



Company Accounts- Accounting for Share Capital



Meaning of Company

- A company is an entity incorporated by a group of persons through the process of law for undertaking (usually) a business. It is an artificial person and is separate from its members (shareholders). It normally has a share capital divided into units called shares, the owners of which are known as members or shareholders. It being separate from its shareholders, insolvency or death of a member does not affect the company, i.e., the company continues even if a member(s) become insolvent or dies.

-Section 2(20) of the Companies Act, 2013

- “A company is an artificial person, created by law having separate entity with a perpetual succession and a common seal.”

Prof. Haney



Characteristics of a Company

- Incorporation
- Separate Legal Entity
- Artificial Person
- Perpetual Succession/Permanent Existence
- Limited Liabilities
- Transferability of Shares
- Management and Ownership
- Common Seal



Difference between Partnership and a Company

Basis	Partnership	Company
1. Mode of formation	It is set up by an agreement among the partners. Registration is not compulsory under Indian Partnership Act, 1932.	It is set up by registration under Companies Act, 2013 or any previous Companies Acts.
2. Regulation Act	The Indian Partnership Act, 1932 applies.	The Companies Act, 2013 applies.
3. No. of Members	Minimum 2 and maximum 50 members.	In public company minimum 7 and maximum no limit and In private company minimum 2 and maximum 200.
4. Liability	Liability of the partner is unlimited.	Liability of the members is limited to the amount of shares held by them.
5. Distribution of Profits	Profits are distributed as per the terms of the Partnership Deed or equally if there is no agreement	It depends on the Articles of Association or the Directors as to what share of profits.



Kinds of Companies

- One Person Company
- Private Company
- Public Company



1. One Person Company

- Section 2(62) of the Companies Act, 2013 defines one person company as “One person company means a company which has only one person as member”. *has only one person as member’.*



• Rule 3 of the Companies (Incorporation) Rules, 2014 further prescribes that:-

- a) Only a natural person being an Indian Citizen and resident in India can form one person company or can be a nominee for the sole member of One Person Company.*
- b) One person can form only one 'One Person Company' or become nominee of only such company.*
- c) It cannot be formed for charitable purpose.*
- d) It cannot carry out Non-Banking Financial Investment activities including investment in Securities of any body corporate.*
- e) Its paid-up share capital is not more than Rs.50 lakhs.*
- f) Its average annual turnover of three years should not exceed Rs.2 crores.*
- g) One Person Company should have at least 1 director but not more than 15 directors.*



2. Private Company

- A Private Company is one which has a minimum paid-up share capital as may be prescribed and which by its Articles of Association:-
 - a) Restricts the right to transfer its shares, if any.
 - b) Except in the case of one person company, limits the number of members excluding it present or past employee members to 200. *Where shares are held by two or more persons jointly they shall be treated as a single member.*
 - c) Prohibits any invitation to public to subscribe for any security of the company.

[Section 2(68) of Companies Act, 2013]

A private company should have at least 2 directors but not more than 15 directors. The name of a Private company ends with the words, 'Private Limited'.



3. Public Company

- A Public Company is a Company which:
 - a) Is not a Private Company
 - b) Has minimum paid-up capital as may be prescribed
 - c) Is a Private Company, being a subsidiary of a company which is not a Private Company.

[Section 2(71) of the Companies Act, 2013]

A public company must have at least 7 members. There is no restriction on the maximum number of members.

A public company should have at least 3 directors but not more than 15 directors. The name of a public company ends with the word 'Limited'.



Share Capital of A Company

- Share capital means the amount that a company receives towards Share Capital from issue of shares, both Equity and Preference Shares.
- Capital of a company is divided into units of similar denominations (say Rs.1, Rs.5, Rs.10 or Rs.100) and each such unit is called a share. For example, in a company Rs.50,00,000 is divided into 5,00,000 units of Rs.10 each, then each unit of Rs.10 is called a share of Rs.10 each. Thus, in the above case the company will be said to have 5,00,000 shares of Rs.10 each. Rs.10 is known as the nominal (face) value of the share.



Kinds or Classes of Shares

As per the section 43 of the Companies Act-2013 there are broadly two types of share capital:-

1. Preference Share

2. Equity Share

Rs.10 is known as the nominal (face) value of the share.



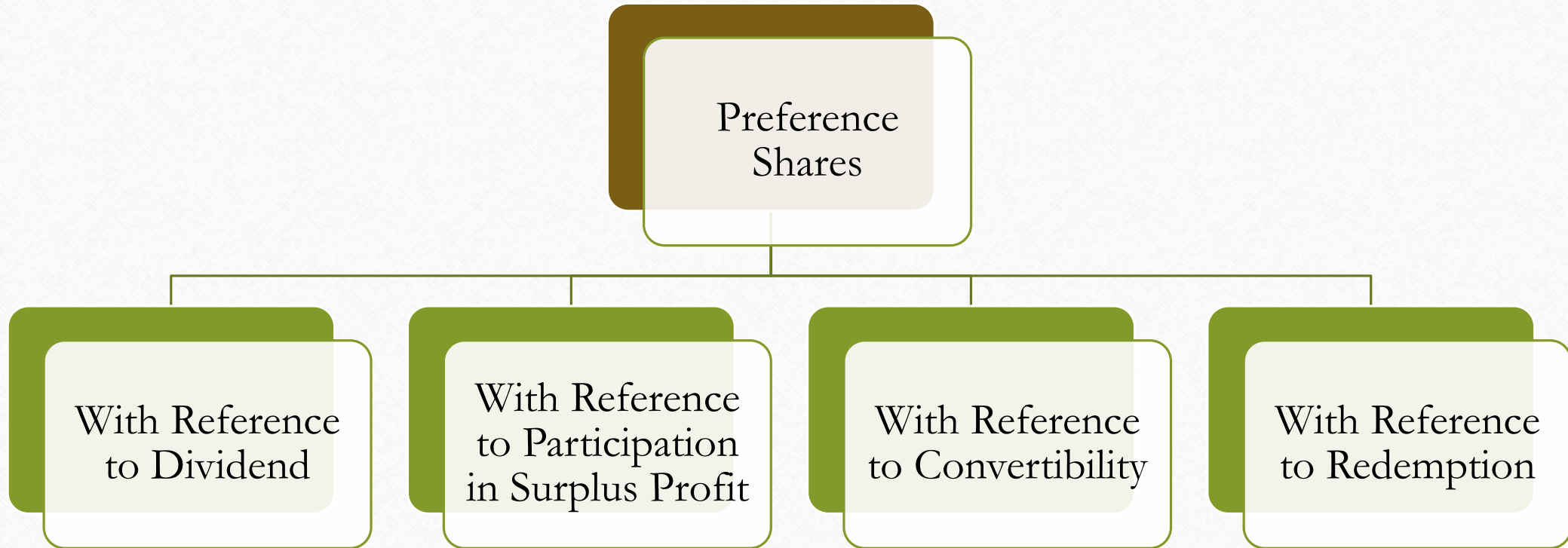
1. Preference Share

Preference shares are those shares which are having two preferential rights:-

1. Preferential right to receive dividend before it is paid to Equity Shares with a fixed amount or an amount calculated at a fixed rate, which may either be free or subject to income tax.
2. Repayment of capital on the winding up of the company before that of equity shares. Rs.10 is known as the nominal (face) value of the share.



