

MASTER QUESTION

ACCOUNTANCY

Issue of share capital

MASTER QUESTIONS . our aim of the master question(s) is/are to cover or summarised the whole chapters in one or two or more numerical questions

Important points kept in mind

1. **Classification of shares :-** shares are classified into equity shares and preference shares
 - (A) **Preference shares:-** section 43(b) of the companies act 2013
 - (I) preference shares are those that carry the following two rights
 - (a) Right of dividend is to be paid at fixed rate
 - (b) Preference shareholder get the payment first before the equity shareholder in case of winding up of the company.
 - (II) Types of preference shares preference shares are classified into the following category
 - (a) With reference to dividend
 - (i) Cumulative preference shares are those preference shares which carry the right to receive the arrears of dividend before paying the dividend to equity shareholder
 - (ii) Non-Cumulative preference shares are those preference shares which do not carry the right to receive the arrears of dividend preference shareholder will get the dividend of the current financial year only
 - (b) With right to participation in profits
 - (i) Participating preference shares are those shares who is entitled to get the fixed rate of dividend and right to participate in surplus profit along with equity shareholder.
 - (ii) Non-Participating preference shares are those shares who is entitled to get the fixed rate of dividend and do not carry the right to participate in the surplus profit .
 - (c) With reference to convertibility
 - (i) Convertible preference shares are those which are convertible into equity shares
 - (ii) Non-Convertible preference shares are those which are not convertible into equity shares
 - (d) With reference to redemption
 - (i) Redeemable preference shares are those preference shares which is repayable to the preference shareholder after a

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specified period. The repayment of amount is termed as redemption

- (ii) Irredeemable preference shares are those preference shares which is not repayable to the preference shareholder unless the company wound up

(B) Equity shares section 43(1) of the companies act 2013

Equity shares are those shares which are not the preference shares these shares do not enjoy the two preferential rights which are discussed above. Equity shares rank after the preference shares. The rate of dividend is not fixed like preference shares. Rate of dividend on equity shares depends upon profit higher the profit may be the higher the rate of dividend and vice versa.

2. A company may issue shares

- (i) For cash consideration

- (ii) For consideration other than cash

For cash consideration issue price may be payable in

- (a) In lump sum

- (b) In instalment i.e partly on application ,partly on allotment and balance on calls

- (a) In lump sum :-Accounting entry when share issue and amount receivable in one instalment i.e in lump sum

Date	particulars	I.f	Dr amount	Cr amount
	Bank account _____ Dr To share application and allotment (being the application and allotment money received in lump sum)			
	Share application and allotment _____ Dr To share capital To securities premium reserve (if any) (being the shares allotted against the application and allotment money received)			

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For example X ltd issue 10,000 shares @10 per share at a premium of 10% the whole amount received in lump sum pass journal entries in the books of X ltd co

Date	particulars	I.f	Dr amount	Cr amount
	Bank account _____ Dr To share application and allotment (being the application and allotment money received in lump sum)		1,10,000	1,10,000
	Share application and allotment _____ Dr To share capital To securities premium reserve (if any) (being the shares allotted against the application and allotment money received)		1,10,000	1,00,000 10,000

(b) in instalment i.e partly on application ,partly on allotment and balance on calls

(i) issue of share at par or nominal value or face value

Date	particulars	I.f	Dr amount	Cr amount
	Bank _____ Dr To share application (being the application money received on ___ shares @ ___)			

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	Share application _____Dr To share capital (being the application money transfer to share capital)			
	Share allotment _____Dr To share capital (being the allotment money due on _____ shares @ __)			
	Bank _____Dr To share allotment (being the allotment money received on __ shares@ __)			
	Share call _____Dr To share capital (being the call money due on _____ shares @ __)			
	Bank _____Dr To share call (being the call money received on __ shares@ __)			

(ii) issue of shares at premium and premium received along with application money

