Chapter-7
Accounting For Share Capital

Illustration 1: S T L Global Ltd. was formed with a nominal Share Capital of Rs. 40,00,000 divided into 4,00,000 shares of Rs. 10 each. The Company offers 1,30,000 shares to the public payable Rs. 3 per share on Application, Rs. 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except on 200 shares held by Y. First and Final Call was not made by the Company.
How would you show the relevant items in the Balance Sheet of STL Global Ltd.?

Solution 1:
Balance Sheet (Extract) of S T L Global Ltd. (Relevant Part only)
As at _______________

Particular	**Notes. no**	**(Rs.)**
Equity and Liabilities		
Shareholder's Funds:		
(a) Share Capital	**(1)**	**7,14,000**
Assets		
Current Assets:		
Cash and Cash Equivalents (Cash at Bank)		**7,14,000**
Particular	**Details**	**(Rs.)**
(1) Share Capital		
Authorised Capital :		
4,00,000 Shares of Rs. 10 each		40,00,000
Issued Capital :		

1,30,000 shares of Rs 10 each		13,00,000
Subscribed but not fully paid capital:		
1,20,000 shares of Rs. 10 each Rs. 6 per share called – up	7,20,000	
Less : calls in Arrears (200 shares x Rs. 3)	6,000	
		7,14,000

Illustration 2: On 1st April, 2012, Janta Ltd. was formed with an authorized capital of 50,00,000 divided into 1,00,000 equity shares of 50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

On Applicant : Rs. 15

On Allotment : Rs. 20

On call : Balance amount

The issue was fully subscribed and the company allotted shares to all he applicants. The company did not make the call during the year.

Show the following :

1. Share capital in the Balance Sheet of the company as per revised schedule - VI, Part-I of the companies Act, 1956.
2. Also prepare Notes to Account's for the same.

Solution :

Balance Sheet of Janta Ltd.

As at........................ (As per schedule iii)

Particulars	Note. no	Amount Current Years	Amount Previous Years
Equity & liabilities 1. Shareholder's funds			

(a) Share Capital	1.	31,50,000	

Notes to Accounts

Particulars	(Rs.)
1. Share Capital	
Authorised Capital	
1,00,000 equity shares of Rs. 50 Each	50,00,000
Issued Capita;	
90,000 equity shares of Rs. 50 Each	45,00,000
Subscribed capital	
Subscribed but not fully paid	
90,000 shares of Rs. 50 each Rs. 35 called up Rs.	31,50,000

Issue of Shares

Shares can be issued in two ways

1. for cash
2. for consideration other than cash

Terms of Issue of Shares

Shares can be issued in two ways.

1. Issue of shares at Par
2. Issue of shares at Premium

Issue of shares against Lump sum payment : When whole amount due on shares is payable in one instalment. The journal entries will be as follow:

Illustration 3 : Vaibhav Ltd. issued 1,00,000 shares of Rs. 10 each at per. The whole amount was payable with application. Pass the necessary journal entries in the books of company.

Solution:

Journal

Date	**Particulars**	**L.F**	**Debit(Rs.)**	**Credit(Rs.)**
	Bank A/c		10,00,000	
	To Share Application and allotment A/c			10,00,000
	(Being the application money received on 1,00,000 shares at Rs. 10 per share)			
	Share Application and allotment A/c Dr.		10,00,000	
	To Share Capital A/c			10,00,000
	(Being the share allotted and transfer of application money an 1,00,000 shares to share capital account)			

Illustration 4 : 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. The whole of the above issue was applied and cash duly received. Give Journal entries for the above transaction.

Date	Particulars	L.F	Debit(Rs.)	Credit(Rs.)
	Bank A/c Dr.		20,000	
	To share application A/c			20,000
	(Being the application money received on 10,000 shares at Rs. Per share)			
	Share Application A/cv Dr.		20,000	
	To Share Capital A/c			20,000
	(Being the transfer of application			

	money on 10,000 shares to share capital account).			
	Share Allotment A/c Dr.		50,000	
	To Share Capital A/c			50,000
	(Being the amount due on 10,000 shares at Rs. 5 per Share)			
	Bank A/c Dr.		50,000	
	To Share Allotment A/c			50,000
	(Being the receipt of Rs. 5 on 10,000 Shares)			
	Shares first & final Call A/c Dr.		30,000	
	To Share Capital A/c			30,000
	(Being the amount due on 10,000 Shares at Rs. 3 per share)			
	Bank A/c Dr.		30,000	
	To Share first & final all A/c			30,000
	(Being the receipt of Rs. 3 on 10,000 shares)			

Illustration 5 : 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 Securities Premium Reserve)

On First Cell Rs. 2

On Final Call Rs. 2

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

Solution :

In the Book of X Ltd.

Date	Particulars	L.F	Debit(Rs.)	Credit(Rs.)
	Bank A/c Dr.		80,000	
	To Equity Share Application A/c			80,000
	(Being the application money received on 20,000 Equity Shares at Rs. 4 per Equity Share)			
	Equity Share Application Account Dr.		80,000	
	To Equity Share Capital Account			80,000
	(Being the transfer of application money on 20,000 Equity Shares of Equity Shares Capital Account)			
	Equity Share Allotment Account Dr.		1,00,000	
	To Equity Share Capital Account			40,000
	To Securities Premium Reserve A/c			60,000
	(Being the amount due on 10,000 Equity Shares at Rs. 5 including Premium Rs. 3 Shares)			
	Bank A/c		1,00,000	
	To Equity Share allotment A/c			1,00,000
	(Being the receipt of Rs. 5 on 10,000 Equity Shares)			
	Equity Share First Call A/c Dr.		40,000	
	To Equity Share Capital Account			40,000
	(Being the amount due on 20,000 Equity Shares at Rs. 2 Equity Shares)			

	Bank A/c Dr.		40,000	
	To Equity Shares First Call A/c			40,000
	(Being the receipt of Rs. 2 on 20,000 Equity Shares)			
	Equity Share Final Call A/c Dr.		40,000	
	To Equity Share Final Call A/c			40,000
	(being the receipt of Rs. 2 on 20,000 Equity Shares)			
	Bank A/c Dr.		40,000	
	To Equity Shares First Call A/c			40,000
	(being the receipt of Rs. 2 on 20,000 Equity Shares)			

Issue of shares at discount [Section 53] : A company cannot issue shares at discount other than sweat equity shares.

Shares Issue for Consideration Other than Cash

When a company purchases 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.

Journal entries for issue of shares to vendors/consideration other than cash

Date	Particulars	L.F	Debit (Rs.)	Credit(Rs.)
	On Purchases of asset:		Amount of purchase price	
	Sundry Asset Account Dr.			
	To vendor			

	On Purchases of business:			
	When purchases consideration is more then net asset			
	Sundry Asset Account Dr.			Agreed
	Goodwill Account (B/F)			Value
	To Sundry Liabilities		Consideration	Agreed Value
	To Vendor		-Net assets	Purchase Consideration
	When purchase consideration is less than net asset			
	Sundry Assets Account		Agreed Value	Agreed
	To Sundry Liabilities			Value
	To Vendor			Purchases
	To capital Reserve A/c (B/F)			Condsideration
				Difference
	On Issue of Shares (a) at Par			
	Vendor Dr.			
	To share Capital			
	(b) On Issue of Share At Premium			
	Vendor Dr.			
	To Share Capital A/c			
	To Securities Premium Reserve A/c			

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

Illustration 6 : 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 shares

1. Issued at par
2. Issued at premium of 20%

Solution :

Journal

Date	Particulars		Debit (Rs.)	Credit (Rs.)
	Machinery Account Dr.		64,000	
	To HMT Ltd.			54,000
	To Bank Account			10,000
	(being the machine purchased and Rs. 10,000 paid cash and balance to be paid by issue of shares)			
	(a) When Shares are issued at par			
	HMT Ltd. (Vendor)		54,000	
	To Share Capital			54,000
	(Being 5,400 shares of Rs, 10 each at pa at HMT Ltd.)			
	(b) when Shares are issued at premium			
	HMT Ltd. (vendor) Dr.		54,000	
	To Share Capital Account			45,000
	To Share Premium Account			9,000
	(being 4,500 shares of issued to vendor at a premium of Rs. 2 per share 54,000/10+2 = 4500			

Illustration 7 : A company issued 15,000 fully paid up equity shares of Rs. 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant – Rs. 3,50,000; Stock Rs. 4,50,00;

Land and Building Rs. 6,00,000; Sundry Creditors Rs. 1,00,000

Pass necessary Journal entries.

