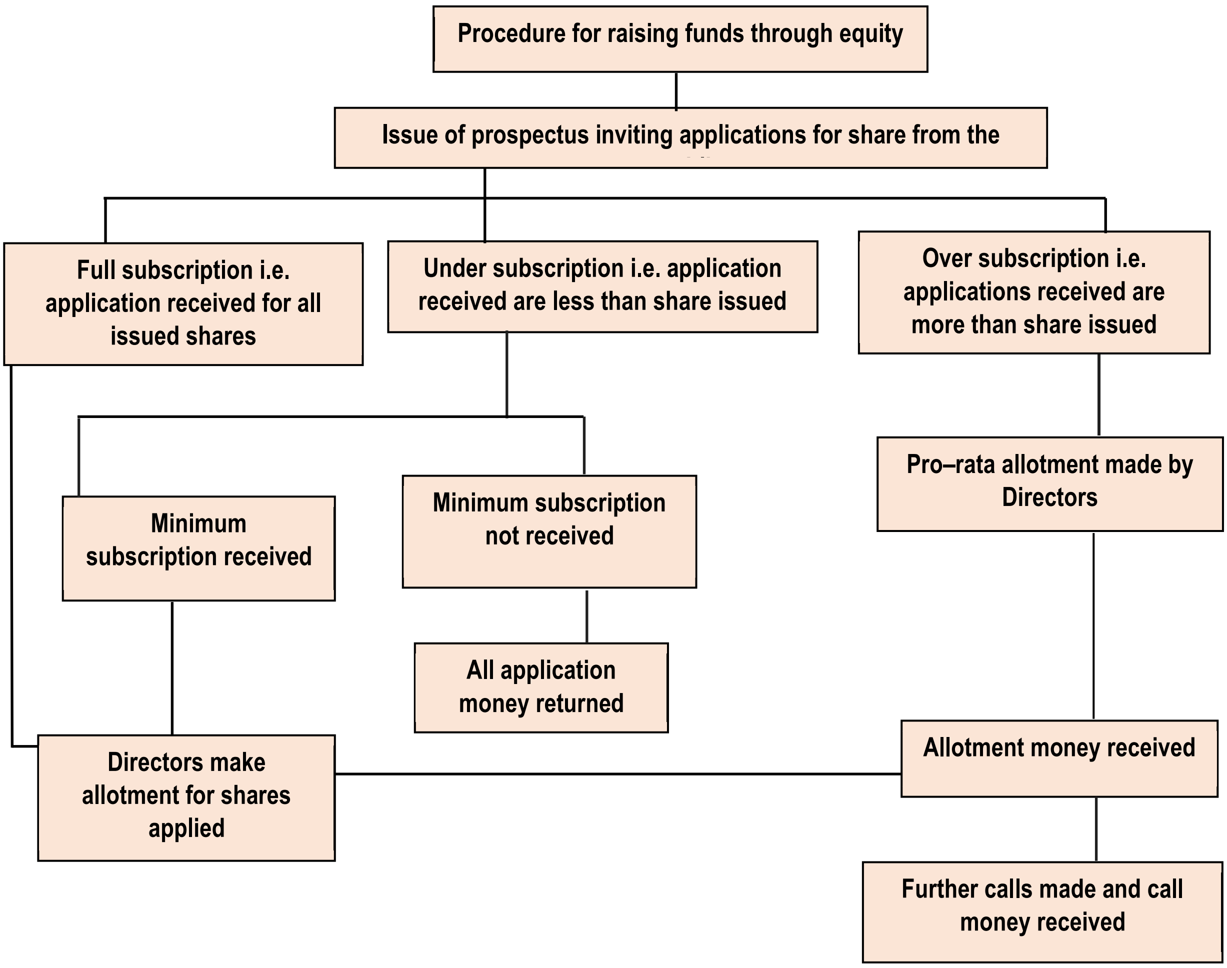
UNIT – 2: ISSUE, FORFEITURE AND RE-ISSUE OF SHARES

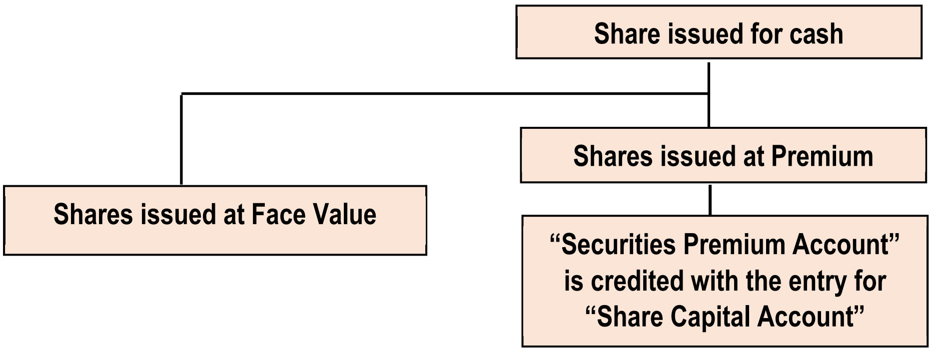
LEARNING OUTCOMES

After studying this unit, you would be able to:

- Appreciate various types of shares and share capital.
- Learn the accounting treatment if shares issued under different circumstances.
- Differentiate the accounting treatment for under-subscription and over-subscription of shares.
- Understand the concept and accounting treatment of call-in-arrears and call-in-advance.
- Deal with the forfeiture of shares issued with different conditions.
- Journalize the entry for re-issue of shares.
- Know the treatment of shares issued for consideration other than cash.

UNIT OVERVIEW





Note: As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company will be void with company being punishable with fine.

2.1 INTRODUCTION

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

Capital funding process for different types of business forms can be summarised as follows:

Business Organisation	Ownership	Type of Capital	Liability of Owners
Sole - Proprietorship	Proprietor - He alone is the owner of business	Capital	Unlimited
Partnership	Partners	Partners' Capital	Unlimited
Company	Shareholders	Share Capital	Limited to issue price of shares held

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

2.2 SHARE CAPITAL

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

Note: The issue price need not be equal to market price of the share. These days the shares are generally priced on the basis of book building process. (Book building is a process through which company determines it's share prices. Under this method company determines a price band of its shares and on the basis of bids received from potential investors at various prices within the price band finally fixes its issue price.)

The total capital of the company is divided into shares, the capital of the company is called 'Share Capital'. At the time of issue of shares, every Company is required to follow SEBI Regulations.

Share capital of a company is divided into following categories:

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

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

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

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

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

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

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

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

Call-in-advance is that portion of capital which is yet to be called by the company but has already been paid by shareholder.

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

(vi) *Reserve Share Capital:* As per Section 65 of the Companies Act, 2013, a Company may decide by passing a resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend. Thus, reserve capital which is portion of the uncalled capital to be called up in the event of winding up of the company is entirely different in nature from capital reserve which is created out of capital profits only.

1. Authorised Capital = Issued Capital + Unissued Capital.
2. Subscribed Capital can be equal to or greater than or less than Issued Capital resulting in 3 situations respectively: Fully Subscribed; Over Subscribed and Under Subscribed.
3. Called up Capital = Paid up Capital + Calls in arrears if any – Calls in advance if any

ILLUSTRATION 1

A company had an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3 -2020, it has demanded or called ₹ 9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹ 7 per share.

