accounting Entries

At the time of passing entry for forfeiture of shares, students must be careful about the following matters:

(i) Amount called-up (i.e., amount credited to capital) in respect of forfeited shares.

(ii) Amount already received in respect of those shares.

(iii) Amount due but has not been received in respect of those shares.

We know that shares can be issued at par or at a discount or at a premium. Accounting entries for forfeiture will vary according to situations.

11.1 FORFEITURE OF SHARES WHICH WERE ISSUED AT PAR

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. Allotment or Calls Account will be credited with the amount due but not paid by the shareholder(s). (Alternatively, Calls-in-Arrears Account can be credited for all amount due, if it was transferred to Calls-in-Arrears Account). *Forfeited Shares Account or Shares Forfeiture Account* will be credited with the amount already received in respect of those shares.

Share Capital Account	Dr.	[No. of shares x called-up value per share]
To Forfeited Shares Account		[Amount already received on forfeited shares]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]

Where all amounts due on allotment, first call and final call have been transferred to Calls-in-Arrears Account, the entry will be :

Share Capital Account	Dr.	[No. of shares x called-up value per share]
To Calls-in-Arrears Account		[Total amount due, but not paid]
To Forfeited Shares Account		[Amount received]

Illustration 11

A Ltd forfeited 300 equity shares of Rs.10 fully called-up, held by Mr. X for non-payment of final call @ Rs. 4 each. However, he paid application money @ Rs. 2 per share and allotment money @ Rs. 4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

Solution

In the books of A Ltd.

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (300 x Rs. 10)	Dr.	3,000	
	To Equity Share Final Call A/c (300 x Rs. 4)			1,200
	To Forfeited Shares A/c (300 x Rs. 6)			1,800
	(Being the forfeiture of 300 equity shares of Rs.10 each fully called-up for non-payment of final call money @ Rs. 4 each as per Board's Resolution No…. dated….)			

Illustration 12

X Ltd forfeited 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each. Application money @ Rs. 2 per share and allotment money @ Rs. 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

Solution

In the books of X Ltd

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (200 x Rs. 8)	Dr.	1,600	
	To Calls-in-Arrears A/c (200 x Rs. 2)			400
	To Forfeited Shares A/c (200 x Rs. 6)			1,200
	(Being the forfeiture of 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each as per Board's Resolution No……dated…..)			

11.2 FORFEITURE OF SHARES WHICH WERE ISSUED AT A DISCOUNT

In this case also Share Capital Account will be debited with the called-up value of shares forfeited, Allotment or Calls Account will be credited with the amount due but not paid by the shareholder(s). (Alternatively, Calls-in-Arrears Account can be credited). Forfeited Shares Account will be credited with the amount already received in respect of those shares.

When shares are issued at a discount, the Discount Account is debited. Therefore, at the time of forfeiture of such share, Discount Account will be credited to cancel it.

Share Capital Account	Dr.	[No. of shares x called-up value per share]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]
To Forfeited Shares Account		[Amount received on forfeited shares]
To Discount on Issue of Shares Account		[No. of shares x discount per share]

(Being the forfeiture of….shares for non-payment of allotment and call(s) money as per Board's Resolution No…..dated….)

Illustration 13

H.P. Ltd. forfeited 200 equity shares of Rs. 10 each fully called-up for non-payment of final call @ Rs. 2 per share. These shares were originally issued at a discount of 10%. Application, allotment and first call money per share @ Rs. 2, Rs. 3 and Rs. 2 respectively were received in time. Give Journal Entry for the forfeiture.

Solution

In the books of H.P Ltd
Journal

Date	*Particulars*		*Dr. Rs.*	*Cr. Rs.*
	Equity Share Capital A/c (200 x Rs.10)	Dr.	2,000	
	To Equity Share Final Call A/c (200 x Rs. 2)			400
	To Forfeited Shares A/c (200 x Rs. 7)			1,400
	To Discount on Issue of Shares A/c (200 x Re1)			200
	(Being the forfeiture of 200 equity shares of Rs. 10 each fully called-up for non-payment of final call money @ Rs. 2 each as per Board's Resolution No…… dated….)			

11.3 FORFEITURE OF SHARES WHICH WERE ISSUED AT A PREMIUM

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. If the premium on such shares has not been paid by the shareholder, the Securities Premium Account will be debited to cancel it (if it was credited earlier). Allotment, Calls and Forfeited Accounts will be credited in the usual manner.

If the premium has already received by the company, it cannot be cancelled even if the shares are forfeited in the future

Illustration 14

X Ltd. forfeited 500 equity shares of Rs.10 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application Rs.2; on allotment Rs.5 (including premium) on First and Final call Rs.5. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

Solution

In the books of X Ltd.

Date	*Journal* *Particulars*		*Dr.* *Rs.*	*Cr.* *Rs.*
	Equity Share Capital A/c (500 x Rs. 10)	Dr.	5,000	
	Securities Premium A/c (See Note)	Dr.	1,000	
	To Equity Share Allotment A/c (500 x Rs. 5)			2,500
	To Equity Share First and Final Call A/c (500 x Rs. 5)			2,500
	To Forfeited Shares A/c (500 x Rs. 2)			1,000
	(Being the forfeiture of 500 equity shares of Rs. 10 each fully called-up, issued at a premium of 20%, for non-payment of allotment and call money as per Board's Resolution No.....dated....)			

