

CHAPTER 7

Accounting for Share Capital

Company- It is

1. A Form of business organization
2. It is an Association of persons who provide capital
3. Is an artificial, invisible and intangible
4. Has separate legal identity
5. Has Perpetual existence
6. Has Common seal
7. is not affected by death , insolvency or insanity of individual

Private company--

According to section 3(1)(iii)

1. Has paid up capital of one lakh
2. Maximum number of members is 50
3. It restricts the right to transfer of shares
4. Prohibits any invitation to public to subscribe for shares and Debentures
5. Prohibits any invitation or acceptance of deposits from persons other than its members , directors or their relatives

PUBLIC COMPANY:-

According to section 3(1)(iv)

1. Is not a private company
2. Has minimum paid up capital of 5 lakhs or higher as may be prescribed
3. Is a private company which is subsidiary of a company which is not a private company

GOVERNMENT COMPANY

As per section 617 is a company in which more than 50% of paid up capital is held by Central or State Government or both

FOREIGN COMPANY

Section 591 of Act states this type of company is incorporated outside India but has established business in India.

Incorporation of company

There are 4 stages

1. Promotion- conceiving an idea of business
2. Incorporation or registration
3. Capital subscription - which means raising capital
4. Commencement of business for which certificate of Commencement of business is to be obtained.

- **Some important definitions(theory questions)**

MINIMUM SUBSCRIPTION :It is number of shares on which amount received is sufficient to commence business .

PROSPECTUS :It is an invitation to public for subscription of shares or debentures.

PRELIMINARY EXPENSES : are expenses incurred for incorporating the company are carried in balance sheet unless these are written off.

CAPITAL- means amount invested in the business for the purpose of earning revenue. In case of company money is contributed by public and people who contribute money are called shareholders.

SHARE CAPITAL: capital raised by issue of shares is called share capital.

AUTHORISED CAPITAL-:Also Called as Nominal or registered capital .It is the maximum amount of capital a company can issue . It is stated in Memorandum of Association.

ISSUED CAPITAL-: this is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital .

SUBSCRIBED CAPITAL : It is part of issued capital subscribed or applied by public.

CALLED UP CAPITAL : It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

PAID UP CAPITAL : It is part of called up capital that the members of company or shareholders have paid.

Example : X Ltd. is registered with the following share capital 1,25,000 equity shares of Rs. 10 each, payable in the following manner 10% on application,20% on allotment ,30% on first call the balance on final call .

The company offered for subscription 80,000 equity shares .The public applied for 75,000 share The company duly allotted these shares .It made only first call by 31st March 2010.The first call was received on all shares except 300 equity shares. Prepare Balance Sheet of Company

Disclosure of share capital in Company's Balance Sheet

Revised Form of Balance Sheet of X Ltd. as per Schedule VI Part I as at 31.03.2012

Particulars	Note No.	Figure on 31.03.2010 (end of current period)	Figure as on 31.03.2009 (end of previous Year
Equity and Liabilities			
1) Shareholder's Funds			
a) Share Capital	1	4,49,100	
Total		4,49,100	
ASSETS			
Current Assets			
Cash & Cash Equivalent	2	4,49,100	
		4,49,100	

Note No. :- 1

Authorised Capital

1,25,000 equity shares @ ₹ 10 each 12,50,000

Issued Capital

80000 Equity Shares @ ₹ 10 each 8,00,000

Subscribed & Paid up

75000 eq. shares of @ ₹ 10 each

issued to public @ ₹ 6 4,50,000

Less : Unpaid calls 900 4,49,100

4,49,100

Note No. 2 : Amount received on application

75000 @ ₹ 1(10%) 75,000

Amount received on allotment 1,50,000

75000 sh @ ₹ 2(20%)

Amount Received on call 2,24,100

74700 Shares @ ₹ 3(30%)

4,49,100

RESERVE CAPITAL : It is that part of uncalled capital which the company reserve to be called only upon winding up of company. For this a special resolution has to be passed

CAPITAL RESERVE : It is capital profit not available for distribution as dividend.

- It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholders' Funds

CLASSES OF SHARES : There are two classes of shares

1. Preference shares

2. Equity shares

1. Preference shares : are shares which get preferential right in respect of
A) Right of dividend
B) Repayment of capital on winding up

Equity shares : The shares which are not preference shares are called equity shares and do not get preference in above respect.

