

CHAP-SHARE CAPITAL

Q-1. E Ltd. Had allotted 10,000 shares to the applicants of 14,000 shares on pro-rata basis. The amount payable on application was Rs. 5. F applied for 420 shares. What will be the number of shares allotted and the amount carried forward for adjustment against allotment money due from F in case of pro-rata allotment?

1

Shares Allotted 300; Amount adjusted against allotment Rs 240.

Q-2. State two essential features of a Private company

1.

Two essential features of a private company are :

- (i) It restricts the right to transfer its shares.
- (ii) It limits the number of its members to 200 (exclusive of past and present employees).

Q-3. Rajdhani Ltd., issued 50,000 shares of Rs. 10 each at a premium of 10% payable as Rs. 2 per share on application, Rs. 3 on allotment and Rs. 3 each on first and final call. Applications were received for 70,000 shares. It was decided that :

- (a) Refuse allotment to the applicants for 10,000 shares
- (b) Allot 20,000 shares to Mohan who had applied for similar number and
- (c) Allot the remaining shares on pro-rata basis.

Mohan failed to pay the allotment money and Sohan who belonged to the category 'C' and was allotted 3,000 shares paid both the calls with allotment. Calculate the amount received on allotment.

Q-4. (a) Amrit Ltd. Has a paid up share capital of Rs. 10 Crore and a balance of Rs. 2 Crore in Securities Premium Account. The company management do not want to carry over this balance. State the purposes for which this balance can be utilised.

4

Q-5 .Star Ltd. Was registered with a capital of Rs. 4, 00,000 in shares of Rs. 100 each. It issued 2,000 of such shares payable Rs. 25 per share on application; Rs. 25 on allotment; Rs. 20 on first call, and the balance as and when required.

All moneys payable on application and allotments were duly received; but when the first call of Rs. 20 per share was made, one shareholder holding 100 share failed to pay the amount due and another shareholder holding 200 shares paid them in full. Record these transactions in the journal and also show the Share Capital in the Balance Sheet of Star Ltd.

8

JOURNAL OF STAR LTD.

DATE	Particulars	L.F	Dr. amount	Cr. amount
	Bank A/c Dr. To Share Application A/c (Application money received)		Rs. 50,000	Rs. 50,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to Share Capital A/c)		50,000	50,000
	Share Application A/c Dr. To Share Capital A/c (Allotment due)		50,000	50,000
	Bank A/c Dr. To Share Allotment A/c (Allotment money transferred)		50,000	50,000
	Share First Call A/c Dr. To Share Capital A/c (First call due on 2,00 shares @ Rs. 20 per share)		40,000	40,000
	Bank A/c Dr. To Share First Call A/c To calls in advance A/c (First calls received on 1,900 shares @Rs.20 per share;plus second call received in advance on 200 <u>shares @ Rs.30</u> per share)		44,000	38,000 6,000
	Calls-in-Arrears A/c Dr. To Share First Call A/c (Calls-in-Arrears brought into account)		2,000	2,000

Note: Last two entries may also be combined.

EXTRACT OF BALANCE SHEET OF STAR LTD.

As at.....

Particulars	Note No.	Current year	Previous year
I. EQUITY AND LIABILITIES		Rs.	Rs.
Shareholder's Funds:			-
Share Capital	1	<u>1,38,000</u>	

Note to Accounts:

(1) Share Capital	
Authorised Capital:	<u>4,00,000</u>
4,000 shares of Rs.100 each	
Issued Capital:	<u>2,00,000</u>
2,000 shares of Rs. 100 each	
Subscribed but not fully paid capital:	
2,000 shares of Rs. 100 each Rs. 70 called up	1,40,000
Les: Calls in arrears	<u>2,000</u>
	<u>1,38,000</u>

Hint: In this question second call is not made by directors, hence the entries are to be

Q-6. Why would an investor prefer to invest in the Debentures of a Company rather than in its Shares?

- (i) Interest on debentures is payable irrespective of the company making a profit or incurring a loss whereas dividend on shares is paid only when the company makes profit.
- (ii) Debentures are mostly secured whereas a share is always unsecured.

Q-7. B Ltd. Forfeited 300 shares of Rs. 100 each, Rs. 70 called up, for non-payment of first call of Rs. 20 per share. Out of these, 200 shares were reissued for Rs. 60 per share as Rs. 70 paid up. What is the amount to be transferred to Capital Reserve Account?

