Issue; Forfeiture And Reissue Of Shares

Fundamentals Of Accounting
Learning Objectives

After studying this unit you will be able to:

- Appreciate various types of shares and share capital
- Learn the accounting treatment if shares issued under different circumstances like at par, at discount and at premium.
- Differentiate the accounting treatment for under-subscription and over-subscription of shares.

Deal with the forfeiture of shares issued with different conditions.

Journalise the entry for re-issue of shares whether at discount or at premium.
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.
Categories

As per SEBI guidelines, a company is free to price its issue, if it has a three years track record of consistent profitability and in case of new company, if it is promoted by a company with a five years track record of consistent profitability.

(i) Authorised Share Capital
(ii) Issued Share Capital
(iii) Subscribed Share Capital
(iv) Called-up Share Capital
(v) Paid-up Share Capital
(vi) Reserve Share 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.
Types of Shares

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

(i) Preference Shares

They enjoy preferential rights in the matter of:

(a) Payment of dividend, and
(b) Repayment of capital
Types of Preference Shares

Preference shares can be of various types, which are as follows:
(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
The shares can be issued by a company either

(1) For cash or
(2) For consideration other than cash.
NOTE

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.

As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription
Against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public.

The minimum application money to be paid by an applicant alongwith the application money shall not be less than 25% of the issue price. Companies (Amendment) Bill, 2003 require application money to be not less than
25% of the nominal value of security. Thus, the issue price of shares is generally received by the company in installments and these instalments are known as under:

<table>
<thead>
<tr>
<th>First Instalment</th>
<th>Application Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>Second Instalment</td>
<td>Allotment Money</td>
</tr>
<tr>
<td>Third Instalment</td>
<td>First Call Money</td>
</tr>
<tr>
<td>Fourth Instalment</td>
<td>Second Call Money</td>
</tr>
<tr>
<td>Last Instalment</td>
<td>Final Call Money</td>
</tr>
</tbody>
</table>
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 Shares Application Account
(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)
(3) On receipt of allotment money

Bank Account Dr. (with the amount actually received allotment.)

To Share Allotment Account

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.

(4) On a call being made

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

To Share Capital Account
(5) On receipt of call money

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

To Share Call Account
Illustration 1

The Delhi Artware Ltd. issued 500 equity shares of Rs. 100 each and 1,000 preference shares of Rs. 100 each. The Share Capital was to be collected as under:

<table>
<thead>
<tr>
<th></th>
<th>Equity Shares</th>
<th>Preference Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>On Application</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>On Allotment</td>
<td>20</td>
<td>30</td>
</tr>
</tbody>
</table>
All these shares were subscribed. Prepare the cash book and journalise the remaining transactions in the books of the company.

<table>
<thead>
<tr>
<th></th>
<th>First Call</th>
<th></th>
<th>Final Call</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30</td>
<td></td>
<td>25</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Solution

**Delhi Artware Ltd.**

**Cash Book**

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Equity Shares application &amp; Allotment Account (application money on 500 shares at Rs. 25)</td>
<td>12,500</td>
<td>By Balance c/d</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,44,400</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>To Preference Share Application &amp; Allotment A/c (application money on 1,000 shares at Rs. 20)</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>To Equity Share Applications &amp; Allotment A/c (allotment money on 1,000 shares at Rs. 20)</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>To Preference Share Application &amp; Allotment A/c (allotment money on 1,000 shares at Rs. 30)</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>To Equity Shares First Call A/c (Rs. 30 on 500 shares)</td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>To Preference Share First Call A/c (Rs. 20 on 1,000 shares)</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>To Equity Shares Final Call A/c (Rs. 25 on 420 shares)</td>
<td>10,500</td>
<td></td>
</tr>
<tr>
<td>To Preference Share Final A/c (Rs. 30 on 880 shares)</td>
<td>26,400</td>
<td></td>
</tr>
<tr>
<td>To Balance b/d</td>
<td>1,44,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,44,000</td>
<td></td>
</tr>
</tbody>
</table>
### Journal