Tutorial Note: Share premium @ Rs.2 on 500 shares has not been received by the company. Therefore, at the time of forfeiture, Securities Premium Account will be debited to cancel it (because Securities Premium Account was credited at the time of allotment).

11.4 FORFEITURE OF FULLY PAID-UP SHARES

Forfeiture for non-payment of calls, premium, or the unpaid portion of the face value of the shares is one of the many causes for which a share may be forfeited. But fully paid-up shares may be forfeited for realization of debts of the shareholder if the Articles specifically provide it.

12. RE-ISSUE OF FORFEITED SHARES

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. When shares are re-issued, return of the forfeited shares need not be filed under Section 75(1) of the Companies Act, 1956.

The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it of. In practice, forfeited shares are disposed off by auction. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrear on those shares.

Accounting Entries :

(a) Bank Account Dr. [Actual amount received]

Forfeited Shares Account Dr. [Loss on re-issue]

To Share Capital Account

(Being the re-issue of….shares @ Rs…. each as per Board's Resolution No…. dated.)

(b) Forfeited Shares Account Dr.

To Capital Reserve Account

(Being the profit on re-issue, transferred to capital reserve).

12.1 POINTS FOR CONSIDERATION

In connection with re-issue, the following points are important:

1. Loss on re-issue should not exceed the forfeited amount.
2. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
3. The forfeited amount on shares not yet reissued should be shown in the Balance Sheet as an addition to the share capital.
4. When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.
5. When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account".
6. If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.
7. If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.
8. When shares, originally issued at a discount, are reissued at a loss, the loss to the extent of original discount is debited to Discount on Issue of Shares Account and the balance loss is debited to Forfeited Shares Account.

12.2 CALCULATION OF PROFIT ON RE-ISSUE OF FORFEITED SHARES

Students will appreciate that the credit balance of forfeited shares account cannot be considered a surplus until the shares forfeited have been re-issued, because the company may, on re-issue, allow the discount to the new purchaser equivalent to the amount held in credit in this regard in the forfeited shares Account. Suppose 120 shares of a nominal value of Rs. 10 have been forfeited upon which Rs. 5 per share was paid up and transferred to Forfeited Share Account. Afterwards, 50 shares are re-issued, Rs. 6 per share being collected to make them fully paid up; Rs. 200 out of shares forfeited will be credited to Share Capital Account to make up the deficiency on re-issued shares, and Rs. 50 will be transferred to the Capital Reserve Account being the surplus on re-issue of the 50 shares. It would have in the Forfeited shares Account balance equivalent to the amount collected on the remaining 70 forfeited shares which will be carried forward till these are re-issued.

In the above case, it has been assumed that the amount paid up on all the 120 forfeited shares was Rs. 5 per share. But in practice, shares may be forfeited on which varying amounts are out-standing. For instance, if in the above case 70 shares were forfeited with Rs. 5 paid up thereon and 50 shares with Rs. 7.50 was paid up thereon, the credit in the forfeited Shares Account would be Rs. 725. The amount to be credited to Capital Reserve will depend on the lot of shares re-issued; it will be Rs. 175 if the shares are those on which Rs. 7.50 was originally paid.

Illustration 15

X Ltd. reissued 200 equity shares of Rs. 10 each @ Rs. 7 per share. These shares were issued originally at a discount of 10%. Give Journal Entries for re-issue only.

Solution

In the books of X Ltd.

Journal

Date	*Particulars*		*Dr. Rs.*	*Cr. Rs.*
	Bank A/c (200 x 7)	Dr.	1,400	
	Discount on Issue of Shares A/c (200 x Re. 1)	Dr.	200	
	Forfeited Shares A/c (200 x Rs. 2)	Dr.	400	
	To Equity Share Capital A/c			2,000
	(Being the re-issue of 200 equity shares of Rs. 10 each @ Rs.7 per share. Loss equal to original discount is debited to Discount on Issue of Shares Account and the balance of loss is transferred to Forfeited Shares Account as per Board's Resolution No…..dated…..)			

Illustration 16

Mr. Long who was the holder of 200 preference shares of Rs. 100 each, on which Rs. 75 per share has been called up could not pay his dues on Allotment and First call each at Rs. 25 per share. The Directors forfeited the above shares and reissued 150 of such shares to Mr. Short at Rs. 65 per share paid-up as Rs.75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

Solution

	Journal		Dr. Rs.	Cr. Rs.
	Preference Share Capital A/c (200 x Rs.75)	Dr.	15,000	
	To Preference Share Allotment A/c			5,000
	To Preference Share First Call A/c			5,000
	To Forfeited Share A/c			5,000
	(Being the forfeiture of 200 preference shares Rs.75 each being called up for non-payment of allotment and first call money as per Board's Resolution No….. dated….)			
	Bank A/c (Rs.65 x 150)	Dr.	9,750	
	Forfeited Shares A/c (Rs.10 x 150)	Dr.	1,500	
	To Preference Share Capital A/c			11,250
	(Being re-issue of 150 shares at Rs. 65 per share paid-up as Rs. 75 as per Board's Resolution No…..dated….)			
	Forfeited Shares A/c	Dr.	2,250	
	To Capital Reserve A/c (Note 1)			2,250
	(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

(1) Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = Rs. 5,000/200	=	Rs. 25
Loss on re-issue = Rs. 75 – Rs. 65	=	Rs. 10
Surplus per share re-issued		Rs. 15

Transferred to capital Reserve Rs. 15 x 150 = Rs. 2,250. Rs. 25 x 50 = Rs. 1,250 should be shown as an addition to share capital.