Kinds of Preference Shares





Kinds of Preference Shares

With Reference to Dividend

- Cumulative Preference Shares
- Non-Cumulative Preference Shares

With Reference to Participate in Surplus Profit

- Participating Preference Shares
- Non-Participating Preference Shares

With Reference to Convertibility

- Convertible Preference Shares
- Non-Convertible Preference Shares

With Reference to Redemption

- Redeemable Preference Shares
- Irredeemable Preference Shares



2. Equity Shares

According to Section 43(1) of the Companies Act, 2013, Equity Shares are those shares which are not having any preferential right to receive dividend at the end of the year and repayment of capital at the time of wind-up of the company before the Preference Shareholders. These shares carry the maximum risks and rewards. 10 is known as the nominal (face) value of the share.



Classification of Share Capital

Balance Sheet of a Company is prepared in the format prescribed in Part-I of Schedule III of the Companies Act, 2013. It requires a Company to show:-

- Authorised Capital
 - Issued Capital
 - Subscribed Capital
- Rs.10 is known as the nominal (face) value of the share.



Authorised 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 a Company.”

-Section 2(8) of the Companies Act, 2013

Authorised or the Nominal Capital is that which is stated in the Memorandum of Association under Capital Clause and is the maximum amount that a company can raise as share capital. Rs.10 is known as the nominal (face) value of the share.



Issued Capital

Issued Capital is the part of Authorised Capital that is issued for subscription. It includes all share issued for subscription , shares allotted for consideration of other than cash and shares subscribed by the signatories of Memorandum of Association and shares taken by the directors as qualifying shares. Rs.10 is known as the nominal (face) value of the share.



Subscribed Capital

Subscribed capital is a part of Issued Capital which is subscribed by the public.

Subscribed Capital is classified or shown under the following two heads:-

a) Subscribed and fully paid-up

b) Subscribed but not fully paid-up

Rs.10 is known as the nominal (face) value of the share.



Subscribed and Fully paid-up Capital

Illustration:-

Surya Ltd. is having an authorized capital of Rs.10,00,000; 1,00,000 shares of Rs.10 each. The directors decided to issue 50,000 shares of Rs.10 each. The issue was fully subscribed and the amount was duly received. How you will prepare Notes to Accounts. Rs.10 is known as the nominal (face) value of the share.



Notes to Accounts

Particulars	Rs.
Share Capital	
Authorised Capital	10,00,000
1,00,000 Equity Shares of Rs.10 each	=====
Issued Capital	5,00,000
50,000 shares of Rs.10 each	=====
Subscribed and fully paid-up	5,00,000
50,000 shares of Rs.10 each	=====



Subscribed but not Fully paid-up Capital

Illustration:-

Surya Ltd. is having an authorized capital of Rs.10,00,000; 1,00,000 shares of Rs.10 each. The directors decided to issue 50,000 shares of Rs.10 each. The issue was fully subscribed and the amount was duly received except a shareholder holding 1000 shares of Rs.5 per share. How you will prepare Notes to Accounts. Rs 10 is known as the nominal (face) value of the share.



Notes to Accounts

Particulars		Rs.
Share Capital		
Authorised Capital		10,00,000
1,00,000 Equity Shares of Rs.10 each		=====
Issued Capital		5,00,000
50,000 shares of Rs.10 each		=====
Subscribed and Fully paid-up		
(49,000 shares of Rs.10 each)		4,90,000
Subscribed and not fully paid-up		
1,000 shares of Rs.10 each	10,000	
Less: Calls in Arrear (1,000×5)	<u>5,000</u>	<u>5,000</u>
		<u>4,95,000</u>
		=====



Reserved Capital

Reserved Capital is a part of subscribed capital remaining uncalled that a company decides, by a special resolution, not to call except in the event of winding up of the company. Reserve Capital and Capital Reserve are two different terms. Rs.10 is known as the nominal (face) value of the share.



Difference between Reserved Capital and Capital Reserve

Basis of Difference	Reserve Capital	Capital Reserve
1. Meaning	It is the part of uncalled capital which cannot be called except in the event of winding up.	It is a part of Reserve which is created out of capital profit.
2. Creation	It is uncalled capital.	It is created out of capital profit.
3. Compulsion	It is not mandatory.	It is mandatory.
4. Special Resolution	Special resolution is required for reserve capital.	No need to pass a special resolution.
5. Time when it can be used	It can be called at the time of winding up.	It can be used during the life of the company.
6. Disclosure	It is not disclosed.	It is disclosed in Balance Sheet.



Issue of Shares

The capital of the company is raised by issue of shares. A public company can issue shares by completing the legal formalities.

Process of Issue and Allotment of Shares

1. Inviting Subscription
2. Receipt of Application
3. Allotment of Shares
4. Intimating the allotment to Subscribers

Rs.10 is known as the nominal (face) value of the share.



Minimum Subscription

Minimum subscription is the amount stated in the prospectus that must be subscribed and the amount payable on application for the amount stated as minimum subscription have been paid to and received by the company by cheque or other instrument.

The regulatory authority for listed companies, SEBI prescribes that a company must receive minimum subscription of 90% of the shares issued for subscription before it allots the shares.

So, the company cannot allot the shares without receiving 90% of the sum payable on application for share issued to public. If company is not receiving minimum subscription, the company has to refund the application money within 15 days from the closure of the issue



Preliminary Expenses

Preliminary Expenses are the expenses incurred for incorporation of the company, such as registration fee paid to registrar, legal expenses, share issue expenses. These expenses may be written off from Securities Premium Reserve (Permitted by Section 52(2) of the Companies Act, 2013 or from the Statement of Profit and Loss in the year they are incurred.



Issue of Shares for Cash

Issue of shares for cash means shares issued by the company against payment received by cheque. These share can be issued at par or at premium. The shares cannot be issued at discount as per section 53 of Companies Act, 2013. Issue price may be payable as:-

- a) In lump sum along with the application
- b) In installment like partly on application, partly on allotment and the remaining on one or more calls



Issue of Shares against lump-sum

When the total amount of issue is payable in one installment, then it is called shares issued against payment in lump-sum.