<table>
<thead>
<tr>
<th>Description</th>
<th>Debit (Dr.)</th>
<th>Credit (Cr.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Share Application &amp; Allotment A/c</td>
<td>Dr. 22,500</td>
<td>Cr. 22,500</td>
</tr>
<tr>
<td>To Equity Share Capital A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preference Share Application &amp; Allotment A/c</td>
<td>Dr. 50,000</td>
<td>Cr. 50,000</td>
</tr>
<tr>
<td>To Preference Share Capital A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>------------------</td>
<td>-------</td>
</tr>
<tr>
<td><strong>Equity Share First Call A/c</strong></td>
<td>Dr.</td>
<td>15,000</td>
</tr>
<tr>
<td></td>
<td>To Equity Share Capital A/c</td>
<td></td>
</tr>
<tr>
<td><strong>Preference Share First Call A/c</strong></td>
<td>Dr.</td>
<td>20,000</td>
</tr>
<tr>
<td></td>
<td>To Preference Share Capital A/c</td>
<td></td>
</tr>
<tr>
<td><strong>Equity Share Final Call A/c</strong></td>
<td>Dr.</td>
<td>12,500</td>
</tr>
<tr>
<td></td>
<td>To Equity Share Capital A/c</td>
<td></td>
</tr>
<tr>
<td><strong>Preference Share Final Call A/c</strong></td>
<td>Dr.</td>
<td>30,000</td>
</tr>
<tr>
<td></td>
<td>To Preference Share Capital A/c</td>
<td></td>
</tr>
</tbody>
</table>
Section 79

According to Section 79, a company is permitted to issue shares at a discount provided the following conditions are satisfied:

(a) The issue of shares at a discount is authorised by an ordinary resolution passed by the company at its general meeting and sanctioned by the Company Law Board.
(b) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares.

(c) At least one year must have elapsed since the company was entitled to commence the business.
(d) The shares are of a class, which has already been issued.

(e) The shares are issued within two months from the date of receiving sanction for the same from the Government.

Therefore, the journal entry to record discount on the issue of shares is as given below:
Entry for Discount

Share Allotment A/c Dr.
Discount on the issue of Shares A/c Dr.
To Share Capital A/c

(Amount due on allotment of______ Shares @ Rs._______ per share and ______ discount on issue brought into account)
Section 78

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.

According to Section 78 of the Companies Act, 1956, Securities Premium Account may be used by the company:

(a) In paying up un-issued securities 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 pay premium on the redemption of preference securities or debentures of the company. When shares are issued at a premium, the journal entries are as follows:
Entry for issue at premium

(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 @ Rs. _____ per Share including premium]
(ii) Share Application A/c

<table>
<thead>
<tr>
<th>Description</th>
<th>Account</th>
<th>Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. [No. of Shares Applied for x Application Amount per share]</td>
<td>To Securities Premium A/c</td>
<td>[No. of Shares allotted x Premium Amount per share]</td>
</tr>
<tr>
<td>To Share capital A/c</td>
<td></td>
<td>[No. of Shares allotted x per share for capital]</td>
</tr>
</tbody>
</table>
(b) Premium Amount called with Allotment Money

(i) Share Allotment A/c Dr. 

\[ \text{[No. of Shares Allotted} \times \text{Allotted and Premium Money per share]} \]

To Share Capital A/c 

\[ \text{[No. of Shares Allotted} \times \text{Allotment Amount per share]} \]

To Securities Premium A/c 

\[ \text{[No. of Share Allotted} \times \text{Premium Amount per share]} \]
(Amount due on allotment of Shares @ Rs.____per share including premium)

(ii) Bank A/c Dr.
    To Share Allotment A/c
(Money received including premium consequent upon allotment)
Illustration 2

JHP Limited is a company with an authorised share capital of Rs. 10,00,000 in equity shares of Rs. 10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2005. The company proposed to make a further issue of 1,00,000 of these Rs. 10 shares at a price of Rs. 14 each, the arrangements for payment being:
(a) Rs. 2 per share payable on application, to be received by 1\textsuperscript{st} July, 2005;

