

Joint Stock Company— Issue of Shares

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Company

It is an entity incorporated through the process of law for undertaking (usually) a business. It is an artificial person distinct and separate from its members who are known as **shareholders**.

A company may be one person company or private company or a public company.

2. One Person Company

It is a company which has only one person as a member.

3. Private Company

It is a company which has minimum paid-up capital as may be prescribed* and which by its Articles of Association:

- (i) restricts the right to transfer its shares, if any.
- (ii) except in One Person Company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them.

If any share is held jointly by two or more persons, they shall be treated as a single member.

- (iii) prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is **two**.

The name of a Private Company ends with the words, '*Private Limited*'.

4. Public Company

It is a company which has minimum paid-up capital as may be prescribed* and which

- (i) is not a one person company or a private company;
- (ii) is a private company, which is a subsidiary of a public company.

The minimum number of members required to form a public limited company is **seven**. There is no restriction on maximum number of members.

The name of a Public Company ends with the word '*Limited*'.

5. Share

'Share' means a share in the Share Capital of a company and includes stock.

[Section 2(84) of the Companies Act, 2013]

It is a unit into which Share Capital of a company is divided.

6. Preference Share Capital

It is a kind of share capital which carries preferential rights in respect of dividend payment and repayment of capital over Equity Shareholders, if the company is wound up.

*Companies are not required to have minimum paid-up capital *w.e.f.* 29th May, 2015.

7. Equity Share Capital

It is that share capital which is not Preference Share capital.

8. Allotment of Shares

Allotment is the allocation of shares to the successful applicants by the company.

9. Allotment Money

The amount payable on allotment is called **Allotment Money**.

10. Authorised or Nominal Capital

'Authorised Capital' or 'Nominal Capital' means such capital as is authorised by the Memorandum of a company to be the maximum amount of Share Capital of the company.

[Section 2(8)]

It is the maximum amount of capital which the company is, for the time being, authorised to raise. It includes both Preference Share Capital and Equity Share Capital.

11. Issued Capital

'Issued Capital' means such capital as the company issues from time to time for Subscription.

[Section 2(50)]

12. Subscribed Capital

'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.

[Section 2(86)]

13. Paid-up Share Capital or Share Capital Paid-up

'Paid-up Share Capital' or 'Share Capital Paid-up' means such aggregate of money credited and paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of a company, but does not include any other amount received in respect of such shares, by whatever name called.

[Section 2(64)]

14. Subscribed and Fully Paid-up

It is the amount of share capital issued by a company that is subscribed on which the company has called and also received entire nominal (face) value of the share.

15. Subscribed but not Fully Paid-up

It is the amount of share capital issued by a company that is subscribed but the company has not received entire nominal (face) value of the share.

16. Reserve Capital

It is that part of the authorised capital that a company resolves to call in the event of its winding up.

17. Capital Reserve

It is a reserve created out of capital profits.

18. Issue of Shares for Cash

It means the consideration for shares is received through cash/cheque or any other banking instrument against the shares.

19. Issue of Shares for Consideration Other than Cash

It means the consideration for shares is received otherwise than through cash/cheque or any other banking instrument but they have been issued for assets purchased or services taken.

20. Par Value

Par value means the Nominal or Face value of a share.

21. Issue of Shares at Par

It means the issue price and nominal (face) value of the share is same.

22. Issue of Shares at Premium

It means the issue price of the share is higher than its nominal (face) value.

23. Shares Payable in Lump Sum

It means that shares are issued for a consideration payable in Lump sum, *i.e.*, entire issue price of a share is payable, along with the application.

24. Shares Payable in Instalments

It means that shares are issued for a consideration not payable in Lump sum but in parts, *i.e.*, issue price of a share is payable, partly on application and partly on allotment and calls.

25. Undersubscription of Shares

The shares are said to be undersubscribed if the number of shares applied for is less than the number of shares issued for subscription.

26. Oversubscription of Shares

When the company receives applications for more shares than issued, it is known as **Oversubscription**.

27. Pro rata Allotment

Pro rata allotment means allotment in proportion of shares applied for.

28. Calls-in-Arrears

It is that part of the calls money that has been called-up by the company but has not been received by it.

29. Calls-in-Advance

It is that amount which has not been called-up by the company but has been received by it.

30. Forfeiture of Shares

Forfeiture of shares means cancellation of allotted shares.

31. Reissue of Shares

Reissue of shares means sale of forfeited shares.

SUMMARY OF THE CHAPTER

- A *company* is an entity formed by an association of persons through the process of law for undertaking (usually) a business.

The *essential characteristics* of a company are:

- (i) It is a *voluntary association* of individuals coming into existence through the process of law for undertaking (usually) a business venture.
- (ii) It is an *artificial person* created by the process of law.
- (iii) It has a *separate legal entity*.
- (iv) It has a *perpetual succession, i.e.*, it can be created and wound up by law only.
- (v) It has a *common seal, i.e.*, official seal of the company.
- (vi) The *shares of a company can be transferred* from one person to another.

- **Share and Share Capital**

Share means a share in the capital of a company and includes stock.

[Section 2(84) of the Companies Act, 2013]

Share capital of a company is divided into small units with a definite face value. Each of these small units is called a **share**. Share capital is that part of the capital of a company which is represented by the total nominal value of shares, it has issued.

- **Sub-Division of Share Capital**

- (i) *Authorised Share Capital*: 'Authorised Capital' or 'Nominal Capital' means such capital as is authorised by the Memorandum of a company to be the maximum amount of Share Capital of the company. [Section 2(8)]
- (ii) *Issued Share Capital*: 'Issued Capital' means such capital as the company issues from time to time for Subscription. [Section 2(50)]
- (iii) *Subscribed Share Capital*: 'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company. [Section 2(86)]
- (iv) *Called-up Share Capital* is the amount of nominal value of share capital that has been called by the company to be paid by the shareholders. [Section 2(15)]
- (v) *Paid-up Share Capital*: 'Paid-up Share Capital' or 'Share Capital Paid-up' means such aggregate of money credited and paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of a company, but does not include any other amount received in respect of such shares, by whatever name called. [Section 2(64)]

Reserve Capital is a part of subscribed share capital that a company resolves, by a Special Resolution, not to call except at the time of winding up of the company.

Capital Reserve is the amount of profit arising out of capital transactions.

- **Types of Shares:** Shares that can be issued are Preference Shares or Equity Shares.

Preference Shares are the shares that carry preferential right as to dividend at fixed rate or amount and preferential right as to repayment of capital.

Equity Shares are the shares that are not Preference Shares.

Shares can be issued for cash and for consideration other than cash.

Shares can be issued at par or at premium.

Shares are said to be issued at par when they are issued at a price equal to the nominal (face) value, i.e., when the issue price and nominal (face) value are same.

Shares are said to be issued at premium when they are issued at a price higher than nominal (face) value.

- **A Company can issue its shares:**

- (i) for cash, and
- (ii) for consideration other than cash.

- **Oversubscription of Shares** means shares applied for are more than the shares offered for subscription.

- **Undersubscription of Shares** means shares applied for are less than the shares offered for subscription.

- **Pro rata Allotment** means allotment of shares in a fixed proportion. *Pro rata* allotment takes place only when the shares are oversubscribed.

- **Securities Premium Reserve** can be utilised for the following purposes:

- (i) issuing fully paid bonus shares;
- (ii) writing off preliminary expenses;
- (iii) writing off expenses such as share issue expenses, commission, discount allowed on issue of securities or debentures;
- (iv) providing for the premium payable on redemption of debentures or Preference Shares; or
- (v) in buying-back its own shares.

- **Call** is a demand by a company to the holders of partly paid shares to pay a further instalment towards full nominal value.

- **Calls-in-Arrears** is the amount not yet received by the company against the call or calls demanded. Calls not received by the company is transferred to Calls-in-Arrears Account.
- **Calls-in-Advance** is the amount received by the company from shareholders against the calls not yet made. Calls-in-Advance is shown as Other Current Liability.
- **Interest on Calls:** *Interest on Calls-in-Arrears* may be collected by the Company from the shareholders, if its Articles of Association so provides. If the company has adopted 'Table F' of the Companies Act, 2013, then it can charge interest @ 10% p.a. from the due date to the date of actual payment.

Interest may be paid on Calls-in-Advance if its Articles of Association so provides. If the company has adopted 'Table F' of the Companies Act, 2013 then it is required to pay interest @ 12% p.a. from the date of receipt to the due date.

- **Forfeiture of shares** means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

- **Journal Entry for forfeiture of shares:**

Share Capital A/c	...Dr.	[With the amount called-up on shares forfeited]
To Forfeited Shares A/c		[With the amount already received <i>less</i> premium]
To Calls-in-Arrears A/c		[With the amount due but not paid on allotment and Calls]

Securities Premium Reserve Account—How dealt when shares are forfeited. In case Securities Premium Reserve Account has been credited and also it has been received: Securities Premium Reserve Account is not debited because of the restrictions imposed by Section 52(2) of the Companies Act, 2013 as to utilisation.

In case Securities Premium Reserve Account has been credited but the amount has not been received: Securities Premium Reserve Account is debited because the amount has not been received and therefore, Section 52(2) of the Companies Act, 2013 does not apply.

- **Reissue of Shares:** Forfeited shares may be reissued by the company *at par, at premium or at discount*. When such shares are reissued at a discount, the amount of discount allowed per share must not exceed the amount forfeited on such a share in respect of capital (amount received per share *minus* any premium received thereon).

Regarding Reissue of Forfeited Shares, Always Remember:

1. Discount on Reissue cannot exceed the forfeited amount.
2. If the Discount on reissue is less than the amount forfeited, the surplus (*i.e.*, gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited shares is reissued then the gain on reissue of such shares is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the share capital.
5. When the shares are reissued at Discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
7. In case the forfeited shares are reissued at a price higher than the paid-up value, the excess of issue price over paid-up value is credited to 'Securities Premium Reserve Account'.

- **In Pro rata Allotment:** When shares are reissued at a premium, excess money received on application is first be adjusted towards Share Capital and the balance, if any, is utilised towards Securities Premium Reserve.

Solved Questions

Illustration 1.

Sweetwell Co. Ltd. purchased a running business from Lotus Ltd. for ₹ 18,00,000 payable 10% by cheque and the balance by the issue of fully paid Equity Shares of ₹ 100 each at a premium of 20%. The assets and liabilities consisted of the following:

Building ₹ 9,00,000; Plant and Machinery ₹ 3,00,000; Stock ₹ 6,00,000; Trade Receivables ₹ 3,00,000; Trade Payables ₹ 2,40,000.

Pass necessary Journal entries in the books of Sweetwell Co. Ltd.