Accounting entries for issue of shares, when amount payable in Lump-sum

For receiving application money:-

Bank A/c	Dr.
To Share App & Allotment A/c	
(For Application money received)	

For allotment of shares:-

Share App & Allotment A/c	Dr.
To Share Capital A/c	
(For Application money transferred to share capital A/c)	



Issue of Shares against payment in instalments

Issue price of the shares can be received by a company in installment also. First instalment is paid with the application, second instalment is paid at the time of allotment of shares and the remaining money can be called in call. These calls may be one or more.

According to Section 39(2) of the Companies Act, 2013, minimum application money should be 5% of the nominal value of the share.

SEBI prescribes that application money should not be less than 25% of the issue price.



Journal Entries

Transactions	Journal Entries
On receipt of Application money	Bank A/c Dr. To Share Application A/c
On allotment of shares	Share Application A/c Dr. To Share Capital A/c
On allotment money due	Share Allotment A/c Dr. To Share Capital A/c
On receipt of allotment money	Bank A/c Dr. To Share Allotment A/c
On call money due	Share Calls A/c Dr. To Share Capital A/c
On receipt of calls money	Bank A/c Dr. To Share Calls A/c



Shares Issued at Par

Issue of shares at par means that issue price of share is the same as its face value or the nominal value. i.e. share of Rs.10 (face value) is issued at Rs.10.

Illustration

Radha Ltd. Offered to public on 1st April, 2020, 50,000 Equity Shares of Rs.10 each. The amount is payable as Rs.3 on application, Rs.4 on allotment and Rs.3 on first and final call. The issue was fully subscribed and amount was duly received. Pass necessary journal entries for the above transactions.



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (50,000×4) To Equity Share Allotment A/c (50,000×4) (For Allotment money received)		2,00,000	2,00,000
	Equity Share 1 st & Final Call A/c Dr. (50,000×3) To Equity Share Capital A/c (50,000×3) (For share 1 st & Final call money due)		1,50,000	1,50,000
	Bank A/c Dr. (50,000×3) To Equity Share 1 st & Final Call A/c (For share 1 st & Final call money received)		1,50,000	1,50,000



Shares Issued at Premium

When the shares are issued at a price more than its nominal or face value is called shares issued at premium.

Section 52(1) of the Companies Act, 2013 prescribes that the amount of the premium received on securities be credit to Security Premium or Security Premium Reserve Account. In the Balance Sheet, it is shown under the head **‘Shareholder’s Fund’** and sub-head **‘Reserve and Surplus’** as **Security Premium Reserve**.



Use of Security Premium Reserve

As per Section 52(2) of the Companies Act, 2013 the amount of premium received on securities as Security Premium Reserve can be used for the following purpose:-

- **Issuing fully paid bonus shares to the members**
- **Writing off preliminary expenses of the company**
- **Writing off the expenses of issue of securities**
- **Writing off the discount allowed on issue of debentures of the company**
- **In purchasing its own shares**
- **Providing premium on redemption of preference shares and debentures**



Illustration

Birla Ltd issued 50,000 shares of Rs.10 each at a premium of Rs.2 per share payable as Rs.3 on application, Rs.6 on allotment and Rs.3 on first and final call. All the shares were subscribed and duly received. Pass necessary journal entries.



In the books of Birla Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (50,000×3) To Equity Share Application A/c (50,000×3) (For Application money received)		1,50,000	1,50,000
	Equity Share Application A/c Dr. (50,000×3) To Equity Share Capital A/c (50,000×3) (For application money transfer to share capital)		1,50,000	1,50,000
	Equity Share Allotment A/c Dr. (50,000×6) To Equity Share Capital A/c (50,000×4) To Security Premium Reserve A/c (50,000×2) (For allotment money due)		3,00,000	2,00,000 1,00,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (50,000×6) To Equity Share Allotment A/c (50,000×6) (For Allotment money received including premium)		3,00,000	3,00,000
	Equity Share 1 st & Final Call A/c Dr. (50,000×3) To Equity Share Capital A/c (50,000×3) (For share 1 st & Final call money due)		1,50,000	1,50,000
	Bank A/c Dr. (50,000×3) To Equity Share 1 st & Final Call A/c (For share 1 st & Final call money received)		1,50,000	1,50,000



Issue of Shares for Consideration of other than Cash

When a company is issuing shares for purchase of asset or purchase of business or services taken etc. is called shares issued for consideration of other than cash. In these cases company is receiving any amount against shares issued. Purchase of assets and issue of shares are two separate transactions. The journal entries for issue of share for consideration of other than cash are following:



Accounting Entries for issue of share for consideration of other than cash

Transactions	Journal Entries
On purchase of assets	Sundry Assets A/c Dr. To Vendor's A/c (For assets purchased)
On purchase of Business	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Vendor's A/c To Capital Reserve A/c (For business purchased)



Transactions	Journal Entries
On issue of shares (when issued at par)	Vendor's A/c Dr. To Share Capital A/c (For shares issued to vendor)
On issue of shares (when issued at premium)	Vendor's A/c Dr. To Share Capital A/c To Security Premium Reserve A/c (For shares issued to vendor at premium)



Transactions	Journal Entries
On Incorporation Cost	Incorporation Cost or Formation Cost A/c Dr. To Promoters A/c (For amount due to Promoters)
On issue of shares	Promoters A/c Dr. To Share Capital A/c To Security Premium Reserve A/c (For shares issued to Promoters)



Illustration

Pragya Ltd. Purchased the business of Rama Bros. for Rs.2,40,000 payable in fully paid Equity Shares of Rs.10 each. What entries will be passed in the books of Pragya Ltd. if the issue is (i) at par and (ii) at a premium of 20%?



In the books of Pragma Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Sundry Assets A/c Dr. To Rama Bros. A/c (For Business purchased from Rama Bros.)		2,40,000	2,40,000
(i)	Rama Bros. A/c Dr. To Equity Share Capital A/c (24,000×10) (For $\frac{2,40,000}{10} = 24,000$ shares issued at par)		2,40,000	2,40,000
(ii)	Rama Bros. A/c Dr. To Equity Share Capital A/c (20,000×10) To Security Premium Reserve A/c (20,000×2) (For $\frac{2,40,000}{12} = 20,000$ shares issued at 20% premium)		2,40,000	2,00,000 40,000



Illustration

Rohit Ltd. Purchased a running business from Vandana Ltd. for a sum of Rs.2,50,000 payable as Rs.2,20,000 in fully paid equity shares of Rs.10 each and balance by bank draft. The assets and liabilities are the following:-

Plant and Machinery Rs.90,000; Building Rs.95,000; Sundry Debtors Rs.25,000; Stock Rs.45,000; Cash Rs.25,000; Sundry Creditors Rs.20,000

Journalise the above transactions.