Illustration 17

Beautiful Co. Ltd issued 3,000 equity shares of Rs.10 each payable as Rs. 3 per share on Application, Rs. 5 per share (including Rs. 2 as premium) on Allotment and Rs. 4 per share on Call. All the shares were subscribed. Money due on all shares was fully received excepting Ram, holding 50 shares, failed to pay the Allotment and Call money and Shyam, holding 100 shares, failed to pay the Call Money. All those 150 shares were forfeited. Of the shares forfeited, 125 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of Rs. 2 per share.

Pass the necessary entries in the Journal of the company to record the forfeiture and re-issue of the share. Also prepare the Balance Sheet of the company.

Solution

In the books of Beautiful Co. Ltd.

Journal

Date	*Particulars*		*Dr. Rs.*	*Cr. Rs.*
	Equity Share Capital A/c (150 x Rs. 10)	Dr.	1,500	
	Securities Premium A/c (50 x Rs. 2)	Dr.	100	
	To Equity Share Allotment A/c (50 X Rs. 5)			250
	To Equity Share Call A/c (150 X Rs. 4)			600
	To Forfeited Shares A/c			750
	(Being forfeiture of 150 equity shares for non-payment of allotment and call money on 50 shares and for non-payment of call money on 100 shares as per Board's Resolution No…..dated ….)			
	Bank A/c	Dr.	1,000	
	Forfeited Shares A/c	Dr.	250	
	To Equity Share Capital A/c			1,250
	(Being re-issue of 125 shares @Rs.8 each as per Board's Resolution No…..dated….)			
	Forfeited Shares A/c	Dr.	350	
	To Capital Reserve A/c			350
	(Being profit on re-issue transferred to Capital Reserve)			

Balance Sheet of Beautiful Limited as at......

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Fixed Assets	?
Authorised Capital		Investments	?
....Share of...each	***	Current Assets, Loans & Advances	
Issued Capital		(A) Current Assets	
3,000 Equity Shares of Rs.10 each	30,000	Bank Balances	36,150
Subscribed Capital		(B) Loans & Advances	
2,975 Equity shares of Rs.10 each	29,750		
Add : Forfeited Shares	150		
	29,900		
Reserve & Surplus			
Securities Premium	5,900		
Capital Reserve	350		
Current Liabilities and Provisions	?		
	36,150		36,150

Working Note : (1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of Ram	Rs. 3	Amount forfeited per share of Shyam	Rs. 6
Less: Loss on re-issue per share	Rs. 2	Less: Loss on re-issue per share	Rs. 2
Surplus	Re. 1	Surplus	Rs. 4

Transferred to Capital Reserve: Ram share (50 x Re 1) = Rs. 50;

Shyam's Share (75 x Rs. 4) = Rs. 300.

Total Rs. 350

Illustration 18

A holds 200 shares of Rs.10 each on which he has paid Rs. 2 as application money. B holds 400 shares of Rs. 10 each on which he has paid Rs. 2 per share as application money and Rs. 3 per share as allotment money. C holds 300 shares of Rs.10 each and has paid Rs. 2 on application, Rs. 3 on allotment and Rs.3 for the first call. They all fail to pay their arrears on the second and final call of Rs. 2 per share and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for Rs. 12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

Solution

Journal

Date	*Particulars*		*Dr. Rs.*	*Cr. Rs.*
	Share Capital A/c (900 x Rs.10)	Dr.	9,000	
	To Share Allotment A/c			600
	To Share First Call A/c			1,800
	To Share Final Call A/c			1,800
	To Forfeited Shares A/c			4,800
	(Being forfeiture of 900 shares of Rs.10 each for non-payment of allotment, first and final call money as per Board's Resolution No…..dated….)			
	Bank A/c (900 x Rs. 12)	Dr.	10,800	
	To Share Capital A/c			9,000
	To Securities Premium A/c			1,800
	(Being the re-issue of 900 shares of Rs.10 each @ Rs.12 as per Board's Resolution No…..dated…)			
	Forfeited Shares A/c	Dr.	4,800	
	To Capital Reserve A/c			4,800
	(Being profit on re-issue transferred to Capital Reserve).			

Working Note :

Shareholders	Money Received				Money Not Received On		
	Application	Allotment	First Call	Final Call	Allotment	First Call	Final Call
A	200	-	-	-	200	200	200
B	400	400	-	-	-	400	400
C	300	300	300	-	-	-	300
TOTAL	900	700	300	-	200	600	900
Money Receivable	Rs. 2	Rs. 3	Rs. 3	Rs. 2	Rs. 3	Rs. 3	Rs. 2
	Rs. 1,800	Rs. 2,100	Rs. 900	-	Rs. 600	Rs. 1,800	Rs. 1,800

Illustration 19

B. Ltd. issued 20,000 equity shares of Rs.10 each at a premium of Rs.2 per share payable as follows: on application Rs.5; on allotment Rs.5 (including premium); on final call Rs.2. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B. Ltd.

Solution

In the Books of B Ltd.