Date	particulars	l.f	Dr amount	Cr amount
	Bank _____Dr To share application (being the application money received on __ shares@ __)			
	Share application _____Dr To share capital To securities premium reserve			

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<p>(being the application money transfer to share capital)</p> <p>Share allotment _____ Dr To share capital (being the allotment money due on _____ shares @ __)</p> <p>Bank _____ Dr To share allotment (being the allotment money received on __ shares @ __)</p> <p>Share call _____ Dr To share capital (being the call money due on _____ shares @ __)</p> <p>Bank _____ Dr To share call (being the call money received on __ shares @ __)</p>				
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- (iii) issue of shares at premium (i.e above the nominal or face value) and called along with allotment money or call money

Date	particulars	l.f	Dr amount	Cr amount
	Bank _____ Dr To share application (being the application money received on __ shares @ __)			
	Share application _____ Dr To share capital (being the application money transfer to share capital)			

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<p>Share allotment _____ Dr To share capital To securities premium reserve (being the allotment money due on _____ shares @ ___ at a premium of _____)</p>			
<p>Bank _____ Dr To share allotment (being the allotment money received on ___ shares @ ___)</p>			
<p>Share call _____ Dr To securities premium reserve To share capital (being the call money due on _____ shares @ ___)</p>			
<p>Bank _____ Dr To share call (being the call money received on ___ shares @ ___ at a premium of Rs _____)</p>			

Section 53 of the companies act 2013 does not allow the issue of shares at discount but section 54 allows issue of shares at discount when they issued as sweat equity shares it is issued to company employees or directors at a discount for consideration other than cash

Following consideration may be provided by employees to company

1 for providing know how

2 for providing software development

3. Under subscription of shares:- if the number of shares applied are less than number of shares issued for subscription . for example a company offered 1,00,000 shares to the public for subscription but the public applied for 95,000 shares . It is a case of undersubscription. Accounting entries are made on the basis of shares applied i.e 95,000 shares .According to SEBI guidelines if the company does not receive the subscription for at least 90% of the shares offered. It can not allot the shares it will refund the whole application money to the subscribers .On the basis of above example if the company receive the application

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say 85,000 shares this is 85% of shares offered in this case company can not allot any share as per SEBI guidelines. it will refund the whole application money which would be received on 85,000 shares.

4. Over subscription of shares:- if the number of shares applied are more than number of shares issued for subscription . for example a company offered 1,00,000 shares to the public for subscription but the public applied for 1,50,000 shares . It is a case of over subscription. In case of over subscription shares can be allotted by the company by any of the following alternatives
- Excess application money refunded
 - Partial or Pro-rata allotment
 - Some application money refunded and some pro-rata allotment
 - Some applicants get full allotment, some pro-rata allotment and some applications rejected

It is clear from the following example

s.no	category	Shares applied	Shares offered/allotted	
1	Applicants who applied less than 500 shares	40,000	Nil	Refund
2	Applicants who applied more than 500 shares but less than 1000 shares	60,000	50,000	Pro-rata
3	Applicants who applied more than 1000 shares	50,000	50,000	Full allotment
	Total	1,50,000	1,00,000	

Note 1:-If the question is silent about the adjustment of excess application money in case pro-rata allotment then excess application money received in case pro-rata is to be adjusted against allotment money due only and still if there is any surplus left after the adjustment in allotment that will be refunded.

Note 2:- when question states that surplus application money is to be adjusted against allotment and calls then after the adjustment in allotment and calls still if there is any balance left of excess application money that would be refunded.