In the books of X Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Plant & Machinery A/c Dr.		90,000	
	Building A/c Dr.		95,000	
	Sundry Debtors A/c Dr.		25,000	
	Stock A/c Dr.		45,000	
	Cash A/c Dr.		25,000	
	To Sundry Creditors A/c			20,000
	To Vandana Ltd. A/c			2,50,000
	To Capital Reserves A/c			10,000
	(For business purchased from Vandana Ltd.)			
	Vandana Ltd. A/c Dr.			
	To Bank A/c		2,50,000	
	To Share Capital A/c			30,000
	(For shares issued of Rs.2,20,000 & paid remaining by bank draft)			2,20,000



Under Subscription of Shares

If the number of shares applied are less than the number of shares issued for subscription is called undersubscription.

Minimum Subscription

As per SEBI guidelines, if a company does not receive minimum subscription i.e., 90% of the issued shares, it cannot allot the shares. As a result, it will have to return the application money to the subscribers.

In undersubscription, accounting entries are made on the basis of applied shares because allotment is made in full to all the applicants.



Illustration

Bajaj Ltd. Invited applications for 30,000 equity shares of Rs.10 each. The amount was payable as follows: on application Rs.3 per share, on allotment Rs.4 per share and on first and final call Rs.3 per share. Applications were received for 27,500 shares and allotment was made to all. The money was duly received. Pass necessary journal entries.



In the books of Bajaj Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (27,500×3) To Equity Share Application A/c (27,500×3) (For Application money received)		82,500	82,500
	Equity Share Application A/c Dr. (27,500×3) To Equity Share Capital A/c (27,500×3) (For application money transfer to share capital)		82,500	82,500
	Equity Share Allotment A/c Dr. (27,500×4) To Equity Share Capital A/c (27,500×4) (For allotment money due)		1,10,000	1,10,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (27,500×4) To Equity Share Allotment A/c (27,500×4) (For Allotment money received)		1,10,000	1,10,000
	Equity Share 1 st & Final Call A/c Dr. (27,500×3) To Equity Share Capital A/c (27,500×3) (For share 1 st & Final call money due)		82,500	82,500
	Bank A/c Dr. (50,000×3) To Equity Share 1 st & Final Call A/c (For share 1 st & Final call money received)		82,500	82,500



Preparation of Cash Book

If the company prepares Cash Book with Journal Book in that case the transactions related to cash will be recorded in a Cash Book and non-cash transactions will be recorded in the book of Journal. So, with journal book, one cash book also will be prepared.



Illustration

Shiva Ltd. Invited applications for 30,000 equity shares of Rs.10 each. The amount was payable as follows: on application Rs.3 per share, on allotment Rs.4 per share and on first and final call Rs.3 per share. Applications were fully subscribed and the money was duly received. Pass necessary journal entries and prepare cash book in the books of the company.



Cash Book

Particulars	Rs.	Particulars	Rs.
To Share Application A/c	90,000	By Balance c/d	3,00,000
To Share Allotment A/c	1,20,000		
To share 1 st & Final Call A/c	<u>90,000</u>		<u> </u>
	3,00,000		3,00,000
	=====		=====



In the books of Shiva Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Equity Share Application A/c Dr. (30,000×3) To Equity Share Capital A/c (30,000×3) (For application money transfer to share capital)		90,000	90,000
	Equity Share Allotment A/c Dr. (30,000×4) To Equity Share Capital A/c (30,000×4) (For allotment money due)		1,20,000	1,20,000
	Equity Share 1 st & Final Call A/c Dr. (30,000×3) To Equity Share Capital A/c (30,000×3) (For share 1 st & Final call money due)		90,000	90,000



Treatment of Share Capital in Balance Sheet of a Company

Balance Sheet of a Company is prepared in the format prescribed in Part-I of Schedule III of the Companies Act, 2013. In the Balance Sheet only the amount received on Subscribed Capital is shown under the head of Shareholder's Fund, sub-head of Share Capital.



Balance Sheet as at

Particulars	Note No.	Rs.
I. Equity and Liabilities		
Shareholder's Fund		
(a) Share Capital		
(b) Reserve and Surplus		
II. Assets		
Current Assets		
Cash and Cash Equivalents		



Notes to Accounts

Particulars	Rs.
Share Capital	
Authorised Capital	-----
----- Equity Shares of Rs.---- each	=====
Issued Capital	-----
----- shares of Rs.---- each	=====
Subscribed and Fully paid-up	
(----- shares of Rs.----- each)	-----
Subscribed and not fully paid-up	
----- shares of Rs.---- each	-----
Less: Calls in Arrear (1,000×5)	-----
	=====



Illustration

HMT Ltd registered with an authorized capital of Rs.5,00,000 divided into 50,000 equity shares of Rs.10 each. The company issued 30,000 shares at a premium of Rs.2 per share. The amount was payable as follows: on application Rs.2 per share, Rs.8 on allotment (including premium) and the balance amount on first and final call. The issue was fully subscribed and all the amount due was received except the first and final call money on 1,000 shares allotted to Swati.

Present the Share Capital in the Balance Sheet of the company as per Schedule III, Part I of the Companies Act, 2013. Also prepare notes to accounts.



Balance Sheet as at

Particulars	Note No.	Rs.
I. Equity and Liabilities		
Shareholder's Fund		
(a) Share Capital		2,98,000
(b) Reserve and Surplus		<u>60,000</u>
Total		3,58,000 =====
II. Assets		
Current Assets		
Cash and Cash Equivalents		<u>3,58,000</u>
Total		3,58,000 =====



Notes to Accounts

Particulars		Rs.
Share Capital		
Authorised Capital		5,00,000
50,000 Equity Shares of Rs.10 each		=====
Issued Capital		3,00,000
30,000 shares of Rs.10 each		=====
Subscribed and Fully paid-up		
(29,000 shares of Rs.10 each)		2,90,000
Subscribed and not fully paid-up		
1,000 shares of Rs.10 each	10,000	
Less: Calls in Arrear (1,000×2)	<u>2,000</u>	<u>8,000</u>
		2,98,000
		=====



Calls in Arrear

If a shareholder does not pay the call amount due on allotment or on any of the call according to terms, then the amount not received on allotment or calls is called Calls in Arrear. The arrear amount on account of allotment or calls may or may not be transferred to Calls-in-Arrear Account.



Interest on Calls-in-Arrear

If the company is authorized by its Articles of Association may charge interest at the specified rate on calls in arrear from the due date to the date of payment and if Articles of Association is silent, Table F of the Companies Act, 2013 shall apply. As per this Table F interest on Calls in Arrear will be charged @10% p.a.



Journal Entries for Calls in Arrear

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Calls in Arrear A/c Dr. To Share Allotment A/c To Share Calls A/c (For money not received on allotment and calls)			
	Bank A/c Dr. To Calls in Arrear A/c (For calls in arrear money received)			



Illustration

X Ltd. Company had an authorized capital of Rs.8,00,000 divided into 8,000 shares of Rs.100 each. The company issued 5,000 shares payable at Rs.25 on application, Rs.30 on allotment, Rs.25 on first call and balance on final call. All the issued shares were subscribed and amount was duly received except the final call on 500 shares, which is transferred to Calls in Arrear Account. Pass necessary journal entries and prepare Share Capital Account.