Prepare a balance sheet assuming there are no other details.

SOLUTION

Balance Sheet as at 31st March, 2020

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	5,30,000
Total		**5,30,000**
ASSETS		
Current assets		
Cash and cash equivalents	2	5,30,000
Total		**5,30,000**

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Authorised share capital		
	1,00,000 Equity shares of ₹ 10 each	10,00,000	

	Issued share capital		
	60,000 Equity shares of ₹ 10 each	6,00,000	
	Subscribed share capital		
	60,000 Equity shares of ₹ 10 each	6,00,000	
	Called up and Paid up share capital		
	60,000 Equity shares of ₹ 10 each ₹ 9 called up	5,40,000	
	Less: Calls unpaid on 5,000 shares @ ₹ 2 per share	(10,000)	5,30,000
2.	**Cash and cash equivalents**		
	Balances with banks		5,30,000

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

2.3 TYPES OF SHARES

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

(i) **Preference Shares:** According to Section 43 of the Companies Act, 2013 persons holding preference shares, called preference shareholders, are assured of a preferential dividend at a fixed rate during the life of the company. They also carry a preferential right over other shareholders to be paid first in case of winding up of the company. Thus, they enjoy preferential rights in the matter of :

(a) Payment of dividend, and

(b) Repayment of capital

Generally, holders of these shares do not get voting rights. Companies use this mode of financing as it is cheaper than raising debt. Dividend is generally cumulative in nature and need not be paid every year in case of deficiency of profits. The Companies Act, 2013 prohibits the issue of any preference share which is irredeemable. Preference shares are cumulative and non-participating unless expressly stated otherwise.

Types of Preference Shares

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

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

(b) **Non-cumulative Preference Shares:** A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future.

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

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

(e) **Redeemable Preference Shares:** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. The repayment on these shares is called redemption and is governed by Section 55 of the Companies Act, 2013.

(f) **Non-redeemable Preference Shares:** The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-redeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue. However a Company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.

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

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

Note: Unless mentioned otherwise Preference Shares are Non-Cumulative, Non Participating, Non-Convertible and Redeemable in nature.

(ii) **Equity Shares:** Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital. The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Rate of dividend depends upon the dividend policy and the availability of profits after satisfying the rights of preference shareholders. These shares carry voting rights. Companies Act, 2013 permits issue of equity share capital with differential rights as to dividend, voting or otherwise in accordance with prescribed rules.

The shares can be issued by a company either

(1) for cash or

(2) for consideration other than cash.

2.4 ISSUE OF SHARES FOR CASH

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

A public company issues a prospectus inviting general public to subscribe for its shares. On the basis of prospectus, applications are deposited in a scheduled bank by the interested parties along with the amount payable at the time of application, in cash. First installment paid along with application is called 'Application Money'. **As per Section 39 of the Companies Act, 2013. Application money must be at least 5% of the nominal value of shares.** After the closing date of the issue (the last date for filing applications), company decides about allotment of shares in consultation with the SEBI and stock exchange concerned. According to the Companies Act, 2013, a company cannot proceed to allot shares unless minimum subscription is received by the company.

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

(a) Preliminary expenses of the company,

(b) Commission payable on issue of shares,

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

(d) Working capital requirements of the company, and

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

As per guidelines of the Securities Exchange Board of India (SEBI), the minimum subscription to be received in an issue shall not be less than ninety per cent of the offer through offer document [Provided that in the case of an initial public offer, the minimum subscription to be received shall be subject to allotment of minimum number of specified securities, as prescribed by Securities Contracts (Regulation) Rules, 1957]. If the Company does not receive the minimum subscription of 90% of the issue, all application moneys received shall be refunded to the applicants forthwith, but not later than:

(a) fifteen days of the closure of the issue, in case of a non-underwritten issue; and

(b) seventy days of the closure of the issue, in the case of an underwritten issue where minimum subscription including devolvement obligations paid by the underwriters is not received within sixty days of the closure of the issue.

The company reserves the right to reject or accept an application fully or partially. Successful applicants become shareholders of the company and are required to pay the second instalment which is known as 'Allotment Money' and unsuccessful applicants get back their money. However, in case of delay in refunding the money, the Company becomes liable to pay interest on the amount of refund. Subsequent instalments, if any, to be called by the company are known as 'Calls'.

As per Section 39 of the Companies Act, 2013, application money must be at least 5% of the face value of shares. However, as per SEBI Regulations, the minimum application moneys to be paid by an applicant along with the application money shall not be less than 25% of the issue price. According to Section 24 of the Companies Act, 2013 matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.

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

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

2.4.1 Journal Entries for Issue of Shares for Cash

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

(1) On receipt of the application money

Bank Account	Dr.	(With the actual amount received.)
To Share Application Account		
(Being application money received)		

(2) On allotment of share

Share Allotment Account	Dr.	(With the amount due on allotment.)
Share Application Account	Dr.	(With the application amount received on allotted shares.)
To Share Capital Account		(With the amount due on allotment and application.)
(Being the sum due on allotment and application money transferred to capital account)		

(3) On receipt of allotment money

Bank Account	Dr.	(With the amount actually received on allotment.)
To Share Allotment A/c		
(Being money received on allotment)		

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

On receipt of Application Money:

Bank A/c Dr

To Share Application and Allotment A/c

On allotment of shares:

Share Application & Allotment A/c Dr (With total application and allotment amount)

To Share Capital A/c

On Allotment money being received:

Bank A/c Dr

To Share Application & Allotment A/c

(4) On a call being made

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

To Share Capital Account

(Being share call made due at ₹...)

(5) On receipt of call money

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

To Share Call Account

(Being share call money received)

2.5 SUBSCRIPTION OF SHARES

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

2.5.1 Full Subscription

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

ILLUSTRATION 2

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

SOLUTION

Journal entries in the books of a company

For application money received: Amount received along with application is accounted as follows:

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

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

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

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

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

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

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

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

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

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

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

2.5.2 Under Subscription

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

ILLUSTRATION 3

On 1st April, 2020, A Ltd. issued 43,000 shares of ₹ 100 each payable as follows:

₹ 20 on application;

₹ 30 on allotment;

₹ 25 on 1st October, 2020; and

₹ 25 on 1st February, 2021.

By 20th May, 40,000 shares were applied for and all applications were accepted. Allotment was made on 1st June. All sums due on allotment were received on 15th July; those on 1st call were received on 20th October. Journalise the transactions when accounts were closed on 31st March, 2021.

SOLUTION

A Ltd.

Journal

2020			₹	₹
May 20	Bank Account	Dr.	8,00,000	
	To Share Application A/c			8,00,000
	(Application money on 40,000 shares at ₹20 per share received.)			
June 1	Share Application A/c	Dr.	8,00,000	
	To Share Capital A/c			8,00,000
	(The amount transferred to Capital Account on 40,000 shares at - ₹20 on application. Directors' resolution no...... dated ......)			
	Share Allotment A/c	Dr.	12,00,000	
	To Share Capital A/c			12,00,000
	(Being share allotment made due at ₹30 per share. Directors' resolution no...... dated ......)			
July 15	Bank Account	Dr.	12,00,000	
	To Share Allotment A/c			12,00,000
	(The sums due on allotment received.)			