ISSUE OF SHARES

Shares can be issued in two ways

1. for cash

2. for consideration other than cash

Terms of issue of share : shares can be issued in three ways

1. Issue of shares at Par

2. Issue of shares at Premium

3. Issue of shares at Discount

Shares payable in Instalments

1. First instalment paid along with application is called as application money.

2. Second instalment paid on allotment is called as allotment money.

3. Subsequent instalment paid are called as call money calls can be more than one and called First call, second call or as the case may be

ISSUE OF SHARES FOR CASH AT PAR : This means shares are issued at face value

Journal entries

For application money received	Bank Account Dr. To Share Application A/c	(No. of application received Amount received)
On acceptance of application	Share Application Account Dr. To Share Capital Account	(No of shares allotted x amount called on each)
For allotment money due	Share Allotment Account Dr. To Share Capital A/c	(No. of shares allotted x amount called on each share)
On receipt of allotment money	Bank Account Dr. To Share Allotment A/c	(No. of application allotted x Amount received on each share or actual amount received)
For call money due	Share Call A/c Dr. To Share Capital Account	(No. of shares allotted x amount called on each share)
On receipt of calls money	Bank Account Dr. To Share Call A/c	(No. of application allotted x Amount received on each share)

NOTE : For each entry narration is compulsory as given in example below and carries marks columns are compulsory table should be made in proper format (all columns are compulsory) after each entry in column of particulars line must be drawn.

Example : X Ltd. invited application for 10,000 shares of the value of Rs.10 each. The amount is payable as Rs.2 on application and Rs.5 on allotment and balance on First and Final call. Teh whole of the above issue was applied and cash duly recived. Give Journal entries for the above transaction.

In the Books of X Ltd.

Solution

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank Account Dr. To Share Application A/c (Being the application money received on 10,000 shares at Rs.2 per share)		20,000	20,000
	Share Application A/c Dr. To Share Capital A/c (Being the transfer of application money on 10,000 shares to share capital account)		20,000	20,000

Share Allotment A/c	Dr.	50,000	50,000
To Share Capital A/c (Being the amount due on 10,000 shares at Rs.5 per share)			
Bank Account	Dr.	50,000	50,000
To Share Allotment A/c (Being the receipt of Rs.5 on 10,000 shares)			
Share Call A/c	Dr.	30,000	30,000
To Share Capital A/c (Being the amount due on 10,000 shares at Rs.3 per share)			
Bank Account	Dr.	30,000	30,000
To Share Call A/c (Being the receipt of Rs.3 on 10,000 shares)			

ISSUES OF SHARES AT PREMIUM : It is issue of share at more than face value. (Section 78)

This premium can be utilised for

1. Issue of bonus shares
2. Write off preliminary expenses, discount, commission on issue of shares
3. Buy back of shares
4. Redemption of debentures or preference shares

JOURNAL ENTRIES ARE

For application money received	Bank Account Dr. To Share Application A/c	(No. of application received x Amount received on each share)
On acceptance of application	Share Application Account Dr. To Share Capital Account To Securities Premium A/c	(with total application money) (share capital received on application) (amount of premium received if any)
For allotment money due	Share Allotment Account Dr. To Share capital Account To Securities Premium	(No of shares allotted x amount called on each share) (securities premium due)
On receipt of money	Bank Account Dr. To Share Allotment A/c	(No. of application allotted x Amount received on each share i.e. actual amount received)
For call money due	Share Call Account Dr. To Share Capital Account To Securities Premium	(No of shares allotted x amount called on share)

On receipt of calls money	Bank Account To Share call Account	(Actual amount received)
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Example : V Ltd. Issued 20,000 Equity shares of Rs.10 each at a premium of Rs.3 payable as follows

On Application	Rs.4
On Allotment	Rs.5 (including)
On Application	Rs.2
On Application	Rs.2

All shares were duly subscribed and all money duly received. Pass necessary Journal