In the books of X Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (5,000×25) To Share Application A/c (5,000×25) (For Application money received)		1,25,000	1,25,000
	Share Application A/c Dr. (5,000×25) To Share Capital A/c (5,000×25) (For application money transfer to share capital)		1,25,000	1,25,000
	Share Allotment A/c Dr. (5,000×30) To Share Capital A/c (5,000×30) (For allotment money due)		1,50,000	1,50,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Final Call A/c Dr. (5,000×20) To Share Capital A/c (5,000×20) (For Share Final call money due)		1,00,000	1,00,000
	Bank A/c Dr. (4,500×20) Calls in Arrear A/c Dr. (500×20) To Share Final Call A/c (5,000×20) (For Share Final call money received on 4,500 shares)		90,000 10,000	1,00,000



Share Capital A/c

Particulars	Rs.	Particulars	Rs.
To Balance c/d	5.00,000	By <u>Share Application</u> A/c	1,25,000
		By Share Allotment A/c	1,50,000
		By Share 1 st Call A/c	1,25,000
		By Share Final Call A/c	<u>1,00,000</u>
	<u>5,00,000</u>		5,00,000
	=====		=====



Calls in Advance

A company may accept the amount against the call or calls not yet made i.e., calls in advance, if its Articles of Association allows. This may also happen in case of partial or pro rata allotment of shares when the company retains excess amount received on application of shares beyond the allotment money. In this way amount received in advance before the due date is a liability of a company. It is shown in the Balance Sheet under the head Current Liabilities and sub-head Other Current Liabilities.



Journal Entries for Calls in Advance

Transactions	Journal Entries
When call money received in advance	Bank A/c Dr. To Calls in Advance A/c (For calls money received in advance)
When advance money received on calls adjusted to respective call at the time of calls due	Calls in Advance A/c Dr. To Share Calls A/c (For calls in advance adjusted towards call due)



Interest on Calls in Advance

Interest on Calls in Advance is paid if Articles of Association so provides. But in case of silence of Articles of Association, provisions of Table F of Companies Act, 2013 apply and interest on Calls in Advance will be provided @ 12% p.a.



Illustration

Alfa Ltd. registered with a capital of Rs.3,00,000; 30,000 shares of Rs.10 each, issued 20,000 shares, payable Rs.2 on application, Rs.4 on allotment, Rs.3 on first call and balance on final call. The allotment money was made. One shareholder holding 600 shares paid calls along with the allotment money. Pass necessary journal entries.



In the books of Alfa Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (20,000×2) To Share Application A/c (20,000×2) (For Application money received)		40,000	40,000
	Share Application A/c Dr. (20,000×2) To Share Capital A/c (20,000×2) (For application money transfer to share capital)		40,000	40,000
	Share Allotment A/c Dr. (20,000×4) To Share Capital A/c (20,000×4) (For allotment money due)		80,000	80,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (80,000+2,400) To Share Allotment A/c (20,000×4) To Calls in Advance A/c (600×4) (For Allotment money received)		82,400	80,000 2,400
	Share First Call A/c Dr. (20,000×3) To Share Capital A/c (20,000×3) (For share first call money due)		60,000	60,000
	Bank A/c Dr. (19,400×3) Calls in Advance A/c Dr. (600×3) To Share First Call A/c (For share first call money received)		58,200 1,800	60,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Final Call A/c Dr. (20,000×1) To Share Capital A/c (20,000×1) (For Share Final call money due)		20,000	20,000
	Bank A/c Dr. (19,400×1) Calls in Advance A/c Dr. (600×1) To Share Final Call A/c (20,000×1) (For Share Final call money received on 4,500 shares)		19,400 600	20,000



Oversubscription

When the number of shares applied are more than the number of shares issued for subscription is called oversubscription. In case of oversubscription, shares can be allotted by the company by any of the following three ways:-

1. Some applications are accepted in full and excess applications are rejected and their application money is also refunded. This is known as Rejection of Applications.
2. Shares allotted to all the applicants in proportion. This is called Partial or Pro-rata Allotment.
3. Some applications are accepted full, some are rejected and proportion allotment is made to the remaining.



Illustration (when some applications accepted full and some are rejected)

Surya Ltd. invited applications for 30,000 shares of Rs.10 each, payable as Rs.3 on application, Rs.4 on allotment and the balance on calls when required. Applications were received for 35,000 share. The directors decided to allot share to the applicants of 30,000 share and the applicants of 5,000 share were rejected. Pass the necessary journal entries.



In the books of Surya Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (35,000×3) To Share Application A/c (35,000×3) (For Application money received)		1,05,000	1,05,000
	Share Application A/c Dr. (35,000×3) To Share Capital A/c (30,000×3) To Bank A/c (5,000×3) (For application money adjusted)		1,05,000	90,000 15,000
	Share Allotment A/c Dr. (30,000×4) To Share Capital A/c (30,000×4) (For allotment money due)		1,20,000	1,20,000



Illustration (when partial or pro-rata allotment is made)

Bajaj Auto Ltd. invited applications for 20,000 shares of Rs.10 each, payable Rs.3 on application, Rs.3 on allotment and Rs.4 on first and final call. Applications were received for 24,000 shares. The company decided to allot 20,000 shares on pro-rata basis and surplus money was utilized for allotment money due. The amount was duly received. Pass necessary journal entries for the issue of shares.



In the books of Bajaj Auto Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (24,000×3) To Share Application A/c (24,000×3) (For Application money received)		72,000	72,000
	Share Application A/c Dr. (24,000×3) To Share Capital A/c (20,000×3) To Share Allotment A/c (4,000×3) (For application money adjusted)		72,000	60,000 12,000
	Share Allotment A/c Dr. (20,000×3) To Share Capital A/c (20,000×3) (For allotment money due)		60,000	60,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (60,000 - 12,000) To Share Allotment A/c (For Allotment money received)		48,000	48,000
	Share First & Final Call A/c Dr. (20,000×4) To Share Capital A/c (20,000×4) (For share first call money due)		80,000	80,000
	Bank A/c Dr. (20,000×4) To Share First Call A/c (For share first call money received)		80,000	80,000



Working Note:-

Applied	Allotted	App Money Received	Application Money Due	Excess	Adjustment
24,000 shares	20,000 shares	72,000	60,000	12,000	12,000 adjusted towards Allotment

Application Money Received = $24,000 \times 3 = \text{Rs. } 72,000$

Application Money Due = $20,000 \times 3 = \text{Rs. } 60,000$

Excess money = $72,000 - 60,000 = \text{Rs. } 12,000$

Allotment money due = $20,000 \times 3 = \text{Rs. } 60,000$

Less: Excess Money = Rs. 12,000

Allotment money received = Rs. 48,000



Illustration (when partial or pro-rata allotment and rejection of application is made)

Raheja & Co. Ltd. Was authorized with a capital of Rs.10,00,000 divided into 10,000 shares of Rs.100 each. The company issued 6,000 shares to the public on which amount were payable Rs.30 on application, Rs.40 on allotment and the balance on first and final call. Applications for 9,200 shares were received. The allotment was made in the following way:-

Applicants for 4,000 shares - Full

Applicants for 5,000 share - 40%

Applicants for 200 shares - Nil

Excess money received was adjusted towards allotment and calls money due. All the money was duly received except one shareholder holding 500 shares to whom full allotment was made did not pay the allotment and calls money. Pass necessary journal entries.