(b) Allotment to be made on 10\textsuperscript{th} July, 2005 and a further Rs. 5 per share (including the premium to be payable;

(c) The final call for the balance to be made, and the money received by 30\textsuperscript{th} April, 2006.
Application 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.
## Journal of JHP Limited

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1</td>
<td>Bank A/c (Note 1-Column 3) To Equity Share Application A/c</td>
<td>7,10,000</td>
<td>7,10,000</td>
</tr>
<tr>
<td>July 10</td>
<td>Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c</td>
<td>7,10,000</td>
<td>2,00,000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>4,30,000</td>
</tr>
<tr>
<td>Description</td>
<td>Dr.</td>
<td>Cr.</td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td>-------</td>
<td>-------</td>
<td></td>
</tr>
<tr>
<td>(Note 1 Column 5)</td>
<td>5,00,000</td>
<td>80,000</td>
<td></td>
</tr>
<tr>
<td>To Bank A/c (Note 1-Column 6)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity Share Allotment A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Equity Share Capital A/c</td>
<td></td>
<td>1,00,000</td>
<td></td>
</tr>
<tr>
<td>To Securities Premium A/c</td>
<td></td>
<td>4,00,000</td>
<td></td>
</tr>
<tr>
<td>Bank A/c (Note 1- Column 8)</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Equity Share Allotment A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

40
<table>
<thead>
<tr>
<th>Date</th>
<th>Account</th>
<th>Dr.</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 ?</td>
<td>Equity Share Final Call A/c To Equity Share Capital A/c</td>
<td>7,00,000</td>
<td>7,00,000</td>
</tr>
<tr>
<td>April 30</td>
<td>Bank A/c To Equity Share Final Call A/c</td>
<td>7,00,000</td>
<td>7,00,000</td>
</tr>
</tbody>
</table>
### Working Notes:
(1) Calculation for Adjust. and Refund

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Shares Applied for</th>
<th>No. of Shares Allotted</th>
<th>Amount Received on Application</th>
<th>Amount Required on Application</th>
<th>Amount Adjusted on Allotment</th>
<th>Refund ([3-4+5])</th>
<th>Amount due on Allotment</th>
<th>Amount received on Allotment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>5,000</td>
<td>5,000</td>
<td>10,000</td>
<td>10,000</td>
<td>-</td>
<td>Nil</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>(ii)</td>
<td>30,000</td>
<td>15,000</td>
<td>60,000</td>
<td>30,000</td>
<td>30 k</td>
<td>Nil</td>
<td>75,000</td>
<td>45,000</td>
</tr>
<tr>
<td>(iii)</td>
<td>3,20,000</td>
<td>80,000</td>
<td>6,40,000</td>
<td>1.6 lacs</td>
<td>4 lacs</td>
<td>Nil</td>
<td>80,000</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>3,55,000</td>
<td>1 lacs</td>
<td>7,10,000</td>
<td>2 lacs</td>
<td>4.3 lacs</td>
<td>80,000</td>
<td>70,000</td>
<td></td>
</tr>
</tbody>
</table>
Calls-In-Arrears and Calls-In Advance

At the time of receiving the value of shares in instalments

Share instalment money received in full

“Bank A/c” is debited with full money received

Calls-in-arrears i.e. money received is less than due

“Calls-in-arrears A/c” is debited with the entry for Bank A/c

Calls-in-advance i.e. money of future instalments received beforehand

“Calls-in-advance A/c” is credited with entry for “Bank A/c”
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 to be shown in the balance sheet.
Entry

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

Calls-in-Arrears A/c Dr. [Amount of Unpaid Calls]
To Share Allotment A/c
To Share Calls A/c

The Articles of Association of a company usually empower the directors to charge interest at a stipulated rate on calls - in-arrears. According to
Table A interest at the rate of 5 per cent per annum is to be charged on unpaid calls for the period intervening between the due date of the call and the time of actual payment.