Solution:

JOURNAL OF SWEETWELL CO. LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Building A/c ...Dr.		9,00,000	
	Plant and Machinery A/c ...Dr.		3,00,000	
	Stock A/c ...Dr.		6,00,000	
	Trade Receivables A/c ...Dr.		3,00,000	
	To Trade Payables A/c			2,40,000
	To Lotus Ltd.			18,00,000
	To Capital Reserve A/c (Balancing Figure)			60,000
	(Being the purchase of Business from Lotus Ltd.)			
	Lotus Ltd. ...Dr.		1,80,000	
	To Bank A/c (₹ 18,00,000 × 10/100)			1,80,000
	(Being the part payment made to vendor by cheque)			
	Lotus Ltd. ...Dr.		16,20,000	
	To Equity Share Capital A/c			13,50,000
	To Securities Premium Reserve A/c			2,70,000
	(Being the issue of 13,500 Equity Shares of ₹ 100 each at a premium of 20%)			

Note: No. of Equity Shares to be issued = ₹ 16,20,000/₹ 120 = 13,500 shares.

Illustration 2.

East Coast Ltd. purchased a running business from Ronak Ltd. for ₹ 24,00,000 payable 10% by a cheque and the balance by the issue of fully paid Equity Shares of ₹ 100 each at a premium of 20%. The assets and liabilities consisted of the following:

Building ₹ 10,40,000; Plant and Machinery ₹ 4,00,000; Stock ₹ 8,00,000; Trade Receivables ₹ 4,00,000; Trade Payables ₹ 3,20,000.

Pass necessary Journal entries in the books of East Coast Ltd.

Solution:

JOURNAL OF EAST COAST LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Building A/c ...Dr.		10,40,000	
	Plant and Machinery A/c ...Dr.		4,00,000	
	Stock A/c ...Dr.		8,00,000	
	Trade Receivables A/c ...Dr.		4,00,000	
	Goodwill A/c (Balancing Figure) ...Dr.		80,000	
	To Trade Payables A/c			3,20,000
	To Ronak Ltd.			24,00,000
	(Being the purchase of Business from Ronak Ltd.)			

Ronak Ltd. To Bank A/c (10% of ₹ 24,00,000) (Being the part payment made to vendor by cheque)	...Dr.	2,40,000	2,40,000
Ronak Ltd. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the issue of 18,000 Equity Shares at 20% premium to Ronak Ltd.)	...Dr.	21,60,000	18,00,000 3,60,000

Note: No. of Equity Shares to be issued = ₹ 21,60,000/₹ 120 = 18,000 shares.

Illustration 3.

M/s Blue Chips Ltd. issued 2,000 shares of ₹ 100 each credited as fully paid to the promoters for their services and issued 1,000 shares of ₹ 100 each credited as fully paid to the underwriters for their underwriting services. Journalise these transactions.

Solution:

JOURNAL OF M/S BLUE CHIPS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Incorporation Cost (or Goodwill) A/c To Promoters' A/c (Being the amount due to promoters)	...Dr.	2,00,000	2,00,000
	Promoters' A/c To Share Capital A/c (Being the issue of 2,000 shares of ₹ 100 each to promoters)	...Dr.	2,00,000	2,00,000
	Underwriting Commission A/c To Underwriters' A/c (Being the underwriting commission due on shares)	...Dr.	1,00,000	1,00,000
	Underwriters' A/c To Share Capital A/c (Being the issue of 1,000 shares of ₹ 100 each at par to underwriters)	...Dr.	1,00,000	1,00,000

Illustration 4.

X Ltd. forfeited 400 shares of ₹ 10 each (₹ 8 called-up) issued at 20% premium (payable on final call) to Mr. Ashok on which he had paid ₹ 2 per share. Journalise.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c (400 × ₹ 8) To Calls-in-Arrears A/c (400 × ₹ 6) To Forfeited Shares A/c (400 × ₹ 2) (Being 400 shares forfeited for non-payment of called-up amount)	...Dr.	3,200	2,400 800

Illustration 5.

XYZ Ltd. was incorporated with an authorised capital of 1,00,000 Equity Shares of ₹ 10 each. The directors decided to allot 10,000 shares credited as fully paid to the promoters for their services. The company also purchased Land and Building from Y Co. Ltd. for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal entries and show the 'Share Capital' in the Balance Sheet of the Company as at 31st March, 2018 and also show 'Note to Accounts' as per Schedule III of the Companies Act, 2013.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Incorporation Cost (or Goodwill) A/c ...Dr. To Promoters' A/c (Being the amount due to promoters)		1,00,000	1,00,000
	Promoters' A/c ...Dr. To Equity Share Capital A/c (Being the issue of 10,000 shares of ₹ 10 each fully paid to the promoters for their services)		1,00,000	1,00,000
	Land and Building A/c ...Dr. To Y Co. Ltd. (Being the land and building purchased from Y Co. Ltd.)		4,00,000	4,00,000
	Y Co. Ltd. ...Dr. To Equity Share Capital A/c (Being the issue of 40,000 shares of ₹ 10 each to Y Co. Ltd. against the purchase of land and building)		4,00,000	4,00,000
	Bank A/c ...Dr. To Equity Shares Application and Allotment A/c (Being the Application Money received for 50,000 shares)		5,00,000	5,00,000
	Equity Shares Application and Allotment A/c ...Dr. To Equity Share Capital A/c (Being the allotment of 50,000 shares of ₹ 10 each)		5,00,000	5,00,000

AN EXTRACT OF BALANCE SHEET OF XYZ LTD.
as at 31st March, 2018

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. EQUITY AND LIABILITIES			
Shareholders' Funds			
Share Capital	1	10,00,000	

Note to Accounts

1. Share Capital	₹
<i>Authorised Capital</i>	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
<i>Issued Capital</i>	
1,00,000 Equity Shares of ₹ 10 each (Of the above, 50,000 Equity Shares have been allotted for consideration other than cash)	10,00,000
<i>Subscribed Capital</i>	
<i>Subscribed and fully paid-up</i>	
1,00,000 Equity Shares of ₹ 10 each fully paid-up (Of the above, 50,000 Equity Shares have been allotted for consideration other than cash)	10,00,000

Illustration 6.

Advance Solutions Ltd. purchased assets from 3A Consultants for ₹ 4,00,000. Consideration was paid by issue of 35,000 Equity Shares of ₹ 10 each at par and balance was paid by cheque. Journalise the above transactions in the books of the company.

Solution: **In the Books of Advance Solutions Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c ...Dr. To 3A Consultants (Being the assets purchased from 3A Consultants vide agreement dated ...)		4,00,000	4,00,000
	3A Consultants ...Dr. To Equity Share Capital A/c To Bank A/c (Being issue of 35,000 fully paid Equity Shares of ₹ 10 each issued at par and balance paid by cheque)		4,00,000	3,50,000 50,000

Illustration 7.

Aar Kay Ltd. has authorised capital of ₹ 5,00,000 divided into 50,000 Equity Shares of ₹ 10 each. It issued 20,000 shares to the public on the following terms: ₹ 5 on application and ₹ 5 on allotment.

Applications were received for 25,000 shares on 17th July, 2017 and allotment was made on 3rd August, 2017 on which date the excess application money was refunded to the applicants who were not allotted any share. The allotment money was duly received by 31st August, 2017. Show Bank Account, Shares Application Account, Shares Allotment Account and Share Capital Account for the year. Also, show as to how the share capital would appear in Balance Sheet as at 31st March, 2018.

Solution: **In the Books of Aar Kay Ltd.**

Dr. **BANK ACCOUNT** *Cr.*

Particulars	₹	Particulars	₹
To Shares Application A/c (25,000 × ₹ 5)	1,25,000	By Shares Application A/c (5,000 × ₹ 5)	25,000
To Shares Allotment A/c (20,000 × ₹ 5)	1,00,000	By Balance c/d	2,00,000
	<u>2,25,000</u>		<u>2,25,000</u>

Dr. **SHARES APPLICATION ACCOUNT** *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c	1,00,000	By Bank A/c	1,25,000
To Bank A/c	25,000		
	<u>1,25,000</u>		<u>1,25,000</u>

Dr. **SHARES ALLOTMENT ACCOUNT** *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c	1,00,000	By Bank A/c	1,00,000
	<u>1,00,000</u>		<u>1,00,000</u>

7.10

Double Entry Book Keeping (Section A)—ISC XII

Dr.		SHARE CAPITAL ACCOUNT		Cr.	
Particulars	₹	Particulars	₹		
To Balance c/d	2,00,000	By Shares Application A/c	1,00,000		
		By Shares Allotment A/c	1,00,000		
	2,00,000		2,00,000		
		By Balance b/d	2,00,000		

BALANCE SHEET (EXTRACT) as at 31st March, 2018

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	2,00,000
Total		2,00,000
II. ASSETS		
Current Assets		
Cash and Bank Balances	2	2,00,000
Total		2,00,000

Notes to Accounts

	₹
1. Share Capital	
<i>Authorised Capital</i>	
50,000 Equity Shares of ₹ 10 each	5,00,000
<i>Issued Capital</i>	
20,000 Equity Shares of ₹ 10 each	2,00,000
<i>Subscribed Capital</i>	
<i>Subscribed and fully paid-up</i>	
20,000 Equity Shares of ₹ 10 each	2,00,000
2. Cash and Bank Balances	
Cash at Bank	2,00,000

Illustration 8 (Issue of Shares at Premium, Oversubscription of Shares).

Hightech Ltd. issued 50,000 Equity Shares of ₹ 10 each at a premium of ₹ 4 per share payable ₹ 4 on application; ₹ 8 on allotment and balance on final call.

Applications were received for 80,000 shares. Applications for 18,000 shares were rejected and the amount was refunded. Excess application money was applied towards amount due on allotment. The amounts due were received.

Pass necessary Journal entries for the above transactions.

Solution: **In the Books of Hightech Ltd.**
JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		3,20,000	
	To Equity Shares Application A/c (Being the application money received on 80,000 shares @ ₹ 4)			3,20,000
	Equity Shares Application A/c ...Dr.		3,20,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Shares Allotment A/c			48,000
	To Bank A/c (18,000 × ₹ 4)			72,000
	(Being 50,000 shares allotted, excess application money adjusted towards allotment and application money on rejected applications refunded)			

Equity Shares Allotment A/c To Equity Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money due)	...Dr.	4,00,000	2,00,000 2,00,000
Bank A/c To Equity Shares Allotment A/c (Being the amount received)	...Dr.	3,52,000	3,52,000
Equity Shares First and Final Call A/c To Equity Share Capital A/c (Being the first and final call due)	...Dr.	1,00,000	1,00,000
Bank A/c To Equity Shares First and Final Call A/c (Being the amount received)	...Dr.	1,00,000	1,00,000

Illustration 9 (Forfeiture of Shares issued at Par).

Dawn Ltd. issued for subscription 1,00,000 shares of ₹ 10 each on the following terms: ₹ 3 payable on application, ₹ 4 on allotment, the balance as and when required.

Applications were received for 1,40,000 shares. Allotment was made as under:

- 80,000 applications were allotted 80,000 shares;
- 50,000 applications were allotted 20,000 shares;
- 10,000 applications were not allotted any share.

Excess application money after applying towards allotment is to be refunded.

A shareholder who applied for 1,000 shares and was given 1,000 shares failed to pay the allotment money. His shares were forfeited.

Pass Journal entries to record the above transactions.