In the books of Raheja & Co. Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (9,200×30) To Share Application A/c (9,200×30) (For Application money received)		2,76,000	2,76,000
	Share Application A/c Dr. (9,200×30)) To Share Capital A/c (6,000×30) To Share Allotment A/c (2,000×40) To Calls in Advance A/c To Bank A/c (200×30) (For application money adjusted)		2,76,000	1,80,000 80,000 10,000 6,000
	Share Allotment A/c Dr. (6,000×40) To Share Capital A/c (6,000×40) (For allotment money due)		2,40,000	2,40,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (2,40,000 – 80,000-20,000) To Share Allotment A/c (For Allotment money received)		1,40,000	1,40,000
	Share First & Final Call A/c Dr. (6,000×30) To Share Capital A/c (6,000×30) (For share first call money due)		1,80,000	1,80,000
	Bank A/c Dr. (1,70,000-18,000) Calls in Advance A/c Dr. To Share First Call A/c (For share first call money received)		1,42,000 10,000	1,52,000

Working Note:-

Applied Shares	Allotted Shares	App Money Received (Rs.30)	Application Money Due	Excess	Amt. can be adj. on allotment	Adjusted on Allotment	Adjusted on calls	Amount Refunded
4,000	4,000	1,20,000	1,20,000	-----	-----	-----	-----	-----
5,000	2,000	1,50,000	60,000	90,000	80,000	80,000	10,000	-----
200	Nil	6,000	Nil	6,000	-----	-----	-----	6,000

Allotment money due $(6,000 \times 40) = \text{Rs. } 2,40,000$

Less: Excess money received on Application = Rs. 80,000
 Rs. 1,60,000

Less: Amount not received on 500 shares = Rs. 20,000

Amount received on Allotment = Rs. 1,40,000



Forfeiture of Shares

Forfeiture of shares means cancelling the shares for non-payment of calls due. But the shares can be forfeited only if the Articles of Association of the company allows. If any shareholder does not pay the call money, the company may exercise the power to forfeit the shares held by him by giving 14 days notice. If the shareholder is not able to pay the amount due on call within the notice period, his shares may be forfeited by passing an appropriate resolution.

On forfeiture, the shares are cancelled and the amount of share capital on these shares which was credited, is reduced by debiting the capital account. The amount received on these shares is not refunded.



Accounting Entries on Forfeiture of Shares

Forfeited shares may have issued at par or at premium. So, journal entries will be made according to the situation:-

- 1. Forfeiture of shares issued at par**
 - a) Share Capital Account is debited with the called-up money upto the date of forfeiture.
 - b) Share allotment or shares calls account is credited with the amount which is not received on allotment or calls.
 - c) Forfeited shares account is credited with the amount received on forfeited shares.



Accounting Entries for Forfeiture of Shares Issued at Par

Transactions	Journal Entries
On Forfeiture of Shares	Share Capital A/c Dr. To Share Allotment A/c To Share Calls A/c To Share Forfeiture A/c (For shares forfeited on non-payment of allotment & calls money)
When calls in arrear account is maintained	Share Capital A/c Dr. To Calls in Arrear A/c To Forfeited Shares A/c (For shares forfeited on non-payment of calls money)



Illustration

X Ltd. issued 4,000 equity shares of Rs.10 each, payable as Rs.2 on application, Rs.3 on allotment, Rs.5 on first and final call. 50 shares were allotted to Mr. Ramsiej. Pass necessary journal entries relating to the forfeiture of shares in each of the following cases:-

1. If Mr. Ramsiej failed to pay the allotment money and his shares were forfeited.
2. If Mr. Ramsiej is failed to pay the allotment and calls money and shares were forfeited.



In the books of X Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Case 1	Share Capital A/c Dr. (50×5) To Share Allotment A/c (50×3) To Forfeited Share A/c (50×2) (For shares forfeited on non-payment of allotment money)		250	150 100
Case 2	Share Capital A/c Dr. (50×10) To Share Allotment A/c (50×3) To Share First & Final Call A/c (50×5) To Forfeited Share A/c (50×2) (For shares forfeited on non-payment of allotment and calls money)		500	150 250 100



Forfeiture of Shares Issued at Premium

When shares issued at premium are forfeited, there may be two following possibilities:-

- a) Security Premium amount has been received
- b) Security Premium amount has not been received



a) When Security Premium amount has been received

At the time of forfeiture of shares, the amount received as Securities Premium is not cancelled. Security Premium Reserve Account is not debited with the amount relating to forfeited shares because the amount is already received, so there is no need to cancel the Security Premium Reserve.



a) When Security Premium amount has not been received

The amount of the premium credited to the Security Premium Reserve Account but not received on forfeited shares. This amount will be cancelled by debiting the Security Premium Reserve Account.



Accounting Entries for Forfeiture of Shares Issued at Par

Transactions	Journal Entries
If Security Premium has been received	Share Capital A/c Dr. To Share Allotment A/c To Share Calls A/c To Share Forfeiture A/c (For shares forfeited on non-payment of allotment & calls money)
If Security Premium has not been received	Share Capital A/c Dr. Security Premium Reserve A/c Dr. To Share Allotment A/c To Share Calls A/c To Forfeited Shares A/c (For shares forfeited on non-payment of allotment & calls money)



Illustration

X Ltd. issued 4,000 equity shares of Rs.10 each at a premium of Rs.2 per share, payable as Rs.2 on application, Rs.5 on allotment (including Premium), Rs.5 on first and final call. 50 shares were allotted to Mr. Ramsiej. Pass necessary journal entries relating to the forfeiture of shares in each of the following cases:-

1. If Mr. Ramsiej failed to pay the allotment money and his shares were forfeited.
2. If Mr. Ramsiej is failed to pay calls money and his shares were forfeited.