Solution:

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit(Rs.)
	Plant A/c Dr.		3,50,000	
	Land and Building A/c Dr.		6,00,000	
	Stock Account Dr.		4,50,000	
	Good will Account (b/f) Dr.		2,00,000	
	To Sundry Creditors A/c			1,00,000
	To Gupta Bros.			15,00,000
	(Being the purchase of Business)			
	Gupta Bros. Dr.		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)			

Note : Calculation : Goodwill = Purchases consideration + Liabilities - assets = Rs. 15,00,000 + Rs. 1,00,000 = Rs, 14,00,000 Rs. 2,00,000.

Illustration 8 : A company purchased a running business from Mahesh for a sum of Rs.

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 Rs. 40,000; Stock Rs. 50,000; Building Rs. 40,000; Cash Rs, 20,000 Sundry debtors Rs, 30,000; Sundry creditors Rs.

20,000

Pass necessary Journal entries.

Solution

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit(Rs.)
	Plant and Machinery A/c Dr.		40,000	
	Building A/c Dr.		40,000	
	Sundry Debtors Dr.		30,000	
	Stock Account Dr.		50,000	
	Cash A/c		20,000	
	To sundry Creditors A/c			20,000
	To Mahesh			1,50,000
	To Capital Reserve A/c			10,000
	(Being the purchase of Business)			
	Mahesh		1,50,000	
	To Equity Shares Capital A/c			1,20,000
	To Bank A/c			30,000
	(Being the payment made to Mahesh in form of Shares)			

Note : Calculation; Net 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

Illustration 9 : Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

1. Rajan Ltd. purchased machinery of Rs. 7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of Rs. 100 each at 20% Premium.

2. Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of Rs. 2,50,000 payable as Rs. 2,20,000 in fully paid equity shares of Rs.10 each and balance by a bank draft. The assets and liabilities consisted of the following:
Plant & Machinery Rs, 90,000; Buildings Rs, 90,000;
Sundry Debtors Rs. 30,000; Stock Rs. 50,000; Cash Rs. 20,000;
Sundry Creditors Rs. 20,000

Solution

Rajan Ltd.
Journal

Date	Particulars	L.F	Debit(Rs.)	Credit(Rs.)
(a)	Machinery A/c Dr.		7,20,000	
	To Kundan Ltd.			7,20,000
	(Machinery purchased from Kundan)			
	Kundan Ltd. Dr.		7,20,000	
	To Equity Share Capital A/c			6,00,000
	To Securities premium A/c			1,20,000
	(6,000 Equity Shares of Rs. 100 each issued as purchase consideration)			
(b)	Plant & Machinery A/c Dr.		90,000	
	Building A/c Dr.		90,000	
	Sundry Debtors A/c Dr.		30,000	
	Stock A/c Dr.		50,000	
	Cash A/c Dr.		20,000	
	To Sundry Creditors A/c			20,000
	To Vikas Ltd.			2,50,000
	To Capital Reserve A/c			10,000

	(Business Purchased)			
	Vikas Ltd. Dr.		2,50,000	
	To Equity Share Capital A/c			2,20,000
	To bank A/c			30,000
	(Shares issued and draft given			

Illustration 10 : Ram holding 10 shares of Rs. 10 each of which Rs. 2 on application Rs. 3 on allotment but could not pay Rs. 3 on first call. His shares were forfeited by the Directors. The Final call is not made as yet. Give Journal entries in the book of company.

Solution:

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Share Capital A/c (10x8) Dr.		80	
	To share First Call/calls in arrear A/c			30
	To Forfeited Shares A/c			50
	(Being 10 Shares forfeited for nonpayment of first call money)			

Forfeiture of Shares Issued at Premium :

i. when the premium has been received;
ii. When the premium has not been received.

Case 1: When the premium has been received : In such cases premium received will not be forfeited and will not record anywhere in the forfeiture journal entry.

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Shares Capital A/c Dr.		Amount Called	

	To various Calls/calls in arrear A/c		(Excluding Premium)	Unpaid Amt.
	To Forfeited Shares A/c			Amt. received (Excluding Premium)

Illustration 11 : 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 journal entry in the books of company.

Solution :

Journal

Date	Particular	L.F	Debit (Rs.)	Credit (Rs.)
	Share Capital A/c (1000x10) Dr.		10,000	
	To Various Calls/calls in arrear A/c			4,000
	To Forfeited Share A/c (1000x6)			6,000
	(Being 1000 Shares forfeited for non-payment of final call money)			

The premium has not been received : In Such case security premium reserve is debited with the amount for premium not receive.

Accounting Treatment

Journal

Date	Particular	L.F.	Debit (Rs.)	Credit (Rs.)
	Share Capital A/c Dr.		Amount called	
	Securities Premium Reserve A/c Dr.			
	To Various Calls/calls in arrear A/c		Premium Not	Unpaid Amt.

	To Forfeited Share A/c		Received	(including Premium Net Amt. Recd.)

Illustration 12 : 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.

Solution:

Journal

Date		L.F.	Debit (Rs.)	Credit (Rs.)
	Share Capital A/c Dr.		10,000	
	Securities Premium Reserve A/c Dr.		2,000	
	To various Calls/calls in arrear A/c			8,000
	To Forfeited Share A/c			4,000
	(Being 1,000 Shares forfeited for non payment of allotment and calls money)			

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 received on the reissued shares.

Date	Particular	L.F.		
	When Shares Reissued at par			
	Bank A/c Dr.			
	To Share Capital A/c			
	When Shares Reissued at Premium			
	Bank A/c Dr.			
	To Share Capital A/c			

	To Securities Premium Reserve A/c			
	When Shares Reissued at Discount			
	Band A/c Dr.			
	Forfeited Share A/c Dr.			
	To Share Capital A/c			
	After reissue of share, the balance related to reissue shares in forfeiture account (Profit and Reissue of Shares) transferred to capital reserve A/c			
	Forfeited Shares A/c Dr.			
	To capital Reserve A/c			

Illustration 13 : 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 and First & 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 journal entries.

Solution:

Journal

Date		L.F.	Debit (Rs.)	Credit (Rs.)
	Share Capital A/c Dr.		2,000	
	To Share Allotment Account (200×3)			600
	To Share First & Final Call Account (200×4)			800
	To Shares Forfeited Account (200×3)			600
	(Being 200 Shares Forfeited held by X)			
	Bank Account (200×8) Dr.		1,600	
	Forfeited Shares Account (200×2) Dr.		400	

	To share capital Account (200×10)			2,000
	(Being re-issued of forfeited shares to Y)			
	Forfeited Shares Account Dr.		200	
	To Capital Reserve Account			200
	(Being the transfer of profit on reissue to capital Reserve)			

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

Illustration 14 : 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 journal entries.

Solution :

Journal

Date		L.F.	Debit (Rs.)	Credit (Rs.)
	Shares Capital A/c (100×80)		8,000	
	To Share First call A/c (100×30)			3,000
	To Share Forfeited A/c (100×50)			5,000
	(Being 100 Shares forfeited for non-payment of first call money)			
	Bank A/c (100×70)		7,000	
	Forfeited Shares A/c (100×100) Dr.		1,000	
	To Share Capital Account (100×80)			8,000
	(Being re-issued of 100 Forfeited Shares at Rs. 70 per Share at Rs. 80 Paid up)			
	Forfeited Shares Account (40×100) Rs.		4,000	

	To Capital Reserve Account			4,000
	(Being the transfer of profit on re-issue to capital Reserve)			

Pro-Rata-Allotment When there is oversubscription of shares either the excess amount is refunded or proportions shares are allotted. Allotment of proportionate shares as Pro-rata Allotment.

Illustration 15 : AB Ltd. invited applications for 1,00,000 Equity Shares Rs. 10 each payable as Rs. 2 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 prorate basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at L8 per share as fully paid. Pass necessary journal entries in the books of company.