Solution: **In the Books of Dawn Ltd.**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c To Shares Application A/c (Being the application money received on 1,40,000 shares @ ₹ 3 per share)	...Dr.	4,20,000	4,20,000
	Shares Application A/c To Share Capital A/c (1,00,000 × ₹ 3) To Shares Allotment A/c (20,000 × ₹ 4) To Bank A/c (10,000 × ₹ 3 + ₹ 10,000) (Note 1) (Being the application money adjusted and surplus refunded upon allotment)	...Dr.	4,20,000	3,00,000 80,000 40,000
	Shares Allotment A/c To Share Capital A/c (Being the allotment money due on 1,00,000 shares @ ₹ 4 per share)	...Dr.	4,00,000	4,00,000
	Bank A/c Calls-in-Arrears A/c To Shares Allotment A/c (Being the allotment money received on all shares @ ₹ 4 per share except on 1,000 shares)	...Dr. ...Dr.	3,16,000 4,000	3,20,000
	Share Capital A/c To Calls-in-Arrears A/c To Forfeited Shares A/c (Being 1,000 shares forfeited for non-payment of allotment money)	...Dr.	7,000	4,000 3,000

Notes:

- Application money was received on 50,000 shares (*i.e.*, $50,000 \times ₹ 3 = ₹ 1,50,000$) but against these applications, 20,000 shares are allotted. Therefore, the allotment money for 20,000 shares (*i.e.*, $20,000 \times ₹ 4$) will be adjusted on allotment and the balance of ₹ 10,000 will be refunded, *i.e.*, ₹ 1,50,000 (Amount received) – ₹ 60,000 (Adjusted on application) – ₹ 80,000 (Adjusted on allotment).
- Shares that have been forfeited are from first category, *i.e.*, all the applicants were allotted shares as were applied.

Illustration 10 (Comprehensive).

A limited company was registered with an authorised capital of ₹ 2,00,000 in ₹ 10 per share, of these 6,000 shares were issued as fully paid to the vendors for the purchase of building, 8,000 shares were subscribed for by the public and during the first year ₹ 5 per share were called-up, payable ₹ 2 on application, ₹ 1 on allotment, ₹ 1 on the first call and ₹ 1 on the second call. The amounts received in respect of these shares were as follows:

- On 6,000 shares the full amount called;
- On 1,250 shares ₹ 4 per share;
- On 500 shares ₹ 3 per share;
- On 250 shares ₹ 2 per share.

The Directors forfeited 750 shares on which less than ₹ 4 per share had been paid.

Pass Journal entries in the books of the company and also show the share capital as it would appear in Balance Sheet.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Building A/c ...Dr. To Vendor (Being the building purchased)		60,000	60,000
	Vendor ...Dr. To Share Capital A/c (Being the issue of 6,000 shares of ₹ 10 each as fully paid in payment of building purchased)		60,000	60,000
	Bank A/c ...Dr. To Shares Application A/c (Being the amount received in respect of application money on 8,000 shares @ ₹ 2 per share)		16,000	16,000
	Shares Application A/c ...Dr. To Share Capital A/c (Being the transfer of application money to Share Capital Account upon allotment)		16,000	16,000
	Shares Allotment A/c ...Dr. To Share Capital A/c (Being the allotment money due on 8,000 shares @ ₹ 1 per share)		8,000	8,000
	Bank A/c ...Dr. Calls-in-Arrears A/c ...Dr. To Shares Allotment A/c (Being the amount received on the allotment except on 250 shares @ ₹ 1 per share) (WN 1)		7,750 250	8,000

Shares First Call A/c To Share Capital A/c (Being the amount due on first call of 8,000 shares @ ₹ 1 per share)	...Dr.	8,000	8,000
Bank A/c Calls-in-Arrears A/c To Shares First Call A/c (Being the amount received on the first call except on 750 shares @ ₹ 1 per share) (WN 2)	...Dr. ...Dr.	7,250 750	8,000
Shares Second Call A/c To Share Capital A/c (Being the amount due on second call on 8,000 shares @ ₹ 1 per share)	...Dr.	8,000	8,000
Bank A/c Calls-in-Arrears A/c To Shares Second Call A/c (Being the amount received on the second call except on 2,000 shares @ ₹ 1 per share) (WN 3)	...Dr. ...Dr.	6,000 2,000	8,000
Share Capital A/c To Forfeited Shares A/c To Calls-in-Arrears A/c (Being 750 shares forfeited) (WN 4)	...Dr.	3,750	2,000 1,750

Working Notes:

1. A holder of 250 shares paid only the application money. He has not paid the allotment and call money. Therefore, the allotment money has been received on 7,750 shares (8,000 – 250) @ ₹ 1 each, i.e., ₹ 7,750.
2. First call money has not been paid by the holder of 250 shares and the holder of 500 shares. In total, the first call money has not been received on 750 shares.
3. The second and final call money has not been paid by the holder of 250 shares, holder of 500 shares and holder of 1,250 shares. In total, the second call money has not been received on 2,000 shares.
4. *Amount Forfeited:*

	₹
(i) For 250 shares, application money @ ₹ 2 per share	500
(ii) For 500 shares, application money @ ₹ 2 per share and allotment money @ ₹ 1 per share	1,500
	2,000

BALANCE SHEET as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	97,000
Total		97,000
II. ASSETS		
1. Non-Current Assets		
Fixed Assets (Tangible)	2	60,000
2. Current Assets		
Cash and Bank Balances	3	37,000
Total		97,000

Notes to Accounts

		₹
1. Share Capital		
<i>Authorised Capital</i>		
20,000 Equity Shares of ₹ 10 each		2,00,000
<i>Issued Capital</i>		
14,000 Equity Shares of ₹ 10 each		1,40,000
(Out of the above 6,000 shares have been issued as fully paid-up pursuant to a contract for consideration other than cash, i.e., for purchase of building)		
<i>Subscribed Capital</i>		
<i>Subscribed and fully paid-up</i>		
6,000 Equity Shares of ₹ 10 each		60,000
(Above shares have been issued as fully paid-up pursuant to a contract for consideration other than cash, i.e., for purchase of building)		
<i>Subscribed but not fully paid-up</i>		
7,250 Equity Shares of ₹ 10 each; ₹ 5 called-up		36,250
Less: Calls-in-Arrears		1,250
		35,000
<i>Add: Forfeited Shares A/c</i>		2,000
		37,000
		97,000
2. Fixed Assets (Tangible)		
Building		60,000
3. Cash and Bank Balances		
Cash at Bank		37,000

Illustration 11 (*Forfeiture of Shares Originally Issued at Premium and Reissued at Discount*).

A Ltd. forfeited 60 shares of ₹ 10 each issued at a premium of 20% to Ram who had applied for 72 shares, for non-payment of the allotment money of ₹ 5 per share (including premium) and the first and final call of ₹ 5 per share. Out of these 20 shares were reissued to Shyam credited as fully paid for ₹ 9 per share.

Give Journal entries to record forfeiture and reissue of shares assuming that A Ltd. follows the policy of adjusting excess application money towards other sums due on shares.

Solution:**In the Books of A Ltd.**
Journal

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c ...Dr.		600	
	Securities Premium Reserve A/c ...Dr.		120	
	To Forfeited Shares A/c			144
	To Calls-in-Arrears (WN 1)			576
	(Being 60 shares forfeited for non-payment of allotment money and call)			
	Bank A/c ...Dr.		180	
	Forfeited Shares A/c ...Dr.		20	
	To Share Capital A/c			200
	(Being 20 forfeited shares reissued as fully paid-up for ₹ 9 per share)			
	Forfeited Shares A/c ...Dr.		28	
	To Capital Reserve A/c (WN 2)			28
	(Being the gain on reissue transferred to Capital Reserve)			

Working Notes:

<p>1. Amount of Calls-in-Arrears:</p> <p>(a) No. of shares applied by Ram 72</p> <p>(b) Money paid on application (72 × ₹ 2) ₹ 144</p> <p>(c) Excess application money ₹ 24 [₹ 144 – (60 × ₹ 2)]</p> <p>(d) Amount due on allotment (60 × ₹ 5) ₹ 300</p> <p>(e) Amount not paid by Ram (₹ 300 – ₹ 24) ₹ 276</p>	<p>2. Amount transferred to Capital Reserve:</p> <p>Amount forfeited on 60 shares = ₹ 144</p> <p>∴ Amount forfeited on 20 shares (₹ 144 × 20/60) ₹ 48</p> <p>Less: Discount allowed on 20 shares reissued ₹ 20</p> <p>Gain (Profit) transferred to the Capital Reserve <u>₹ 28</u></p>
---	--

Illustration 12.

Fortunate Limited issued 10,000 Equity Shares of ₹ 100 each. The amount was payable as under:

On application	₹ 20;	On first call	₹ 25;
On allotment	₹ 30;	On second call	₹ 25.

The company received applications for 10,000 Equity Shares. The company allotted the shares. The Directors made both the calls.

Mr. Unlucky holding 100 shares did not pay both the calls whereas Mr. Unsuccessful holding 40 shares did not pay the second call.

The Directors forfeited the shares on which both the calls were not paid. They were reissued as fully paid @ ₹ 75 per share.

Record the transactions in the Journal of the company. Also, show relevant items as they would appear in the Balance Sheet of the company.

Solution: **In the Books of Fortunate Limited**

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (10,000 × ₹ 20) ...Dr. To Equity Shares Application A/c (Being the application money received on 10,000 shares)		2,00,000	2,00,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c (Being the application money transferred to Equity Share Capital Account on allotment of shares)		2,00,000	2,00,000
	Equity Shares Allotment A/c ...Dr. To Equity Share Capital A/c (Being the allotment money due)		3,00,000	3,00,000
	Bank A/c (10,000 × ₹ 30) ...Dr. To Equity Shares Allotment A/c (Being the allotment money received)		3,00,000	3,00,000

Equity Shares First Call A/c To Equity Share Capital A/c (Being the first call money due on 10,000 shares)	...Dr.	2,50,000	2,50,000
Bank A/c [(₹ 2,50,000 – (₹ 25 × 100)) Calls-in-Arrears A/c To Equity Share Capital A/c (Being the first call money received on 9,900 shares)	...Dr. ...Dr.	2,47,500 2,500	2,50,000
Equity Shares Second and Final Call A/c To Equity Share Capital A/c (Being the second call money due on 10,000 shares)	...Dr.	2,50,000	2,50,000
Bank A/c [(₹ 2,50,000 – (₹ 25 × 140)) Calls-in-Arrears A/c To Equity Shares Second and Final Call A/c (Being the second call money received except on 140 shares)	...Dr. ...Dr.	2,46,500 3,500	2,50,000
Equity Share Capital A/c (100 × ₹ 100) To Calls-in-Arrears A/c (100 × ₹ 50) To Forfeited Shares A/c (100 × ₹ 50) (Being 100 shares of Mr. Unlucky forfeited for non-payment of first and second and final calls)	...Dr.	10,000	5,000 5,000
Bank A/c (100 × ₹ 75) Forfeited Shares A/c (100 × ₹ 25) To Equity Share Capital A/c (Being the reissue of 100 forfeited shares as fully paid-up @ ₹ 75 per share)	...Dr. ...Dr.	7,500 2,500	10,000
Forfeited Shares A/c (₹ 5,000 – ₹ 2,500) To Capital Reserve A/c (Being the gain on reissue of shares transferred to Capital Reserve)	...Dr.	2,500	2,500

BALANCE SHEET as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	9,99,000
(b) Reserves and Surplus	2	2,500
Total		<u>10,01,500</u>
II. ASSETS		
Current Assets		
Cash and Bank Balances	3	10,01,500
Total		<u>10,01,500</u>

Notes to Accounts

		₹
1. Share Capital		
<i>Authorised Capital</i>		
... Equity Shares of ₹ 100 each		...
<i>Issued Capital</i>		
10,000 Equity Shares of ₹ 100 each		10,00,000
<i>Subscribed Capital</i>		
<i>Subscribed and fully paid-up</i>		
9,960 Equity Shares of ₹ 100 each		9,96,000
<i>Subscribed but not fully paid-up</i>		
40 Equity Shares of ₹ 100 each		4,000
<i>Less: Calls-in-Arrears (40 × ₹ 25)</i>		1,000
		3,000
		9,99,000
2. Reserves and Surplus		
Capital Reserve		2,500
3. Cash and Bank Balances		
Cash at Bank		10,01,500

Illustration 13.