Dr. Cash Book (Bank column only) Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
	To Equity Share Application A/c (Being application money received on 24,000 shares @ Rs. 5 each)	1,20,000		By Equity Share Application A/c (Being excess money refunded on 4,000 shares @ Rs.5 each as per Board's Resolution No…dated….)	20,000
	To Equity Share Allotment A/c (Being allotment money received on 19,850 shares @Rs. 5 each)	99,250		By Balance c/d	2,38,950
	To Equity Share Final Call A/c (Being final call money received on 19,850 shares @ Rs. 2 each)	39,700			
		2,58,950			2,58,950

Journal

Date	Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Application A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being application money on 20,000 shares @Rs. 5 each transferred to Equity Share Capital Account as per Board's Resolution No…..dated…)			
	Equity Share Allotment A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			60,000
	To Securities Premium A/c			40,000
	(Being final call money due on 20,000 shares @Rs. 2 each as per Board's Resolution No……dated….)			
	Equity Share Capital A/c (150 x Rs.10)	Dr.	1,500	
	Securities Premium A/c (150 x Rs. 2)	Dr.	300	
	To Equity Share Allotment A/c			750
	To Equity Share Final Call A/c			300
	To Forfeited Shares A/c			750
	(Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No….dated…)			

Tutorial Note : Here, securities premium on forfeited shares has not been realised, so Securities Premium Account will be debited at the time of forfeiture of these shares.

13. ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. In the Balance Sheet, these shares should be shown separately.

Within one month of allotment, the company must produce before the Registrar a written contract of sale of service in respect of which shares have been allotted.

Accounting Entries

(a) When assets are purchased in exchange of shares

Assets Account Dr.

To Share Capital Account

(b) When shares are issued to promoters

Goodwill Account Dr.

To Share Capital Account

Illustration 20

X Co. Ltd. was incorporated with an authorized share capital of 1,00,000 equity shares of Rs. 10 each. The directors decided to allot 10,000 shares credited as fully paid to the promoters for their services.

The company also purchased land and buildings from Y Co. Ltd for Rs. 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

Solution

Journal

Date	*Particulars*		*Dr. Rs.*	*Cr. Rs.*
	Goodwill A/c	Dr.	1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being the issue of 10,000 shares of Rs.10 each fully paid to the promoters for their services as per Board's Resolution No….. dated…..)			
	Land and Buildings A/c	Dr.	4,00,000	

	To Y Co. Ltd A/c (Being the land and buildings purchased from Y Co. Ltd as per agreement dated…).		4,00,000
	Bank A/c Dr.	5,00,000	
	To Equity Share Capital A/c (Being the issue of 50,000 shares of Rs.10 each as per Board's Resolution No…..dated…)		5,00,000

Balance Sheet of X Company Limited as at….

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		*Fixed Assets*	
Authorised Capital		Goodwill	1,00,000
1,00,000 Shares of Rs.10 each	10,00,000	Land and Building	4,00,000
Issued Capital		Current Assets	
1,00,000 Equity shares of Rs. 10 each	10,00,000	Bank	5,00,000
(Of the above, 50,000 shares have been allotted for consideration other than cash)			
	10,00,000		10,00,000

SELF EXAMINATION QUESTIONS

1. The excess price received over the par value of shares, should be credited to __________.

(a) Calls-in-advance account (b) Share capital account

(c) Reserve capital account (d) Securities premium account

2. Which of the following statements is **false**?

(a) The forfeited shares should not be issued at a premium

(b) At the time of forfeiture of shares, securities premium should not be debited with the amount of premium already received

(c) Shares can be issued at a discount only after one year from the commencement of business

(d) Securities premium account cannot be utilized to redeem preference shares

3. When shares are issued to promoters for the services offered by them, the account that will be debited with the nominal value of shares is ____________.

(a) Preliminary expenses account (b) Goodwill account

(c) Asset account (d) Share capital account

4. The directors of E Ltd. made the final call of Rs.30 per share on May 15, 2004 indicating the last date of payment of call money to be May 31, 2004. Mr.F, holding 5,000 shares paid the call money on July 15, 2004.

If the company adopts Table A, the amount of interest on calls-in-arrear to be paid by Mr.F = ?

(a) Rs.625.00 (b) Rs.937.50 (c) Rs.750.00 (d) Rs.1,125.00

Use the following information for questions 5 to 9

B Ltd. was registered with a share capital of Rs 1,00,00,000 divided into equity shares of Rs 10 each. It issued 9,00,000 equity shares to the general public at par payable as to Rs. 3 on application, Rs. 3 on allotment and balance in 2 equal calls. The public had subscribed for 8,50,000 shares. Till 31st March, 2006, only first call had been made. All the shareholders had paid up except Mr. C, a holder of 25,000 shares, who did not pay the call money.