IN THE BOOKS OF V Ltd. JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank Account Dr. To Equity Share Application A/c (Being the application money received on 20,000 shares at Rs.4 per share)		80,000	80,000
	Equity Share Application A/c Dr. To Share Capital A/c (Being the transfer of application money on 20,000 shares to share capital account)		80,000	80,000
	Share Allotment A/c Dr. To Equity Share Capital A/c To Securities premium Account (Being the amount due on 20,000 shares at Rs.5 including premium of Rs.3 per share)		1,00,000	40,000 60,000
	Bank Account Dr. To Share Allotment A/c (Being the receipt of Rs.5 on 20,000 shares)		1,00,000	1,00,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being the amount due on 20,000 shares at Rs.2 per share)		40,000	40,000
	Bank Account Dr. To Equity Share First Call A/c (Being the receipt of Rs.2 on 20,000 shares)		40,000	40,000
	Equity Share second and Final Call A/c Dr. To Equity Share Capital A/c (Being the amount due on 20,000 shares at Rs.2 per share)		40,000	40,000
	Bank Account Dr. To Equity Share Second and Final Call. A/c (Being the receipt of Rs.2 on 20,000 shares)		40,000	40,000

ISSUE OF SHARES AT DISCOUNT : When a company issues shares at price less than its face value it is issue of shares at discount.

Section 79 imposes restrictions on issue at discount According to this

1. Shares must be of the class already issued.
2. Ordinary resolution must be passed in the general meeting which should specify maximum discount.
3. Rate of discount should not be more than 10%
4. Sanction from company Law board must be obtained and shares must be issued within two months of permission.
5. At least one year should have passed since commencement of business has begun

NOTE : Unless specified Discount is given on allotment

JOURNAL ENTRIES (ON ALLOTMENT)

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Allotment Account Dr.		Net Amount due	Face value of share
	Discount on issue of shares Account Dr.		Amount of discount	
	To Share Capital (Being the net amount due on allotment)			
	Bank Account Dr.		Net Amount	Net Amount
	To Share Allotment Account (Being the amount received on allotment)			

Example :

J. K. India Ltd. issued 10,000 shares of Rs.10 each at a discount of 10% payable Rs.5 on application, Rs.3 on allotment and Rs.2 on First and Final Call.

Only 9,000 shares were applied for and the allotment was made to all the applicants.

Give necessary journal entries in the book of the Company.

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank Account Dr.		36,000	36,000
	To Share Application Account (Being application money received on 9000 shares @Rs.4 per share)			
	Share Application Account Dr.		36,000	36,000
	To Share Capital account (Being the application money transferred to Share Capital Account)			

	Share Allotment Account Dr. Discount on issue of shares Account To Share Capital (Being the allotment money due on 9,000 shares @ Rs.3 per share. The amount of discount is @Rs.1)	27,000 9,000	36,000
	Bank Account Dr. To Share Allotment Account (Being application money received on 9000 shares @Rs.3 per share)	27,000	27,000
	Share First and Final Call Account Dr. To Share Capital Account (Being the call money due on 9,000 shares @Rs.2 per share)	18,000	18,000
	Bank account Dr. To Share First and Final call Account (Being money received on 9000 shares @ Rs.3 per share)	18,000	18,000

SHARES ISSUE FOR CONSIDERATION OTHER THAN CASH

When a company purchase any fixed asset or business and makes the payment to the vendor in form of issue of shares in place of cash it is called the issue of shares for consideration other than cash.

Share can be issued at par, at premium or discount.

JOURNAL ENTRIES

Date	Particulars	L. F.	Debit ₹	Credit ₹
	On purchase of asset Sundry Asset Account Dr. To Vendor		Amount of purchase price	
	On purchase of business When purchase consideration is more than net asset Sundry Asset Account Dr. Goodwill Account (B/F) Dr. To Liability To Vendor		Agreed value (Purchase consideration - Net assets)	Agreed Value Purchase Consideration
	When purchase consideration is less than net asset Sundry Asset Account Dr.		Agreed value	

To Liability To Vendor To Capital Reserve (B/F)			Agreed Value Purchase Consideration (Sundry asset less- purchase consideration)
On issue of share a) At PAR Vendor Dr. To Share Capital		Nominal Value	
b) At premium Vendor Dr. To Share Capital To Securities Premium		Purchase Price	Nominal value Amount of Premium
c) Vendor Dr. Discount on issue of shares Dr. To Share Capital		Purchase Price Amount & discount	Value & Share