Solution :

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		6,00,000	
	To Equity Share Application A/c			6,00,000
	(Being the application money receive on 3,00,000 Equity Shares at Rs. 2 per Equity Shares)			
	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 A/c			1,00,000
	(Being the transfer of application money into share capital and allotment			

	and balance refunded)			
	Equity Share Allotment A/c		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(being the amount due to 1,00,000 Equity Shares of Rs. 3 Share)			
	Equity Share first & Final Call A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the amount due on 1,00,000 Equity shares at Rs. 5 Per Equity Share)			
	Bank A/c Dr.		4,95,000	
	To Equity Share First & Final call A/c			4,95,000
	(Being the receipt of Rs. 5 on 99,000 Equity Shares)			
	Equity Share Capital A/c		10,000	
	To equity share First & Final A/c			5,000
	To Forfeited Shares A/c			5,000
	(Being 1000 Shares forfeited due to non payment of first and final all money)			
	Bank A/c (1000×8) Dr.		8,000	
	Forfeited Shares A/c (1000×2) Dr.		2,000	
	To equity shares capital A/c (1000×10)			10,000
	(Being the re-issue of 1000 Equity Shares at Rs. 8 per shares as fully paid up)			
	Forfeited Shares A/c		3,000	
	To Capital reserve A/c			3,000

	(Being the transfer of profit on reissue to capital Reserve)			

Note: there is no bank account on allotment as all due money is already received.

When Cash Book Entries are asked in the question, all cash transaction are to be recorded in Cash Book, other non-cash transaction should be entered in the Journal.

Illustration 16 : If in Illustration 15 the company prepare cash and journal for the above transaction then the book and journal entries will be made as follow:

Solution :

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Equity Share application A/c Dr.		5,00,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c			3,00,000
	(Being the transfer of application money into share capital and allotment and balance refunded)			
	Equity Share Allotment A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Being the amount due on 100,000 Equity Shares at Rs. 3 Share)			
	Equity Share First & Final Call A/c Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the amount due to 1,00,000 Equity shares at Rs. 5 per Equity Shares)			
	Equity Share Capital A/c Dr.		10,000	

	To Equity Share First & Final A/c			5,000
	To Forfeited Shares A/c			5,000
	(Being 1000 Shares forfeited to non Payment of first and final call money)			
	Forfeited Shares A/c Dr.		2,000	
	To Equity Share Capital A/c (1000 × 10)			2,000
	(Being the Reissue of 1000 Equity Shares at Rs. 8 per shares as fully paid up)			
	Forfeited Shares A/c Dr.		3,000	
	To Capital Reserve A/c			3,000
	(Being the transfer of profit on reissue to Capital Reserve)			

Dr.	Cash Book (Bank Column Only)		Cr.
Particulars	Rs.	Particulars	Rs.
To Equity Share Application A/c	6,00,000	By Equity Share Application A/c	1,00,000
To Equity Shares First & Final Calls A/c	4,95,000	By Balance C/d	10,03,000
To Equity Share Capital A/c	8,000		
	11,03,000		11,03,000

Illustration 17 : AB Ltd. invited applications for issuing 75,000 equity of Rs.100 each a premium of Rs.30 per share. The amount was payable as follows:

On Application & Allotment – Rs. 85 per share (including premium)

On First and Final call the balance Amount

Applications for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on pro-rata basis to the remaining applicants.

Excess money received on application and allotment was adjusted towards sums due on first and final call. The calls were made. A shareholder, who applied for 1,000 shares, failed to pay the first and final call money. His shares were forfeited. All the forfeited shares were reissued at Rs.150 per share fully paid up.

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

Solution :

AB Ltd.
Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Bank A/c Dr.		1,08,37,000	
	To Equity Shares Application and allotment A/c			1,08,37,500
	(Application received from 1,27,500 shares)			
	Equity Shares Application and Allotment A/c Dr.		1,08,37,500	
	To Equity Share Capital A/c			41,25,000
	To Securities Premium A/c			22,50,000
	To Equity Shares First and Final call A/c			21,25,000
	To Bank A/c			23,37,500
	(Shares Allotment & refund of 27500 Shares Application Money)			
	Equity Shares First & Final call A/c Dr.		33,75,000	
	To Equity Share Capital A/c			33,75,000

	(First & Final call amount due on 75000 shares @ Rs. 45			
	Bank A/c Dr.		12,37,500	
	To Equity Shares first & final call A/c			12,37,500
	(Call money received Except 750 Shares)			
	Equity Shares Capital A/c		75,000	
	To Equity shares first and final call A/c			12,500
	To forfeited Shares A/c			62,500
	(750 Shares forfeited)			
	Bank A/c Dr.		1,12,500	
	To Equity Share Capital A/c			75,000
	To Securities Premium A/c			37,500
	(750 equity shares issued @ Rs. 150 per share)			
	Forfeited Shares A/c		62,500	
	To capital Reserve A/c			62,500
	Forfeited amount transferred to capital reserve			

Question 1 : - Fill in the missing figures.

Journal

Date	Particulars	L.F	Debit (Rs.)	Credit (Rs.)
	Machinery A/c Dr.		3,00,000	
	Furniture A/c Dr.		100,000	
	Debtors A/c Dr.		50,000	
	Goodwill A/c Dr.		...	

	To Sending Creditors A/c			2,00,000
	To Lakshika			....
	(Being Assets and Liabilities acquired)			
	Lakshika Dr.		3,00,000	
	To Equity Share Capital A/c			...
	To Securities premium A/c			...
	(Being Equity Shares of Rs. 10 Each issued at Rs. 5 per share)			

Question 2 : - Fill in the missing figures in the following Journal entries : -

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Building A/c Dr.		800,000	
	Bill Receivable A/c Dr.		2,00,000	
	To Bills Payables A/c			1,00,000
	To Sunding Creditors A/c			3,00,000
	To Anannya Ltd.			5,00,000
	To Capital Reserve A/c			...
	(Being assets and liabilities acquired)			
	Anannya Ltd. Dr.		...	
	To Bank A/c			...
	(Being Part Payment made)			
	Anannya Ltd. Dr.		4,40,000	
	To Equity Share Capital A/c			....
	To Securities premium Resources A/c			....

	(Being Equity Shares of Rs. 10 each issued at 10% premium)			

Question 3 : - Fill in the missing figures in the following Journal entries : -

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Equity Shares Capital A/c Dr.		67,500	
	To Equity Share Allotment A/c			....
	To Equity Share first all A/c			....
	To Share Forfeited A/c			....
	(Being 900 Equity Shares Forfeited for non-payment of Allotment and I call money of Rs. 30 and Rs. 20 per share Respectively.			
	Bank A/c Dr.		....	
	To Equity share Capital A/c			67,500
	To Securities premium A/c			....
	(Being 900 Shares were re-issued @ Rs. 90 share, Rs. 75 Paid up)			
	Share forfeited A/c		....	
	To Capital Reserve A/c			....
	(Being the profit on re-issues of shares transferred)			

Question 4 : - Fill in the missing figures : -

Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)

	Equity Share Capital A/c Dr.		….	
	Securities Premium Reserve A/c Dr.		….	
	To Equity Share Allotment A/c			1600
	To Equity Share I Call A/c			….
	To Equity Share Final Call A/c			600
	To share Forfeited A/c			….
	(Being 200 shares of Rs. 10 Each forfeited for non-payment of allotment money of Rs. 8 per share (including Rs. 5 premium) first call of Rs. 2 and final call of Rs. 3 per share)			
	Bank A/c Dr.		….	
	Share Forfeited Dr.		….	
	To Equity Share Capital A/c			….
	(Being 125 Shares were re-issued @ Rs. 9 per shares as fully paid – up)			
	Share forfeited A/c		….	
	To Capital Reserve A/c			….
	(Being – profit an re-issue of 125 shares transferred)			

Important Questions Part-1
Accounting for share Capital

Q1. Give the definition of a company as contained in the companies act,1956.

Ans. section 3(1)(i) of companies act defines a company as "a company formed and registered under this act or an existing company."

According to sec3(1)(ii),"An exisiting company means a company formed and registered under any of the former companies Acts."

Q2. Can forfeited shares be issued at a discount? If so to what extent? Re-issue of forfeited shares: Forfeited shares can be reissued at a discount. However.

Ans In the other words, amount received on received on re-issue plus amount already received on forfeited shares must not be less than the paid up value of shares.

Q3. As a director of a company you had invited applications for 20,000 equity shares of Rs.10 each at a premium of Rs.2 each. The total applications money received at Rs.3/- per share was Rs. 72,000. Name the kind of subscription. List the three alternatives for allotting these share.