Oct. 1	Share First Call Account	Dr.	10,00,000	
	To Share Capital Account			10,00,000
	(Amount due from members in respect of first call-on 40,000 shares at ₹25 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	10,00,000	
	To Share First Call Account			10,00,000
	(Receipt of the amounts due on first call.)			
2021				
Feb. 1	Share Second and Final Call A/c	Dr.	10,00,000	
	To Share Capital A/c			10,00,000
	(Amount due on 40,000 share at ₹ 25 per share on second and final call, as per Directors resolution no... dated...)			
Mar. 31	Bank Account	Dr.	10,00,000	
	To Share Second & Final Call A/c			10,00,000
	(Amount received against the final call on 40,000 shares at ₹ 25 per share.)			

2.5.3 Over Subscription

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

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

Share Application A/c Dr.

To Bank Account

(Being application money refunded)

(2) When only a part of shares applied for are allotted.

Share Application A/c Dr.

To Share Allotment* A/c (With the application money accepted for allotment)

To Share Calls-in-Advance* A/c (With the amount received in advance)

To Bank A/c (With any excess amount to be refunded)

(Being application money adjusted)

*Credited to Share Capital A/c subsequently.

(**Note:** This type of share allotment is termed as Pro-rata allotment and has been discussed in detail in para 2.8)

ILLUSTRATION 4

Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

SOLUTION

Pant Ltd.

Journal

		₹	₹
Bank A/c	Dr.	12,00,000	
To Equity Share Application A/c			12,00,000
(Being the application money received for 60,000 shares at ₹20 per share)			
Equity Share Application A/c	Dr.	12,00,000	
To Equity Share Capital A/c			10,00,000
To Bank A/c			2,00,000
(Being share allotment made for 50,000 shares and excess refunded.)			
Equity Share Allotment A/c	Dr.	5,00,000	
To Equity Share Capital A/c			5,00,000
(Being allotment amount due on 50,000 equity shares at ₹ 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	4,50,000	
Calls in Arrears A/c	Dr.	50,000	
To Equity Share Allotment A/c			5,00,000
(Being allotment money received for 45,000 shares at ₹10 per share.)			

ILLUSTRATION 5

The Delhi Artware Ltd. issued 50,000 equity shares of ₹ 100 each and 1,00,000 preference shares of ₹ 100 each. The Share Capital was to be collected as under:

	Equity Shares (₹)	*Preference Shares (₹)*
On Application	*25*	*20*
On Allotment	*20*	*30*
First Call	*30*	*20*
Final Call	*25*	*30*

All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book and journalise the remaining transactions in the books of the company.

SOLUTION

Delhi Artware Ltd.

Cash Book

Dr. Cr.

		₹		₹
To	Equity Shares Applications Account (application money on 50,000 shares at ₹ 25)	12,50,000	By Balance c/d	14,440,000
To	Preference Share Application A/c (application money on 1,00,000 shares at ₹ 20)	20,00,000		
To	Equity Share Allotment A/c (allotment money on 50,000 shares at ₹ 20)	10,00,000		
To	Preference Share Allotment A/c (allotment money on 1,00,000 shares at ₹ 30)	30,00,000		
To	Equity Shares First Call A/c (₹ 30 on 50,000 shares)	15,00,000		
To	Preference Share First Call A/c (₹20 on 1,00,000 shares)	20,00,000		
To	Equity Shares Final Call A/c (₹ 25 on 42,000 shares)	10,50,000		
To	Preference Share Final A/c (₹ 30 on 88,000 shares)	26,40,000		
		14,440,000		14,440,000
To	Balance b/d	14,440,000		

Journal

		₹	₹
Equity Share Application A/c	Dr.	12,50,000	
Equity Share Allotment A/c	Dr.	10,00,000	
To Equity Share Capital A/c			22,50,000
[The Credit to share capital on allotment of 50,000 equity shares at ₹ 45 per share (₹ 25 on application and ₹ 20 on allotment) allotted as per Directors resolution no.... dated.....]			
Preference Share Application A/c	Dr.	20,00,000	
Preference Share Allotment A/c	Dr.	30,00,000	
To Preference Share Capital A/c			50,00,000
[The credit to Preference Share Capital on allotment of 1,00,000 preference shares at ₹ 50 per share (₹ 20 on application and ₹30 on allotment), allotted as per Directors' resolution no... dated...]			

Equity Share First Call A/c	Dr.	15,00,000	
To Equity Share Capital A/c			15,00,000
(Amount due on 50,000 equity shares at ₹ 30 per share as per Directors' resolution no... dated...)			
Preference Share First Call A/c	Dr.	20,00,000	
To Preference Share Capital A/c			20,00,000
(Amount due on 1,00,000 preference shares at ₹20 per share, as per Directors' resolution no...dated...)			
Equity Share Final Call A/c	Dr.	12,50,000	
To Equity Share Capital A/c			12,50,000
(Amount due on final call on 50,000 equity shares at₹ 25 per share, as per Directors' resolution no... dated...)			
Preference Share Final Call A/c	Dr.	30,00,000	
To Preference Share Capital A/c			30,00,000
(Amount due on final call on 1,00,000 preference shares at ₹ 30 per share, as per Directors' resolution no... dated...)			

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

2.6 SHARES ISSUED AT DISCOUNT

Shares are regarded to be issued at a discount, if issue is at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example, when a share of the nominal value of ₹ 100 is issued at ₹ 98, it is said to have been issued at a discount of 2 per cent.

According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus, any issue of shares at discount shall be void.

2.7 SHARES ISSUED AT PREMIUM

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

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

2.7.1 Accounting Treatment

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

Being a credit balance, Securities premium Account is shown under the heading, "Reserves and Surplus". However, 'Reserves and Surplus' is shown as 'shareholders' funds in the Balance Sheet as per Schedule III. According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

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

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

(d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.

(e) For the purchase of own shares or other securities.

Note : It may be noted that certain class of Companies as prescribed under Section 133 of the Companies Act, 2013, whose financial statements comply with the accounting standards prescribed for them, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

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

(a) Premium amount called with Application money

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

(b) Premium Amount called with Allotment Money

(i)	Share Allotment A/c	Dr.	[No. of Shares Allotted x Allotment and Premium Money per share]

To Share Capital A/c [No. of Shares Allotted x Allotment Amount per share]

To Securities Premium A/c [No. of Share Allotted x Premium Amount per share]

(Amount due on allotment of shares @ ₹____ per share including premium)

(ii) Bank A/c Dr.

To Share Allotment A/c

(Money received including premium consequent upon allotment).

ILLUSTRATION 6

On 1st October, 2020 Pioneer Equipment Limited received applications for 2,50,000 Equity Shares of ₹ 100 each to be issued at a premium of 25 per cent payable as :

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

The shares were allotted by the Company on October 20, 2020 and the allotment money was duly received on October 31, 2020.