5. How much is B Ltd.'s authorized share capital?

(a) Rs. 1,00,00,000 (b) Rs. 90,00,000 (c) Rs. 85,00,000 (d) Rs. 68,00,000

6. How much is B Ltd.'s issued capital?

(a) Rs. 1,00,00,000 (b) Rs. 90,00,000 (c) Rs. 85,00,000 (d) Rs. 68,00,000

7. How much is B Ltd.'s subscribed capital?

(a) Rs. 1,00,00,000 (b) Rs. 90,00,000 (c) Rs. 85,00,000 (d) Rs. 68,00,000

8. How much is B Ltd.'s called up capital?

(a) Rs. 1,00,00,000 (b) Rs. 90,00,000 (c) Rs. 85,00,000 (d) Rs. 68,00,000

9. How much is B Ltd.'s paid up capital?

(a) Rs. 1,00,00,000 (b) Rs 90,00,000 (c) Rs. 85,00,000 (d) Rs. 67,50,000

Use the following information for questions 10 to 23

D Ltd. issued 2,00,000 shares of Rs.100 each at a premium of Rs.20 per share payable as follows:

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

Applications were received for 3,00,000 shares and pro rata allotment was made to applicants of 2,40,000 shares. Money excess received on application of 2,40,000 shares was employed on account of sum due on allotment as part of share capital. E, to whom 4,000 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited and F, the holder of 6,000 shares failed to pay the two calls and his shares were forfeited after the second call. Of the forfeited shares, 8,000 shares were reissued to G at a discount of 10%, the whole of E's forfeited shares being reissued.

10. Amount received on application = ___________.

(a) Rs. 40,00,000 (b) Rs. 60,00,000 (c) Rs. 48,00,000 (d) Rs. 2,40,00,000

11. Application money adjusted against allotment = __________.

(a) Rs. 20,00,000 (b) Rs. 16,00,000 (c) Rs. 12,00,000 (d) Rs 8,00,000

12. Amount refunded to shareholders = __________.

(a) Rs. 20,00,000 (b) Rs. 16,00,000 (c) Rs. 12,00,000 (d) Rs. 8,00,000

13. Total amount paid by E = _________.

(a) Rs. 80,000 (b) Rs. 1,00,000 (c) Rs. 1,44,000 (d) Rs. 96,000

14. Total amount paid by F = ________.

(a) Rs. 80,000 (b) Rs. 3,00,000 (c) Rs. 4,20,000 (d) Rs. 1,44,000

15. Total amount paid by G = __________.

(a) Rs. 7,20,000 (b) Rs. 8,00,000 (c) Rs. 8,80,000 (d) Rs. 8,64,000

16. Amount transferred to Share forfeiture account at the time of forfeiting E's shares = _________.

(a) Rs. 80,000 (b) Rs. 1,00,000 (c) Rs. 3,00,000 (d) Rs. 96,000

17. Amount transferred to Share forfeiture account at the time of forfeiting F's shares = _________.

(a) Rs. 80,000 (b) Rs. 3,00,000 (c) Rs. 4,20,000 (d) Rs. 1,44,000

18. Net balance in Share Capital Account = ________.

(a) Rs. 2,00,00,000 (b) Rs. 2,08,00,000 (c) Rs. 2,04,00,000 (d) Rs. 1,98,00,000

19. Net balance in Securities Premium Account = ________.

(a) Rs. 39,20,000 (b) Rs. 39,28,000 (c) Rs. 39,36,000 (d) Rs. 39,44,000

20. Net balance in Share Forfeiture Account = ________.

(a) Rs. 1,00,000 (b) Rs. 3,00,000 (c) Rs. 96,000 (d) Rs. 3,96,000

21. Net balance in Capital Reserve Account = ________.

(a) Rs. 2,96,000 (b) Rs. 80,000 (c) Rs. 2,10,000 (d) Rs. 2,16,000

22. Net balance in Bank Account = ________.

(a) Rs. 2,40,00,000 (b) Rs. 2,40,12,000 (c) Rs. 2,40,24,000 (d) Rs. 2,40,36,000

23. Balance Sheet Total = _________.

(a) Rs. 2,40,00,000 (b) Rs. 2,40,12,000 (c) Rs. 2,40,24,000 (d) Rs. 2,40,36,000

24. When shares are forfeited, the share capital account is debited with ________ and the share forfeiture account is credited with __________.

(a) Paid-up capital of shares forfeited; Called up capital of shares forfeited
(b) Called up capital of shares forfeited; Calls in arrear of shares forfeited
(c) Called up capital of shares forfeited; Amount received on shares forfeited
(d) Calls in arrears of shares forfeited; Amount received on shares forfeited

Use the following information for the questions 25 to 29

B Ltd. issued 80,000 equity shares of Rs.10 each, payable as under:

On application	Rs.3
On allotment	Rs.4
On first call	Rs.2
On final call	Rs.1

The applications received for 1,20,000 shares were dealt with as under:

- Applicants of 20,000 shares were allotted in full.
- Applicants of 80,000 shares were allotted 60,000 shares pro-rata.
- Applications for 20,000 shares were rejected.

25. Amount received on application is ____________.

(a) Rs. 2,40,000 (b) Rs. 3,60,000 (c) Rs. 5,60,000 (d) Rs. 8,00,000

26. Total excess money received as compared to the number of shares allotted = ?

(a) Rs. 3,00,000 (b) Rs. 2,40,000 (c) Rs. 3,60,000 (d) Rs. 1,20,000

27. Amount to be refunded = ?

(a) Nil (b) Rs. 60,000 (c) Rs. 1,20,000 (d) Rs. 1,80,000

28. Amount of excess application money available for adjustment against allotment money = ?

(a) Nil (b) Rs. 60,000 (c) Rs. 1,20,000 (d) Rs. 1,80,000

29. Amount of excess application money available for adjustment against call money = ?

(a) Nil (b) Rs. 60,000 (c) Rs. 1,20,000 (d) Rs. 1,80,000

30. Which type of the following shares have the right to receive dividends unpaid in prior years, whenever earnings become adequate?