Ans. It is a case of over-subscription. Shares are said to be over-subscribed when the numbers of shares ar more than the number of shares offered:

i. Allotment for 1st 20,000 shares and the rest can rejected
ii. Allotment on prorata basis
iii. Allotment of some application in full and some on prorata basis, and some refused.

Q4. What is an Escrow Account?

Ans. In order to fulfill certain obligations under the scheme of buy-back of securities an account is opened, which is known as escrow account.

Q5. What do you mean by Private placement of shares?

Ans. Private Placement of shares implies issue and allotment of shares to a selected groups of persons privately and not to public in general through public issue. In order to place the shares privately, a company must pass a special resolution to this effect.

Q6. What is Sweat Equity?

Ans. Sweat Equity shares means easily shares issued by the company to its employees or whole time directors at a discount or for consideration other then cash for providing know - how or making available right in the nature of intellectual properly rights or valve addition by whatever name called.

Q7. What maximum amount of discount can be allowed on the reissue of forfeited shares?

Ans. The maximum amount of discount on reissue of forfeited shares is that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares on their original issue and that the discount allowed on re issue of forfeited shares should be debited to the share forfeited account.

Q8. State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve.

Ans. At per SEBI Guidelines, an amount equal to 50% of the debenture issue must be transferred to DRR before the redemption begins. In other words, before redemption, at least an amount equal to 50% of the debenture issue must stand to the credit of DRR.

Q9. Name the head under which discount on issue of debentures appears in the Balance Sheet of "C" Company.

Ans. Discount on issue of debentures will appear under the heading Miscellaneous Expenditure.

Q10. Can a company issue share of discount? What conditions must a company comply with before the issue of such shares.

Ans. Section 79 of the companies Act, 1956 permits a company to issue shares at a discount only if the following conditions are fulfilled :

1. The shares are of a class already issued.
2. At least one year must have elapsed since the company become entitled to commence business.
3. The issue of shares at discount is authorised by a revolution passed by the company in its general meeting and sanctioned by the central Government.
   The resolution specifies the maximum rate of discount at which the shares are to be issued. The rate must not exceed 10% unless sanctioned by the central Government.

Q11. Write the difference between an equity share and preference share.

Ans.

Basis	**Preference Shares**	**Equity shares**
Dividend rate	Preference share holders are paid dividend at a fixed rate.	The rate of dividend on equity shares vary from year to year depending upon profits
Redemption dividend	They can be redeemed	They can't be redeemed.
Payment of divedend	These shares have a Preferential right to receive dividend before any dividend is paid on equity shares.	Payment of dividend is made after paying to Preference share holders.

Q12. Differentiate between Reserve capital and capital reserve.

Ans.

Basis	**Reserve capital**	**Capital reserve**
Meaning and creation	Reserve capital refers to a portion of uncalled capital	Capital reserve is created out of capital profits.
Special resolution	Is required	No Special resolution required
Time when it can be used disclosure in balance sheet	It can be used only in the event of company's winding up It is not shown in company's balance sheet	It can be used to write off capital losses or to issue bonus shares. It is mentioned under the heading reserves and surplus on the liabilities side of balance sheet

Q13. Employees stock option plan-"A right to buy and not an obligation". Comment.

Ans. Employees stock option plan is the right granted to the employees of the company to purchases the shares lower than the market prices. It is worth mentioning the options provide a right and not the obligation to bur shares. It means that the employees under this plan are not necessarily required to purchase the shares. It is their wish to buy or not necessarily required to purchase the shares. It is their wish to buy or not.

Q14. Write a short note on minimum subscription?

Ans. Minimum subscription is the amount received from shareholders which is sufficient from the point of view of directors'for following purposes:

a. For purchasing necessary assets of the company.
b. For paying preliminary expenses and commission on sales of shares.
c. For paying loan if arranged for above two purposes.
d. For working capital and for any other purposes which the directors agree upon.

Q15. Rohit Ltd. Purchased assets from Rohan & co. for Rs. 3,50,000. A sum of Rs. 75,000 was paid by the emans of a bank draft and for the balance due Rohit Ltd. Issued Equity shares of Rs. 10 each at a premium of 10%. Journalise the above transaction in the books of the company.

Ans. Books of Rohit Ltds.

JOURNAL

Date	**Particulars**	**L.F**	**Debit**	**Credit**
	Sundry Assets Dr.		3,50,000	
	To Rohan & Co.			3,50,000
	(Being assets purchased from Rohan & co.)			
	Rohan & Co. Dr.		75,000	
	To Bank A/c			75,000
	(Being amount paid to Rohan & Co.)			
	Rohan & Co. A/c dr.		2,75,000	
	To equity share capital a/c			2,75,000

	To securities Premium A/c			25,000

Q16. 50 shares of Rs. 10 each, issued at as premium of Rs. 5 per share, were forfeited by sohan Ltd. for the nonpayment of allotment money of Rs.9 per share (including premium). The first and final call on these shares at Rs. # per share was not made. Forfeited shares were re-issued @ Rs. 12 per share, fully paid up. Journalise

Ans.

Date	**Particulars**	**L.F.**	**Debit**	**Credit**
	Share Capital A/c dr.		350	
	Securities Premium A/c dr.		250	
	To share forfeited A/c			150
	To share allotment A/c			450
	(Being 50 shares forfeited for non payment of allotment money as per board's resolution dated..)			
	Bank A/c dr.		600	
	To Share capital A/c			500
	To securities Premium A/c			100

	(Being 50 shares reissued @ Rs. 12 per share, fully paid)			
	Shares Forfeited A/c Dr.		150	
	To capital reserve A/c			150
	(Being the balance of Forfeited shares transferred to capital reserve.)			

Q17 AB Ltd. Invited applications for issuing 1,00,000 equity shares of Rs. 10 each. The amount was payable as follows: On Application Rs.3 per share; On allotment Rs.2 per share; and on 1st and final call Rs.5 per share. Applications for 1,50,000 shares were received and prorata allotment was made to all applicants as follows: Application for 80,000 shares were allotted 60,000 shares on pro-rata basis ; Application for 70,000 shares were allotted 40,000 shares on pro-rata basis; Sudha to whom 600 shares were allotted out of the group 80,000 shares failed to pay allotment money. Her shares were forfeited immediately after allotment. Asha who had applied for 1,400 share out of the group 70,000 shares failed to pay the first and final call.Her shares were also forfeited. Out of forfeited shares 1,000 shares were reissued @ Rs.8 per share fully paid up The reissued shares included all the forfeited shares of Sudha. Pass necessary journal entries to record the above transaction

Ans.

Journal Entries in the books of Ab Ltd.

Date	Particulars	L.F.	Debit	Credit
1.	Bank Dr.		4,50,000	

	To Equity share Application A/c			4,50,000
	(For application money received on 1,50,000 shares @Rs. 3 per share)			
2.	Application A/c Dr.		4,50,000	
	To Equity share capital A/c			3,00,000
	To equity Share allotment A/c			1,50,000
	(For application money capitalized and transferred to allotment a/c)			
3.	Equity share allotment A/c dr.		2,00,000	
	To equity share capital			2,00,000
	(For allotment money due on. 1,00,000 share !@ Rs. Per share)			
4.	Bank A/c dr.		49,400	
	To equity share allotment a/c			49,400
	(For amount received on allotment)			
5.	Equity share capital a/c Dr.		3,000	
	To Equity share allotment A/c			600
	To share forfeiture A/c			2,400
	(For 600 shares of Sudha forfeited)			
6.	Equity share first & final call A/c dr.		4,97,000	
	To equity share capital			4,97,000
	(For first and final call money due on 99,400 shares @ Rs. 5. Per share.)			
7.	Bank A/c Dr.		4,93,000	
	To equity share capital			4,93,000

	(For money received on first & final call.)			
8.	Equity share capital Dr.		8,000	
	To equity share first & final a/c			4,000
	To Share forfeited a/c			4,000
	(for 800 share of Asha forfeited.)			
9.	Bank A/c		8,000	
	Share Forfeiture a/c Dr.		2,000	
	Share forfeiture a/c Dr.			10,000
	(For 1,000 share received and loss on re-issue charged from share forfeiture A/c)			
10.	Share Forfeiture Dr.		2,400	
	To capital Reserve Dr.			2,400
	(For proportionate balance of share forfeiture a/c transferred to capital reserve a/c)			

Working notes

Amount Received on application	
Amount Due	2,00,000
Less: Excess Received on application	1,50,000
	50,000
Less: Calls in arrears	600
	49,400
Due from Sudha on Allotment on 600 shares @ 2 each	1,200

Less: Excess on Application on 200 shares @Rs. 3 each	600
	600

If 60,000 shares allotted than applied 80,000

If 600 shares applied than 80000/60000*600 = 800 shares

Shares allotted to Asha	
If 70000 shares applied allotted 40,000	
If 1,400 shares than 40000/70000*1,400	
Amount transferred to capital reserve	
Balance of share forfeited a/c on Sudha’s share	2400
Balance of share forfeited a/c on Asha’s share	2000
	4400
Less: Loss on capital Re-issue	2000
	2400

Q18. New India Ltd. forfeited 100 shares of Rs. 10 each, issued at a discount of 10%. The company had called up only Rs. 8 per share. Final call of Rs. 2 each has not been made on these shares. These shares were allotted to Ram, who did not pay the first call of Rs. 3. 60 shares were reissued at Rs. 7 per share, as Rs. 8 paid up. Give Journal entries in the books of the company, showing the working clearly.