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
Calls in Advance

(ii) For receipt of interest

Bank A/c    Dr.
To Shareholders’ A/c

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 A, interest at the rate of 6 percent is to be paid on such advance call money.
Bank A/c  
Dr.
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 due]

The balance in Calls-in-Advance account is shown as a separate item on the liabilities side of the company’s balance sheet under the heading
‘Share Capital’ but is not added to the amount of paid-up capital.
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
(ii) Payment of Interest

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

To Bank A/c

(Interest paid on calls-in-advance)
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-Arrear Account  [Total amount due, but not paid]

To Forfeited Shares Account  [Amount received]
Illustration

A Ltd forfeited 300 equity shares of Rs.10 fully called-up, held by Mr. X for non-payment of final call @ Rs. 4 each. However, he paid application money @ Rs. 2 per share and allotment money @ Rs. 4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.
## Solution

In the books of A Ltd.

<table>
<thead>
<tr>
<th>Date</th>
<th>Journal Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Equity Share Capital A/c (300 x Rs. 10)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>To Equity Share Final Call A/c (300 x Rs. 4)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>To Forfeited Shares A/c (300 x Rs. 6)</strong></td>
<td>Dr. 3,000</td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>(Being the forfeiture of 300 equity shares of Rs. 10 each fully called-up for non-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>payment of final call money @ Rs. 4 each as per Board’s Resolution No………dated……)</td>
<td>(1,800)</td>
<td></td>
</tr>
</tbody>
</table>
Illustration

X Ltd forfeited 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each. Application money @ Rs. 2 per share and allotment money @ Rs. 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.

<table>
<thead>
<tr>
<th>Date</th>
<th>Journal Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity Share Capital A/c (200 x Rs. 8)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Calls-in-Arrears A/c (200 x Rs. 2)</td>
<td>1,600</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>To Forfeited Shares A/c (200 x Rs. 6)</td>
<td></td>
<td>1,200</td>
</tr>
<tr>
<td></td>
<td>(Being the forfeiture of 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>payment of first call money @ Rs. 2 each as per Board’s Resolution No……..dated……..)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Forfeiture of shares which were issued at a Discount

In this case also 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). Forfeited Shares Account will be credited with the amount already received in respect of those shares.
Entry

When shares are issued at a discount, the Discount Account is debited. Therefore, at the time of forfeiture of such share, Discount Account will be credited to cancel it.

Share Capital Account   Dr.  [No. of shares x called-up value per share]  
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]

To Discount on Issue of Shares Account  
[No. of shares x discount per share]
Illustration

H.P. Ltd. forfeited 200 equity shares of Rs. 10 each fully called-up for non-payment of final call @ Rs. 2 per share. These shares were originally issued at a discount of 10%. Application, allotment and first call money per share @ Rs. 2, Rs. 3 and Rs. 2 respectively were received in time. Give Journal Entry for the forfeiture.
In the books of H.P Ltd.

<table>
<thead>
<tr>
<th>Date</th>
<th>Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Equity Share Capital A/c (200 x Rs. 10)</strong> To <strong>Equity Share Final Call A/c (200 x Rs. 2)</strong> To <strong>Forfeited Shares A/c (200 x Rs. 7)</strong> To <strong>Discount on Issue of Shares A/c (200 x Rs. 1)</strong> (Being the forfeiture of 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each as per Board’s Resolution No……..dated……..)</td>
<td>2,000</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,400</td>
<td>200</td>
</tr>
</tbody>
</table>
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.
Note

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

X Ltd. Forfeited 500 equity shares of Rs. 10 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application Rs. 2; on allotment Rs. 5 (including premium) on First and Final call Rs. 5. 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.