Rs. 8,000

Q-8.R. K. Ltd. invited applications for issuing 70,000 Equity Shares of Rs. 10 each at a premium of Rs. 35 per share. The amount was payable as follows :

On Application	Rs. 15 (including Rs. 12 premium)
On Allotment	Rs. 10 (including Rs. 8 premium)
On First and Final Call	Balance

Applications for 65,000 shares were received and allotment was made to all the applicants. A shareholder, Ram, who was allotted 2,000 shares, failed to pay the allotment money. His shares were forfeited immediately after allotment. Afterwards, the first and final call was made. Sohan, who had 3,000 shares, failed to pay the first and final call. His shares were also forfeited. Out of the forfeited shares, 4,000 shares were re-issued at Rs. 50 per share fully paid up. The re-issued shares included all the shares of Ram.

Pass necessary journal entries for the above transactions in the books of R. K. Ltd. 8

In the Books of R.K. Ltd.

JOURNAL

Date	Particulars	L.f	Dr. amount	Cr. amount
	Bank A/c Dr. To equity share application A/c (application money received on 65,000 shares @ Rs15 per share)		9,75,000	9,75,000
	Equity share application A/c Dr. To equity share capital A/c To securities premium reserves A/c (transfer of application money)		9,75,000	1,95,000 7,80,000
	Equity share allotment A/c Dr.		6,50,000	

	To equity share capital A/c			1,30,000
	To securities premium reserves A/c			5,20,000
	(allotment money due on 65,000 shares @Rs10 per share)			
	Bank A/c	Dr.	6,30,000	
	Equity share allotment A/c			6,30,000
	(allotment money received on 63,000 shares)			
	Equity share capital A/c (2,000 × Rs.5)	Dr.	10,000	
	Securities premium A/c(2,000 × Rs.8)	Dr.	16,000	
	To equity share allotment A/c(2,000 × Rs10)			20,000
	To forfeited shares A/c(2,000 × Rs3)			6,000
	(2,000 shares forfeited due to non-payments of allotment money)			
	Equity share First & final call A/C (63,000 × Rs20)	Dr.	12,60,000	
	To equity share capital A/c (63,000 × Rs5)			3,15,000
	To securities premium reserve A/c (63,000 × Rs15)			9,45,000
	(amount due on first and final call)			
	Bank A/c	Dr.	12,00,000	
	To equity share first & final call A/c			12,00,000
	(first & final call received on 60,000 shares)			
	Equity share capital A/c	Dr.	30,000	
	securities premium reserve A/c	Dr.	45,000	
	To Equity share First & final call A/C			60,000
	To forfeited shares A/c			15,000
	(3,000 shares forfeited)			
	Bank A/c	Dr.	2,00,000	

	To Equity share capital A/c			40,000
	To securities premium reserve A/c (4,000 forfeited shares re issued)			1,60,000
	Forfeited share A/c Dr.		16,000	
	To capital Reserve A/c (profit on re issued shares transferred to capital reserve)			16,000

Note (1): calculation of capital reserve

Amount forfeited on Ram's shares = 6,000

Amount forfeited on sohan's shares = Rs. $\frac{15,000 \times 2,000}{100,000}$ = 10,000

3,000

Profit on re issue transferred to capital reserve = 16,000

Q-9. D Ltd. purchased Machinery for Rs. 10,00,000 and a Motor Van for Rs. 5,00,000 from E Ltd. on 1-1-2012, Rs. 3,60,000 were paid immediately and the balance was paid by issue of 9,500 fully paid equity shares of Rs. 100 each. Pass the necessary Journal entries for recording the transactions in the books of D Ltd.

4

JOURNAL OF LTD.

Date	Particulars	L.F	Dr. amount	Cr. amount
2012 Jan 1	Machinery A/c Dr. Motor van A/c Dr. To E Ltd (machinery & motor van purchased from E Ltd.)		Rs. 10,00,000 5,00,000	Rs. 15,00,000
Jan 1	E Ltd To bank A/c (part payment made in cash)		3,60,000	3,60,000
	E Ltd		11,40,000	

Jan 1	To equity share capital A/c			9,50,000
	To securities premium reserve A/c			1,90,000
	(balance amount of Rs. 11,40,000 settled by the issue of 9,500 equity shares of Rs. 100 each)			

Q-10. C Ltd. forfeited 1,000 shares of Rs. 100 each issued at par. On these shares the first call of Rs. 30 per share was not received and the final call of Rs. 20 per share was yet to be called. Out of these, 60 shares were subsequently re-issued Rs. 80 paid up at a price that Rs. 27,000 was transferred to Capital Reserve.

Give journal entries to record the forfeited and re-issue of shares and open share forfeited account in the books of C Ltd.

4

IN THE BOOKS OF C' LTD.
JOURNAL

Date	Particulars	L.F	Dr. amount	Cr. amount
	share capital A/c (1,000 × Rs. 80) Dr.		Rs. 80,000	Rs.
	To share first call A/c (1,000 × Rs. 30)			30,000
	To forfeited shares A/c (1,000 × Rs. 50)			50,000
	(1,000 shares forfeited due to non payment of first call)			
	Bank A/c (600× Rs.75) Dr.		45,000	
	Forfeited shares A/c(600× Rs.80) Dr.		3,000	
	To share capital A/c (600× Rs.80)			48,000
	(600 shares re issued at Rs. 75 per share Rs.80 paid up)			
	Forfeited shares A/c Dr.		27,000	
	To capital reserve A/c			27,000
	(profit on re issued transferred to capital reserve A/c)			

Dr.