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Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/c (100 × Rs. 8) …Dr.		800	
	To Forfeited Shares A/c (100 × Rs. 4)			400
	To Discount on Issue of Shares (100 ×			100

	Rs. 1)			
	To Share First Calf A/c (100 × Rs. 3)			300
	(Being 100 shares forfeited for non-payment of first call)			
	Bank A/c (60 × Rs. 7) Dr.		420	
	Discount on issue of Shares A/c (60 × Rs. 1) Dr.		60	

Date	Particulars	L.F	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.		9,00,000	
	To Equity Share Application A/c			9,00,000
	(Being the application money received on 3,00,000 shares)			
	Equity share Application A/c		9,00,000	
	To Equity Share capital A/c			6,00,000
	To Equity Share Allotment A/c			3,00,000
	(Being the application money adjusted)			
	Equity Share allotment a/c		10,00,000	
	To Equity share capital			10,00,000
	(Being the allotment amount Due)			
	Bank a/c		6,89,500	
	To equity share allotment A/c			6,89,500
	(Being the remaining allotment money received on 1,97,000 shares)			
	Equity share first and final call a/c		4,00,000	
	To Equity share capital A/c			4,00,000

	(Being the call money due)			
	Bank A/c		3,94,000	
	To Equity share first and final call A/c			3,94,000
	(Being the call money received)			
	Equity share capital		30,000	
	To Equity share allotment a/c			10,500
	To equity share first and final call a/c			6,500
	To share forfeited a/c			13,500
	(Being 3,000 shares forfeited for non-payment of allotment and first and final call)			
	Bank A/c		20,000	
	Shares Forfeited a/c		5,000	
	To Equity share capital A/c			25,000
	(Being reissue of 2,500 shares as fully paid at Rs. 8 per share)			
	Share Forfeited a/c		6,250	
	To capital reserve a/c			6,250
	(Being balance in shares forfeited account transferred to capital reserve account)			

21. Alpha Ltd issued for public subscription 40,000 equity shares of Rs. 10 each. At a premium of Rs. 2 per share payable as under:

On application Rs. 2 per share, on allotment Rs. 5 per share (including premium), on first call Rs. 2 per share and on second call Rs. 3 per share.

Applications were received for 60,000 shares. Allotment was made pro rata basis to the applicants for 48000 shares, the remaining applications being refused. Money overpaid on application was applied towards sums due on allotment.

A, to whom 1,600 shares were allotted, failed to pay the allotment money and B, to whom 2,000 shares were allotted failed to pay the two calls. These were subsequently forfeited after the second call was made.

Pass journal entries.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c dr.		1,20,000	
	To Equity share application A/c			1,20,000
	(Being the application money received on shares)			
	Equity share application A/c		1,20,000	
	To equity share capital a/c			80,000
	To Bank			24,000
	To Equity share allotment a/c			16,000
	(Being the application money adjusted)			
	Equity share allotment a/c		2,00,000	
	To equity share capital a/c			1,20,000
	To securities Premium			80,000
	(Being the allotment amount due)			
	Bank A/c		1,76,640	
	To equity share allotment a/c			1,76,640
	(Being the remaining allotment			

	money received)			
	Equity share first call a/c		80,000	
	To Equity share capital a/c			80,000
	(Being the first call money due)			
	Bank a/c		72,800	
	To Equity share first call a/c			72,800
	(Being the call money received)			
	Equity share second and final call a/c		1,20,000	
	To equity share capital a/c			1,20,000
	(Being equity second call money due)			
	Bank a/c		1,09,200	
	To equity share second and final call a/c			1,09,200
	Equity share capital a/c		36,000	
	Securities capital A/c		3,200	
	To equity share allotment a/c			7,360
	To equity share first call a/c			7,200
	To equity share second call a/c			10,800
	To share forfeited a/c			13,840
	(Being shares forfeited for non-payment of allotment, first and final call)			

22. A limited company invites applications for 50,000 equity shares of Rs. 10 each, at a maximum discount by the Companies Act, payable as follows:

On application Rs. 3; on allotment Rs. 3; on first call Rs. 2; on final call the balance. Applications were received for 55,000 shares. Allotments were made on the following basis:

(i) To applicants for 35,000 shares- in full

(ii) To applicants for 20,000 shares- 15,000 shares.

Excess money paid on application was utilized towards allotment money.

A shareholder who was allotted 1,500 shares out of the group applying for 20,000 shares failed to pay allotment money and money due on calls. These shares were forfeited. 1,000 forfeited shares were reissued as fully paid on receipt of Rs. 8 per share.

Show the journal in the books of the company.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank a/c dr.		1,65,000	
	To Equity share application a/c			1,65,000
	(Being the application money received on shares)			
	Equity share application a/c		1,65,000	
	To equity share capital a/c			1,50,000
	To equity share allotment a/c			15,000
	(Being the application money adjusted)			
	Equity share allotment a/c		1,50,000	
	Discount on issue of shares a/c		50,000	
	To Equity share capital a/c			2,00,000
	(Being the allotment amount due)			
	Bank a/c		1,32,000	

	To equity share allotment a/c			1,32,000
	(Being the remaining allotment money received)			
	Equity share first call a/c		1,00,000	
	To equity share capital a/c			1,00,000
	(Being the first call money due)			
	Bank A/c		97,000	
	To equity share first call a/c			97,000
	(Being the call money received)			
	Equity share second and final call a/c		50,000	
	To equity share capital a/c			50,000
	(Being equity second call money due)			
	Bank A/c		48,500	
	To Equity share second and final call a/c			48,500
	Equity share capital a/c			
	To discount on issue of shares a/c		15,000	1,500
	To Equity share allotment a/c			3,000
	To equity share first call a/c			3,000
	To equity share second call a/c			1,500
	To share forfeited a/c			6,000
	(Being share forfeited for non-payment of allotment, first and final call)			
	Bank a/c		8,000	

	Shares forfeited a/c		1,000	
	Discount on issue of share a/c		1,0000	
	To equity share capital a/c			10,000
	(Being the reissue of 1,000 shares)			
	Shares Forfeited a/c		3,000	
	To Capital Reserve A/c			
	(Being the amount transferred to capital reserve a/c)			

Note:- Maximum discount permitted by the Companies Act is 10% of the face value of share

Important Questions Part-2
Accounting for share Capital

1. What is Minimum Subscription?

Ans: A Minimum amount that should be raised by the company to meet the requirement of the business. At least 90% of issued capital should be subscribed by the public. A company cannot issue its shares if subscription is less than 90%, in such a case issue will be cancelled and money will be refunded.

2. Distinguish between Capital Reserve and Reserve Capital.

Capital Reserves	Reserve Capital
1. Capital Reserves are Created out of the capital profits. (Capital profits are those, which are not earned by normal activity of the business) 2. Capital Reserves are used for a specific Purpose	1. Reserve Capital is that Part of the authorized capital which has not been called up by the company 2. Reserve capital helps in paying the creditors' at the time of liquidation

3. What do you mean by Issue of Shares for Consideration other than Cash?

Ans: When a company does not have sufficient Cash to acquire the fixed Assets for the business or Company is not able to meet its obligations, in such a case a company may offer and allot its shares to the outsiders in lieu of cash. This is known as issue of shares for consideration other than cash.