<table>
<thead>
<tr>
<th>Date</th>
<th>Journal Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity Share Capital A/c (500 x Rs. 10)</td>
<td>Dr. 5,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Securities Premium A/c (See Note)</td>
<td>Dr. 1,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Equity Share Allotment A/c (500 x Rs. 2)</td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>To Equity Share First and Final Call A/c (500 x Rs. 5)</td>
<td></td>
<td>2,500</td>
</tr>
<tr>
<td></td>
<td>To forfeited Shares A/c (500 x Rs. 2)</td>
<td></td>
<td>1,000</td>
</tr>
</tbody>
</table>
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. When shares are re-issued, return of the forfeited shares need not be filed under Section 75(1) of the Companies Act, 1956. The share, after forfeiture, in the hands of the company is subject to an obligation to dispose it of. 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

Forfeited Shares Account

To Share Capital Account

Dr. [Actual amount received]

Dr. [Loss on re-issue]

(Being the re-issue of ....shares @ Rs..... 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).
Illustration

A holds 200 shares of Rs. 10 each on which he has paid Rs. 2 as application money. B holds 400 shares of Rs. 10 each on which he has paid Rs. 2 per share as application money and Rs. 3 per share as allotment money. C holds 300 shares of Rs. 10 each and has paid Rs. 2 on application, Rs. 3 on allotment and Rs. 3 for the first call. They all fail to pay
their arrears on the second and final call of Rs. 2 per share and the directors, therefore, forfeited their shares. The shares are re-issued subsequently for Rs. 12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.
Solution

Journal

<table>
<thead>
<tr>
<th>Date</th>
<th>Journal Particulars</th>
<th>Dr. Rs.</th>
<th>Cr. Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Share Capital A/c (900 x Rs. 10)</td>
<td>9,000</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>To Share Allotment A/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Share First Call A/c</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Share Final Call A/c</td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Forfeited Shares A/c</td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Being forfeiture of 900 shares of Rs. 10 each for non-payment of allotment, first and final call money as per Board’s Resolution No.....dated.....)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td>Dr.</td>
<td>Cr.</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------</td>
<td>------</td>
<td></td>
</tr>
<tr>
<td>Bank A/c (900 x Rs. 12)</td>
<td>10,800</td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td>To Share Capital A/c</td>
<td></td>
<td>9,000</td>
<td></td>
</tr>
<tr>
<td>To Securities Premium A/c</td>
<td></td>
<td>1,800</td>
<td></td>
</tr>
<tr>
<td>(Being the re-issue of 900 shares of Rs. 10 each @ Rs. 12 as per Board’s Resolution No…..dated…..)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forfeited Shares A/c</td>
<td>4,800</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Capital Reserve A/c</td>
<td></td>
<td>4,800</td>
<td></td>
</tr>
<tr>
<td>(Being profit on re-issue transferred to Capital Reserve).</td>
<td></td>
<td></td>
<td></td>
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</table>
### Working Note

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Money Received</th>
<th>Money Not Received on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Application</td>
<td>Allotment First Call</td>
</tr>
<tr>
<td>A</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>B</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>C</td>
<td>300</td>
<td>300</td>
</tr>
<tr>
<td>TOTAL</td>
<td>900</td>
<td>700</td>
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</table>

<table>
<thead>
<tr>
<th>Money Receivable</th>
<th>Rs.2</th>
<th>Rs.3</th>
<th>Rs.3</th>
<th>Rs. 2</th>
<th>Rs. 3</th>
<th>Rs.3</th>
<th>Rs.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rs.1,800</td>
<td>Rs. 2,100</td>
<td>Rs. 900</td>
<td>-</td>
<td>Rs. 600</td>
<td>Rs. 1,800</td>
<td>Rs. 1,800</td>
<td></td>
</tr>
</tbody>
</table>
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. In the Balance Sheet, these shares should be shown separately.

Within one month 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**

(a) When assets are purchased in exchange of shares
Assets Account     Dr.
     To Share Capital Account
(b) When shares are issued to promoters
  Goodwill Account     Dr.
     To Share Capital Account
MCQ 1

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) Reserve capital account
   (d) Share premium account
2. Which of the following statements is false?

(a) The forfeited shares should not be issued at a premium.

(b) At the time of forfeiture of shares, share premium should not be debited with the amount of premium already received.

(c) Shares can be issued at a discount only after one year from the commencement of business.

(d) Share premium cannot be utilized to redeem preference shares.
3. When shares are issued to promoters for the services offered by them, the account that will be debited with the nominal value of shares is _______.