FORFEITED SHARES ACCOUNT

Cr.

Date	Particulars	J. F	Rs.	Date	Particulars	J.F	Rs.
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	To share capital A/c		3,000		By share capital A/c		50,000
	To capital reserve		27,000				
	A/c		20,00				
	To balance c/d		<u>50,000</u>				<u>50,000</u>

Working note:

Rs.

Profit on 600 forfeited shares = $\frac{50,000}{1,000} \times 600 = 30,000$

Less: transfer to capital reserve 27,000

Loss in reissue 3,000

Loss on reissue per share = $3,000 \div 600 = \text{Rs. } 5$

Hence, reissue price = $\text{Rs. } 80 - \text{Rs. } 5 = \text{Rs. } 75$

Since interest on capital is always calculated on opening capitals and the same have

Q-11. Ganga Ltd. issued 60,000 shares of Rs. 10 each at a premium of 20% payable as follows : On Application Rs. 5 *(including premim) : On Allotment Rs. 3; and on First and Final call Rs. 4.

The Company received applications for 75,000 shares and allotment was made as follows :

List I Applicants for 40,000 shares were allotted in full.

List II Applicants for 25,000 shares were allotted 20,000 shares.

List III Applicants for 10,000 shares were allotted Nil Shares.

A Shareholder to whom 200 shares were allotted under List I paid full amount due on shares alongwith money. Another shareholder holding 600 shares failed to pay subsequently re-issued as fully paid @ Rs. 11 per share.

Expenses of issue came to Rs. 20,000 which were fully written off against securities premium A/c.

Pass journal entries and show the 'Share Capital' in the balance sheet of Ganga Ltd. 8

Ganga Ltd.
JOURNAL

	Particulars	l.f	Dr. Amount	Cr. Amount
Date				
	Bank A/c Dr. To share application A/c (application money received on 75,000 shares)		Rs. 3,75,000	Rs. 3,75,000
	Shares application A/c Dr. To share capital A/c To securities premium A/c To share allotment A/c To bank A/c (application money transferred)		3,75,000	1,80,000 1,20,000 25,000 50,000
	Share allotment A/c Dr. To share capital A/c (allotment due on 60,000 share @ Rs. 3 per share)		1,80,000	1,80,000
	Bank A/c Dr. To share allotment A/c To calls in advance A/c (receipt of allotment money: 60,000 shares@ Rs.3 1,80,000 Less: already received alongwith application <u>25,000</u> 1,55,000 Add: received in advance on 200 shares @Rs.4 <u>800</u> <u>1,55,800</u>		1,55,800	1,55,000 800
	Share first & final call A/c Dr. To share capital A/c (first & final call due on 60,000 shares @Rs. Per share)		2,40,000 2,36,800 800	2,40,000 2,37,600
	Bank A/c Dr. calls in advance A/c Dr. To share first & final call A/c (receipt of first and final call except on 600 shares @Rs. 4)		6,000	2,400 3,600
	share capital A/c Dr. To share first & final call A/c To share forfeiture A/c (forfeiture of 600 shares for non-payment of first and final		5,500	5,000

call)			500
Bank A/c Dr. To share capital A/c To securities premium reserve A/c (re-issued shares transferred to capital reserve)		3,000	3,000
Share forfeiture A/c Dr. To capital reserve A/c (profit on 500 re-issued shares transferred to capital reserve)		20,000	20,000
Share issue expenses A/c To bank A/c (expenses incurred on issue of shares)	Dr.	20,000	20,000
Securities premium a/c To share issue expense A/c (share issue expenses written off against securities premium reserve)	Dr.		

EXTRACT OF BALANCE SHEET OF GANGA LTD.

As at.....

Particulars	Not e no.	Current year	Previous year
I. EQUITY AND LIABILITIES		Rs.	Rs.
Shareholder's funds:			
(a) Share capital	1	5,99,600	

Notes to accounts:

	Rs.	Rs.
(1) Share capital :		
Authorized:	
Issued:	-----	
60,000 shares of Rs.10 each fully paid	<u>6,00,000</u>	
Subscribed & fully paid:		
59,900 shares of Rs. 10 each fully paid	59,9000	
Add: share forfeiture A/c	<u>600</u>	5,99,600

Note (2) profit on 600 shares = Rs.3,600

$$\text{Hence, profit on 500 shares} = \text{Rs. } \frac{3,600}{600} \times 500 = \text{Rs. } 3,000$$

Note (3) profit on the forfeiture of 600 shares is Rs. Rs.3,600 out of this amount profit on the re-issue of 500 shares Rs. 3,000 has been transferred to capital reserve. The balance of Rs.600 will be shown on the equity and liabilities side of the balance sheet under the head 'share capital'.