PQR & Co. Ltd., with authorised capital of 1,00,000 Equity Shares of ₹ 10 each, made a public issue of 80,000 Equity Shares at a premium of ₹ 3 per share payable ₹ 2 on application, ₹ 5 on allotment (including premium), ₹ 3 on the first call and the balance after some time. Applications were received for 1,00,000 shares. The Board of Directors decided to refund the excess application money and thereafter allot the remaining shares.

During allotment, Mr. M holding 1,000 shares failed to pay the allotment money while Mr. N holding 2,000 shares paid the entire amount due up to the second and the final call.

Thereafter, the first call was made and after giving a sufficient notice to Mr. M, the company decided to forfeit his shares and subsequently reissued 800 of the forfeited shares to Mr. O @ ₹ 11 each fully paid-up @ ₹ 13 each.

You are required to Journalise the above issue of shares through Calls-in-Arrears Account and the Calls-in-Advance Account along with other entries in the books of PQR & Co. Ltd.

Solution:

JOURNAL OF PQR & CO. LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (1,00,000 × ₹ 2) ...Dr. To Equity Shares Application A/c (Being the application money received for 1,00,000 shares @ ₹ 2 per share)		2,00,000	2,00,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c (80,000 × ₹ 2) To Bank A/c (20,000 × ₹ 2) (Being the application money received on 80,000 shares transferred to Equity Share Capital A/c on allotment of shares and that on 20,000 shares returned)		2,00,000	1,60,000 40,000

Equity Shares Allotment A/c (80,000 × ₹ 5) ...Dr.	4,00,000	
To Equity Share Capital A/c (80,000 × ₹ 2)		1,60,000
To Securities Premium Reserve A/c (80,000 × ₹ 3)		2,40,000
(Being the allotment money due on 80,000 shares @ ₹ 5 per share including ₹ 3 being premium)		
Bank A/c ...Dr.	4,07,000	
Calls-in-Arrears A/c (1,000 × ₹ 5) ...Dr.	5,000	
To Equity Shares Allotment A/c		4,00,000
To Calls-in-Advance A/c (2,000 × ₹ 6)		12,000
(Being the allotment money received on 79,000 shares and Calls-in-Advance received on 2,000 shares, arrear on 1,000 shares being transferred to Calls-in-Arrears Account)		
Equity Shares First Call A/c (80,000 × ₹ 3) ...Dr.	2,40,000	
To Equity Share Capital A/c		2,40,000
(Being the first call money of ₹ 3 per share due on 80,000 shares)		
Bank A/c (77,000 × ₹ 3) ...Dr.	2,31,000	
Calls-in-Advance A/c (2,000 × ₹ 3) ...Dr.	6,000	
Calls-in-Arrears A/c (1,000 × ₹ 3) ...Dr.	3,000	
To Equity Shares First Call A/c		2,40,000
(Being the first call money received on 77,000 shares and Calls-in-Advance adjusted on 2,000 shares, arrear on 1,000 shares being transferred to Calls-in-Arrears Account)		
Equity Share Capital A/c (1,000 × ₹ 7) ...Dr.	7,000	
Securities Premium Reserve A/c (1,000 × ₹ 3) ...Dr.	3,000	
To Calls-in-Arrears A/c (₹ 5,000 + ₹ 3,000)		8,000
To Forfeited Shares A/c (1,000 × ₹ 2)		2,000
(Being the forfeiture of 1,000 shares for non-payment of allotment and call money)		
Bank A/c (800 × ₹ 11) ...Dr.	8,800	
Forfeited Shares A/c (800 × ₹ 2) ...Dr.	1,600	
To Equity Share Capital A/c (800 × ₹ 10)		8,000
To Securities Premium Reserve A/c (800 × ₹ 3)		2,400
(Being the reissue of 800 forfeited shares @ ₹ 11 each considered as fully paid-up @ ₹ 13 each)		

Note: There is no gain on reissue of the forfeited shares as shown below:

	₹
Amount forfeited on 800 shares (800 × ₹ 2)	1,600
Less: Applied towards reissue (800 × ₹ 2)	1,600
	<u>Nil</u>

Therefore, nothing has been transferred to Capital Reserve.

Illustration 14.

Daksh Ltd. invited applications for 50,000 equity shares of ₹ 20 each at a premium of ₹ 4 per share payable as follows:

On application	—	₹ 5 per share;
On allotment	—	₹ 9 per share, (including premium);
On first call	—	₹ 5 per share;
On final call	—	₹ 5 per share.

Applications were received for 75,000 shares and shares were allotted on *pro rata* basis to the applicants for 60,000 shares and remaining applications were rejected. Excess money paid on application was adjusted against sum due on allotment.

A, who was allotted 100 shares, could not pay the sum due on allotment. Shares held by him were forfeited on his failure to pay the first call, B, holding 150 shares, could not pay two calls. The company forfeited his shares after the final call was made. Of the shares forfeited, 200 shares were sold to Ajay credited as fully paid at ₹ 16 per share, all of A's forfeited shares being included.

Pass the necessary Journal entries to record the above transactions and prepare the Balance Sheet.

Solution:

In the Books of Daksh Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (75,000 × ₹ 5) ...Dr. To Equity Shares Application A/c (Being the application money received)		3,75,000	3,75,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c (50,000 × ₹ 5) To Equity Shares Allotment A/c (10,000 × ₹ 5) To Bank A/c (15,000 × ₹ 5) (Being the application money adjusted and surplus refunded)		3,75,000	2,50,000 50,000 75,000
	Equity Shares Allotment A/c (50,000 × ₹ 9) ...Dr. To Equity Share Capital A/c (50,000 × ₹ 5) To Securities Premium Reserve A/c (50,000 × ₹ 4) (Being the allotment money due)		4,50,000	2,50,000 2,00,000
	Bank A/c (WN 3) ...Dr. Calls-in-Arrears A/c (WN 1) ...Dr. To Equity Shares Allotment A/c (Being the allotment money received except on 100 shares)		3,99,200 800	4,00,000
	Equity Shares First Call A/c (50,000 × ₹ 5) ...Dr. To Equity Share Capital A/c (Being the first call money due)		2,50,000	2,50,000

Bank A/c (49,750 × ₹ 5) ...Dr.	2,48,750	
Calls-in-Arrears A/c (250 × ₹ 5) ...Dr.	1,250	
To Equity Shares First Call A/c		2,50,000
(Being the first and final call money received except on 250 shares)		
Equity Share Capital A/c (100 × ₹ 15) ...Dr.	1,500	
Securities Premium Reserve A/c (100 × ₹ 4) ...Dr.	400	
To Forfeited Shares A/c		600
To Calls-in-Arrears A/c (₹ 800 + ₹ 500)		1,300
(Being 100 shares forfeited for non-payment of allotment and first call money)		
Equity Shares Second and Final Call A/c (49,900 × ₹ 5) ...Dr.	2,49,500	
To Equity Share Capital A/c		2,49,500
(Being the second and final call money due)		
Bank A/c (49,750 × ₹ 5) ...Dr.	2,48,750	
Calls-in-Arrears A/c (150 × ₹ 5) ...Dr.	750	
To Equity Shares Second and Final Call A/c		2,49,500
(Being the second and final call money received on 49,750 shares @ ₹ 5 per share)		
Equity Share Capital A/c (150 × ₹ 20) ...Dr.	3,000	
To Calls-in-Arrears A/c (₹ 750 + ₹ 750)		1,500
To Forfeited Shares A/c (₹ 750 + ₹ 750)		1,500
(Being 150 shares forfeited for non-payment of both the calls)		
Bank A/c (200 × ₹ 16) ...Dr.	3,200	
Forfeited Shares A/c (200 × ₹ 4) ...Dr.	800	
To Equity Share Capital A/c		4,000
(Being the reissue of 200 equity shares credited as fully paid at ₹ 16 per share)		
Forfeited Shares A/c ...Dr.	800	
To Capital Reserve A/c		800
(Being the gain on reissue of 200 shares transferred to Capital Reserve)		

BALANCE SHEET OF DAKSH LTD.

as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	9,99,500
(b) Reserves and Surplus	2	2,00,400
Total		<u>11,99,900</u>
II. ASSETS		
Current Assets		
Cash and Bank Balances	3	<u>11,99,900</u>

Notes to Accounts

		₹
1. Share Capital		
<i>Authorised Capital</i>		...
... Equity Shares of ₹ 20 each		10,00,000
<i>Issued Capital</i>		
50,000 Equity Share of ₹ 20 each		9,99,000
<i>Subscribed Capital</i>		
<i>Subscribed and Fully paid-up</i>		9,99,500
49,950 Equity Shares of ₹ 20 each		500
<i>Add: Forfeited Shares Account (₹ 600 + ₹ 1,500 – ₹ 800 – ₹ 800)</i>		9,99,500
2. Reserves and Surplus		
Capital Reserve (WN 4)		800
Securities Premium Reserve (₹ 2,00,000 – ₹ 400)		1,99,600
2,00,000		2,00,400
3. Cash and Bank Balances		
Cash at Bank (₹ 3,75,000 – ₹ 75,000 + ₹ 3,99,200 + ₹ 2,48,750 + ₹ 2,48,750 + ₹ 3,200)		11,99,900

Working Notes:

1. Calculation of Excess Application Money Received from A:

Number of Shares Allotted = 100 shares

Number of Shares Applied by A $\left[\frac{1,20,000}{1,00,000} \times 100 \right] = 120$ shares

Excess Application Money to be adjusted on Allotment = $[(120 - 100) \times ₹ 5] = ₹ 100$.

2. Calculation of Amount due from A on Allotment:

	₹
Total Amount due on Allotment from A (100 × ₹ 9)	900
Less: Excess Application Money to be adjusted (WN 1)	100
Net Amount due from A on Allotment which was not Received	800

3. Calculation of Amount Received on Allotment:

	₹
Total Amount due on Allotment (50,000 × ₹ 9)	4,50,000
Less: Excess Application Money Adjusted	50,000
	4,00,000
Less: Amount not Received from A (WN 2)	800
Amount Received on Allotment	3,99,200

4. Calculation of Amount Transferred to Capital Reserve:

	₹
Amount Forfeited on 100 Shares of A	600
Add: Amount Forfeited on 100 Shares of B (₹ 1,500/150 × 100)	1,000
	1,600
Less: Discount Allowed on Reissue	800
Gain on Reissue to be transferred to Capital Reserve	800

Illustration 15.