NOTE : When name of vendor is given then we write the name of vendor

Example : Atlas Co. Ltd. Purchased a machine from HMT Co. for Rs.64,000. It was decided to pay Rs.10,000 in cash and balance will be paid by issue of shares of Rs.10 each. Pass journal entries if shares

- Issued at par
- Issued at premium of 12%
- Issued at discount of 10%

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Machinery Account Dr. To HMT Ltd. To Bank Account (Being the machine purchased and Rs.10,000 paid cash and balance to be paid by issue of shares)		64,000	54,000 10,000
	a) When shares are issued at par HMT Ltd. (Vendor) Dr.		54,000	

	To Share Capital (Being 5,400 shares of Rs.10 each at par to HMT Ltd.)		54,000
	b) When shares are issued at premium of 20% HMT Ltd. (Vendor) Dr. To Share Capital Account To Security Premium Account (Being 4,500 shares of issued to vendor at a premium of Rs.2 per share $54,000/10+2=4500$)	54,000	45,000 9000
	c) When shares are issued at discount of 10% HMT Ltd. (Vendor) Discount on issue of shares Account Dr. To Share Capital Account Dr. (Being 6,000 shares issued at 10% discount to HMT Ltd.) $54,000/10-9=6000$)	54,000 600	60,000

Purchase of business example :

A company issued 15,000 fully paid up equity shares of Rs.100 each for the purchase of the following assets and liabilities from Gupta Bros..

Plant -	Rs.3,50,000	Stock	Rs.4,50,000
Land and Building	Rs.6,00,000	Sundry Creditors	Rs.1,00,000

pass necessary Journal entries

JOURNAL ENTRIES

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Plant Account Dr.		3,50,000	
	Land and Building Account Dr.		6,00,000	
	Stock Account Dr.		4,50,000	
	Goodwill Account Dr.		2,00,000	
	To sundry creditors Account			1,00,000
	To Gupta Bros.			15,00,000
	(Being the purchase of business)			
	Gupta Bros.		15,00,000	
	To Equity Shares Capital Account			15,00,000
	Being issue of 15,000 shares of Rs.100 each as payment of business price			

Calculation : Goodwill = purchase consideration + liabilities - assets = Rs.15,00,000+ Rs.1,00,000- Rs.14,00,000= Rs.2,00,000

Q. :- A company purchased a running business from Mahesh for a sum of ₹ 1,50,000 payable as Rs.1,20,000 in fully paid equity shares of Rs.10 each and balance in cash. The assets and liabilities consisted of the following

Plant and Machinery	₹ 40,000	Stock	₹ 50,000
Building	₹ 40,000	Cash	₹ 20,000
Sundry debtors	₹ 30,000	Sundry creditors	₹ 20,000

pass necessary Journal entries

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Plant and Machinery Account Dr.		40,000	
	Building Account Dr.		40,000	
	Sundry debtors Account Dr.		30,000	
	Stock Account Dr.		50,000	
	Cash Account Dr.		20,000	
	To Sundry creditors			20,000
	To Mahesh			1,50,000
	To Capital Reserve			10,000
	(Being the assets and liabilities taken over)			
	Mahesh Dr.		1,50,000	
	To Equity share capital Account			1,20,000
	To Bank Account			30,000
	(Being the payment made to Mahesh in form of shares)			

Calculations ; Net assets = total assets - liabilities = Rs.1,800,000-Rs.20,000= Rs.1,60,000

Capital reserve = Net Asset- purchase consideration = Rs.1,60,000-Rs.1,50,000= Rs.10,000

Sweat equity Shares : [section 79 A] These are the shares which are issued by the companies to its employees or directors at a discount or for consideration other than cash for providing knowhow or intellectual property rights or value addition

These can be issued only after one year of commencement of business and is reward for their hard work.

Private placement of shares : [section 81 (1A)] This is an issue of shares of securities to a relatively small selected group of persons not to the public.

This is governed by SEBI guidelines and requires special resolution to be passed in General Body meeting.

Under subscription : When the number of received is less than the number of shares offered to public it is under subscription

Oversubscription : When the number of received is more than the number of shares offered to public it is oversubscription.

In such cases we

1. Either reject the excess applications
2. make prorata allotment
3. pratically refund amount on other prorata allotment is made

Right issue : The existing share holders have a right under section 81 to subscribe for fresh capital of shares of company for consideration decided by the company in proportion to existing shareholdings. This is called right issue.