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

SOLUTION

Pioneer Equipment Limited

Journal

Date	Particulars	L.F.	Debit Amount	Credit Amount
2020			(₹000)	(₹000)
Oct. 1	Bank A/c Dr.		6,250	
	To Equity Share Application A/c			6,250
	(Money received on applications for 2,50,000 shares @ ₹ 25 per share)			
Oct. 20	Equity Share Application A/c Dr.		6,250	
	To Equity Share Capital A/c			6,250

	(Transfer of application money on allotment to share capital)			
Oct. 20	Equity Share Allotment A/c Dr.		18,750	
	To Equity Share Capital A/c			12,500
	To Securities Premium A/c			6,250
	(Amount due on allotment of 2,50,000 shares @ ₹ 75 per share including premium)			
Oct. 31	Bank A/c Dr.		18,750	
	To Equity Share Allotment A/c			18,750
	(Money received including premium consequent upon allotment)			

Note: Bifurcation of Allotment amount

Security premium per share = 25% x ₹100

= ₹ 25

Money received on allotment per share = ₹ 75

	Premium	Capital
Per Share (75)	₹ 25	₹ 50
No. of Shares (in '000)	250	250
Total Amount (In '000)	₹ 6,250	₹12,500

2.8 OVER SUBSCRIPTION AND PRO-RATA ALLOTMENT

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

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

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

When there is a pro-rata allotment, the total application money paid by an applicant is more than the exact amount due on application. The excess amount is treated as an advance against allotment or any other future calls. The net amount due on allotment or any other calls is the difference between the amount due on allotment or any other calls and the excess amount received in application.

Accounting Entries

(a) *For rejected applications:*

Share Application Account Dr.

To Bank Account

(Being application money refunded for rejected applications as per Board's Resolution No....dated....)

(b) For pro-rata allotment:

Share Application Account Dr.

To Share Allotment Account

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

ILLUSTRATION 7

JHP Limited is a company with an authorised share capital of ₹10,00,000 in equity shares of ₹10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 1,00,000 of these ₹10 shares at a price of ₹14 each, the arrangements for payment being:

(a) ₹ 2 per share payable on application, to be received by 1st July, 2020;

(b) Allotment to be made on 10th July, 2020 and a further ₹ 5 per share (including the premium) to be payable;

(c) The final call for the balance to be made, and the money received by 30th April, 2021.

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

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

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

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

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

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

SOLUTION

Journal of JHP Limited

Date 2020	Particulars	₹	₹
July 1	Bank A/c (Note 1 – Column 3) Dr.	7,10,000	
	To Equity Share Application A/c		7,10,000
	(Being application money received on 3,55,000 shares @ ₹ 2 per share)		
July 10	Equity Share Application A/c Dr.	7,10,000	
	To Equity Share Capital A/c		2,00,000
	To Equity Share Allotment A/c (Note 1 Column 5)		4,30,000
	To Bank A/c (Note 1 – Column 6)		80,000
	(Being application money on 1,00,000 shares transferred to Equity Share Capital Account; on 2,15,000 shares adjusted with allotment and on 40,000 shares refunded as per Board's Resolution No.....dated...)		
	Equity Share Allotment A/c Dr.	5,00,000	
	To Equity Share Capital A/c		1,00,000
	To Securities Premium a/c		4,00,000
	(Being allotment money due on 1,00,000 shares @ ₹ 5 each including premium at ₹4 each as per Board's Resolution No....dated....)		
	Bank A/c (Note 1 – Column 8) Dr.	70,000	
	To Equity Share Allotment A/c		70,000
	(Being balance allotment money received)		
2021	Equity Share Final Call A/c Dr.	7,00,000	
	To Equity Share Capital A/c		7,00,000
	(Being final call money due on 1,00,000 shares @ ₹ 7 per share as per Board's Resolution No.....dated....)		
April 30	Bank A/c Dr.	7,00,000	
	To Equity Share Final Call A/c		7,00,000
	(Being final call money on 1,00,000 shares @ ₹ 7 each received)		

Working Notes:

Calculation for Adjustment and Refund

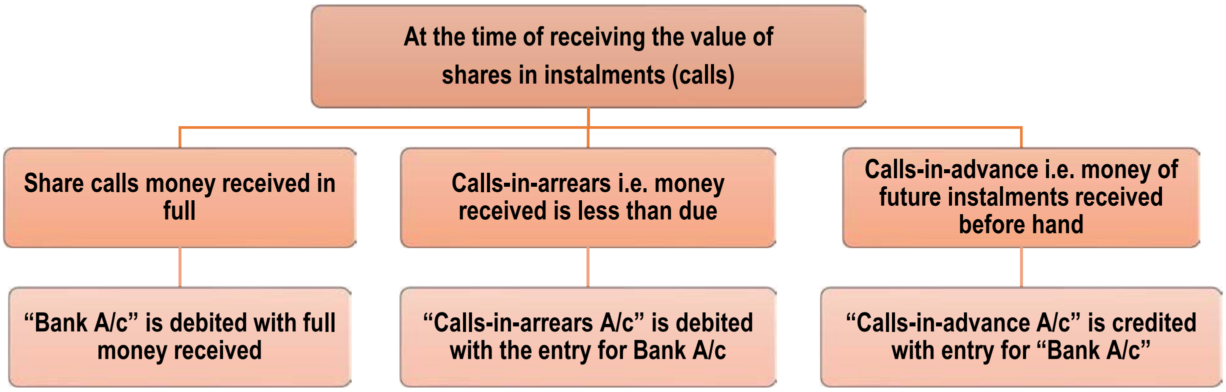
Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount adjusted on Allotment	Refund [3 - 4 + 5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	5,000	5,000	10,000	10,000	Nil	Nil	25,000	25,000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

Also,

(i) Amount Received on Application (3) = No. of shares applied for (1) x ₹ 2

(ii) Amount Required on Application (4) = No. of shares allotted (2) x ₹ 2

2.9 CALLS-IN-ARREARS AND CALLS-IN-ADVANCE



Calls-in-Arrears

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

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

Calls-in-Arrears A/c	Dr.	[Amount of Unpaid Calls]
Bank A/c	Dr.	[Amount received]
To Share Allotment A/c		[Total allotment money due]

To Share Calls A/c [Total Call money due]

(Being call money/ allotment money received on .... shares at ₹.... per share.)

Calls-in-Advance

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. According to Table F, interest at a rate not exceeding 12 per cent p.a. is to be paid on such advance call money. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c Dr. [Call amount received in advance]

To Call-in-Advance A/c

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

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

Bank A/c Dr. [Remaining call money received, if any]

To Particular Call A/c [Call money due]

(Being call in advance adjusted and call money due received)

ILLUSTRATION 8

Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ₹ 3 per share which was due on 1.7.2020. This amount was received on 1.4.2021.

Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2020 and 1.4.2021.

SOLUTION

Shreyas Ltd

Journal

Date	Particulars	L.F.	Amount Dr.	Amount Cr.
1.7.2020	Calls in Arrears A/c Dr.		30,000	
	To Equity Share First Call A/c			30,000
	(Being amount due on first call on 10,000 shares at ₹3 per share transferred to calls in arrears account)			
1.4.2021	Bank A/c Dr.		30,000	
	To Calls in Arrears A/c			30,000
	(Being calls in arrears received)			

2.10 INTEREST ON CALLS-IN-ARREARS AND CALLS-IN-ADVANCE

Interest on calls in arrears is recoverable and that in respect of calls in advance is payable, according to provisions in this regard in the articles of the company, at the rates mentioned therein or those to be fixed by the directors, within the limits prescribed by the Articles. Table F prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and those in advance.