(a) Cumulative preference shares (b) Participating preference shares
(c) Convertible preference shares (d) Callable preference shares

31. Which of the following statements is **false**?

(a) Interest on calls-in-advance is paid from the date of receipt of advance to the date of relevant call
(b) Calls-in-advance are not entitled for any dividend
(c) According to Table A, interest on calls-in-advance is paid at the rate of 6% p.a.
(d) Payment of interest on calls-in-advance is at the discretion of the company

32. T Ltd. proposed to issue 6,000 equity shares of Rs.100 each at a premium of 40%. The minimum amount of application money to be collected per share as per the Companies Act, 1956 = ?

(a) Rs.5.00 (b) Rs.6.00 (c) Rs.7.00 (d) Rs.8.40.

33. Dividends are usually paid as a percentage of ______.

(a) Authorized share capital (b) Net profit

(c) Paid-up capital (d) Called-up capital

34. E Ltd. had allotted 10,000 shares to the applicants of 14,000 shares on pro rata basis. The amount payable on application is Rs.2. F applied for 420 shares. The number of shares allotted and the amount carried forward for adjustment against allotment money due from F = ?

(a) 60 shares; Rs.120 (b) 340 shares; Rs.160

(c) 320 shares; Rs.200 (d) 300 shares; Rs.240

35. O Ltd. issued 10,000 equity shares of Rs.10 each at a premium of 20% payable Rs.4 on application (including premium), Rs.5 on allotment and the balance on first and final call. The company received applications for 15,000 shares and allotment was made pro-rata. P, to whom 3,000 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Q at par. Assuming that no other bank transactions took place, the bank balance of the company after effecting the above transactions = ?

(a) Rs.1,14,000 (b) Rs.1,32,000 (c) Rs.1,20,000 (d) Rs.1,00,000

36. A company forfeited 2,000 shares of Rs.10 each (which were issued at par) held by Mr. John for non-payment of allotment money of Rs.4 per share. The called-up value per share was Rs.9. On forfeiture, the amount debited to share capital = ?

(a) Rs.10,000 (b) Rs.8,000 (c) Rs.2,000 (d) Rs.18,000.

37. If forfeited shares (which were originally issued at a discount) are reissued at a premium, the amount of such premium will be credited to ________.

(a) Share forfeiture account (b) Securities premium account

(c) Capital reserve account (d) Discount on issue of shares account

38. The maximum capital beyond which a company is **not** allowed to raise funds, by issue of shares is its' _____.

(a) Issued share capital (b) Reserve share capital

(c) Authorised share capital (d) Subscribed share capital

39. As per the SEBI guidelines, on issue of shares, the application money should **not** be less than

(a) 2.5% of the nominal value of shares

(b) 2.5% of the issue price of shares

(c) 25.0% of the nominal value of shares

(d) 25.0% of the issue price of shares

40. G Ltd. acquired assets worth Rs.7,50,000 from H Ltd. by issue of shares of Rs.100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle the purchase consideration = ?

(a) 6,000 shares (b) 7,500 shares (c) 9,375 shares (d) 5,625 shares

41. D Ltd. issued 5,000 equity shares of Rs.20 each at a premium of 20% payable Rs.8 on application (including premium), Rs.10 on allotment and the balance on first and final call. The company received applications for 7,500 shares and allotment was made pro-rata. E, to whom 1,500 shares were allotted, failed to pay the amount due on allotment. All her shares were forfeited after the call was made. The forfeited shares were reissued to F at par. Assuming that no other bank transactions took place, the bank balance of the company after affecting the above transactions = ?

(a) Rs.1,14,000 (b) Rs.1,31,000 (c) Rs.1,20,000 (d) Rs.1,00,000.

42. Declared dividend should be classified in the Balance Sheet as a _______.

(a) Provision (b) Current liability (c) Reserve (d) Current asset

43. The interest on calls-in-advance is paid for the period from the _______.

(a) Date of receipt of application money to the date of appropriation
(b) Date of receipt of allotment money to the date of appropriation
(c) Date of receipt of calls-in-advance to the date of appropriation of the call
(d) Date of appropriation to the date of dividend payment

44. As per Schedule VI of the Companies Act, 1956, under which of the following heads is 'Premium on issue of Preference Shares' shown in the balance sheet of a company?

(a) Miscellaneous expenditure (b) Debentures
(c) Reserves and surplus (d) Current liabilities and provisions

45. Which of the following signifies the difference between par value and an issue price below par?

(a) Securities premium (b) Discount on issue of shares
(c) Calls in arrear (d) Calls in advance

46. The excess price received over the par value of shares, should be credited to

(a) Calls-in-advance account (b) Share capital account
(c) Reserve capital account (d) Securities premium account

47. The rate of discount on issue of shares can not exceed ——— percent of the nominal value of the shares.

(a) 10 (b) 20 (c) 15 (d) 5

48. The Securities Premium Account should be shown under

(a) Share Capital (b) Current Liabilities
(c) Current Assets (d) Reserves and Surplus

Use the following information for questions 49 and 50

Consider the following data pertaining to W Ltd. as on March 31, 2009

Share Capital

Issued, Subscribed Called-up (20,000 shares of Rs.100 each)	Rs.20,00,000
Calls in arrear	Rs. 10,000
Profit and loss account (Cr.) as on April 01, 2008	Rs. 67,000
Profit for the year	Rs. 1,90,610

- The company wants to create a Debenture Redemption Reserve and to transfer Rs.50,000 every year out of profits to redeem the debentures.
- The company declared 10% dividends.