(a) Preliminary expenses
(b) Goodwill
(c) Asset account
(d) Share capital
4. The directors of E Ltd. made the final call of Rs. 30 per share on May 15, 2004 indicating the last date of payment of call money to be May 31, 2004. Mr. F, holding 5,000 shares paid the call money on July 15, 2004.

If the company adopts Table A, the amount of interest on calls-in-arrear to be paid by Mr. F = ?

(a) Rs. 625.00  (b) Rs. 937.50
(c) Rs. 750.00  (d) Rs. 1,125.00
MCQ 5

5. How much is B Ltd.’s authorized share capital?
(a) Rs. 1,00,00,000
(b) Rs. 90,00,000
(c) Rs. 85,00,000
(d) Rs. 68,00,000
MCQ 6

6. How much is B Ltd.’s Issued Capital?
   (a) Rs. 1,00,00,000
   (b) Rs. 90,00,000
   (c) Rs. 85,00,000
   (d) Rs. 68,00,000
MCQ 7

7. How much is B Ltd.’s Subscribed Capital?
   (a) Rs. 1,00,00,000
   (b) Rs. 90,00,000
   (c) Rs. 85,00,000
   (d) Rs. 68,00,000
MCQ 8

8. How much is B Ltd.’s Called Up Capital?
   (a) Rs. 1,00,00,000
   (b) Rs. 90,00,000
   (c) Rs. 85,00,000
   (d) Rs. 68,00,000
MCQ 9

9. How much is B Ltd.’s Paid Up Capital?
   (a) Rs. 1,00,000
   (b) Rs. 90,00,000
   (c) Rs. 85,00,000
   (d) Rs. 67,50,000
10. Which type of the following shares have the right to receive dividends unpaid in prior years, whenever earnings become adequate?

(a) Cumulative preference shares
(b) Participating preference shares
(c) Convertible preference shares
(d) Callable preference shares
MCQ 11

11. Which of the following statements is false?

(a) Interest on calls-in-advance is paid from the date of receipt of advance to the date of relevant call

(b) Interest on calls-in-advance is paid from the date of receipt of advance to the date of appropriation to the relevant call

(c) Interest on calls-in-advance is paid at the rate of 6% p.a.

(d) Payment of interest on calls-in-advance is at the discretion of the company
MCQ 12

12. T Ltd. proposed to issue 6,000 equity shares of Rs. 100 each at a premium of 40%. The minimum amount of application money to be collected per share = ?

(a) Rs. 5.00   (b) Rs. 6.00
(c) Rs. 7.00   (d) Rs. 8.40
MCQ 13

13. Dividends are usually paid as a percentage of _________.
   (a) Authorized share capital
   (b) Net profit
   (c) Paid-up capital
   (d) Called-up capital
14. A company forfeited 2,000 shares of Rs.10 each (which were issued at par) held by Mr. John for non-payment of allotment money of Rs. 4 per share. The called-up value per share was Rs. 9. On forfeiture, the amount debited to share capital = ?

(a) Rs. 10,000  (b) Rs. 8,000  
(c) Rs. 2,000  (d) Rs. 18,000
15. If forfeited shares (which were originally issued at a discount) are reissued at a premium, the amount of such premium will be credited to ________.
(a) Share forfeiture account
(b) Share premium account
(c) Capital reserve account
(d) Discount on issue of shares account
16. The maximum amount beyond which a company is not allowed to raise funds, by issue of shares is its’ ________.

(a) Issued capital
(b) Reserve capital
(c) Nominal capital
(d) Subscribed capital
17. 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) 5.0% of the nominal value of shares
(d) 5.0% of the issue price of shares
18. Declared dividend should be classified in the Balance Sheet as a_________.