Interest on Calls in Arrears	Interest on Calls in Advance
It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
As per Table F maximum prescribed rate is 10%.	As per Table F maximum prescribed rate is 12%.
Period considered : From the date call money was due to the date money is finally received.	Period considered: From the date money was received to the day call was finally made due.
Directors have a right to waive off such interest in individual cases at their own discretion.	Shareholders are not entitled for any dividend on calls in advance.
It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is a nominal account in nature with interest being an expense for the company.

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

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

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

Shareholders' A/c Dr.

To Interest on calls-in-arrears A/c

(Being interest on calls in arrears at the rate of ...% made due)

(ii) For receipt of interest

Bank A/c Dr.

To Shareholders' A/c

(Being interest money received)

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

(i) Interest Due

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

To Shareholder's A/c

(Being interest on calls in advance made due)

(ii) Payment of Interest

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

To Bank A/c

(Being interest paid on calls-in-advance)

ILLUSTRATION 9

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

SOLUTION

Date	Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c	Dr.		2,50,000	
	To Equity Share Application A/c				2,50,000
	(Money received on applications for 1,00,000 shares @ ₹ 2.50 per share)				
	Equity Share Application A/c	Dr.		2,50,000	
	To Equity Share Capital A/c				2,50,000
	(Transfer of application money on 1,00,000 shares to share capital)				
	Equity Share Allotment A/c	Dr.		3,00,000	
	To Equity Share Capital A/c				3,00,000
	(Amount due on the allotment of 1,00,000 shares @ ₹ 3 per share)				
	Bank A/c	Dr.		3,00,000	
	To Equity Share Allotment A/c				3,00,000
	(Allotment money received)				
	Equity Share First Call A/c	Dr.		2,00,000	
	To Equity Share Capital A/c				2,00,000
	(Being first call made due on 1,00,000 shares at ₹ 2 per share)				
	Bank A/c	Dr.		2,25,000	

	To Equity Share First Call A/c			2,00,000
	To Calls in Advance A/c			25,000
	(Being first call money received along with calls in advance on 10,000 shares at ₹ 2.50 per share)			
	Equity Share Final Call A/c Dr.		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Being final call made due on 1,00,000 shares at ₹ 2.50 each)			
	Bank A/c Dr.		2,22,500	
	Calls in Advance A/c Dr.		25,000	
	Calls in Arrears A/c Dr.		2,500	
	To Equity Share Final Call A/c			2,50,000
	(Being final call received for 89,000 shares and calls in advance for 10,000 shares adjusted)			
	Interest on Calls in Advance A/c Dr.		750	
	To Shareholders A/c			750
	(Being interest made due on calls in advance of ₹25,000 at the rate of 12% p.a.)			
	Shareholders A/c Dr.		750	
	To Bank A/c			750
	(Being payment of interest made to shareholder)			
	Shareholders A/c Dr.		41.67	
	To Interest on Calls in Arrears A/c			41.67
	(Being interest on calls in arrears made due at the rate of 10%)			
	Bank A/c Dr.		2,541.67	
	To Calls in Arrears A/c			2,500
	To Shareholders A/c			41.67
	(Being money received from shareholder for calls in arrears and interest thereupon)			

2.11 FORFEITURE OF SHARES

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

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

Accounting Entries

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

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

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

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

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

2.11.1 Forfeiture of Shares which were issued at Par

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

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

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

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

ILLUSTRATION 10

A Ltd forfeited 30,000 equity shares of ₹10 fully called-up, held by Mr. X for non-payment of final call @ ₹4 each. However, he paid application money @ ₹2 per share and allotment money @ ₹4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

SOLUTION

In the books of A Ltd.

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (30,000 x ₹ 10)	Dr.	3,00,000	
	To Equity Share Final Call A/c (30,000 x ₹ 4)			1,20,000
	To Forfeited Shares A/c (30,000 x ₹ 6)			1,80,000
	(Being the forfeiture of 30,000 equity shares of ₹10 each fully called-up for non-payment of final call money @ ₹4 each as per Board's Resolution No.... dated....)			

ILLUSTRATION 11

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

SOLUTION

In the books of X Ltd

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (20,000 x ₹ 8)	Dr.	1,60,000	
	To Calls-in-Arrears A/c (20,000 x ₹ 2)			40,000
	To Forfeited Shares A/c (20,000 x ₹ 6)			1,20,000
	(Being the forfeiture of 20,000 equity shares of ₹10each, ₹ 8 called-up for non-payment of first call money @ ₹₹2 each as per Board's Resolution No......dated.....)			

2.11.2 Forfeiture of Shares which were issued at a Premium

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

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

If premium not received

Share Capital A/c	Dr.	[Called-up value]
Securities Premium A/c	Dr.	[Amount of Security premium not received]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]
To Forfeited Shares Account		[Amount received on forfeited shares]

If premium received

Share Capital A/c	Dr.	[Called-up value]
To Share Allotment Account		[If amount due, but not paid]
To Share First Call Account		[If amount due, but not paid]
To Share Final Call Account		[If amount due, but not paid]
To Forfeited Shares Account		[Amount received on forfeited shares]

ILLUSTRATION 12

X Ltd. forfeited 5,000 equity shares of ₹100 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application ₹20; on allotment ₹50 (including premium); on First and Final call ₹50. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

SOLUTION

In the books of X Ltd.

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (5,000 x ₹ 100)	Dr.	5,00,000	
	Securities Premium A/c (See Note)	Dr.	1,00,000	
	To Equity Share Allotment A/c (5,000 x ₹ 50)			2,50,000
	To Equity Share First and Final Call A/c (5000 x ₹ 50)			2,50,000
	To Forfeited Shares A/c (5000 x ₹ 20)			1,00,000
	(Being the forfeiture of 5,000 equity shares of ₹ 100 each fully called-up, issued at a premium of 20%, for non-payment of allotment and call money as per Board's Resolution No.....dated....)			

Tutorial Note: Share premium @ ₹ 20 on 5,000 shares has not been received by the company. Therefore, at the time of forfeiture, Securities Premium Account will be debited to cancel it (because Securities Premium Account was credited at the time of allotment).

Also, in case of pro-rata allotment where shares are issued at premium, the excess money received on application will be first adjusted to capital account and then for securities premium.

ILLUSTRATION 13

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ₹ 2 per share but has been allotted only 600 shares. The shares have a face value of ₹10 and a premium of ₹ 2 per share, which are payable as: on Allotment- ₹ 5 (including premium) and on final call ₹ 5. Now in case Mr. Shami doesn't pay allotment money and final call and his shares are forfeited, then following entry will be passed on forfeiture:

SOLUTION

Share Capital A/c (600 x ₹ 10)	Dr.	6,000	
Securities Premium A/c (600 x ₹ 2)	Dr.	1,200	
To Share Forfeiture A/c			2,000
To Share Allotment A/c			2,200
To Share Final Call A/c (600 x 5)			3,000
(Being 600 shares forfeited due to non-payment of allotment money and call money as per Board Resolution no..... dated.....)			

Note:

Total Amount Received on application (1,000 x 2)	2,000
Less: Amount used for application money (600 x 2)	(1,200)
Excess money received on application	800
Amount due on Allotment (600 x 5)	3,000
For premium (600 x 2)	1,200
For Capital A/c (600 x 3)	1,800
Thus amount not received on allotment (3,000 - 800)	2,200

	For Premium A/c	For Capital A/c
Amount not received on allotment (2,200)	₹ 1,200	₹ 1,000

2.11.3 Forfeiture of Fully Paid-Up Shares

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

2.12 RE-ISSUE OF FORFEITED SHARES

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale.