49. The amount of dividend declared = ?

(a) Rs.1,00,700 (b) Rs.2,25,761 (c) Rs.1,99,000 (d) Rs.2,00,000

50. The balance of Profit and Loss Appropriation account transferred to Balance Sheet after effecting the above transactions = ?

(a) Rs.6,000 (b) Rs.68,100 (c) Rs.8,610 (d) Rs.6,810

51. If the forfeited shares are issued at a premium, the amount of the premium shall be credited to

(a) Profit and loss account (b) Capital reserve account

(c) Share forfeiture account (d) Securities premium account

52. IJK Ltd. issued 20,000 shares of Rs.10 each at a premium of 20% on May 01, 2009, payable as follows:

On application	Rs.4.50 (inclusive of premium)
On allotment	Rs.2.50
On first and final call	Rs.5.00

Mrs. M, to whom 1,000 shares were allotted, has paid Rs.5,000 on June 01, 2009. At the time of remitting the allotment money, she indicated that the excess money should be adjusted towards the call money. The directors of the company made the first and final call on October 31, 2009. The company has a policy of paying interest on calls-in-advance. The amount of interest paid to Mrs. M on calls-in-advance = ?

(a) Rs.62.50 (b) Rs.52.08 (c) Rs.125.00 (d) Rs.150.00

53. The following information pertains to X Ltd.

i. Equity share capital called up Rs.5,00,000 ii. Calls in arrear Rs. 40,000

iii. Calls in advance Rs. 25,000 iv. Proposed dividend 15%

The amount of dividend payable = ?

(a) Rs.75,000 (b) Rs.72,750 (c) Rs.71,250 (d) Rs.69,000

54. Z Ltd. issued 10,000 shares of Rs.10 each. The called up value per share was Rs.8. The company forfeited 200 shares of Mr. A for non-payment of 1st call money of Rs.2 per share. He paid Rs.6 for application and allotment money. On forfeiture, the share capital account will be _________.

(a) Debited by Rs.2,000 (b) Debited by Rs.1,600

(c) Credited by Rs.1,600 (d) Debited by Rs. 1,200

55. B Ltd. issued shares of Rs.10 each at a discount of 10%. Mr. C purchased 30 shares and paid Rs.2 on application but did not pay the allotment money of Rs.3. If the company forfeited his entire shares, the forfeiture account will be credited by ______.

(a) Rs.90 (b) Rs.81 (c) Rs.60 (d) Rs.54

Use the following information for questions 56 and 57

B Ltd. invited applications for 5,000 shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

On application	– Rs.5 (including premium)
On allotment	– Rs.4
On final call	– Rs.3

Allotment was made on pro rata basis to the applicants of 6,000 shares. Mr. C to whom 60 shares were allotted, failed to pay allotment money and call money. Mr. D the holder of 100 shares, failed to pay call money. All these shares were forfeited after proper notice.

56. On forfeiture, the amount credited to share allotment account = ?

(a) Rs.480 (b) Rs.640 (c) Rs.180 (d) Rs.400

57. On forfeiture, the amount credited to share forfeiture account = ?

(a) Rs.300 (b) Rs.880 (c) Rs.320 (d) Rs.940.

58. Which of the following statements is **false**?

(a) Shares can be issued for cash or any other consideration

(b) In the event of over subscription, excess amount has to be refunded or a pro rata allotment is to be made

(c) A company must receive a minimum of 90% subscription against the entire issue as per the SEBI guidelines.

(d) The share application money is automatically converted to share capital.

59. A company invited applications for 25,000 equity shares of Rs. 10 each and received 30,000 applications along with the application money of Rs.4 per share. Which of the following alternatives can be followed?

I. Refund the excess applications.

II. Make pro rata allotment to all the applicants, and refund the excess application money.

III. Not to allot any shares to some applicants, full allotment to some of the applicants and pro rata allotment to the rest of the applicants.

IV. Not to allot any shares to some applicants and make pro rata allotment to other applicants.

V. Make pro rata allotment to all the applicants and adjust the excess money received towards call money.

(a) Only (II) above
(b) Both (I) and (IV) above
(c) All (I), (II), (III), (IV) and (V) above
(d) Only (III) above

60. The document inviting offers from public to subscribe for the debentures or shares or deposits of a body corporate is known as _____.

(a) Share certificate
(b) Stock invest
(c) Fixed deposit receipt
(d) Prospectus

61. As per Schedule VI of the Companies Act, 1956, forfeited shares account will be ______.

(a) Added to paid-up capital
(b) Deducted from paid-up capital
(c) Shown as a capital reserve
(d) Shown as a revenue reserve

62. The authorized capital of M Ltd. consists of both cumulative preference shares and equity shares. Each 5% cumulative preference share has a par value Rs.100. Each equity share has a par value Rs.10. At the end of the year 2007-08 and 2008-09, the cumulative preference share capital balance was Rs.2,00,000 and the equity share capital balance was Rs.5,00,000.

If dividend declarations totalled Rs.8,000 and Rs.15,000 in the year 2007-08 and 2008-09 respectively, the dividends allocated to the equity share holders in the year 2008-09 = ?

(a) Rs.3,000
(b) Rs.5,000
(c) Rs.10,000
(d) Rs.12,000

63. At the time of forfeiture of shares which were originally issued at a discount, the accounting entry involves __________.