In the books of X Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Case 1	Share Capital A/c Dr. (50×5) Security Premium Reserve A/c Dr. (50×2) To Share Allotment A/c (50×5) To Forfeited Share A/c (50×2) (For shares forfeited on non-payment of allotment money)		250 100	250 100
Case 2	Share Capital A/c Dr. (50×10) To Share First & Final Call A/c (50×5) To Forfeited Share A/c (50×5) (For shares forfeited on non-payment of allotment and calls money)		500	250 250



Reissue of Forfeited Shares

Reissue of forfeited shares means selling the shares that were cancelled by the company. These forfeited shares may be reissued at par, at premium, or at discount. When forfeited shares are reissued at discount, the amount of discount allowed on these shares should not be exceeded the amount forfeited on reissued shares. In others words, reissue price cannot be less than the amount unpaid on forfeited shares.



Accounting Entries for reissue of Forfeiture of Shares

Transactions	Journal Entries
When forfeited shares reissued at par	Bank A/c Dr. To Share Capital A/c (For reissue of forfeited shares at par)
When forfeited shares reissued at premium	Bank A/c Dr. To Share Capital A/c To Security Premium Reserve A/c (For reissue of forfeited shares at par)
When forfeited shares reissued at discount	Bank A/c Dr. Forfeited Shares A/c Dr. To Share Capital A/c (For reissue of forfeited shares at discount)



Illustration

Alexa Ltd. Issued 1,00,000 shares of Rs.10 each at a premium of Rs.10 per shares. The amount was payable as Rs.10 (including Rs.5 premium) on application, Rs.7 (including Rs.5 premium) on allotment and the balance on first and final call.

The issue was fully subscribed. A shareholder holding 300 shares paid full share amount with application. Another shareholder holding 200 shares failed to pay the allotment and calls money. His shares were forfeited. The forfeited shares were reissued for (i) Rs.2,500 as fully paid up, (ii) Rs.1,500 as fully paid up, (iii) Rs.2,000 as fully paid up. Pass necessary journal entries for the above transactions.



In the books of Raheja & Co. Ltd.
Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. To Share Application A/c (For Application money received with full amount on 300 shares)		10,03,000	10,03,000
	Share Application A/c Dr. To Share Capital A/c (1,00,000×5) To Security Premium Reserve A/c (1,00,000×5) To Share Allotment A/c (300×7) To Calls in Advance A/c (300×3) (For application money adjusted)		10,03,000	5,00,000 5,00,000 2,100 900



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Allotment A/c Dr. (1,00,000×7) To Share Capital A/c (1,00,000× 2) To Security Premium Reserve A/c (For Allotment money due)		7,00,000	2,00,000 5,00,000
	Bank A/c Dr. (7,00,000-2100-1400) To Share Allotment A/c (For allotment money received)		6,96,500	6,96,500
	Share 1 st & Final Call Dr. (1,00,000× 3) To Share Capital A/c (For share first & final call money due)		3,00,000	3,00,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (3,00,000-900-600) Calls in Advance A/c (300× 3) To Share 1 st & Final Call A/c (For first and final call money received)		2,98,500 900	2,99,400
	Share Capital A/c Dr. (200×10) Security Premium Reserve A/c (200× 5) To Share Allotment A/c To Share 1 st & Final Call A/c To Forfeited Shares A/c (For shares forfeited for non payment of allotment and calls money)		2,000 1,000	1,400 600 1,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
(i)	Bank A/c Dr. To Share Capital A/c (200×10) To Security Premium Reserve A/c(200× 2.5) (For forfeited shares reissued at premium)		2,500	2,000 500
	Forfeited Shares A/c Dr. To Capital Reserve A/c (For amount of forfeited shares transferred to capital reserve)		1,000	1,000
(iii)	Bank A/c Dr. Forfeited Share A/c Dr. To Share Capital A/c (For reissue of forfeited shares at discount)		1,500 500	2,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Forfeited Share A/c Dr. To Capital Reserve A/c (For forfeited shares account transferred to capital reserve)		500	500
(iii)	Bank A/c Dr. To Share Capital A/c (For reissue of forfeited shares at par)		2,000	2,000
	Forfeited Share A/c Dr. To Capital Reserve A/c (For forfeited shares account transferred to capital reserve)		1,000	1,000



Illustration (When all forfeited shares are not reissued)

NHC Ltd. Forfeited 500 shares of Rs.100 each issued at 10% premium on which allotment money of Rs.35 per share (including premium) and first call of Rs.25 per share were not received. The second and final call of Rs.20 was not yet called.

Pass journal entries related to forfeiture and reissue of shares in each of the following cases:-

1. If 300 of these shares were reissued as Rs.80 paid-up for Rs.80 per share.
2. If 300 of these shares were reissued as Rs.80 paid-up for Rs.85 per share.
3. If 300 of these shares were reissued at Rs.70 per share as fully paid-up.
4. If 300 of these shares were reissued as 80 paid-up for Rs.70 per share.



In the books of NHC Ltd.
Journal

<u>Date</u>	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Capital A/c Dr. (500×80) Security Premium Reserve A/c Dr. (500×10) To Share Allotment A/c (500×35) To Share First Call A/c (500×25) To Forfeited Share A/c (500×30) (For shares forfeited on non-payment of allotment and first call money)		40,000 5,000	17,500 12,500 15,000
Case 1	Bank A/c Dr. (300×80) To Share Capital A/c (300×80) (For reissue of forfeited shares as Rs.80 paid-up for Rs.80 per share)		24,000	24,000



<u>Date</u>	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Forfeited Shares A/c Dr. To Capital Reserve A/c (For amount of forfeited shares on 300 shares transferred to capital reserve)		9,000	9,000
Case 2	Bank A/c Dr. (300×85) To Share Capital A/c (300× 80) To Security Premium Reserve A/c(300× 5) (For forfeited shares reissued at premium)		25,500	24,000 1,500
	Forfeited Shares A/c Dr. To Capital Reserve A/c (For amount of forfeited shares on 300 shares transferred to capital reserve)		9,000	9,000



<u>Date</u>	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
Case 3	Bank A/c <u>Dr.</u> (300× 70) Forfeited Share A/c (300× 30) To Share Capital A/c (300× 100) (For forfeited shares reissued at Rs.70 as fully paid-up)		21,000 9,000	30,000
Case 4	Bank A/c <u>Dr.</u> (300× 70) Forfeited Share A/c <u>Dr.</u> (300× 10) To Share Capital A/c (300× 80) (For reissue of forfeited shares at Rs.70 as Rs.80 paid-up)		21,000 3,000	24,000
	Forfeited Shares A/c <u>Dr.</u> To Capital Reserve A/c (For amount of forfeited shares on 300 shares transferred to capital reserve)		6,000	6,000



Working Note:-

Profit on forfeiture of 500 shares = Rs. 15,000

Profit on forfeiture of 1 share = $\frac{15000}{500}$

Profit on forfeiture of 300 shares = $\frac{15000}{500} \times 300 = \text{Rs. } 9,000$

Case 1 Amount transferred to Capital Reserve = Rs.9,000

Case 2 Amount transferred to Capital Reserve = Rs.9,000

Case 3 Amount transferred to Capital Reserve = 9,000 – 9,000 = 0

Case 4 Amount Transferred to Capital Reserve = 9,000 – 3,000 = Rs.6,000



Illustration (Forfeiture of Shares in case of Pro-rata Allotment)

Batra Ltd. issued 40,000 shares of Rs.10 each at a premium of Rs.2 per share. The amount was payable as Rs.2 per share on application, Rs.4 per share on allotment (including premium) and Rs.6 per share on calls.