Reliable Ltd. was registered with an authorised capital of ₹ 20,00,000 in ₹ 10 per Equity Share. It invited applications for issuing 1,00,000 Equity Shares at a premium of ₹ 2 per share. The amount was payable as follows:

On application	₹ 4 per share (including premium);
On allotment	₹ 3 per share;
On first and final call	Balance.

Applications were received for 1,30,000 shares. Applications for 10,000 share were rejected and the application money received on them was refunded. *Pro rata* allotment was made to the remaining applications. Amount overpaid on these applications was adjusted towards the amount due on allotment. Sameer who had applied for 1,200 shares, failed to pay the allotment and call money. The company forfeited his shares out of which 800 shares were reissued to Sanjay of ₹ 9 per share fully paid-up.

You are required to:

- Pass Journal entries in the books of the company through Calls-in-Arrears Account.
- Prepare the Shares Allotment Account. (ISC 2013)

Solution:**In the Books of Reliable Ltd.**

(i)

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Equity Shares Application A/c (Being the application money received on 1,30,000 shares @ ₹ 4 per share)		5,20,000	5,20,000
	Equity Shares Application A/c ...Dr. To Equity Share Capital A/c (1,00,000 × ₹ 2) To Securities Premium Reserve A/c (1,00,000 × ₹ 2) To Bank A/c (10,000 × ₹ 4) To Equity Shares Allotment A/c (20,000 × ₹ 4) (Being the application money adjusted and surplus refunded)		5,20,000	2,00,000 2,00,000 40,000 80,000
	Equity Shares Allotment A/c ...Dr. To Equity Share Capital A/c (Being the allotment money due on 1,00,000 shares @ ₹ 3 per share)		3,00,000	3,00,000
	Bank A/c ...Dr. Calls-in-Arrears A/c ...Dr. To Shares Allotment A/c (Being the allotment money received except on 1,000 shares) (WN 2)		2,17,800 2,200	2,20,000
	Equity Shares First and Final Call A/c ...Dr. To Equity Share Capital A/c (Being the first and final call made @ ₹ 5 per share)		5,00,000	5,00,000

Bank A/c	...Dr.	4,95,000	
Calls-in-Arrears A/c	...Dr.	5,000	
To Shares First and Final Call A/c			5,00,000
(Being the call money received except on 1,000 shares)			
Equity Share Capital A/c (1,000 × ₹ 10)	...Dr.	10,000	
To Forfeited Shares A/c			2,800
To Calls-in-Arrears A/c			7,200
(Being the shares issued to Sameer forfeited)			
Bank A/c (800 × ₹ 9)	...Dr.	7,200	
Forfeited Shares A/c	...Dr.	800	
To Equity Share Capital A/c			8,000
(Being 800 shares reissued @ ₹ 9 fully paid-up)			
Forfeited Shares A/c	...Dr.	1,440	
To Capital Reserve A/c			1,440
(Being gain on 800 shares transferred to Capital Reserve) (WN 3)			

(ii) Dr. EQUITY SHARES ALLOTMENT ACCOUNT Cr.			
Particulars	₹	Particulars	₹
To Equity Share Capital A/c	3,00,000	By Bank A/c (Bal. Fig.)	2,17,800
		By Equity Shares Application A/c	80,000
		By Calls-in Arrears A/c	2,200
	3,00,000		3,00,000

Working Notes:

- Shares Applied by Sameer = 1,200 shares
 Shares Allotted to Sameer = $\frac{1,200 \times 1,00,000}{1,20,000} = 1,000$ shares.
- Calls-in-Arrears (on Allotment) of Sameer:

	₹
Amount due (₹ 3 × 1,000)	3,000
Less: Amount adjusted out of excess Shares Application Money (200 × ₹ 4)	800
Calls-in-Arrears	2,200
- Calculation of Amount transferred to Capital Reserve:

Amount forfeited on 1,000 shares	2,800
∴ Amount forfeited on 800 shares (₹ 2,800 × 800/1,000)	2,240
Less: Discount allowed on 800 shares reissued	800
Gain on reissue transferred to Capital Reserve	1,440

Master Questions and Advanced Level Questions

Illustration 16.

Pee Kay Ltd. issued 2,00,000 shares of ₹ 10 each at a premium of 20% to public for subscription payable as follows:

On Application	₹ 3;
On Allotment	₹ 3;
On First call	₹ 3 (including ₹ 1 as premium); and
On Second and final call	₹ 3 (including ₹ 1 as premium).

Applications were received for 5,00,000 shares. The company allotted shares to all the applicants on *pro rata* basis and the excess application money to be retained towards allotment and calls. The company received the amounts due on due dates except from Dinesh holding 200 shares who failed to pay the two calls. His shares were subsequently forfeited. Out of the forfeited shares, 150 shares were reissued for ₹ 13 credited as fully paid-up.

Pass the Journal entries and draw the Balance Sheet having share capital.

Solution:

JOURNAL OF PEE KAY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the application money received for 5,00,000 shares @ ₹ 3)		15,00,000	15,00,000
	Shares Application A/c ...Dr. To Share Capital A/c To Shares Allotment A/c To Calls-in-Advance A/c (Being the shares allotted on <i>pro rata</i> to all the applicants and excess money adjusted)		15,00,000	6,00,000 6,00,000 3,00,000
	Shares Allotment A/c ...Dr. To Share Capital A/c (Being the allotment money due on 2,00,000 shares @ ₹ 3)		6,00,000	6,00,000
	Shares First Call A/c ...Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being the first call due on 2,00,000 shares @ ₹ 3 per share including securities premium of ₹ 1 per share)		6,00,000	4,00,000 2,00,000
	Bank A/c (WN 1) ...Dr. Calls-in-Advance A/c ...Dr. Calls-in Arrears A/c (WN 2) ...Dr. To Shares First Call A/c (Being the amount adjusted from Calls-in-Advance and balance received except on 200 shares)		2,99,700 3,00,000 300	6,00,000
	Shares Second and Final Call A/c ...Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being the second and final call due, including ₹ 1 per share towards securities premium)		6,00,000	4,00,000 2,00,000

Bank A/c	...Dr.	5,99,400	
Calls-in-Arrears A/c	...Dr.	600	
To Shares Second and Final Call A/c			6,00,000
(Being the second and final call money received except on 200 shares)			
Share Capital A/c	...Dr.	2,000	
Securities Premium Reserve A/c	...Dr.	400	
To Forfeited Shares A/c			1,500
To Calls-in-Arrears A/c			900
(Being 200 shares forfeited for non-payment of first call and second and final call, including premium (WN 3))			
Bank A/c	...Dr.	1,950	
To Share Capital A/c			1,500
To Securities Premium Reserve A/c			450
(Being 150 shares out of 200 forfeited shares issued @ ₹ 13 per share)			
Forfeited Shares A/c	...Dr.	1,125	
To Capital Reserve A/c			1,125
(Being the amount forfeited on 150 reissued shares transferred to Capital Reserve)			

BALANCE SHEET
as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	19,99,875

Note to Accounts

1. Share Capital	₹
<i>Authorised Capital</i>	
... Shares of ₹ 10 each	...
<i>Issued Capital</i>	
2,00,000 Shares of ₹ 10 each	20,00,000
<i>Subscribed Capital</i>	
<i>Subscribed and fully paid-up</i>	
1,99,950 Shares of ₹ 10 each	19,99,500
<i>Add: Forfeited Shares A/c</i>	375
	19,99,875

Working Notes:

1. Total Amount received towards First Call:	Share Capital (₹)	Securities Premium (₹)
Total amount due	4,00,000	2,00,000
Less: Amount adjusted from Calls-in-Advance	3,00,000	...
	1,00,000	2,00,000
Less: Amount not received from Dinesh	100	200
	99,900	1,99,800
Total Amount Received = ₹ 2,99,700.		

2. Calls-in-Arrears:

Amount received from Dinesh on application:

	₹	
$\frac{200}{2,00,000} \times 5,00,000 \times \text{₹ } 3$	1,500	
Less: Amount adjusted on application (200 × ₹ 3)	<u>600</u>	
	900	
Less: Amount adjusted on allotment (200 × ₹ 3)	<u>600</u>	
Balance of Calls-in-Advance	<u><u>300</u></u>	

Amount due from Dinesh on First call:

	Share Capital (₹)	Securities Premium (₹)
(200 × ₹ 2) + (200 × ₹ 1)	400	200
Less: Adjusted from Calls-in-Advance	<u>300</u>	...
Amount not received	<u><u>100</u></u>	<u><u>200</u></u>

3. Amount forfeited on Shares allotted to Dinesh:

$$\frac{200}{2,00,000} \times 5,00,000 \times \text{₹ } 3 = \text{₹ } 1,500.$$

Illustration 17.

Gee Kay Ltd. issued 1,00,000 shares of ₹ 10 each at a premium of ₹ 2 per share to public for subscription payable as follows:

On Application	₹ 4,
On Allotment	₹ 5 (including premium); and
On First and Final call	Balance.

It received applications for 1,70,000 shares. It allotted shares on *pro rata* basis to applicants of 1,50,000 shares and sent letters of regret to applicants for 20,000 shares along with refund. Anil, to whom 1,000 shares were allotted failed to pay allotment money and call money on due dates but paid the amount along with interest of ₹ 300 on receiving notice of forfeiture. Amit, to whom 2,000 shares were allotted, failed to pay allotment money and call money in spite of receiving the notice of forfeiture. His shares were forfeited.

Alok to whom 3,000 shares were allotted paid call money along with the allotment money. He was paid interest of ₹ 300 on Calls-in-Advance.

Out of the forfeited shares, 1,000 shares were reissued at ₹ 9 as fully paid-up.

Pass necessary Journal entries and draw the Balance Sheet of the company showing Shareholders' Funds.