Preferential Allotment : It is way of infusing fresh capital (out of public issue) in business by issuing shares or warrants to the specified entities at specified price. These entities are those who want to have stake in company like promoters, financial institutions, venture capitalists etc.

ESCROW ACCOUNTS : Funds placed in trust with a third party by a borrower for a specific purpose and to be delivered to the borrower only upon the fulfillment of certain conditions.

Employees stock option plan (ESOP) : This is employee compensation scheme through which companies want to introduce a sense of belongingness among the employees. Under this scheme a certain number of shares are reserved for purchase and issue to key permanent employees at a price much lower than the market price. Such shares have lock in period.

Buy back of shares : The repurchase of stock by the company that issued it, as to reduce holdings of a single investor or increase the value of sahres by reducing their number

This can be done out of free reserves, security premium or proceeds of securities

Employees stock Purchase Scheme (ESPS) :

About Employee Stock Purchase Plans

Companies offer Emploeyss Stock Purchase Plans to employees to allow them the opportunity to share the success of the firm. A stock purchase plan enables employees to purchase their company's common stock, often at a discount from the market price.

JOURNAL ENTRY

Bank account	Dr. (issue price)
Employee compensation Expenses	Dr. (accounting value of option)
To Equity Share Capital	(face value)
To securities premium	(market price-face value)

Call in arrear : Any amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as call in arrear Company can charge interest on this

Accounting treatment

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Call-in- Arrear Account Dr. To Relevant call Account/Allotment Account (Being the call amount not received)			

When call amount is received Bank Account Dr. To Call in Arrear Account (Being the amount of call received)			
On making the interest due Sundry Member Account To interest on Call-in-Arrear Account (Being the amount of interest due)			
On receipt of the interest Bank Account Dr. To Sundry Member Account (Being the amount of interest received)			
When interest is transferred to profit and loss account Interest on Call-in-Arrear Account Dr. To Profit and Loss Account (Being the amount transferred to Profit and Loss Account)			

Calls in advance : Any amount paid in excess of what they has asked to pay is called as call in advance. Interest is received on this at rate mentioned in Article of Association or 6% as per Table A.

Date	Particulars	L.F.	Debit ₹	Credit ₹
	On receiving money in advance Bank Account Dr. To Call-in-Advance Account (Being the amount of call received)			
	On adjustment of the advance Call-in-Advance Account Dr. To Relevant call Account (Being the amount adjusted on call becoming due)			
	On interest becoming due Interest on Call-in-Advance Account Dr. To Sundry Member Account (Being the interest due to member)			
	On payment of interest Sundry Member Account Dr. To Bank Account (Being the interest paid to member)			
	When interest is transferred to Profit and loss account Profit and Loss Account Dr. To Interest on Call-in-Advance Account (Being the amount transferred to Profit and Loss Account)			

Forfeiture of shares : If on allotment of share allottees fail to pay the amount on any call his money is forfeited or withheld by company this is called forfeiture of so forfeit means to take away or to withdraw the rights of a person.

Forfeiture of share refers to the cancellation or termination of membership of a share holder by taking away the shares and rights of membership.

Forfeiture of shares issued at par

Accounting treatment :

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr.		Amount Called	
	To Various Unpaid Calls/Calls in arrear Account			Amount unpaid
	To Forfeited Shares			Amount paid

Example : Jai Jawan holding 10 shares of Rs.10 each of which Rs.2 on application Rs.2 on allotment but could not pay Rs.3 on first call. His shares were forfeited by the Directors. Give Journal entry.

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account (10x8) Dr.		80	
	To Forfeited Shares Account (10x5)			50
	To share First Call Accounts (10x3)			30
	(Being 10 shares forfeited for non-payment of call money)			

Forfeiture of shares issued at premium. For this there are two conditions

1. the premium has been received
2. the premium has not been received

when the premium has been received : In such case premium received will not be forfeited and will not come anywhere :

Accounting treatment :

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr.			
	To Share Forfeited Account			
	To Share First Call Account			

Example 1000 shares of Rs.10 each issued at a premium of Rs.2 per share are forfeited on which Rs.8 (including premium) have been received. Final call of Rs.4 has not been received Pass necessary entry.