(a) Provision
(b) Current liability
(c) Reserve
(d) Current asset
MCQ 19

19. The interest on calls-in-advance is paid for the period from the ______.
   (a) Date of receipt of application money to the date of appropriation.
   (b) Date of receipt of allotment money to the date of appropriation.
   (c) Date of receipt of advance to the date of appropriation.
   (d) Date of appropriation to the date of dividend payment.
20. As per Schedule VI of the Companies Act, 1956, under which of the following heads is ‘Premium on issue of Preference Shares’ shown in the balance sheet of a company?
(a) Miscellaneous expenditure
(b) Debentures
(c) Reserves and surplus
(d) Current liabilities and provisions
MCQ 21

21. Which of the following signifies the difference between par value and an issue price below par?
(a) Securities premium  
(b) Discount on issue of shares  
(c) Calls in arrear  
(d) Calls in advance
22. The excess price received over the par value of shares, should be credited to

(a) Calls-in-advance account
(b) Share capital account
(c) Reserve capital account
(d) Securities premium account
23. On approval from the Central Government, the rate of discount on issue of shares can be ______ percent of the nominal value of the shares.

(a) 10    (b) 20
(c) 15    (d) 5
MCQ 24

24. This Share Premium Account should be shown under

(a) Share Capital
(b) Current Liabilities
(c) Current Assets
(d) Reserves and Surplus
Use the following information for questions 25 to 35

D Ltd. issued 2,00,000 shares of Rs. 100 each at a premium of Rs. 20 per share payable as follows:

- On application: Rs. 20
- On allotment: Rs. 50 (including premium)
- On first call: Rs. 30
- On Second and final call: Rs. 20
Applications were received for 3,00,000 shares and pro rata allotment was made to applicants of 2,40,000 shares. Money excess received on application was employed on account of sum due on allotment as part of share capital. E, to whom 4,000 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited and F, the holder of
6,000 shares failed to pay the two calls and his shares were forfeited after the second call. Of the forfeited shares, 8,000 shares were reissued to G at a discount of 10%, the whole of E’s forfeited shares being reissues.
MCQ 25

25. Amount received on application = _______

(a) Rs. 40,00,000
(b) Rs. 60,00,000
(c) Rs. 48,00,000
(d) Rs. 2,40,00,000
MCQ 26

26. Application money adjusted against allotment = ________.
   (a) Rs. 20,00,000
   (b) Rs. 16,00,000
   (c) Rs. 12,00,000
   (d) Rs. 8,00,000
MCQ 27

27. Amount refunded to shareholders = ________.
   (a) Rs. 20,00,000
   (b) Rs. 16,00,000
   (c) Rs. 12,00,000
   (d) Rs. 8,00,000
MCQ 28

28. Total amount paid by E = ________.
   (a) Rs. 80,000
   (b) Rs. 3,00,000
   (c) Rs. 4,20,000
   (d) Rs. 1,44,000
29. Total amount paid by F = __________.
(a) Rs. 80,000
(b) Rs. 3,00,000
(c) Rs. 4,20,000
(d) Rs. 1,44,000
30. Total amount paid by G = ________.
   (a) Rs. 7,20,000
   (b) Rs. 8,00,000
   (c) Rs. 8,80,000
   (d) Rs. 8,64,000
MCQ 31

31. Amount transferred to Share forfeiture account at the time of forfeiting E’s shares = __________.
   (a) Rs. 80,000
   (b) Rs. 1,00,000
   (c) Rs. 3,00,000
   (d) Rs. 96,000
MCQ 32

32. Amount transferred to Share forfeiture account at the time of forfeiting F’s shares = _______.
   (a) Rs. 80,000
   (b) Rs. 3,00,000
   (c) Rs. 4,20,000
   (d) Rs. 1,44,000
MCQ 33

33. Net balance in Share Capital Account =

__________.

(a) Rs. 2,00,00,000
(b) Rs. 2,08,00,000
(c) Rs. 2,04,00,000
(d) Rs. 1,98,00,000
MCQ 34

34. Net balance in Securities Premium Account = ________.
   (a) Rs. 39,20,000
   (b) Rs. 39,28,000
   (c) Rs. 39,36,000
   (d) Rs. 39,44,000
MCQ 35

35. Net balance in Share Forfeiture Account = 

__________.

(a) Rs. 1,00,000
(b) Rs. 3,00,000
(c) Rs. 96,000
(d) Rs. 3,96,000
THE END

Issue; Forfeiture And Reissue Of Shares