Solution:

JOURNAL OF GEE KAY LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the applications received for 1,70,000 shares)		6,80,000	6,80,000
	Shares Application A/c ...Dr. To Share Capital A/c To Shares Allotment A/c To Bank A/c (Being the shares allotted and application money adjusted)		6,80,000	4,00,000 2,00,000 80,000

Shares Allotment A/c	...Dr.	5,00,000	
To Share Capital A/c			3,00,000
To Securities Premium Reserve A/c			2,00,000
(Being the allotment money due including premium of ₹ 2 per share)			
Bank A/c (WN 2)	...Dr.	3,00,000	
Calls-in-Arrears A/c (WN 1 (i), (ii))	...Dr.	9,000	
To Shares Allotment A/c			3,00,000
To Calls-in-Advance A/c			9,000
(Being the Calls-in-Advance adjusted and balance received except on 1,000 shares)			
Shares First and Final Call A/c	...Dr.	3,00,000	
To Share Capital A/c			3,00,000
(Being the first and final call money due)			
Bank A/c (WN)	...Dr.	2,82,000	
Calls-in-Arrears A/c (WN 4)	...Dr.	9,000	
Calls-in-Advance A/c	...Dr.	9,000	
To Shares First and Final Call A/c			3,00,000
(Being the amount due on first and final call adjusted and balance amount received except on 3,000 shares)			
Bank A/c (WN 5)	...Dr.	6,300	
To Calls-in-Arrears A/c			6,000
To Interest on Calls-in-Arrears A/c			300
(Being the due amount received from Anil on 1,000 shares along with interest)			
Share Capital A/c (2,000 × ₹ 10)	...Dr.	20,000	
Securities Premium Reserve A/c	...Dr.	4,000	
To Forfeited Shares A/c			12,000
To Calls-in-Arrears A/c			12,000
(Being 2,000 shares of Amit forfeited)			
Bank A/c	...Dr.	9,000	
Forfeited Shares A/c	...Dr.	1,000	
To Share Capital A/c			10,000
(Being 1,000 shares out of 2,000 forfeited shares reissued)			
Forfeited Shares A/c	...Dr.	5,000	
To Capital Reserve A/c			5,000
(Being the gain on 1,000 reissued shares transferred to Capital Reserve)			
Interest on Calls-in-Advance A/c	...Dr.	300	
To Bank A/c			300
(Being the interest paid on Calls-in-Advance)			

BALANCE SHEET OF GEE KAY LTD. as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	9,96,000
Reserves and Surplus	2	2,01,000
		<u>11,97,000</u>

Notes to Accounts

	₹
1. Share Capital	
<i>Authorised Capital</i>	...
... Shares of ₹ 10 each	
<i>Issued Capital</i>	
1,00,000 Shares of ₹ 10 each	<u>10,00,000</u>
<i>Subscribed Capital</i>	
<i>Subscribed and fully paid-up</i>	
99,000 Shares of ₹ 10 each	9,90,000
Add: Forfeited Shares A/c	6,000
	<u>9,96,000</u>
2. Reserves and Surplus	
Capital Reserve	5,000
Securities Premium Reserve (WN 8)	1,96,000
	<u>2,01,000</u>

Working Notes:

1. (i) Shares applied by Anil and Shares Application money paid and adjusted:

Shares allotted = 1,000

$$\therefore \text{Shares applied} = \frac{1,000}{1,00,000} \times 1,50,000 = 1,500$$

Application money paid (1,500 × ₹ 4)	₹ 6,000
Less: Adjusted against share application (1,000 × ₹ 4)	4,000
Balance to be adjusted against allotment money	<u>2,000</u>
Amount due from Anil on allotment (1,000 × ₹ 5)	5,000
Less: Balance to be adjusted against allotment money	2,000
Balance not received on allotment	<u>3,000</u>
Comprising: Share Capital	1,000
Securities Premium Reserve	2,000

- (ii) Shares applied by Amit and application money paid and adjusted:

Shares allotted = 2,000

$$\therefore \text{Shares applied} = \frac{2,000}{1,00,000} \times 1,50,000 = 3,000$$

Application money paid (3,000 × ₹ 4)	₹ 12,000
Less: Adjusted against share application (2,000 × ₹ 4)	8,000
Balance to be adjusted against allotment	<u>4,000</u>
Amount due from Amit on allotment (2,000 × ₹ 5)	10,000
Less: Balance to adjusted against allotment	4,000
Amount not received on allotment	<u>6,000</u>
Comprising: Share Capital	2,000
Securities Premium Reserve	4,000
	<u>6,000</u>

(iii) Amount paid by Alok on allotment:

Shares allotted = 3,000

$$\therefore \text{Shares applied} = \frac{3,000}{1,00,000} \times 1,50,000 = 4,500$$

Amount paid on application (4,500 × ₹ 4)

Less: Adjusted against shares application (3,000 × ₹ 4)

Balance to be adjusted against allotment

Amount due from Alok on allotment (3,000 × ₹ 5)

Less: Balance to be adjusted against allotment

Add: Amount due on first and final call (3,000 × ₹ 3)

Amount received

₹
18,000
12,000
<u>6,000</u>
15,000
6,000
<u>9,000</u>
9,000
<u>18,000</u>

2. Amount received on allotment:

Amount due (1,00,000 × ₹ 5)

Less: Adjusted against shares application

Less: Calls-in-Arrears

Add: Received in Advance from Alok

₹
5,00,000
2,00,000
<u>3,00,000</u>
9,000
<u>2,91,000</u>
9,000
<u>3,00,000</u>

3. Amount received at the time of first and final call:

Amount due

Less: Calls-in-Arrears

Calls-in-Advance

₹	₹
3,00,000	3,00,000
9,000	18,000
<u>9,000</u>	<u>2,82,000</u>

4. Calls-in-Arrears on first and final call:

Due from Anil on 1,000 shares

Due from Amit on 2,000 shares

₹
3,000
6,000
<u>9,000</u>

5. Amount received from Anil:

Amount due on allotment

Amount due on first and final call

Interest

₹
3,000
3,000
300
<u>6,300</u>

6. Dr.

CALLS-IN-ARREARS ACCOUNT

Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Shares Allotment A/c (Anil and Amit)	9,000		By Bank A/c (Anil)	6,000
	To Shares First and Final Call A/c (Anil and Amit)	9,000		By Share Capital A/c (Amit)	12,000
		<u>18,000</u>			<u>18,000</u>

7.30

Double Entry Book Keeping (Section A)—ISC XII

7.Dr. CALLS-IN-ADVANCE ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Shares First and Final Call A/c (Alok)	9,000		By Bank A/c (Alok)	9,000
		9,000			9,000

8.Dr. SECURITIES PREMIUM RESERVE ACCOUNT Cr.

Date	Particulars	₹	Date	Particulars	₹
	To Calls-in-Arrears A/c	4,000		By Shares Allotment A/c	2,00,000
	To Balance c/d	1,96,000			
		2,00,000			2,00,000

Advanced Level Questions

Illustration 18.

Zenon Ltd. issued 3,00,000 shares of ₹ 10 each at a premium of ₹ 4 per share, payable as under:

On Application	₹ 3 (including ₹ 1 premium);
On Allotment	₹ 4 (including ₹ 1 premium);
On First call	₹ 4 (including ₹ 1 premium);
On Second and Final call	₹ 3 (including balance premium).

Applications were received for 3,80,000 shares, allotment was made on *pro rata* basis to the applicants for 3,50,000 shares, the remaining applications being refused. The money overpaid on applications was utilised towards sum due on allotment.

Honey, to whom 6,000 shares were allotted, failed to pay the allotment money and his shares were forfeited after allotment. Khushal, who applied for 10,500 shares, failed to pay the two calls and on his such failure, his shares were also forfeited. Sukmani to whom 3,000 shares were allotted failed to pay the final call.

Of the shares forfeited, 11,000 shares were reissued as fully paid-up for ₹ 9 per share, the whole of Khushal's shares being included.

Prepare Cash Book, Journal and Balance Sheet.

Solution:

In the Books of Zenon Ltd.

Dr. CASH BOOK (BANK COLUMN ONLY) Cr.

Particulars	₹	Particulars	₹
To Shares Application A/c (3,80,000 shares × ₹ 3)	11,40,000	By Shares Application A/c (30,000 shares × ₹ 3)	90,000
To Shares Allotment A/c (WN 1)	10,29,000	By Balance c/d	41,64,000
To Shares First Call A/c (WN 2) (2,85,000 shares × ₹ 4)	11,40,000		
To Shares Second and Final Call A/c (2,82,000 shares × ₹ 3) (WN 2)	8,46,000		
To Share Capital A/c	99,000		
	42,54,000		42,54,000

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Shares Application A/c ...Dr. To Share Capital A/c (3,00,000 shares × ₹ 2) To Securities Premium Reserve A/c (3,00,000 shares × ₹ 1) To Shares Allotment A/c (50,000 shares × ₹ 3) (Being the application money adjusted)		10,50,000	6,00,000 3,00,000 1,50,000
	Shares Allotment A/c ...Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money made due on 3,00,000 shares)		12,00,000	9,00,000 3,00,000
	Calls-in-Arrears A/c ...Dr. To Shares Allotment A/c (Being the allotment money not received transferred to Calls-in-Arrears Account)		21,000	21,000
	Share Capital A/c (6,000 shares × ₹ 5) ...Dr. Securities Premium Reserve A/c (6,000 shares × ₹ 1) ...Dr. To Calls-in-Arrears A/c To Forfeited Shares A/c (Being the forfeiture of 6,000 shares of Honey for non-payment of allotment money)		30,000 6,000	21,000 15,000
	Shares First Call A/c ...Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being the first call due on 2,94,000 shares)		11,76,000	8,82,000 2,94,000
	Calls-in-Arrears A/c ...Dr. To Shares First Call A/c (Being the first call money not received trfd. to Calls-in-Arrears Account)		36,000	36,000
	Shares Second and Final Call A/c ...Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being the second and final call due on 2,94,000 shares)		8,82,000	5,88,000 2,94,000
	Calls-in-Arrears A/c ...Dr. To Shares Second and Final Call A/c (Being the second and final call not received transferred to Calls-in-Arrears Account)		36,000	36,000
	Share Capital A/c ...Dr. Securities Premium Reserve A/c ...Dr. To Calls-in-Arrears A/c To Forfeited Shares A/c (Being the forfeiture of 9,000 shares of Khushal for non-payment of calls)		90,000 18,000	63,000 45,000
	Forfeited Shares A/c ...Dr. To Share Capital A/c (Being the loss of ₹ 1 per share on the reissue of 11,000 shares)		11,000	11,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the gain on 11,000 reissued shares transferred to Capital Reserve) (WN 3)		39,000	39,000

BALANCE SHEET OF ZENON LTD. as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	29,61,000
(b) Reserves and Surplus	2	12,03,000
Total		<u>41,64,000</u>
II. ASSETS		
Current Assets		
Cash and Bank Balances	3	41,64,000
Total		<u>41,64,000</u>

Notes to Accounts

	₹	₹
1. Share Capital		
<i>Authorised Capital</i>		
... Equity Shares of ₹ 10 each		...
<i>Issued Capital</i>		
3,00,000 Equity Shares of ₹ 10 each		<u>30,00,000</u>
<i>Subscribed Capital</i>		
<i>Subscribed and fully paid-up</i>		
2,93,000 Equity Shares of ₹ 10 each		29,30,000
<i>Subscribed but not fully paid-up</i>		
3,000 Equity Shares of ₹ 10 each	30,000	
Less: Calls-in-Arrears	9,000	21,000
Add: Forfeited Shares A/c (WN 4)		10,000
		<u>29,61,000</u>
2. Reserves and Surplus		
Capital Reserve		39,000
Securities Premium Reserve		11,64,000
		<u>12,03,000</u>
3. Cash and Bank Balances		
Cash at Bank		<u>41,64,000</u>

Working Notes:

- The excess amount received from Honey on application:
Honey has been allotted 6,000 shares.
Therefore, he must have applied for $\frac{3,50,000}{3,00,000} \times 6,000 = 7,000$ shares.
The excess application money received from Honey:
7,000 shares – 6,000 shares = 1,000 shares × ₹ 3 = ₹ **3,000**.
 - Amount not received from Honey on Allotment:

	₹
Allotment money due on 6,000 shares @ ₹ 4	24,000
Less: Excess money received from Honey on application	3,000
The allotment money not received from Honey	<u>21,000</u>
 - Net amount received on Allotment:

Allotment money due on 3,00,000 shares @ ₹ 4	12,00,000
Less: The excess amount received on application	1,50,000
Balance due	<u>10,50,000</u>
Less: Amount not received from Honey on allotment	21,000
Net amount received on allotment in cash	<u>10,29,000</u>

2. Khushal applied for 10,500 shares.

Therefore, he must have been allotted $\frac{3,00,000}{3,50,000} \times 10,500 = 9,000$ shares. He has not paid the first and the second call money. As such,

(a) the first call money will be received on
2,85,000 shares [3,00,000 – 6,000 (Honey) – 9,000 (Khushal)], and

(b) the second call money will be received on
2,82,000 shares [i.e., 3,00,000 – 6,000 (Honey) – 9,000 (Khushal) – 3,000 (Sukmani)]

3. 11,000 shares have been reissued which include 9,000 shares of Khushal and the balance 2,000 shares of Honey. ₹

Amount forfeited on 2,000 shares of Honey = $\frac{₹ 15,000}{6,000} \times 2,000$	5,000
Amount forfeited on 9,000 shares of Khushal	45,000
Total amount forfeited on 11,000 reissued shares	50,000
Less: Reissue discount	11,000
Gain on reissue to be transferred to Capital Reserve	39,000

4. Amount forfeited on 6,000 shares of Honey = ₹ 15,000

Therefore, the balance of Forfeited Shares Account on 4,000 unissued shares

$$= \frac{₹ 15,000}{6,000} \times 4,000 = ₹ 10,000.$$

Illustration 19.