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account (1,000x10) Dr. To Shares Forfeited Account (1000x6) To Share First Call Account (1,000x4) (Being 1,000 shares forfeited for non payment of Final call money)		10,000	6,000 4,000

The premium has not been received : In such case security premium is debited with the amount of premium not received

Accounting treatment :

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr. Security Premium Account Dr. To Shares Forfeited Account To Shares Unpaid Call Account (Being 1,000 shares forfeited for non payment of allotment and calls money)			

Example 1000 shares of Rs.10 each issued at a premium of Rs.2 per share are forfeited on which only application money of Rs.4 has been received and Rs.8 (including premium) has not been received. Pass necessary entries.

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account (1,000x10) Dr. Security Premium Account (1000x2) Dr. To Share Forfeited Account (1000x4) To Share Unpaid Call Account (1000x8) (Being 1,000 shares forfeited for non payment of allotment and calls money)		10,000 2,000	4000 8000

Forfeiture of shares issued at discount

Accounting treatment :

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr. To Discount on issue of share Account To Shares Forfeited Account To Share Unpaid Call Account			

Example A Ltd. Forfeited 1000 shares of Rs.100 each issued at discount of Rs.10 per share Final call of Rs.20 has not been made on these shares. Rs.40 has been received per share Pass necessary entry.

Accounting treatment :

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr. To Discount on issue of share Account To Shares Forfeited Account To Share Unpaid Call Account (Being 1000 shares forfeited)		80,000	10,000 40,000 30,000

Reissue of forfeited shares : forfeited shares can be issued to some investor. This is called as reissue of shares These can be issued at par, premium or discount but discount cannot exceed the forfeited amount

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	REISSUE AT PAR Bank Account Dr. To Share Capital Account			
	REISSUE AT PREMIUM Bank Account Dr. To Share Capital Account To Security Premium Account			
	REISSUE AT DISCOUNT Bank Account Dr. Forfeited Shares Account Dr. To Share Capital Account			
	BALANCE OF FORFEITED SHARES ACCOUNT Forfeited Shares Account Dr. To Capital Reserve			

Forfeiture of Shares originally issued at par and reissued at a discount

Example A Ltd. Forfeited 200 shares of Rs.10 each fully called up held by X for non payment of allotment money of Rs.3 per share & Final call of Rs.4 per share. He paid the application money of Rs.3 per share. These shares were reissued to Y for Rs.8 per shares pass necessary entry.

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account Dr. To share Allotment Account (20x3) To Shares Final Call Account (200x4) To Shares Forfeited Account (200x3) (Being 200 shares forfeited held by X)		2,000	600 800 600
	Bank Account (200x8) Dr. Forfeited Shares Account (200x2) Dr. To Share Capital Account (200x10) (Being re-issue of forfeited shares to Y)		1,600 400	2,000
	Forfeited Shares Account Dr. To Capital Reserve (Being the transfer of profit on reissue to Capital Reserve)		200	200

Forfeiture of Shares originally issued at premium and reissued at a discount

Example A Ltd. Forfeited 100 shares of Rs.100 each issued at a premium of 50% to be paid at time allotment on which first call of Rs.30 per equity share was not received, final call of Rs.20 is yet to be made. These shares were reissued at Rs.70 per share at Rs.80 paid up. Pass necessary entries.

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account (100x80) Dr. To Shares First Call Account (100x50) To Shares Forfeited Account (100x30) (Being 100 shares forfeited for non-payment of calls money)		8,000	5,000 3,000
	Bank Account (100x70) Dr. Forfeited Shares Account (100x10) Dr. To Share Capital Account (100x80) (Being re-issue 100 forfeited shares at Rs.70 per share at Rs.80 paid up)		7,000 1,000	8,000
	Forfeited Shares Account Dr. To Capital Reserve (Being the transfer of profit on reissue to Capital Reserve)		4,000	4,000

Forfeiture of Shares originally issued at discount and reissued at a premium

Y Ltd. Forfeited 800 equity shares of Rs.100 each issued at a discount of 10% for non-payment of first and final call of Rs.3 per share. The forfeited shares were reissued at Rs.12 per share as fully paid up. Pass necessary journal entries in the books of company.