Q-12. Pragya Ltd. invited applications for 10,000 shares of Rs. 100 each at a premium of Rs. 10 each payable as follows :

Rs. 50 per share on Application

Rs. 35 per share on Allotment and

Balance on first and final call

Applications for 16,500 shares were received. Applications for 4,000 shares were rejected and allotment was made on pro-rata basis to the remaining applicants,

Ankur who had applied for 250 shares failed to pay the amount due on allotment and call. Company forfeited his shares. Later on out of the forfeited shares company reissued 100 shares at Rs. 105 per share fully paid up.

Pass necessary Journal Entries in the books of Pragya Ltd.

8

journal of pragya ltd.

Date	Particulars	L.F	Dr. amount	Cr. amount
	Bank A/c Dr. To share application A/c (application money received for 16,500 shares)		Rs. 8,25,000	Rs. 8,25,000
	share application A/c Dr. To share capital A/c To Bank A/c To share allotment A/c (application money adjust and surplus refunded)		8,25,000	5,00,000 2,00,000 1,25,000
	share allotment A/c Dr. To share capital A/c To securities premium A/c		3,50,000	2,50,000 1,00,000

(allotment money due)			
Bank A/c Dr.	2,20,500		2,20,500
To share allotment A/c			
(allotment money received except on 200 shares (note 1))			
Share first and final call a/c Dr.	2,50,000		2,50,000
To share capital A/c			
(call money due on 10,000 shares)			
Bank A/c Dr.	2,45,000		2,45,000
To Share first and final call a/c			
(call money received except on 200 shares)			
Share capital A/c (200×Rs.100) Dr.	20,000		
Securities premium A/c	2,000		
To share allotment A/c			4,500
To share first and final call A/c			5,000
To forfeited shares A/c			12,500
(200 shares forfeited due to non-payment of allotment and call money)			
Bank A/c Dr.	10,500		10,000
To share capital A/c			500
To securities premium A/c			
(100 shares re-issued at Rs.105 per share fully paid up)			
Forfeited shares A/c Dr.	6,250		6,250
To capital reserve			
(transfer of profit on re-issue of 100 shares)			

Working note:

$$(1) (A) \text{ No. of shares allotted to Ankur} = \frac{10,000}{12,500} \times 250 = 200 \text{ shares}$$

$$\begin{aligned} \text{Excess application money received from ankur} &= 250 \text{ shres} - 200 \text{ shares} \\ &= 50 \text{ shares} \times \text{Rs. } 50 = \text{Rs. } 2,500 \end{aligned}$$

Rs.

$$(B) \text{ allotment money due from ankur } (200 \times \text{Rs. } 35) \quad 7,000$$

$$\text{Less: excess application money received from ankur } \underline{2,500}$$

$$\text{Allotment money dur not received from ankur } \underline{4,500}$$

(b) Total amount due on allotment (10,000 × Rs. 35)	3,50,000
Less: allotment money already received on application stage	<u>1,25,000</u>
	2,25,000
Less: allotment money due but not received from Ankur	<u>4,500</u>
	<u><u>2,20,500</u></u>

(2) calculation of amount to be transferred to capital reserve:

Amount forfeited on re-issued shares (12,500 × 100/200)	6,250
Less: re –issued discount	<u>NIL</u>
Profit on re-issue to be transferred to capital reserve:	<u><u>6,250</u></u>

Q.13x Ltd. has its share capital divided into shares of Rs. 10 each. On 1st April, 2014 it granted 10,000 employees stock options at Rs. 40, when the market price was Rs. 130. The options were to be exercised between 15th March, 2015 and 31st March, 2015. The employees exercised their options for 9,000 shares only, the remaining options lapsed. The company closes its books on 31st March every year. Pass entries.

4

Solution:

X Ltd.

JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. Amount	Cr. Amount
15 th March 2015	Bank A/c (9,000 × Rs. 40) Dr.		3,60,000	
To 31 st March 2015	Employee Compensation Expenses A/c (9,000 × Rs. 90) Dr.		8,10,000	
	To Equity Share Capital A/c (9,000 × 10)			90,000
	To Securities Premium Reserve A/c (9,000 × 120) (Allotment to employees of 9,000 equity shares of Rs. 10 each at a premium of Rs. 120 per share in exercise of stock options by employees)			10,80,000

31 st March 2015	Statement of profit and loss Dr. To Employee Compensation Expense A/c (Transfer of employee compensation expanses to Statement of profit & loss)		8,10,000	