Accounting treatment of over subscription

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date	particulars
	<p>Bank _____ Dr To share application (being the application money received)</p> <p>Share application _____ Dr To share capital (shares allotted× application money) To bank (if some application money refunded) To share allotment (pro-rata and excess application money adjusted in allotment) To call in advance (pro-rata and surplus after the adjustment in allotment transfer to call in advance if the terms of issue prescribe if the terms of issue does not prescribe then in place of call in advance we will refund the application money)</p>

5. Call in arrears:- if any shareholder fails to pay the call due on allotment or any calls , the amount not received is called call in arrears
 there are two alternatives of accounting treatment of call in arrears
 (a) firstly without opening call in arrears:- under this alternative call in arrears account will not open net amount transfer to bank account
 (b) secondly with opening call in arrears:- under this alternative call in arrears account will open net amount transfer to bank account along with debiting the amount of call in arrears account
6. interest on call in arrears :-interest on call in arrears is charged from the shareholder from the due date to the date of payment if authorised by its articles of association As per table F of the companies Act 2013 rate of interest on call in arrears @10% p.a

Bank _____ Dr

To interest on call in arrears

(Being the interest charged for ___ months @10% p.a)

7. in case of over subscription if there is any shareholder has shares who allotted a pro- rata allotment then calculate share applied or shares allotted of that shareholder in the following manner.

$$\text{Applied shares} = \text{shares allotted} \times \frac{\text{shares applied in category}}{\text{shares allotted in category}}$$

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$$\text{Allotted shares} = \text{shares applied} \times \frac{\text{shares allotted in category}}{\text{shares applied in category}}$$

Difference between applied shares and allotted shares is the excess shares applied by the shareholder

8. call in advance:- if the articles of association allows accept the amount against calls not yet made the amount so received in advance is called call in advance and credited to call in advance when received and debited call in advance when respective call is made due .call in advance is also credited in case of pro-rata allotment when excess application money received beyond the allotment money.
9. Interest on call in advance :- interest on call in advance is allowed to the shareholder from the date of received to the date of due if authorised by its articles of association As per table F of the companies Act 2013 rate of interest on call in advance @12% p.a

Accounting treatment

Bank _____ Dr (with the amount of calls money received in advance)
To call in advance

Note :- call in advance is shown under the head of current liability and sub head other current liability if the balance of call in advance stands in the books.

Call in advance _____ Dr(when respective call is received)
To share call account

Interest on call in advance _____ Dr
To bank

10. Performa of balance sheet schedule III part I of the companies Act 2013 as follows
Balance sheet as at ____ (Main heads only)

particulars	Note no	Figures at the end of current year	Figures at the end pf previous year
I. EQUITY AND LIABILITIES			
1. Shareholder's funds			

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<ul style="list-style-type: none"> (a) Share capital (b) Reserve and surplus (c) Money against share warrants 			
2. Share application money pending allotment			
3. Non-current liabilities			
(a) Long term borrowings			
(b) Deferred tax liabilities(net)			
(c) Other long term liabilities			
(d) Long term provisions			
4. Current liabilities			
(a) Short term borrowings			
(b) Trade payable			
(c) Other current liabilities			
(d) Short term provisions			
Total			
II. Assets			
1. Non-current assets			
(a) Fixed assets			
(i) tangible assets			
(ii) intangible assets			
(iii) capital work in progress			
(iv) intangible assets under development			
(b) non-current investment			
(c) deferred tax assets(net)			
(d) long term loans and advances			
(e) other non-current assets			
2. current assets			
(a) current investments			
(b) inventories			
(c) trade receivable			
(d) cash and cash equivalents			
(e) short term loans and advances			
(f) other current assets			
Total			

Notes to accounts

1. Share capital Authorised capital __equity shares of Rs __ each	
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<p>__preference shares of Rs__ each</p> <p>Issued capital</p> <p>__equity shares of Rs__ each</p> <p>__preference shares of Rs__ each</p> <p>Subscribed capital</p> <p>Subscribed and fully paid up</p> <p>__equity shares of Rs__ each</p> <p>Add:- balance of forfeited shares account (if in place of call in arrears share Forfeited a/c balance stands)</p> <p>__preference shares of Rs__ each</p> <p>Note:- issue shares - forfeited shares + re-issue shares =Subscribed shares.</p> <p>Subscribed but not fully paid up</p> <p>__equity shares of Rs__ each</p> <p>Less:- call in arrears</p> <p>__preference shares of Rs__ each</p> <p>Less :- call in arrears</p> <p>Add:- share forfeited shares A/C</p>	
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11. Forfeiture of shares:- Forfeiture of shares means cancelling the shares for non-payment of calls due. if the shareholder does not pay the amount of call the company has full power to forfeit the shares held by him. Before forfeiture the company must give notice to the defaulting shareholder