4. What is meant by calls in advance?

Ans. When shareholder pays the Allotment or calls amount in advance or before the due time, it is known as calls in advance. Interest is paid to the shareholders on calls in advance.

5. What do you mean by Oversubscription?

Ans: In case of well managed and financially strong companies it has been observed that excess applications are received by the companies for the subscription of shares than the number of shares offered for subscription, it is known as oversubscription.

6. State any two purposes for which balance to the credit of Securities Premium account can be used.

Ans: Section 78 of the Companies Act 1956, lays down condition for which amount of premium can be utilized:

1. In paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
2. In writing off the preliminary expenses of the company.

7. State the Conditions for issue of Shares at Discount.

Ans: Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows:

1. At least one year must have elapsed from the date of commencement of business;
2. Such shares are of the same class as had already been issued;
3. The issue of shares at a discount is authorized by passing an ordinary resolution in its General meeting and the approval of the court is obtained.
4. Discount should not be more than 10% of the face value of the share and if the company is interested to give the discount more than 10%, in such a case company should obtain the sanction from the Central Government.

8. What do you mean by Private Placement of Shares?

Ans: A private placement is an issue of shares or of convertible securities by a company to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue.

This is a faster way for a company to raise equity capital. A private placement of shares or of convertible securities by a listed company is generally known by name of preferential allotment.

9. What do you mean by Buy Back of Shares?

Ans: Buy Back of Shares [Section 77A]: Purchase of its own shares by a company in order to reduce the number of shares on the market. Company may buy back its shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

10. What do you mean by Sweat Equity?

Ans. Sweat equity shares may be issued to employee, promoter at a discount or for consideration other than cash. Employees or directors who have been largely involved in building the company from scratch. They do not put any money in the business, but are given the shares as a reward for providing the know-how or making available rights to use intellectual property.

11. What is Preferential Allotment?

Ans: Preferential issue means issuance of equity shares to promoter group or selected investors. in this case shares are issued at less than the market price. When preferential allotment is made by the company to its promoters, lock in period will be applicable according to which a shareholder cannot sell his shares in the open market in the first 3 years of allotment.

12. What do you mean by Pro-rata allotment?

Ans: The directors may allot the shares on pro-rata basis. For example Ram has applied for 100 shares but company has issued only 70 shares on pro-rata basis and money of 30 shares will be adjusted on the allotment. (In this case applicants do not get the full shares applied by them).

13. What do you mean by Forfeiture of shares?

Ans: Forfeiture means cancellation of Shares. When a Shareholder fails to pay any call or installment of a call (Allotment or Calls), the directors may, at any time thereafter, serve a notice on him to pay the amount within 14 days together with interest (if any) which may have accrued. It should be mentioned in the notice clearly that if the shareholders does not pay the amount mentioned therein within the given period, their shares will be forfeited.

14. What is the Limit of Maximum Discount on Re-issue of Shares (Were originally issued at discount).

Ans: Forfeited shares can be Re-issued at discount. Maximum discount cannot be more than the amount forfeited on such shares.

15. What is meant by issue of shares at par?

Ans. When a company issue its share at the face value (Original price) it is known as issue of shares at Par. For example if the Face value of a share is Rs.20 and the issue price of share is also Rs.20.

16. What is meant by Pro-rata allotment of shares?

Ans. The directors may allot the shares on pro-rata basis. For example Ram has applied for 100 shares but company has issued only 70 shares on pro-rata basis and money of 30 shares.

17. What do you mean by preliminary expenses?

Ans: Preliminary expenses are those expenses which are paid before the commencement of a company. For example: Registration fees paid to the registrar, Stamp duty, Common seal etc. These expenses may be written off against the Securities Premium A/c. if Preliminary expenses should be written off against the statement of profit & loss or securities premium reserve.

18. Can a new company issue its shares at a discount? If not, why?

Ans. A new company cannot issue its shares at discount. A company can issue its shares at discount only after one year from the date on which the company was entitled to commence business.

19. What is meant by Capital Reserve?

Ans. Capital Reserves are created out of the capital profits. (Capital profits are those, which are not earned by normal activity of the business). Capital Reserves are used for a specific Purpose. Capital Reserves are meant to meet the legal requirements.

20. What is meant by Calls in arrear?

Ans. When a shareholder does not pay the Allotment or calls amount on time it is known as calls in arrears or unpaid calls. Interest is charged on calls in arrears.

21. What are the main categories in which the share capital of a company is divided? Explain briefly.

Ans: Share capital of a company is divided into the following categories:

1. **Authorized/Registered/Nominal capital:** This capital is represented by the 'Capital Clause' of the Memorandum of Association by which the company is Registered. Only after the Registration a company can issue its shares. Company can issue shares fully or partially with the specified denomination i.e. Rs.10, Rs.50, Rs.100 etc.
2. **Issued Capital:** Issued Share Capital is the total of the share capital issued to shareholders. This may be Equal or less than the authorized capital. Students must remember that issued capital is that part of the authorized capital which is offered to the public for subscription, including the shares offered to the vendors for subscription other than cash and shares allotted as bonus shares. Some part of authorized capital may be kept within the company which can be offered later which is known as 'Unissued Capital'.
3. **Subscribed Capital:** Subscribed capital is that portion of the issued capital which has been subscribed by the public. This may be equal or less than the issued share capital as there may be capital for which no applications have been received yet ('unsubscribed capital').
4. **Called-up Capital:** Called-up capital is that portion of the subscribed capital which shareholder will pay to the company on the shares allotted to them. For example if the face value of a share is Rs.20 and the company has called up only Rs.16 per share, in such a case the called up capital is Rs.16 and uncalled capital is Rs.4, which may be collected by the company later.
5. **Paid-up Capital:** Paid up Share Capital is that amount of share capital which is paid by the shareholders. Paid up capital may be equal or less than the called up capital as payments may be in arrears which is known as Calls-in-Arrears. In simple words, it is the actual amount paid by the shareholders.

22. What is meant by under subscribtion of share?
Ans. Under subscription is that situation where applications received for number of shares are less than the shares offered. In such a case, a company can issue shares only if the shares subscription is more than 90% of shares offered.

23. State the steps other than rejecting applications that a company can take in case of over subscription.
Ans. Excess money can be adjusted towards the allotment and calls.

Important Questions Part-3
Accounting for share Capital

(1 marks)

Q.1 Give the definition of a compnay as contained in the companies act,1956.

Ans. section 3(1)(i) of companies act defines a company as "a company formed and registered under this act or an existing company."

According to sec3(1)(ii),"An exisiting company means a company formed and registered under any of the former companies Acts."

Q.2 Can forfeited shares be issued at a discount ? If so to what extent?

Ans. Re-issue of forfeited shares: Forfeited shares can be reissued at a discount. However, the In other words, amount received on received on re-issue plus amount already received on forfeited shares must not be less than the paid up value of shares.

Q.3 As a director of a company you had invited applications for 20,000 equity shares of Rs.10 each at a premium of Rs.2 each. The total applications money received at Rs.3/- per share was Rs.72,000. Name the kind of subscription. List the three alternatives for allotting these share.

Ans. It is a case of over-subscription. Shares are said to be over-subscribed when the numbers of shares ar more than the number of shares offered:

i. Allotment for 1st 20,000 shares and the rest can rejected
ii. Allotment on prorata basis
iii. Allotment of some application in full and some on prorata basis,and some refused.

4 What is an Escrow Account?

Ans. In order to fulfill certain obligations under the scheme of buy-back of securities an account is opened, which is known as escrow account.

Q.5 What do you mean by Private placement of shares?

Ans. Private Placement of shares implies issue and allotment of shares to a selected groups of persons privately and not to public in general through public issue. In order to place the shares privately, a company must pass a special resolution to this effect.

Q.6 What is Sweat Equity?

Ans. Sweat Equity shares means easily shares issued by the company to its employees or whole time directors at a discount or for consideration other then cash for providing74 know - how or making available right in the nature of intellectual properly rights or valve addition by whatever name called.

Q.7 What maximum amount of discount can be allowed on the reissue of forfeited shares?

Ans. The maximum amount of discount on reissue of forfeited shares is that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares on their original issue and that the discount allowed on re issue of forfeited shares should be debited to the share forfeited account.

Q.8 State in brief, the SEBI Guidelines regarding Debenture Redemption Reserve.