Reliable Investments Ltd. issued a prospectus inviting applications for 4,000 Equity Shares of ₹ 20 each at a Premium of ₹ 4 per share payable as under:

On Application	₹ 4 per share;
On Allotment	₹ 10 per share (including Premium);
On First Call	₹ 6 per share;
On Second and Final call	₹ 4 per share.

Applications were received for 6,000 shares and allotment was made on *pro rata* basis to the applicants of 4,800 shares, the applications for the remaining shares were refused. The money overpaid on application was used on account of amount due on allotment.

Harish to whom 80 shares were allotted, could not pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited after the first call.

Mukesh to whom 120 shares were allotted, failed to pay the two calls and his shares were forfeited after the second call.

Of the shares forfeited, 160 shares were sold to Suresh credited as fully paid @ ₹ 18 per share, all of Harish's forfeited shares being included.

Pass Journal entries in the books of the company to record the above transactions.

Solution: JOURNAL OF RELIABLE INVESTMENTS

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the application money received for 6,000 shares @ ₹ 4 per share)		24,000	24,000
	Shares Application A/c ...Dr. To Share Capital A/c (4,000 × ₹ 4) To Shares Allotment A/c (800 × ₹ 4) To Bank A/c (1,200 × ₹ 4) (Being the shares allotted on <i>pro rata</i> to all the applicants and excess money adjusted)		24,000	16,000 3,200 4,800

Shares Allotment A/c (4,000 × ₹ 10) ...Dr.	40,000	
To Share Capital A/c (4,000 × ₹ 6)		24,000
To Securities Premium Reserve A/c (4,000 × ₹ 4)		16,000
(Being the allotment due on 4,000 shares @ ₹ 10 per share including securities premium of ₹ 4 per share)		
Bank A/c (WN 1) ...Dr.	36,064	
Calls-in Arrears A/c ...Dr.	736	
To Shares Allotment A/c		36,800
(Being the amount received except on 80 shares)		
Shares First Call A/c (4,000 × 6) ...Dr.	24,000	
To Share Capital A/c		24,000
(Being the first call due)		
Bank A/c ...Dr.	22,800	
Calls-in-Arrears A/c ...Dr.	1,200	
To Shares First Call A/c		24,000
(Being the first call money received except on 200 shares)		
Share Capital A/c ...Dr.	1,280	
Securities Premium Reserve A/c ...Dr.	320	
To Forfeited Shares A/c (96 × ₹ 4)		384
To Calls-in-Arrears A/c [₹ 736 + (80 × ₹ 6)]		1,216
(Being 80 shares forfeited for non-payment of allotment and first call)		
Shares Second and Final Call A/c ...Dr.	15,680	
To Share Capital A/c		15,680
(Being the second and final call due on 3,920 shares @ ₹ 4 each)		
Bank A/c ...Dr.	15,200	
Call-in-Arrears A/c ...Dr.	480	
To Shares Second and Final Call A/c		15,680
(Being the second and final call received except on 120 shares)		
Share Capital A/c ...Dr.	2,400	
To Forfeited Shares A/c		1,200
To Calls-in-Arrears A/c		1,200
(Being 120 shares forfeited for non-payment of first and second and final call)		
Bank A/c ...Dr.	2,880	
Forfeited Shares A/c ...Dr.	320	
To Share Capital A/c		3,200
(Being 160 shares out of 200 forfeited shares reissued @ ₹ 18 per share)		
Forfeited Shares A/c ...Dr.	864	
To Capital Reserve A/c		864
(Being the gain on 160 reissued shares transferred to Capital Reserve) (WN 2)		

Working Notes:

1. Calculation of Allotment Money Received Later:

(i) The excess amount received from Harish on application:

Harish has been allotted 80 shares

$$\therefore \text{He must have applied for } \left(\frac{4,800}{4,000} \times 80 \right) = 96 \text{ shares.}$$

The excess application money received from Harish:

$$96 \text{ shares} - 80 \text{ shares} = 16 \text{ shares} \times ₹ 4 = ₹ 64.$$

(ii) Amount not received from Harish on Allotment:		₹	
Allotment money due on 80 shares @ 10		800	
Less: Excess money received from Harish on application		64	
Allotment money not received from Harish		<u>736</u>	
(iii) Net amount received on Allotment:		₹	
Allotment money due on 4,000 shares @ ₹ 10		40,000	
Less: Excess amount received on application	3,200		
Amount not received from Harish	<u>736</u>	3,936	
		<u>36,064</u>	

2. Calculation of Gain (Profit) on Re-issue to be transferred to Capital Reserve:

160 shares have been reissued which include shares of Harish and Balance 80 shares of Mukesh.

		₹	
Amount forfeited on 80 shares of Harish		384	
Amount forfeited on 80 shares of Mukesh $\left(\frac{₹ 1,200}{120} \times 80\right)$		<u>800</u>	
		1,184	
Less: Reissue Discount (160 × ₹ 2)		<u>320</u>	
Gain (Profit) on Re-issue to be transferred to Capital Reserve		<u>864</u>	

Illustration 20.

Mahagun Ltd. invited applications for issuing 2,00,000 Equity Shares of ₹ 10 each. The amounts were payable as follows:

On application ₹ 2, on allotment ₹ 5, on first and final call ₹ 3.

Applications for 4,00,000 shares were received and the allotments were made as follows:

Category	Shares Applied	Shares Allotted
I	50,000	40,000
II	1,00,000	30,000
III	2,50,000	1,30,000

Mahagun Ltd. invited applications for issuing 2,00,000 Equity Shares of ₹ 10 each. The amounts were payable as follows:

All the shares were allotted on *pro rata* basis and the excess application money was adjusted towards the sum due on allotment.

Madhu who belonged to Category I and to whom 600 shares were allotted failed to pay the allotment money. Her shares were forfeited immediately after the allotment money was not received. Pooja who belonged to Category III and who had applied for 250 shares failed to pay the final call. Her shares were forfeited after the final call. The forfeited shares were reissued @ ₹ 9 per share fully paid-up.

Pass necessary Journal entries in the books of Mahagun Ltd.

Solution: JOURNAL OF MAHAGUN LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the applications received for 4,00,000 shares)		8,00,000	8,00,000
	Shares Application A/c ...Dr. To Share Capital A/c To Shares Allotment A/c (Being the shares allotted and application money adjusted)		8,00,000	4,00,000 4,00,000

Shares Allotment A/c To Share Capital A/c (Being the allotment money due on 2,00,000 shares @ ₹ 5 per share)	...Dr.	10,00,000	10,00,000
Bank A/c Calls-in-Arrears A/c To Shares Allotment A/c (Being the Calls-in-Advance adjusted and balance received except on 1,000 shares)	...Dr. ...Dr.	5,97,300 2,700	6,00,000
Share Capital A/c To Forfeited Shares A/c To Calls-in-Arrears A/c (Being 600 shares forfeited for non-payment of allotment money)	...Dr.	4,200	1,500 2,700
Shares First and Final Call A/c To Share Capital A/c (Being the first and final call money due on 1,99,400 shares @ ₹ 3 each)	...Dr.	5,98,200	5,98,200
Bank A/c Calls-in-Arrears A/c To Shares First and Final Call A/c (Being the amount due on first and final call received except on 130 shares)	...Dr. ...Dr.	5,97,810 390	5,98,200
Share Capital A/c To Forfeited Shares A/c To Calls-in-Arrears A/c (Being 130 shares of Pooja forfeited)	...Dr.	1,300	910 390
Bank A/c Forfeited Shares A/c To Share Capital A/c (Being 730 forfeited shares reissued @ ₹ 9 per share fully paid-up)	...Dr. ...Dr.	6,570 730	7,300
Forfeited Shares A/c To Capital Reserve A/c (Being the gain on 730 reissued shares transferred to Capital Reserve)	...Dr.	1,680	1,680

Working Notes:

1. Calculation of the Amount due but not Received on Allotment from Madhu:

Shares applied by Madhu and Share Application paid and adjusted:

Shares allotted = 600

$$\therefore \text{Shares applied} = \frac{600}{40,000} \times 50,000 = 750$$

₹

Application money paid (750 × ₹ 2)	1,500
Less: Adjusted against share application (600 × ₹ 2)	1,200
Balance to be adjusted against allotment money	300
Amount due from Madhu on allotment (600 × ₹ 5)	3,000
Less: Balance to be adjusted against allotment money	300
Balance not received on allotment	2,700

2. Amount Received on Allotment:

	₹
Amount due (2,00,000 × ₹ 5)	10,00,000
Less: Adjusted at the time of share application	4,00,000
	6,00,000
Less: Calls-in-Arrears (not paid by Madhu)	2,700
	5,97,300

Illustration 21.

Eros Ltd. issued a prospectus inviting applications for 2,000 shares of ₹ 10 each at a premium of ₹ 4 per share, payable as follows:

On Application	₹ 6 (including ₹ 1 premium);
On Allotment	₹ 2 (including ₹ 1 premium);
On First call	₹ 3 (including ₹ 1 premium);
On Second and Final Call	₹ 3 (including ₹ 1 premium).

Applications were received for 3,000 shares and *pro rata* allotment was made on the applications for 2,400 shares. It was decided to utilise the excess application money towards the amount due on allotment.

Ajay, to whom 40 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited.

Raghav, who applied for 72 shares, failed to pay the two calls and on his such failure, his shares were forfeited.

Of the shares forfeited, 80 shares were sold to Pooja credited as fully paid for ₹ 9 per share, the whole of Raghav's shares being included. Prepare Journal, Cash Book and Balance Sheet.