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

Accounting Entries :

(a)	Bank Account	Dr.	[Actual amount received]
	Forfeited Shares Account	Dr.	[Loss on re-issue]
	To Share Capital Account		
	(Being the re-issue of....shares @ ₹.... each as per Board's Resolution No.... dated.)		
(b)	Forfeited Shares Account	Dr.	
	To Capital Reserve Account		
	(Being the profit on re-issue, transferred to capital reserve).		

2.12.1 Points for Consideration

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

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

2.12.2 Calculation of Profit on Re-Issue of Forfeited Shares

Students will appreciate that the credit balance of forfeited shares account cannot be considered a surplus until the shares forfeited have been re-issued, because the company may, on re-issue, allow the discount to the new purchaser equivalent to the amount held in credit in this regard in the forfeited shares Account. Suppose 120 shares of a nominal value of ₹10 have been forfeited upon which ₹ 5 per share was paid up and transferred to

Forfeited Share Account. Afterwards, 50 shares are re-issued, ₹ 6 per share being collected to make them fully paid up; ₹ 200 (50 shares x ₹10- 50 shares x ₹6) out of shares forfeited will be credited to Share Capital Account to make up the deficiency on re-issued shares, and ₹50 (50 shares x ₹ 5 - ₹200) will be transferred to the Capital Reserve Account being the surplus on re-issue of the 50 shares. It would have in the Forfeited shares Account balance equivalent to the amount collected on the remaining 70 forfeited shares i.e. ₹ 350 which will be carried forward till these are re-issued.

In the above case, it has been assumed that the amount paid up on all the 120 forfeited shares was ₹5 per share. But in practice, shares may be forfeited on which varying amounts are out-standing. For instance, if in the above case 70 shares were forfeited with ₹5 paid up thereon and 50 shares with ₹7.50 was paid up thereon then:

Share Forfeited Account Balance = (70 x 5) + (50 x 7.50)

= ₹ 725

Thus if 50 shares with ₹7.50 paid up are re-issued for ₹6 per share then Capital Reserve balance will be as follows:

₹ (7.50 + 6 -10) x 50 shares = ₹ 175

ILLUSTRATION 14

Mr. Long who was the holder of 2,000 preference shares of ₹100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹75 per share.

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

SOLUTION

	Particulars		₹	₹
	Preference Share Capital A/c (2,000 x ₹75)	Dr.	1,50,000	
	To Preference Share Allotment A/c			50,000
	To Preference Share First Call A/c			50,000
	To Forfeited Share A/c			50,000
	(Being the forfeiture of 2,000 preference shares ₹75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)			
	Bank A/c (1,500 x ₹65)	Dr.	97,500	
	Forfeited Shares A/c (1,500 x ₹10)	Dr.	15,000	
	To Preference Share Capital A/c			1,12,500
	(Being re-issue of 1500 shares at ₹ 65 per share paid-up as ₹ 75 as per Board's Resolution No.....dated....)			
	Forfeited Shares A/c	Dr.	22,500	
	To Capital Reserve A/c (Note 1)			22,500
	(Being profit on re-issue transferred to Capital/Reserve)			

Working Note:

Calculation of amount to be transferred to Capital Reserve

Forfeited amount per share = ₹ 50,000/2000	=	₹ 25	
Loss on re-issue = ₹ 75 – ₹ 65		=	₹ 10
Surplus per share re-issued		₹ 15	
Transferred to capital Reserve ₹ 15 x 1500	=	₹ 22,500	

ILLUSTRATION 15

Beautiful Co. Ltd issued 30,000 equity shares of ₹10 each payable as ₹3 per share on Application, ₹5 per share (including ₹ 2 as premium) on Allotment and ₹4 per share on Call. All the shares were subscribed. Money due on all shares was fully received except from Ram, holding 500 shares, who failed to pay the Allotment and Call money and Shyam, holding 1,000 shares, who failed to pay the Call Money. All those 1,500 shares were forfeited. Of the shares forfeited, 1,250 shares (including whole of Ram's shares) were subsequently re-issued to Jadu as fully paid up at a discount of ₹ 2 per share.

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

SOLUTION

In the books of Beautiful Co. Ltd.

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (1,500 x ₹ 10)	Dr.	15,000	
	Securities Premium A/c (500 x ₹ 2)	Dr.	1,000	
	To Equity Share Allotment A/c (500 x ₹ 5)			2,500
	To Equity Share Call A/c (1,500 x ₹ 4)			6,000
	To Forfeited Shares A/c			7,500
	(Being forfeiture of 1,500 equity shares for non payment of allotment and call money on 500 shares and for non-payment of call money on 1,000 shares as per Board's Resolution No.....dated ....)			
	Bank A/c	Dr.	10,000	
	Forfeited Shares A/c	Dr.	2,500	
	To Equity Share Capital A/c			12,500
	(Being re-issue of 1250 shares @ ₹ 8 each as per Board's Resolution No.....dated....)			
	Forfeited Shares A/c	Dr.	3,500	
	To Capital Reserve A/c			3,500
	(Being profit on re-issue transferred to Capital Reserve)			

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

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	2,99,000
Reserves and Surplus	2	62,500
Total		**3,61,500**
ASSETS		
Current assets		
Cash and cash equivalents (bank)		3,61,500
Total		**3,61,500**

Notes to accounts

		₹	₹
1.	**Share Capital**		
	Equity share capital		
	Issued share capital		
	30,000 Equity shares of ₹ 10 each	3,00,000	
	Subscribed, called up and paid up share capital		
	29,750 Equity shares of ₹ 10 each	2,97,500	
	Add: Forfeited shares	1,500	2,99,000
2.	**Reserves and Surplus**		
	Securities Premium	59,000	
	Capital Reserve	3,500	62,500

Working Note :

(1) Calculation of Amount to be Transferred to Capital Reserve

Amount forfeited per share of Ram	₹3	Amount forfeited per share of Shyam	₹ 6
Less: Loss on re-issue per share	(₹2)	*Less*: Loss on re-issue per share	(₹2)
Surplus	₹1	Surplus	₹4
Transferred to Capital Reserve: Ram share (500 x ₹ 1)		₹ 500	
Shyam's Share (750 x ₹ 4)		₹ 3,000	
Total		**₹ 3,500**	

(2) Balance of Security Premium

Total Premium amount receivable on allotment	=	60,000
Less: Amount reversed on forfeiture	=	(1,000)
Balance remaining	=	59,000

ILLUSTRATION 16

A holds 2,000 shares of ₹10 each on which he has paid ₹2 as application money. B holds 4,000 shares of ₹10 each on which he has paid ₹ 2 per share as application money and ₹ 3 per share as allotment money. C holds 3,000 shares of ₹10 each and has paid ₹ 2 on application, ₹ 3 on allotment and ₹3 for the first call. They all fail to pay their arrears on the second and final call and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for ₹12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

SOLUTION

Journal

Date	Particulars		₹	₹
	Share Capital A/c (9,000 x ₹10)	Dr.	90,000	
	To Share Allotment A/c (2,000 x ₹3)			6,000
	To Share First Call A/c (6,000 x ₹3)			18,000
	To Share Final Call A/c (9,000 x ₹2)			18,000
	To Forfeited Shares A/c			48,000
	(Being forfeiture of 9,000 shares of ₹10 each for non-payment of allotment, first and final call money as per Board's Resolution No.....dated....)			
	Bank A/c (9,000 x ₹ 12)	Dr.	1,08,000	
	To Share Capital A/c			90,000
	To Securities Premium A/c			18,000
	(Being the re-issue of 9,000 shares of ₹10 each @ ₹12 as per Board's Resolution No.....dated...)			
	Forfeited Shares A/c	Dr.	48,000	
	To Capital Reserve A/c			48,000
	(Being profit on re-issue transferred to Capital Reserve).			