Ans. At per SEBI Guidelines, an amount equal to 50% of the debenture issue must be transferred to DRR before the redemption begins. In other words, before redemption, at least an amount equal to 50% of the debenture issue must stand to the credit of DRR

Q.9 Name the head under which discount on issue of debentures appears in the Balance Sheet of "C" Company.

Ans. Discount on issue of debentures will appear under the heading Miscellaneous Expenditure.

Q.10 Can a company issue share of discount ? What conditions must a company comply with before the issue of such shares.

Ans. Section 79 of the companies Act, 1956 permits a company to issue shares at a discount only if the following conditions are fulfilled :

1. The shares are of a class already issued.

2. At least one year must have elapsed since the company become entitled to commence business.
3. The issue of shares at discount is authorised by a revolution passed by the company in its general meeting and sanctioned by the central Government.

The resolution specifies the maximum rate of discount at which the shares are to be issued. The rate must not exceed 10% unless sanctioned by the central Government.

Q.11 Write the difference between an equity share and preference share.

Ans.

Basis	**Preference shares**	**Equity shares**
Dividend rate	Preference share holders are paid dividend at a fixed rate.	The rate of dividend on equity shares vary from year to year depending upon profits
Redemption	They can be redeemed	They can't be redeemed.
Payment of Dividend	These shares have a made after paying to Preferential right to receive dividend before any dividend is paid on equity shares.	Payment of dividend is Dividend Preference share-holders.

Q.12 Differentiate between Reserve capital and capital reserve.

Ans.

Basis	**Reserve capital**	**Capital reserve**
Meaning and creation	Reserve capital refers to a portion of uncalled capital	Capital reserve is created out of capital profits.

Special resolution	Is required	no Special resolution required
Time when it can be used Disclosure in balance sheet	It can be used only in the event of company's winding up It is not shown in company's balance sheet	It can be used to write off capital losses or to issue bonus shares. It is mentioned under the heading reserves and surplus on the liabilities side of balance sheet

Q.13 Employees stock option plan-"A right to buy and not an obligation". Comment

Ans. Employees stock option plan is the right granted to the employees of the company to purchases the shares lower than the market prices. It is worth mentioning the options provide a right and not the obligation to bur shares. It means that the employees under this plan are not necessarily required to purchase the shares. It is their wish to buy or not necessarily required to purchase the shares. It is their wish to buy or not.

Q.14 Write a short note on minimum subscription?

Ans. Minimum subscription is the amount received from share holders which is sufficient from the point of view of directors‘ for following purposes:

a. For purchasing necessary assets of the company.
b. For paying preliminary expenses and commission on sales of shares.
c. For paying loan if arranged for above two purposes.
d. For working capital and for any other purposes which the directors agree upon.

Q.15 Rohit Ltd. Purchased assets from Rohan & co. for Rs. 3,50,000. A sum of Rs. 75,000 was paid by the emans of a bank draft and for the balance due Rohit Ltd. Issued Equity shares of Rs. 10 each at a premium of 10% .Journalise the above transaction in the books of the company.

Ans.

Books of Rohit Ltds.

JOURNAL

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)
	Sundry Assets Dr.		3,50,000	
	To Rohan & Co.			3,50,000
	(Being assets purchased from Rohan & Co.)			
	Rohan & Co. Dr.		75,000	
	To bank A/c			75,000
	(Being amount paid to Rohan & Co.)			
	Rohan & Co. A/c Dr.		2,75,000	
	To equity shares capital a/c			2,50,000
	To securities Premium A/c			25,000

Q.16. 50 shares of Rs. 10 each, issued at as premium of Rs. 5 per share, were forfeited by sohan Ltd. for the nonpayment of allotment money of Rs.9 per share (including premium). The first and final call on these shares at Rs. # per share was not made. Forfeited shares were re-issued @ Rs. 12 per share, fully paid up. Journalise

Ans.

Date	Particulars	L.F.	Debit	Credit
	Share capital a/c dr.		350	
	Securities premium a/c dr.		250	
	To share forfeited a/c			150
	To share allotment a/c			450
	(Being 50 shares forfeited for non-			

	payment of allotment money as per board's resolution dated)			
	Bank A/c dr.		600	
	To share capital a/c			500
	To securities Premium a/c			100
	(Being 50 shares reissued @Rs. 12 per share, fully paid)			
	Share Forfeited a/c Dr.		150	
	To Capital Reserve a/c			150
	(Being the balance of forfeited shares transferred to capital reserve)			

Q.17 New India Ltd. forfeited 100 shares of Rs. 10 each, issued at a discount of 10%. The company had called up only Rs. 8 per share. Final call of Rs. 2 each has not been made on these shares. These shares were allotted to Ram, who did not pay the first call of Rs. 3. 60 shares were reissued at Rs. 7 per share, as Rs. 8 paid up. Give Journal entries in the books of the company, showing the working clearly.

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Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share capital A/c (100 × Rs. 8) Dr.		800	
	To Forfeited Shares A/c (100 × Rs. 4)			400
	To Discount on Issue of Shares (100 × Rs. 1)			100
	To Share First Calf A/c (100 × Rs. 3)			300
	(Being 100 scares forfeited for non-payment of first call..)			

	Bank A/c (60 × Rs. 7) Dr.		420	
	Discount on issue of Shares A/c (60 × Rs. 1) Dr.		60	

19. Alpha Ltd issued for public subscription 40,000 equity shares of Rs. 10 each. At a premium of Rs. 2 per share payable as under: On application Rs. 2 per share, on allotment Rs. 5 per share (including premium), on first call Rs. 2 per share and on second call Rs. 3 per share.

Applications were received for 60,000 shares. Allotment was made pro rata basis to the applicants for 48000 shares, the remaining applications being refused. Money overpaid on application was applied towards sums due on allotment. A, to whom 1,600 shares were allotted, failed to pay the allotment money and B, to whom 2,000 shares were allotted failed to pay the two calls. These were subsequently forfeited after the second call was made.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c dr.		1,20,000	
	To Equity share application A/c			1,20,000
	(Being the application money received on shares)			
	Equity share application a/c		1,20,000	
	To equity share capital a/c			80,000
	To Bank			24,000
	To Equity share allotment a/c			16,000
	(Being the application money adjusted)			
	Equity Share allotment a/c		2,00,000	
	To Equity share Capital A/c			1,20,000

	To Securities Premium			80,000
	(Being the allotment amount due)			
	Bank a/c		1,76,640	
	To equity share allotment a/c			1,76,640
	(Being the remaining allotment money received)			
	Equity share first call a/c		80,000	
	To Equity share capital A/c			80,000
	(Being the first call money due)			
	Bank A/c		72,800	
	To Equity share first call a/c			72,800
	(Being the call money received)			
	Equity share second and final call a/c		1,20,000	
	To Equity share capital A/c			1,20,000
	(Being equity second call money due)			
	Bank A/c		1,09,200	
	To Equity share second and final call a/c			1,09,200
	Equity share capital a/c		36,000	
	Securities premium A/c		3,200	
	To equity share allotment a/c			7,360
	To equity share first call a/c			7,200
	To equity share Second call a/c			10,800
	To share forfeited a/c			13,840

	(Being shares forfeited for non-payment of allotment, first and final call)			

20. A limited company invites applications for 50,000 equity shares of Rs. 10 each, at a maximum discount by the Companies Act, payable as follows: On application Rs. 3; on allotment Rs. 3; on first call Rs. 2; on final call the balance. Applications were received for 55,000 shares. Allotments were made on the following basis:

i. **To applicants for 35,000 shares- in full83**
ii. **To applicants for 20,000 shares- 15,000 shares.**

Excess money paid on application was utilized towards allotment money. A shareholder who was allotted 1,500 shares out of the group applying for 20,000 shares failed to pay allotment money and money due on calls. These shares were forfeited. 1,000 forfeited shares were reissued as fully paid on receipt of Rs. 8 per share. Show the journal in the books of the company.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr.		1,65,000	
	To Equity Share Application a/c			1,65,000
	(Being the application money received on shares)			
	Equity Share application A/c		1,65,000	
	To Equity Share capital A/c			1,50,000
	To Equity share allotment A/c			15,000
	(Being the application money adjusted)			
	Equity share allotment A/c		1,50,000	
	Discount on issue of shares a/c		50,000	