Solution:

In the Books of Eros Ltd.

Dr.	CASH BOOK (BANK COLUMN ONLY)	Cr.	
Particulars	₹	Particulars	₹
To Shares Application A/c (3,000 × ₹ 6)	18,000	By Shares Application A/c (600 × ₹ 6)	3,600
To Shares Allotment A/c	1,568	By Balance c/d	28,088
To Shares First Call A/c (1,900 × ₹ 3)	5,700		
To Shares Second and Final Call A/c (1,900 × ₹ 3)	5,700		
To Share Capital A/c	720		
	31,688		31,688

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Shares Application A/c ...Dr.		14,400	
	To Share Capital A/c (2,000 × ₹ 5)			10,000
	To Securities Premium Reserve A/c (2,000 × ₹ 1)			2,000
	To Shares Allotment A/c (400 × ₹ 6)			2,400
	(Being the application money adjusted on allotment)			

Shares Allotment A/c To Share Capital A/c To Securities Premium Reserve A/c (Being the allotment money made due on 2,000 shares)	...Dr.	4,000	2,000 2,000
Calls-in-Arrears A/c To Shares Allotment A/c (Being the allotment money not received transferred to Calls-in-Arrears Account)	...Dr.	32	32
Shares First Call A/c (2,000 × ₹ 3) To Share Capital A/c To Securities Premium Reserve A/c (Being the first call due)	...Dr.	6,000	4,000 2,000
Calls-in-Arrears A/c To Shares First Call A/c (Being the first call money not received trfd. to Calls-in-Arrears Account)	...Dr.	300	300
Share Capital A/c (40 × ₹ 8) Securities Premium Reserve A/c [(40 × ₹ 2) – ₹ 8] To Calls-in-Arrears A/c To Forfeited Shares A/c (Being the forfeiture of 40 shares of Ajay for non-payment of allotment and first call money)	...Dr. ...Dr.	320 72	152 240
Shares Second and Final Call A/c To Share Capital A/c To Securities Premium Reserve A/c (Being the second and final call due on 1,960 shares)	...Dr.	5,880	3,920 1,960
Calls-in-Arrears A/c To Shares Second and Final Call A/c (Being the second and final call not received transferred to Calls-in-Arrears Account)	...Dr.	180	180
Share Capital A/c Securities Premium Reserve A/c To Calls-in-Arrears A/c To Forfeited Shares A/c (Being the forfeiture of 60 shares of Raghav for non-payment of calls)	...Dr. ...Dr.	600 120	360 360
Forfeited Shares A/c To Share Capital A/c (Being the loss of ₹ 1 per share on the reissue of 80 shares)	...Dr.	80	80
Forfeited Shares A/c To Capital Reserve A/c (Being the gain on 80 reissued shares transferred to Capital Reserve) (WN 3)	...Dr.	400	400

BALANCE SHEET as at ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	19,920
(b) Reserves and Surplus	2	8,168
Total		<u>28,088</u>
II. ASSETS		
Current Assets		
Cash and Bank Balances	3	28,088
Total		<u>28,088</u>

Notes to Accounts

1. Share Capital	₹
<i>Authorised Capital</i>	
... Equity Shares of ₹ 10 each	...
<i>Issued Capital</i>	
2,000 Equity Shares of ₹ 10 each	20,000
<i>Subscribed Capital</i>	
<i>Subscribed and fully paid-up</i>	
1,980 Equity Shares of ₹ 10 each	19,800
<i>Add: Forfeited Shares A/c (WN 4)</i>	120
	<u>19,920</u>
2. Reserves and Surplus	
Capital Reserve	400
Securities Premium Reserve	7,768
	<u>8,168</u>
3. Cash and Bank Balances	
Cash at Bank	<u>28,088</u>

Working Notes:

1. (i) *The excess amount received from Ajay on application:*
Ajay has been allotted 40 shares.

Therefore, he must have applied for $\frac{2,400}{2,000} \times 40 = 48$ shares.

The excess application money received from Ajay:
48 shares – 40 shares = 8 shares × ₹ 6 = ₹ 48.

(ii) <i>Amount not received from Ajay on Allotment:</i>	₹
Allotment money due on 40 shares @ ₹ 2	80
Less: Excess money received from Ajay on application	48
The allotment money not received from Ajay	<u>32</u>

- (iii) *Net amount received on Allotment:*

Allotment money due on 2,000 shares @ ₹ 2	4,000
Less: The excess amount received on application	2,400
Balance due	<u>1,600</u>
Less: Amount not received from Ajay on allotment	32
Net amount received on allotment in cash	<u>1,568</u>

2. Raghav applied for 72 shares.

Therefore, he must have been allotted $\frac{2,000}{2,400} \times 72 = 60$ shares. He has not paid the first and the second call money. As such,

- (a) the first call money will be received on
1,900 shares [2,000 – 40 (Ajay) – 60 (Raghav)], and
- (b) the second call money will be received on 1,900 shares
[i.e., 2,000 – 40 (Ajay) – 60 (Raghav)].

- | | |
|--|------------|
| 3. 80 shares have been reissued which include 60 shares of Raghav and the balance 20 shares of Ajay. | ₹ |
| Amount forfeited on 20 shares of Ajay = $\left(\frac{₹ 240}{40} \times 20\right)$ | 120 |
| Amount forfeited on 60 shares of Raghav | 360 |
| Total amount forfeited on 80 reissued shares | 480 |
| Less: Reissue discount | 80 |
| Gain on reissue to be transferred to Capital Reserve | <u>400</u> |
4. Amount forfeited on 40 shares of Ajay = ₹ 240
Therefore, the balance of Forfeited Shares Account on 20 unissued shares

$$= \frac{₹ 240}{40} \times 20 = ₹ 120.$$

Unsolved Questions

1. Wye Ltd. was registered with capital of ₹ 5,00,000 divided into 20,000 shares of ₹ 25 each, payable as follows: ₹ 2.50 per share on application, ₹ 7.50 per share on allotment, and the balance in two calls of ₹ 7.50 per share each. The company offered to the public for subscription 10,000 shares and applications were received for 10,500 shares. Nimrat applied for 400 shares, paid ₹ 1,000 on application but was allotted only 200 shares. Manni applied for 800 shares, paid the full amount ₹ 20,000 of his share money on application, was allotted only 500 shares and the surplus money was returned to him. Sumant applied for 1,000 shares, paid his application and allotment money in order, paid ₹ 2,000 on the first call and did not pay for the second call at all. Pass Journal entries to record the above transactions.
2. Exe Ltd. issued 1,00,000 shares of ₹ 10 each at a premium of 20% payable as follows:
 - ₹ 5 per share on application;
 - ₹ 5 per share (including premium) on allotment; and
 - Balance on first and final call.

Excess payment on applications was to be applied towards amounts due on allotment and call. The issue was subscribed in excess by 1,50,000 shares. Applicants for 2,30,000 shares were allotted 1,00,000 shares whereas applicants for 20,000 were sent letter of regret and application money was refunded to them. The due amounts on allotment and call were received. Pass the necessary Journal entries.
3. Parijan Ltd. issued 75,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share. Total amount was payable along with application. Raman had underwritten the issue for a commission of 3% to be paid by issue of shares at par.

The issue was oversubscribed by 75,000 shares and allotment was made to all the applicants on *pro rata*. Pass the Journal entries for the above.
4. Ghosh Ltd. made the second and final call on its 50,000 Equity Shares @ ₹ 2 per share on 1st January, 2018. The whole amount was received on 15th January, 2018 except on 100 shares allotted to Venkat. Pass necessary Journal entries for the call money due and received by opening Calls-in- Arrears Account.

5. Grand Prospect Ltd. acquired land costing ₹ 1,00,000 and in payment allotted 1,000 Equity Shares of ₹ 100 each as fully paid. Further, the company issued 4,000 Equity Shares to the public. The shares were payable as follows:

₹ 30 on application;
 ₹ 30 on allotment; and
 ₹ 40 on the first and final call.

The public applied for all shares which were allotted. All the moneys were received except the call on 200 shares.

Pass Journal entries and prepare the Balance Sheet of the company.

6. Super Star Ltd. makes an issue of 10,000 Equity Shares of ₹ 100 each, payable as follows:

On application and allotment ₹ 50;
 On first call ₹ 25;
 On second call ₹ 25.

Members holding 400 shares did not pay the second call and the shares are duly forfeited, 200 of which are reissued as fully paid @ ₹ 50 per share.

Pass Journal entries in the books of the company.

7. Jindal Steel Ltd. issued 50,000 Equity Shares of ₹ 10 each at ₹ 12 (i.e., at a premium of ₹ 2 per share) payable as follows:

₹ 3 on application; ₹ 4 on allotment (including premium); ₹ 2 on first call; and ₹ 3 on second and final call.

The company received applications for 65,000 Equity Shares. Applications for 40,000 Equity Shares were accepted in full; 10,000 Equity Shares were allotted to applicants of 20,000 Equity Shares and applications for 5,000 Equity Shares were rejected. All the moneys were duly received except the first call on 1,000 Equity Shares and final call on 1,500 Equity Shares.

Pass entries in the Cash Book and Journal of the company. Also, draw Balance Sheet.

8. Wintex Exports Ltd. registered with a share capital of ₹ 10,00,000 divided into 20,000 shares of ₹ 50 each, offers the shares to the public as under:

₹ 10 per share payable on application; ₹ 10 per share payable on allotment; ₹ 15 per share payable on the first call; and ₹ 15 per share payable on the second and final call.

Shareholder 'Amar' who holds 300 shares has paid only the application money.

Shareholder 'Basu' who holds 200 shares has paid the application money on 200 shares and the allotment money on only 100 shares. He has not paid any other calls.

Shareholder 'Chaman' who holds 180 shares has paid only the application and allotment money.

Shareholder 'Deepa' who holds 50 shares has paid the application, the allotment and the first call money.

Shareholder 'Farooq' who holds 30 shares has paid the application, the allotment and the first call money in full and the second and final call money on only 20 shares.

The company forfeits the shares of the above shareholders who have not paid the arrears.

Journalise the above transactions including entries relating to Bank in the books of Wintex Exports Ltd.

GUIDE TO ANSWERS

2. Amount credited to Calls-in-Advance on allotment of shares—₹ 6,50,000;
 Out of the above, amount applied or adjusted towards allotment money—₹ 5,00,000; and
 Amount adjusted towards shares first and final call—₹ 1,50,000.

3. Shares Issued for Cash—75,000;
Shares issued for consideration other than cash—2,700; and
Securities Premium Reserve—₹ 1,50,000.
4. (i) Dr. Equity Shares Second and Final Call A/c and Cr. Equity Share Capital A/c by ₹ 1,00,000.
(ii) Dr. Bank A/c—₹ 99,800 and Calls-in-Arrears A/c—₹ 200;
Cr. Equity Shares Second and Final Call A/c—₹ 1,00,000.
5. Total of Balance Sheet—₹ 4,92,000.
6. Capital Reserve—₹ 5,000.
7. Share Capital—₹ 4,93,500; Reserves and Surplus—₹ 1,00,000; Total of Balance Sheet—₹ 5,93,500.
8. Amount forfeited—₹ 11,700.

bodhiyla.com