

Memorandum Balance sheet as on 31/12/2009

Liabilities	Rs	Assets	Rs
Capitals- X-58000 Y-43500 Z-33500	1,35,000	Cash	2000
Creditors	12,000	Sundry Assets(Balancing fig)	1,45,000
	1,47,000		1,47,000

UNIT 4: Company Accounts- Share capital**LEARNING OBJECTIVES**

Understand the meaning and features of company

- I) Classification of share capital
- II) Understand the accounting treatment of over subscription, calls in arrears, premium and discount on issue of shares.
- III) Understand the meaning of forfeiture of shares
- IV) Pass journal entries regarding forfeiture and reissue of shares
- V) Calculate capital reserve
- VI) Differentiate between capital reserve and reserve capital
- VII) Understand the disclosure of the share capital in the balance sheet

Salient Features

- *A company is an artificial person having separate legal entity.
- *A company is created by law and effected by law.
- *A private company can be formed with minimum two members and maximum fifty.
- *For a public company minimum members required are 7 and there is no maximum limit.

- *The capital of the company is divided into units of small denominations which are called shares.
- *Though the company is an artificial person, it has to perform all statutory obligation like a person. association.
- *A public company can allot shares in case of minimum subscription is received.
- *Shares can be issued at par, premium, or even at discount.
- *Preferences shareholder enjoy preference rights whereas equity share holder enjoy voting rights.
- *When a shareholder fails to pay one or more installments due on the shares held by him, the company has the authority to forfeit such shares.
- *A company can re-issue the forfeited shares in accordance with the provisions contained in the articles of the company.

(1 marks)

- Q.1 Give the definition of a company as contained in the companies act, 1956.
Ans section 3(1)(i) of companies act defines a company as "a company formed and registered under this act or an existing company."
According to sec 3(1)(ii), "An existing company means a company formed and registered under any of the former companies Acts."
- Q.2 Can forfeited shares be issued at a discount? If so to what extent?
Re-issue of forfeited shares: Forfeited shares can be reissued at a discount. However, the In other words, amount received on received on re-issue plus amount already received on forfeited shares must not be less than the paid up value of shares.
- Q.3 As a director of a company you had invited applications for 20,000 equity shares of Rs.10 each at a premium of Rs.2 each. The total applications money received at Rs.3/- per share was Rs.72,000. Name the kind of subscription. List the three alternatives for allotting these share.
Ans It is a case of over-subscription. Shares are said to be over-subscribed when the numbers of shares are more than the number of shares offered:
(i) Allotment for 1st 20,000 shares and the rest can be rejected
(ii) Allotment on prorata basis
(iii) Allotment of some application in full and some on prorata basis, and some refused.
- 4 What is an Escrow Account?
Ans. In order to fulfill certain obligations under the scheme of buy-back of securities an account is opened, which is known as escrow account.
- Q.5 What do you mean by Private placement of shares?
Ans. Private Placement of shares implies issue and allotment of shares to a selected group of persons privately and not to public in general through public issue. In order to place the shares privately, a company must pass a special resolution to this effect.
- Q.6 What is Sweat Equity?
Ans. Sweat Equity shares means equity shares issued by the company to its employees or whole time directors at a discount or for consideration other than cash for providing

know - how or making available right in the nature of intellectual property rights or value addition by whatever name called.

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

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

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

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

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

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

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

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

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

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

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

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

Q.12 Differentiate between Reserve capital and capital reserve.

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

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

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

Q.14 Write a short note on minimum subscription?

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

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

Q.15 Rohit Ltd. Purchased assets from Rohan & co. for Rs. 3,50,000. A sum of Rs. 75,000 was paid by the means of a bank draft and for the balance due Rohit Ltd. Issued Equity shares

of Rs. 10 each at a premium of 10% .Journalise the above transaction in the books of the company.

Ans.

Books of Rohit Ltds.