	To Equity share capital a/c			2,00,000
	(Being the allotment amount due)			
	Bank A/c		1,32,000	
	To equity share allotment a/c			1,32,000
	(Being the remaining allotment money received)			
	Equity share first call a/c		1,00,000	
	To Equity share capital A/c			1,00,000
	(Being the first call money due)			
	Bank A/c		97,000	
	To equity share first call a/c			97,000
	(Being the call money received)			
	Equity share second and final call a/c		50,000	
	To Equity share capital A/c			50,000
	(Being equity second call money due)			
	Bank A/c		48,500	
	To Equity share second and final call a/c			48,500
	Equity share capital a/c		15,000	
	To discount on issue of shares a/c			1,500
	To equity share allotment a/c			3,000
	To equity share first call a/c			3,000
	To equity share second call a/c			1,500

	To Shares forfeited a/c			6,000
	(Being shares forfeited for non-payment of allotment, first and final call)			
	Bank A/c		8,000	
	Shares forfeited a/c		1,000	
	Discount on issue of shares a/c		1,000	
	To Equity shares capital a/c			10,000
	(Being the reissue of 1,000 shares)			
	Share forfeited a/c		3,000	
	To Capital Reserve A/c			
	(Being the amount transferred to capital reserve a/c)			

Note:- Maximum discount permitted by the Companies Act is 10% of the face value of share

Important Questions Part-4
Accounting for share Capital

1. What is Minimum Subscription?

Ans: A Minimum amount that should be raised by the company to meet the requirement of the business. At least 90% of issued capital should be subscribed by the public. A company cannot issue its shares if subscription is less than 90% , in such a case issue will be cancelled and money will be refunded.

2. Distinguish between Capital Reserve and Reserve Capital. [CBSE 2005 July]

Ans:

Capital Reserve	Reserve Capital
1. Capital Reserves are Created out of the capital profits. (Capital profits are those, which are not earned by normal activity of the business)	1. Reserve Capital is that Part of the authorized capital which has not been called up by the company
2. Capital Reserves are used for a specific Purpose	2. Reserve capital helps in paying the creditors' at the time of liquidation.

3. What do you mean by Issue of Shares for Consideration other than Cash?

Ans: When a company does not have sufficient Cash to acquire the fixed Assets for the business or Company is not able to meet its obligations, in such a case a company may offer and allot its shares to the outsiders in lieu of cash. This is known as issue of shares for consideration other than cash.

4. What is meant by calls in advance?

Ans. When shareholder pays the Allotment or calls amount in advance or before the due time, it is known as calls in advance. Interest is paid to the shareholders on calls in advance.

5. What do you mean by Oversubscription?

Ans: In case of well managed and financially strong companies it has been observed that excess applications are received by the companies for the subscription of shares than the number of shares offered for subscription, it is known as oversubscription.

6. State any two purposes for which balance to the credit of Securities Premium account can be used.

Ans: Section 78 of the Companies Act 1956, lays down condition for which amount of premium can be utilized:

- In paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- In writing off the preliminary expenses of the company.

7. State the Conditions for issue of Shares at Discount.

Ans: Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows:

- At least one year must have elapsed from the date of commencement of business;
- Such shares are of the same class as had already been issued;
- The issue of shares at a discount is authorized by passing an ordinary resolution in its General meeting and the approval of the court is obtained.
- Discount should not be more than 10% of the face value of the share and if the company is interested to give the discount more than 10%, in such a case company should obtain the sanction from the Central Government.

8. What do you mean by Private Placement of Shares?

Ans: A private placement is an issue of shares or of convertible securities by a company to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue. This is a faster way for a company to raise equity capital. A private placement of shares or of convertible securities by a listed company is generally known by name of preferential allotment.

9. What do you mean by Buy Back of Shares?

Ans: Buy Back of Shares [Section 77A] : Purchase of its own shares by a company in order to reduce the number of shares on the market. Company may buy back its shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

10. What do you mean by Sweat Equity?

Ans. Sweat equity shares may be issued to employee, promoter at a discount or for consideration other than cash. Employees or directors who have been largely involved in building the company from scratch. They do not put any money in the business, but are given the shares as a reward for providing the know-how or making available rights to use intellectual property.

11. What is Preferential Allotment?

Ans: Preferential issue means issuance of equity shares to promoter group or selected investors. in this case shares are issued at less than the market price. When preferential allotment is made by the company to its promoters, lock in period will be applicable according to which a shareholder cannot sell his shares in the open market in the first 3 years of allotment.

12. What do you mean by Pro-rata allotment?

Ans: The directors may allot the shares on pro-rata basis. For example Ram has applied for 100 shares but company has issued only 70 shares on pro-rata basis and money of 30 shares will be adjusted on the allotment. (In this case applicants do not get the full shares applied by them).

13. What do you mean by Forfeiture of shares?

Ans: Forfeiture means cancellation of Shares. When a Shareholder fails to pay any call or installment of a call (Allotment or Calls), the directors may, at any time thereafter, serve a notice on him to pay the amount within 14 days together with interest (if any) which may have accrued. It should be mentioned in the notice clearly that if the shareholders does not pay the amount mentioned therein within the given period, their shares will be forfeited.

14. What is the Limit of Maximum Discount on Re-issue of Shares (Were originally issued at discount).

Ans: Forfeited shares can be Re-issued at discount. Maximum discount cannot be more than the amount forfeited on such shares.

15. What is meant by issue of shares at par?

Ans. When a company issue its share at the face value (Original price) it is known as issue of shares at Par. For example if the Face value of a share is Rs.20 and the issue price of share is also Rs.20.

16. What is meant by Pro-rata allotment of shares?

Ans. The directors may allot the shares on pro-rata basis. For example Ram has applied for 100 shares but company has issued only 70 shares on pro-rata basis and money of 30 shares

17. What do you mean by preliminary expenses?

Ans: Preliminary expenses are those expenses which are paid before the commencement of a company. For example: Registration fees paid to the registrar, Stamp duty, Common seal etc. These expenses may be written off against the Securities Premium A/c. if Preliminary expenses should be written off against the statement of profit & loss or securities premium reserve.

18. Can a new company issue its shares at a discount? If not, why?

Ans. A new company cannot issue its shares at discount. A company can issue its shares at discount only after one year from the date on which the company was entitled to commence business.

19. What is meant by Capital Reserve?

Ans. Capital Reserves are created out of the capital profits. (Capital profits are those, which are not earned by normal activity of the business). Capital Reserves are used for a specific Purpose. Capital Reserves are meant to meet the legal requirements.

20. What is meant by Calls in arrear?

Ans. When a shareholder does not pay the Allotment or calls amount on time it is known as calls in arrears or unpaid calls. Interest is charged on calls in arrears.

21. What are the main categories in which the share capital of a company is divided? Explain briefly.

Ans: Share capital of a company is divided into the following categories :

1. Authorized/Registered/Nominal capital: This capital is represented by the 'Capital Clause' of the Memorandum of Association by which the company is Registered. Only after the Registration a company can issue its shares. Company can issue shares fully or partially with the specified denomination i.e. Rs.10, Rs.50, Rs.100 etc.
2. Issued Capital: Issued Share Capital is the total of the share capital issued to shareholders. This may be Equal or less than the authorized capital. Students must remember that issued capital is that part of the authorized capital which is offered to the public for subscription, including the shares offered to the vendors for subscription other than cash and shares allotted as bonus shares. Some part of authorized capital may be kept within the company which can be offered later which is known as 'Unissued Capital'.
3. Subscribed Capital: Subscribed capital is that portion of the issued capital which has been subscribed by the public. This may be equal or less than the issued share capital as there may be capital for which no applications have been received yet ('unsubscribed capital').
4. Called-up Capital: Called-up capital is that portion of the subscribed capital which shareholder will pay to the company on the shares allotted to them. For example if the face value of a share is Rs.20 and the company has called up only Rs.16 per share, in such a case the called up capital is Rs.16 and uncalled capital is Rs.4, which may be collected by the company later.
5. Paid-up Capital: Paid up Share Capital is that amount of share capital which is paid by the shareholders. Paid up capital may be equal or less than the called up capital as payments may be in arrears which is known as Calls-in-Arrears. In simple words, it is the actual amount paid by the shareholders.

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Ans. Under subscription is that situation where applications received for number of shares are less than the shares offered. In such a case, a company can issue shares only if the shares subscription is more than 90% of shares offered.

23. State the steps other than rejecting applications that a company can take in case of

over subscription.

Ans. Excess money can be adjusted towards the allotment and calls.