JOURNAL

Date	Particulars	L.F.	Debit ₹	Credit ₹
	Share Capital Account (800x100) To Discount on issue of Shares Account (800x10) To Shares and Final Call Account (800x3) To Shares Forfeited Account (Being 800 shares forfeited for non-payment of final call money)		80,000	8,000 2,400 69,600
	Bank Account (800x12) Dr. Shares Forfeited Account (100x10) Dr. Discount on issue of Shares Account Dr. To Share Capital Account (100x80) (Being re-issue 800 forfeited shares at Rs.12 per share at fully paid up paid up)		9,600 62,400 8,000	
	Forfeited Shares Account Dr. To Capital Reserve (Being the transfer of profit on reissue to Capital Reserve)		4,000	4,000

PRO-RATA-ALLOTMENT When there is oversubscription of shares either the excess amount is refunded or proportionate shares are allotted. Allotment of proportionate shares is called as Pro-Rata Allotment.

Example : AB Ltd. Invited applications for 1,00,000 Equity shares Rs.10 each payable as Rs.2 on application, Rs.3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on pro-rata basis. The excess application money was to be adjusted against allotment only. M a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at Rs.8 per share as fully paid. Pass journal entries.

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Date	Particulars	L.F.	Debit ₹	Credit ₹
	Bank Account Dr To Equity Share Application Account (Being the application money received on 3,00,000 shares at Rs.2 per share)		6,00,000	6,00,000
	Equity Share Application Account Dr		6,00,000	

To Equity Share Capital Account			2,00,000
To Equity Share Allotment Account			3,00,000
To Bank Account			1,00,000
(Being the amount of application money adjusted in t share capital allotment and balance refunded)			
Equity Share Allotment Account Dr.	3,00,000		
To Share Equity Capital Account			3,00,000
(Being the amount due for allotment)			
Equity Share First & Final Call AccountDr.	5,00,000		
To Share Capital A/c			5,00,000
(Being the amount due for final call)			
Bank Account Dr.	4,95,000		
To Equity Share First & Final Call Account			4,95,000
(Being the receipt of Rs.5 on 99,000 shares)			
Equity Share Capital Account (100x10) Dr.	10,000		
To Shares First & Final Call Account (100x50)			5,000
To Shares Forfeited Account (1000x50)			5,000
(Being 1000 shares forfeited for non-payment of first and final call money)			
Bank Account (1000x8) Dr.	8,000		
Shares Forfeited Account (1000x2) Dr.	2,000		
To Share Capital Account (100x10)			10,000
(Being re-issue 1000 forfeited shares at Rs.8 per share at Rs.10 paid up)			
Forfeited Shares Account Dr.	3,000		
To Capital Reserve			3,000
(Being the transfer of profit on reissue to Capital Reserve)			

Note there is no bank account after allotment as all due money is already received

When cash book is also prepared then Bank account entries are not passed in journal but are passed only in cash book

For example AB Ltd. Invited application for 1,00,000 Equity shares Rs.10 each payable as Rs.2 on application, Rs.3 on Allotment and the balance on first and final call. Applications were received for 3,00,000 shares and shares were allotted on pro-rata basis. The excess application money was to be adjusted against allotment only. M a sharehodler who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at Rs.8 per share as fully paid. Pass journal entries.

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Date	Particulars	L.F.	Debit ₹	Credit ₹
	Equity Share Application Account Dr. To Equity Share Capital Account To Equity Share Allotment Account (Being the amount of application money adjusted in t share capital allotment and balance refunded)		5,00,000	2,00,000 3,00,000
	Equity Share Allotment Account Dr. To Share Equity Capital Account (Being the amount due for allotment)		3,00,000	3,00,000
	Equity Share First & Final Call Account Dr. To Share Capital A/c (Being the amount due for final call)		5,00,000	5,00,000
	Equity Share Capital Account (1000x10) Dr. To Shares First & Final Call Account (100x50) To Shares Forfeited Account (1000x5) (Being 1000 shares forfeited for non-payment)		10,000	5000 5000
	Forfeited Shares Account Dr. To Capital Reserve (Being the transfer of profit on reissue to Capital Reserve)		3,000	3,000

CASH BOOK (BANK COLUMN ONLY)

Particulars	Rs.	Particulars	Rs.
To Share application account	5,00,000	By Share application account	1,00,000
To Share allotment account	Nil	By balance c/d	9,03,000
To Share call account	4,95,000		
	8,000		
	10,03,000		10,03,000