JOURNAL

Date	Particulars L.f	Debit Rs	Credit Rs
	Sundry. assets Dr To Rohan & Co. (Being assets purchased from Rohan & Co.)	3,50,000	3,50,000
	Rohan & Co. Dr. To Bank A/c (Being amount paid to Rohan & Co.)	75,000	75,000
	Rohan & Co. A/c dr. To Equity share capital a/c To securities Premium A/c	2,75,000	2,50,000 25,000

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

Ans	Date	Particulars l.f	Debit	Credit
		Share capital a/c dr.	350	
		securities premium a/c dr.	250	
		To share forfeited a/c		150
		To share allotment a/c		450
		(Being 50 shares forfeited for non payment of allotment money as per board's resolution dated...)		
		Bank A/c dr.	600	
		To share capital a/c		500
		To securities Premium a/c		100
		(Being 50 shares reissued @Rs.12 per share, fully paid)		
		Shares Forfeited A/c Dr.	150	
		To capital reserve a/c (being the balance of forfeited shares transferred to capital reserve.)		150

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

ans.

Journal Entries in the books of AbLtd.

Date/ Sr.	Particulars	l.f	Debit .Rs	Credit .Rs.
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1	Bank A/c	Dr.	4,50,000	
	To Equity share Application a/c			4,50,000
	(For application money received on 1,50,000 shares @ Rs.3 per share)			
2	Equity share application a/c	Dr.	4,50,000	
	To Equity share capital a/c			3,00,000
	To equity share allotment a/c			1,50,000
	(For application money capitalised and transferred to allotment a/c.)			
3	Equity share allotment a/c	Dr.	2,00,000	
	To equity share capital			2,00,000
	(For allotment money due on 1,00,000 shares @ Rs.2 per share.)			
4	Bank A/c	Dr.	49,400	
	To equity share allotment			49,400
	(For amount received on allotment)			
5	Equity share capital a/c	Dr.	3,000	
	To Equity Share allotment a/c			600
	To share forfeiture a/c			2,400
	(For 600 shares of sudha forfeited)			
	Equity share first& final call a/c.			
6	Dr.		4,97,000	
	To Equity share capital			4,97,000
	(For first and final call money due on 99,400 shares @ Rs.5 per shares.)			
7	Bank a/c	Dr.	4,93,000	
	To equity share first&final call			4,93,000
	(For money received on first & final call.)			
8	Equity share capital	Dr.	8,000	
	To Equity share first&final a/c			4,000
	To share forfeiture a/c			4,000
	(for 800 share of Asha forfeited.)			
9	Bank a/c	Dr.	8,000	
	Share forfeiture a/c	Dr.	2,000	
	To Equity share capital			10,000
	(For 1,000 share received and loss on re-issue charged from share forfeiture)			

	a/c.)			
10	Share Forfeiture Dr. To capital Reserve A/c (For proportionate balance of share forfeiture a/c transferred to capital reserve a/c.)	2,400		2,400

Working notes:

Amount Received on application	
Amount due	2,00,000
Less: Excess Received on application	<u>1,50,000</u>
	50,000
Less: Calls in arrears	<u>600</u>
	<u>49,400</u>
Due from Sudha on Allotment on 600 shares @2 each	1,200
Less: Excess on application on 200 shares @Rs.3 each	<u>600</u>
	<u>600</u>
If 60,000 shares allotted than applied 80,000	
If 600 shares applied than $80000/60000 \times 600 = 800$ shares	
Shares allotted to Asha	
If 70000 shares applied ,allotted 40,000	
If 1,400 shares than $40000/70000 \times 1,400$	
Amount transferred to capital reserve	
Balance of share forfeited a/c on Sudha's share	2400
Balance of share forfeited a/c on Asha's share	<u>2000</u>
	4400
Less: Loss on capital Re-issue	<u>2000</u>
	<u>2400</u>

Q.18 New India Ltd. forfeited 100 shares of Rs. 10 each, issued at a discount of 10%. The company had called up only Rs. 8 per share. Final call of Rs. 2 each has not been made on these shares. These shares were allotted to Ram, who did not pay the first call of Rs. 3. 60 shares were reissued at Rs. 7 per share, as Rs. 8 paid up. Give Journal entries in the books of the company, showing the working clearly.