Accounting treatment of forfeiture of shares

Share capital _____ Dr (amount called up excluding premium)

Securities premium reserve _____ Dr (if securities premium not received)

To call in arrears (amount not received on calls)

To share forfeited (amount already received)

12. Re-issue of forfeited shares- Re-issue of forfeited shares is not issue of shares but selling the shares to the outside party. These shares may be reissued at par, at premium, or at discount

Accounting entries

Bank account _____ Dr (amount received on re-issue of shares)

Share forfeited _____ Dr (discount on re issue of shares if any)

To share capital (paid up value)

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To securities premium reserve (premium on re-issue of shares if any)

Share forfeited _____ Dr

To capital reserve

(being Gain on re- issue of forfeited shares transfer to capital reserve account)

13. If the question does not specify whether the re-issued shares are issued fully paid up then we will assume the same called up value to the date of forfeiture

For example A ltd forfeit 100 shares of Rs10 each ,Rs 7 called up for non-payment of Rs 1 per share of first call and

(a) re-issued the whole shares for Rs 5 per share

In this case nothing is mention about the called up value we will assume the Rs 7 paid up value discount on re- issue shares Rs 2 per share which has to be transferred to share forfeited account (compare the called up value with re-issue price i.e Rs 7-Rs 5)

(b) re-issued the whole shares for Rs 5 per share fully called up

In this case called up value Rs 10 per share discount on re- issue shares Rs 5 per share which has to be transferred to share forfeited account (compare the fully called up value with re-issue price i.e Rs 10-Rs 5)

14. For consideration other than cash there are the following accounting treatment

For purchase of assets

Sundry assets _____ Dr

To Vendor

For purchase of business

Sundry assets _____ Dr

Goodwill (bal fig if any) _____ Dr

To sundry liabilities

To Vendor

To capital reserve(bal fig if any)

For issue of shares

Vendor _____ Dr

To share capital

To securities premium reserve (if any)

15. Issue of shares to promoters

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and balance pro-rata allotment .Excess application money is adjusted towards allotment and further calls.

Question 1(B)

company made the allotment as follows

s.no	category	Shares applied	Shares offered/allotted
		40,000	30,000
		60,000	50,000
		50,000	50,000

One shareholder Mr Pankaj who holds 300 shares in category 1 , Mr jasdeep who applied 600 shares in category 2 , Mrs harpreet who holds 100 shares which lies in category 3 and Mr nanak to whom allotted 150 shares in category 1.

Calculation of shares applied , allotted as the case may be and excess in above case.

Question 1(C) Issue of shares for consideration other than cash

- (a) 4000 equity shares of Rs 10 each were issued to X ltd from whom assets of Rs 45,000 were acquired
- (b) X ltd Purchased the business of goldy pvt ltd for Rs 48,00,000 details as follows
- | | |
|----------------------------|-----------|
| Plant and machinery for Rs | 14,00,000 |
| Stock for Rs | 18,00,000 |
| Land and building for Rs | 24,00,000 |
| Creditors for Rs | 6,00,000 |
- if the company makes the payment to goldy pvt ltd as follows
- case I Issued equity shares at a par
- case II issued equity shares at a premium of Rs 2 per share
- case III issued 3,00,000 equity shares of Rs 10 each at a premium of Rs 2 per share

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issued a acceptance of Rs 10,00,000 and balance by issuing the post dated cheque .

Question 2.