I. A debit to Share capital account with the called-up value of shares forfeited

II. A credit to Share forfeiture account with the amount received on forfeited shares

III. A credit to Discount on issue of shares with the amount of discount allowed on forfeited shares

IV. A credit to Calls-in-arrears with the amount due but not paid on forfeited shares

(a) Both (I) and (IV) above
(b) Both (IV) and (III above
(c) Both (I) and (II) above
(d) (I), (II), (III) and (IV) above.

64. As per The Companies Act, only preference shares, which are redeemable within ____ can be issued.

(a) 24 years
(b) 22 years
(c) 30 years
(d) 20 years

65. Which of the following is **not true**?

(a) Loss on reissue of shares cannot be more than the gain on forfeiture of those shares

(b) Where all the forfeited shares are not reissued the share forfeited account will show a credit balance equal to gain on forfeiture of shares not yet re-issued

(c) When the shares are forfeited, securities premium is debited along with share capital where premium has not been received

(d) Where forfeited shares are re-issued at premium, the amount of such premium is credited to capital reserve account.

66. The subscribed share capital of S Ltd. is Rs.80,00,000 of Rs.100 each. There were no calls in arrear till the final call was made. The final call made was paid on 77,500 shares. The calls in arrear amounted to Rs.62,500. The final call per share = ?

(a) Rs.25 (b) Rs.7.80 (c) Rs.20 (d) Rs.62.50

67. Which of the following should be **deducted** from the called-up share capital to find out paid-up capital?

(a) Calls-in-advance (b) Calls-in-arrears

(c) Share forfeiture (d) Discount on issue of shares

68. If a shareholder **does not** pay his dues on allotment, for the amount due, there will be a ________.

(a) Credit balance in the share allotment account

(b) Debit balance in the share forfeiture account

(c) Credit balance in the share forfeiture account

(d) Debit balance in the share allotment account

69. The discount allowed on re-issue of forfeited shares is debited to __________.

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

(c) Revaluation reserve account (d) None of these.

70. Maximum amount that can be collected as premium as a percentage of face value = ?

(a) 20%. (b) 30% (c) 40%. (d) Unlimited

71. The company issued shares of Rs.10 each at a premium of Rs.2 payable as:

On application	— Rs.3
On allotment	— Rs.4 (including premium)
On first call	— Rs.3
On second and final call	— Rs.2

Mr. E who holds 100 shares failed to pay the first call money. The company has forfeited the 100 shares after the first call. On forfeiture, the amount debited to share capital account = ?

(a) Rs.1,200 (b) Rs.1,000 (c) Rs.800 (d) Rs.700

Use the following information for questions 72 and 73

D Ltd. issued 10,000 equity shares of Rs.10 each at a premium of 20%. The share amount was payable as:

On application	Rs.2
On allotment (including premium)	Rs.5
On first call	Rs.3
On second and final call	Rs.2

Applications were received for 14,000 shares and the shares were allotted to applicants on pro-rata basis. E, who was allotted 300 shares, failed to pay the first call. On his subsequent failure to pay the second and final call, all his shares were forfeited. Out of the forfeited shares, 200 shares were re-issued @ Rs.9 per share.

72. The amount transferred to capital reserve = ?

(a) Rs.200 (b) Rs.1,100 (c) Rs.800 (d) Rs.1,300

73. Balance in share forfeiture accounts = ?

(a) Rs.Nil (b) Rs.700 (c) Rs.500 (d) Rs.400

74. The following statements apply to equity/preference shareholders. Which one of them applies only to Preference Shareholders?

(a) Shareholders risk the loss of investment

(b) Shareholders bear the risk of no dividends in the event of losses

(c) Shareholders usually have the right to vote

(d) Dividends are usually a fixed amount in every financial year

75. The Securities Premium amount may be utilized by a company for __________.

(a) Writing off any loss on sale of fixed asset

(b) Writing off any loss of revenue nature

(c) Payment of dividends

(d) Writing off the expenses/discount on the issue of debentures

ANSWERS

1.	(d)	2.	(a)	3.	(b)	4.	(b)	5.	(a)
6.	(b)	7.	(c)	8.	(d)	9.	(d)	10.	(b)
11.	(d)	12.	(c)	13.	(d)	14.	(c)	15.	(a)
16.	(d)	17.	(b)	18.	(d)	19.	(a)	20.	(a)
21.	(d)	22.	(d)	23.	(d)	24.	(c)	25.	(b)
26.	(d)	27.	(b)	28.	(b)	29.	(a)	30.	(a)
31.	(d)	32.	(a)	33.	(c)	34.	(d)	35.	(b)
36.	(d)	37.	(b)	38.	(c)	39.	(d)	40.	(a)
41.	(b)	42.	(b)	43.	(c)	44.	(c)	45.	(b)
46.	(d)	47.	(a)	48.	(d)	49.	(c)	50.	(c)
51.	(d)	52.	(a)	53.	(d)	54.	(b)	55.	(c)
56.	(c)	57.	(d)	58.	(d)	59.	(c)	60.	(d)
61.	(a)	62.	(a)	63.	(d)	64.	(d)	65.	(d)
66.	(a)	67.	(b)	68.	(d)	69.	(d)	70.	(d)
71.	(c)	72.	(c)	73.	(c)	74.	(d)	75.	(d)