<u>JOURNAL</u>				
Date	Particulars	L.F.	Dr. (Rs.)	Cr.(Rs)
	Share Capital A/c (100 x Rs. 8)	...	Dr. 800	
	To Forfeited Shares A/c (100 x Rs. 4)			400
	To Discount on Issue of Shares (100 x Re. 1)			100
	To Share First Call A/c (100 x Rs. 3)			300
	(Being 100 shares forfeited for non-payment of first call ...)			
	Bank A/c (60 x Rs. 7)	...	Dr. 420	
	Discount on issue of Shares A/c (60 x Re. 1)	...	Dr. 60	

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c Dr. To Equity Share Application a/c (Being the application money received on 3,00,000 shares)		9,00,000	9,00,000
	Equity Share application a/c To Equity share capital a/c To Equity share allotment a/c (Being the application money adjusted)		9,00,000	6,00,000 3,00,000
	Equity share allotment a/c To Equity share capital a/c (Being the allotment amount due)		10,00,000	10,00,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received on 1,97,000 shares)		6,89,500	6,89,500
	Equity share first and final call a/c To Equity share capital a/c (Being the call money due)		4,00,000	4,00,000
	Bank a/c To Equity share first and final call a/c (Being the call money received)		3,94,000	3,94,000
	Equity share capital To Equity share allotment a/c To Equity share first and final call a/c To Shares Forfeited a/c (Being 3,000 shares forfeited for non-payment of allotment and first and final call)		30,000	10,500 6,000 13,500
	Bank a/c Shares Forfeited a/c To Equity share capital a/c (Being reissue of 2,500 shares as fully paid at Rs. 8 per share)		20,000 5,000	25,000
	Shares forfeited a/c To Capital reserve a/c (Being balance in shares forfeited account transferred to capital reserve account)		6,250	6,250

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

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

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

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

Pass journal entries.

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c Dr. To Equity Share Application a/c (Being the application money received on shares)		1,20,000	1,20,000
	Equity Share application a/c To Equity share capital a/c To Bank To Equity share allotment a/c (Being the application money adjusted)		1,20,000	80,000 24,000 16,000
	Equity share allotment a/c To Equity share capital a/c To Securities Premium (Being the allotment amount due)		2,00,000	1,20,000 80,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received)		1,76,640	1,76,640
	Equity share first call a/c To Equity share capital a/c (Being the first call money due)		80,000	80,000
	Bank a/c To Equity share first call a/c (Being the call money received)		72,800	72,800
	Equity share second and final call a/c To Equity share capital a/c (Being equity second call money due)		1,20,000	1,20,000
	Bank a/c To Equity share second and final call a/c		1,09,200	1,09,200
	Equity share capital a/c Securities Premium a/c To Equity share allotment a/c To Equity share first call a/c To Equity share second call a/c To Shares Forfeited a/c (Being shares forfeited for non-payment of allotment, first and final call)		36,000 3,200	7,360 7,200 10,800 13,840

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

On application Rs. 3; on allotment Rs. 3; on first call Rs. 2; on final call the balance.

Applications were received for 55,000 shares. Allotments were made on the following basis:

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

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

Excess money paid on application was utilized towards allotment money.

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

Show the journal in the books of the company.

Date	Particulars	L.F	Dr.(Rs)	Cr.(Rs)
	Bank a/c To Equity Share Application a/c (Being the application money received on shares)		1,65,000	1,65,000
	Equity Share application a/c To Equity share capital a/c To Equity share allotment a/c (Being the application money adjusted)		1,65,000	1,50,000 15,000
	Equity share allotment a/c Discount on issue of shares a/c To Equity share capital a/c (Being the allotment amount due)		1,50,000 50,000	2,00,000
	Bank a/c To Equity share allotment a/c (Being the remaining allotment money received)		1,32,000	1,32,000
	Equity share first call a/c To Equity share capital a/c (Being the first call money due)		1,00,000	1,00,000
	Bank a/c To Equity share first call a/c (Being the call money received)		97,000	97,000
	Equity share second and final call a/c To Equity share capital a/c (Being equity second call money due)		50,000	50,000
	Bank a/c To Equity share second and final call a/c		48,500	48,500
	Equity share capital a/c To Discount on issue of shares a/c To Equity share allotment a/c To Equity share first call a/c To Equity share second call a/c To Shares Forfeited a/c (Being shares forfeited for non-payment of allotment, first and final call)		15,000	1,500 3,000 3,000 1,500 6,000
	Bank a/c Shares forfeited a/c Discount on issue of shares a/c To Equity share capital a/c (Being the reissue of 1,000 shares)		8,000 1,000 1,000	10,000
	Shares Forfeited a/c		3,000	

	To Capital Reserve a/c (Being the amount transferred to capital reserve a/c)			3,000
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Note:- Maximum discount permitted by the Companies Act is 10% of the face value of share

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