Working Note:

Shareholders	Money Received				Money Not Received On		
	Application	Allotment	First Call	Final Call	Allotment	First Call	Final Call
A	2,000	-	-	-	2,000	2,000	2,000
B	4,000	4,000	-	-	-	4,000	4,000
C	3,000	3,000	3,000	-	-	-	3,000
TOTAL	9,000	7,000	3,000	-	2,000	6,000	9,000
Money	₹ 2	₹ 3	₹ 3	₹ 2	₹ 3	₹ 3	₹ 2
Receivable	₹ 18,000	₹21,000	₹ 9,000	-	₹ 6,000	₹ 18,000	₹ 18,000

2.13 ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

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

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

Accounting Entries

When assets are purchased in exchange of shares

Assets Account Dr.

To Share Capital Account

ILLUSTRATION 17

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings 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 to prepare the Balance Sheet.

SOLUTION

Journal

Date	Particulars		₹	₹
	Land and Buildings A/c	Dr.	4,00,000	
	To Y Co. Ltd A/c			4,00,000
	(Being the land and buildings purchased from Y Co. Ltd as per agreement dated…).			
	Y.Co. Ltd A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being 40,000 shares of Rs. 10 each issued to Y Co. Ltd. on purchase of land and building)			
	Bank A/c	Dr.	5,00,000	
	To Equity Share Application and Allotment A/c			5,00,000
	(Being the issue of 50,000 shares of ₹10 each as per Board's Resolution No…..dated…)			
	Equity Share Application and Allotment A/c	Dr	5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being shares allotted for application money received.)			

Balance Sheet of X Company Limited as at....

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total		9,00,000
	ASSETS		
1.	**Non-current assets**		
	a Fixed assets		
	i. Tangible assets	2	4,00,000
2.	**Current assets**		
	Cash and cash equivalents	3	5,00,000
	Total		9,00,000

Notes to accounts

		₹
1.	**Share Capital**	
	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	**Tangible Assets**	
	Land and Building	4,00,000
3.	**Cash and cash equivalents**	
	Balances with banks	5,00,000

SUMMARY

- Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a **share**.
- The total capital of the company is divided into shares, the capital of the company is called 'Share Capital'.
- Share capital of a company is divided into following categories:

  (i) Authorised Share Capital or Nominal Capital; (ii) Issued Share Capital; (iii) Subscribed Share Capital (iv) Called-up Share Capital; (v) Paid-up Share Capital; (vi) Reserve Share Capital
- Types of shares are:
  - (i) Preference Shares. Preference shares can be of various types, e.g.: (a) Cumulative Preference Shares (b) Non-cumulative Preference Shares (c) Participating Preference Shares (d) Non-participating Preference Shares (e) Redeemable Preference Shares (f) Non-redeemable Preference Shares (g) Convertible Preference Shares (h) Non-convertible Preference Shares.
  - (ii) Equity Shares
- A company can issue shares either
  - (1) for cash or
  - (2) for consideration other than cash.
- A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.
- When a company issues its securities at a price more than the face value, it is said to be an issue at a premium. Premium is the excess of issue price over face value of the security.
- According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:
  - (a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.
  - (b) To write off preliminary expenses of the company.
  - (c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
  - (d) To provide for premium on the redemption of redeemable preference shares or debentures of the company.
  - (e) For the purchase of own shares or other securities.
- Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as *Calls-in-Arrears or Unpaid Calls.*

- Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as *Calls-in-advance.*
- Interest on calls in arrear is recoverable and that in respect of calls in advance is payable, according to provisions in this regard in the articles of the company, at the rates mentioned therein or those to be fixed by the directors, within the limits prescribed by the Articles. Table F prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and those in advance.
- The term 'forfeit' actually means taking away of property on breach of a condition. It is very common that one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares.
- A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale.
- Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets. These shares should be shown separately under the heading 'Share Capital'.

TEST YOUR KNOWLEDGE

True and False

1. Liability of a holder of shares is limited to the face value of shares acquired by them.
2. Authorised capital appears in the balance sheet at face value.
3. The rate of dividend on preference shares may vary From year to year.
4. A company may issue shares at a discount to the public in general.
5. Sweat equity shares are those which are issued to employees & directors at a discount.
6. As per table F, rate of interest on calls in arrears is 12%.
7. As per Table F, rate of interest on calls in advance is 10%.
8. Non-participating preference shareholders enjoy voting rights.
9. Forfeited shares are available to the company for the purpose of resale.
10. Loss on reissue should exceed the forfeited amount.

Multiple Choice Questions

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

    (a) Calls-in-advance account

    (b) Share capital account

    (c) Securities premium account

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

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

   (b) Writing off any loss of revenue nature

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

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

   (a) Paid-up capital of shares forfeited; Called up capital of shares forfeited

   (b) Called up capital of shares forfeited; Calls in arrear of shares forfeited

   (c) Called up capital of shares forfeited; Amount received on shares forfeited

4. T Ltd. proposed to issue 6,000 equity shares of ₹100 each at a premium of 40%. The minimum amount of application money to be collected per share as per the Companies Act, 2013

   (a) ₹5.00 (b) ₹6.00 (c) ₹7.00

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

   (a) Authorized share capital (b) Net profit (c) Paid-up capital

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

   (a) 2.5% of the nominal value of shares

   (b) 2.5% of the issue price of shares

   (c) 25.0% of the issue price of shares

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

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

Theory Questions

1. Write short notes on:

   (i) Utilization of securities premium account

   (ii) Re-issue of forfeited shares

2. Distinguish between:

   (i) Calls-in-Arrears and Calls-in-advance

   (ii) Issue of shares for cash and Issue of Shares for Consideration other than Cash

3. Can a company issue shares at discount?

Practical Questions

1. X Ltd. invited applications for 10 lakhs shares of ₹ 100 each payable as follows :

	₹
On Application	20
On Allotment (on 1st May, 2020)	30
On First Call (on 1st Oct., 2020)	30
On Final Call (on 1st Feb., 2021)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2021.

2. A limited Company, with an authorized capital of ₹ 20,00,000 divided into shares of ₹ 100 each, issued for subscription 10,000 shares payable at ₹ 25 per share on application, ₹ 30 per share on allotment, ₹ 20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2020 when application money on 10,000 shares was duly received and allotment was made on March 1, 2020. All amounts due were received within one month of the date they were called.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions.