Applications were received for 1,24,000 shares. The allotment was made on pro-rata basis as follows:-

- (i) To the applicants of 20,000 shares were allotted 10,000 shares.
- (ii) To the applicants of 56,000 shares were allotted 14,000 shares.
- (iii) To the applicants of 48,000 shares were allotted 16,000 shares.

The excess amount received on applications would be utilized on allotment and the surplus would be refunded.

Lokesh, to whom 2,000 shares were allotted, who belongs to category (i) failed to pay allotment and calls money. His shares were forfeited. Out of these shares 1,000 shares were reissued at Rs.8 per share as fully paid-up. Pass necessary journal entries in the books of Batra Ltd.



Working Note:-

Applied Shares	Allotted Shares	Excess Money	Allotment Money Due	Adjusted on Allotment	Money refunded
20,000	10,000	20,000 (10,000×2)	40,000 (10,000×4)	20,000	-----
56,000	14,000	84,000 (42,000×2)	56,000 (14,000×4)	56,000	28,000
48,000	16,000	64,000 (32,000×2)	64,000 (16,000×4)	64,000	-----
1,24,000 =====	40,000 =====	1,68,000 =====	1,60,000 =====	1,40,000 =====	28,000 =====



In the books of Batra Ltd.

Journal

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (1,24,000×2) To Share Application A/c (1,24,000×2) (For application money received on 1,24,000 shares)		2,48,000	2,48,000
	Share Application A/c Dr. (1,24,000×2)) To Share Capital A/c (40,000×2) To Share Allotment A/c To Bank A/c (For application money adjusted)		2,48,000	80,000 1,40,000 28,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Share Allotment A/c Dr. (40,000×4) To Share Capital A/c (40,000× 2) To Security Premium Reserve A/c (40,000× 2) (For Allotment money due)		1,60,000	80,000 80,000
	Bank A/c Dr. (1,60,000-1,40,000-4,000) To Share Allotment A/c (For allotment money received)		16,000	16,000
	Share 1 st & Final Call Dr. (40,000× 6) To Share Capital A/c (For share first & final call money due)		2,40,000	2,40,000



<u>Date</u>	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (2,40,000 – 12,000) To Share 1 st & Final Call A/c (For first and final call money received)		2,28,000	2,28,000
	Share Capital A/c Dr. (2000×10) Security Premium Reserve A/c (2000× 2) To Share Allotment A/c (8,000 – 4,000) To Share 1 st & Final Call A/c To Forfeited Shares A/c (For shares forfeited for non payment of allotment and calls money)		20,000 4,000	4,000 12,000 8,000



Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Bank A/c Dr. (1,000× 8) Share Forfeiture A/c Dr. (1,000×2) To Share Capital A/c (1,000×10) (For forfeited shares reissued at Rs.8 per share as fully paid-up)		8,000 2,000	10,000
	Forfeited Shares A/c Dr. To Capital Reserve A/c (For amount of forfeited on 1,000 shares transferred to capital reserve)		2,000	2,000



Working Note:-

1. Number of shares applied for 2,000 shares allotted shares = $\frac{20,000}{10,000} \times 2,000 = 4,000$ shares

Allotment Money due (40,000 × 4) = 1,60,000

Less: Excess money received on application = 1,40,000

20,000

Less: Amount not received on 2,000 shares [8,000 (2,000 × 4) - 4,000 (2,000 × 2)] = 4,000

Amount received on allotment = 16,000

2. Profit on forfeiture of 2,000 shares = Rs. 8,000

Profit on forfeiture of 1 share = $\frac{8000}{2000}$

Profit on forfeiture of 300 shares = $\frac{8000}{2000} \times 1000 = \text{Rs. } 4,000$

Amount transferred to Capital Reserve = Rs. 4,000 – Rs. 2,000 = Rs. 2,000



Preferential Allotment

Preferential Allotment means allotment of shares to the pre-identified people at a predetermined price, such as shares allotted to promoters, venture capitalists, financial institutions, customer of company's products or its supplier. The company has to pass a special resolution in the meeting of shareholders before proceeding with preferential allotment.



Private Placement of Shares

As per Section 42 of the Companies Act, 2013, Private placement means any offer of securities to subscribe securities to a selected group of persons by a company through issue of private placement offer letter and which satisfies the conditions specified in this section. *In other words, securities offered to selected group of persons by issuing private placement offer is known as the Private Placement of Shares.*



Conditions for Private Placement of Shares

1. Offer of securities to subscribe securities shall be made in a financial year to persons not exceeding 50 members or such higher number as may be prescribed. The maximum number of people to whom offer of Private placement can be made is prescribed as 200. Qualified institutional buyers and employees of the company to whom securities are offered under a scheme of employees stock option are excluded.
2. Fresh invitation will not be made unless the allotments with respect to any offer made earlier have been completed or that offer or invitation has been withdrawn by the company.
3. The amount of subscription should not be less than Rs.20,000.
4. All money payable shall be paid through bank or bank instruments, not is cash



Conditions for Private Placement of Shares

5. Offers shall be made to such people whose names are recorded by the company prior to the invitation to subscribe.
6. The company shall allot its securities within 60 days from the date of receipt of application money. If company is unable to allot the securities within 60 days, it has to refund the application money within 15 days from the day of completion of 60 days with interest of 12% p.a. from the expiry of 60th day.
7. The complete information of the offer shall be filled with the registrar of companies within 30 days of the circulation of offer for private placement.
8. The company cannot use any public advertisement to inform about offer to the public.



Employees Stock Option Plan

When option granted by the company to its employees or employee directors to subscribe the shares at a price lower than the market price is called Employees Stock Option Plan (ESOP). It is an option or right granted by the company, but the employee may or may not exercise the option.



Conditions for Employees Stock Option Plan

1. These shares are of the same class of shares already issued.
2. It is authorized by a special resolution passed by the company.
3. The number of shares, the current market price, consideration, if any and the class of directors or employees to whom such equity share are to be issued are specified in resolution.
4. At least one year has been elapsed at the date of issue since the date on which the company commenced the business.
5. If the shares are listed, these shares are issued in accordance with SEBI guidelines.