3. B Ltd. issued 20,000 equity shares of ₹100 each at a premium of ₹20 per share payable as follows: on application ₹50; on allotment ₹50 (including premium); on final call ₹20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

ANSWERS/ HINTS

True and False

1. False: Liability of the holder of shares is limited to the issue price of shares acquired by them.

2. True: Authorised capital is the amount of capital mentioned in 'capital clause' of the 'Memorandum of Association'. Authorised capital is considered only as presentation and not considered in total of balance sheet.

3. False: Rate of preference dividend is always fixed.

4. False: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

5. True: According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors).

6. False: As per table F, rate of interest on calls in arrears is 10%.

7. False: As per Table F, rate of interest on calls in advance is 12%.

8. False: A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non-participating Preference Shares. Non-participating preference shareholders do not enjoy voting rights.

9. True: Reissue of forfeited shares is not allotment of shares but only a sale.

10. False: Loss on re-issue should not exceed the forfeited amount.

Multiple Choice Questions

1.	(c)	**2.**	(c)	**3.**	(c)	**4.**	(a)
5.	(c)	**6.**	(c)	**7.**	(a)		

Theoretical Questions

1. **(i)** Refer para 2.7 for utilization of securities premium account.

(ii) A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it off. In practice, forfeited shares are disposed off by auction. These shares can be re-issued at any price so long as the total amount received (from the original allottee and the second purchaser) for those shares is not less than the amount in arrears on those shares.

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

Calls-in-advance: Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance.

(ii) The shares can be issued by a company either for cash or for consideration other than cash. Public limited companies, generally, issue their shares for cash and use such cash to buy the various types of assets needed in the business. Sometimes, however, a company may issue shares in a direct exchange for land, buildings or other assets.

3. According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employees and directors). Thus any issue of shares at discount shall be void.

Practical Question

1. **Journal of X Ltd.**

2020		₹ in lakhs	₹ in lakhs
May 1	Bank A/c Dr.	200	
	To Share Application A/c		200
	(Receipt of applications for 10 lakh shares along with application money of ₹ 20 per share.)		
May 1	Share Application A/c Dr.	200	
	Share Allotment A/c Dr.	300	
	To Share Capital A/c		500
	(The allotment of 10 lakh shares : payable on application ₹20 share and ₹30 on allotment as per Directors' resolution no... dated...)		
May 1	Bank A/c Dr.	310	
	To Shares Allotment A/c		300
	To Calls in Advance A/c		10
	[Receipt of money due on allotment @ ₹30, also the two calls (₹ 30 and ₹20) on 20,000 shares.]		
Oct. 1	Share First Call A/c Dr.	300	
	To Share Capital A/c		300
	(The amount due on 10 lakh shares @ ₹30 on first call, as per Directors, resolution no... dated...)		
	Bank A/c Dr.	294	
	Calls in Advance A/c Dr.	6	
	To Share First Call A/c		300
	(Receipt of the first call on 9.80 lakh shares, the balance having been previously received and now debited to call in advance account.)		
2021			
Feb. 1	Share Final Call A/c Dr.	200	
	To Share Capital A/c		200
	(The amount due on Final Call on 10 lakh shares @ ₹ 20 per share, as per Directors' resolution no... dated...)		

Feb. 1	Bank A/c Dr.	196	
	Calls in Advance A/c Dr.	4	
	To Share Final Call A/c		200
	(Receipt of the moneys due on final call on 9.80 lakhs shares, the balance having been previously received.)		
Feb. 1	Interest on calls in Advance A/c Dr.	0.66	
	To Shareholder A/c		0.66
	(Being interest on call in advance made due)		
Feb 1	Shareholder A/c Dr.	0.66	
	To Bank A/c		0.66
	(Being interest paid)		

Working Note:

The interest on calls in advance paid @ 12% on :	₹
₹ 6,00,000 (first call) from 1st May to 1st Oct., 2020–5 months	30,000
₹ 4,00,000 (final call) from 1st May to 1st Feb., 2021–9 months	36,000
Total Interest Amount Due	66,000

2. **Journal Entries in the Books of the Company**

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
Jan. 31	Bank A/c Dr.		2,50,000	
	To Equity Share Application A/c			2,50,000
	(Money received on applications for 10,000 shares @ ₹ 25 per share)			
March 1	Equity Share Application A/c Dr.		2,50,000	
	To Equity Share Capital A/c			2,50,000
	(Transfer of application money on 10,000 shares to share capital)			
March 1	Equity Share Allotment A/c Dr.		3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Amount due on the allotment of 10,000 shares @ ₹ 30 per share)			

April 1	Bank A/c Dr.		3,00,000	
	To Equity Share Allotment A/c			3,00,000
	(Allotment money received)			
June 1	Equity Share First Call A/c Dr.		2,00,000	
	To Equity Share Capital A/c			2,00,000
	(First call money due on 10,000 shares @ ₹ 20 per share)			
July 1	Bank A/c Dr.		1,92,500	
	Calls-in-Arrears A/c Dr.		20,000	
	To Equity Share First Call A/c			2,00,000
	To Calls-in-Advance A/c			12,500
	(First call money received on 9000 shares and calls-in-advance on 500 shares @ ₹ 25 per share)			

3. **In the Books of B Ltd.**

Cash Book (Bank column only)

Date	Particulars	₹	Date	Particulars	₹
	To Equity Share Application A/c	12,00,000		By Equity Share Application A/c	2,00,000
	(Being application money received on 24,000 shares @ ₹ 50 each)			(Being excess money refunded on 4,000 shares @ ₹ 50 each as per Board's Resolution No…dated….)	
	To Equity Share Allotment A/c	9,92,500		By Balance c/d	23,89,500
	(Being allotment money received on 19,850 shares @ ₹ 50 each)				
	To Equity Share Final Call A/c	3,97,000			
	(Being final call money received on 19,850 shares @ ₹ 20 each)				
		25,89,500			25,89,500

Date	*Particulars*	₹	₹
	Equity Share Application A/c Dr.	10,00,000	
	To Equity Share Capital A/c		10,00,000
	(Being application money on 20,000 shares @₹ 50 each transferred to Equity Share Capital Account as per Board's Resolution No…..dated…)		

	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Being allotment money @ ₹ 50 per share including premium of ₹ 20 per share being made due as per Board's Resolution No……dated….)		10,00,000	 6,00,000 4,00,000
	Equity Share Capital A/c (150 x ₹100) Dr. Securities Premium A/c (150 x ₹ 20) Dr. To Equity Share Allotment A/c To Equity Share Final Call A/c To Forfeited Shares A/c (Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No….dated…)		15,000 3,000	 7,500 3,000 7,500

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

Also, alternatively Calls in arrears A/c could have been used in which case following entries would have been passed in place of the entry (given above) for forfeiture:

On non- receipt of allotment money: Calls in Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money on 150 shares @ ₹ 50 not received transferred to calls in arrears.)	 7,500	 7,500
On non - receipt of Call money: Calls in Arrears A/c Dr. To Equity Share Final Call A/c (Being final call on 150 shares @ ₹20 not received transferred to calls in arrears)	 3,000	 3,000
On Forfeiture: Share Capital A/c (150 x ₹100) Securities Premium A/c (150 x ₹20) To Calls in Arrears A/c To Share Forfeiture A/c (Being forfeiture of 150 shares for non-payment of allotment money and final call money as per Board's Resolution No….dated…)	 15,000 3,000	 10,500 7,500