X Ltd has authorised capital of 12,000 shares @ 10 each issue 10,000 shares Rs 3 On application on july 31st 2018, Rs 4 on allotment on sep 30th 2018 and balance on first and final call on dec 31st 2018 one shareholder Mr A who holds 200 shares fails to pay the final call money. another shareholder Mr B who holds 300 shares who pays the whole amount along with application money.
Case I Pass journal entries in the books of X Ltd with and without opening call in arrears account and how will you treat the call in arrears in balance sheet.
Case II if Amount of call in arrears received on feb 28th 2019
charge interest on call in arrears as per Table F
Allowed interest on call in advance as per Table F

Question 3. (pro-rata and call in arrears)

Jeevanjot Ltd has authorised capital of 50,000 shares of Rs 100 each issued 30,000 shares of Rs 100 each at a premium of Rs 20 per share payable as Rs 30 on application, Rs 50 on allotment (including premium), and the balance first and final call. Application received 41,000 shares , Company issue the shares following manner

- (a) Applicants of 15,000 shares allotted 10,000 shares
- (b) Applicants of 25,000 shares allotted 20,000 shares
- (c) Applicants of 1,000 shares allotted nothing

Sandeep who holds 300 shares in category (b) failed to pay the allotment money and further call money and jasdeep who applied 450 shares in category (a) failed to pay the allotment money and also call money

Pass journal entries in the books of jeevanjot Ltd and also prepare the balance sheet

Question 4. (forfeiture and re-issue of shares)

- (a) Mr X who is the holder of 300 shares @ Rs 10 each his shares are forfeited for non payment of allotment money of Rs 3 per share and final call money of Rs 4 Per

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share. Out of these 100 shares are re-issued for Rs 8 fully called up, 100 shares are re-issued for Rs 10 per share, 20 shares are re-issued for Rs 12 per share for fully paid up, 20 shares are re-issued as 8 paid up for 9 per share and rest shares are re-issued as 9 paid up for Rs 7 per share

- (b) Mr X who is the holder of 200 shares @ Rs 10 each Rs 9 called up his shares are forfeited for non payment of Rs 3 per share Out of these 100 shares are re-issued for Rs 8 per share, 20 shares are re-issued for Rs 7 per share fully called up, 20 shares are re-issued for Rs 12 per share for fully called up, 20 shares are re-issued as 8 paid up for 9 per share and rest shares are re-issued as 9 paid up for Rs 7 per share
- (c) Mr X who is the holder of 500 shares @ Rs 10 each at a premium of Rs 2 per share his shares are forfeited for non payment of allotment money of Rs 3 per share(including premium) and final call money of Rs 4 Per share. Out of these 200 shares are re-issued for Rs 8 fully called up.
- (d) Mr X who is the holder of 100 shares @ Rs 10 each at a premium of Rs 2 per share his shares are forfeited for non payment of final call money of Rs 4 Per share. Out of these 50 shares are re-issued for Rs 8 fully called up, and 10 shares are re-issued for Rs 12 per share for fully paid up.

Question 5 (forfeiture and re-issue of shares which are allotted at par on pro-rata)

Z Ltd issue 130,000 shares @Rs 10 each Rs 3 On application Rs 4 on allotment and balance on final call Application received 1,50,000 shares company made the allotment as follows

s.no	category	Shares applied	Shares offered/allotted
		40,000	30,000
		60,000	50,000
		50,000	50,000

Following shareholder are defaulter

Mr Pankaj who holds 300 shares in category 1 fails to pay the allotment money and his shares are forfeited ,

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Mr jasdeep who applied 600 shares in category 2 fails to pay the final call money and his shares are forfeited ,

Mrs harpreet who holds 100 shares which lies in category 3 fails to pay allotment money and final call money his shares are not forfeited till now.

Mr nanak to whom allotted 150 shares in category 1 he fails to pay allotment and call his shares are forfeited.

Out of the above shares are re-issued as follows

250 shares of pankaj re-issued at Rs 10 each

300 shares of jasdeep re-issued at Rs 8 fully paid up

100 shares of nanak re-issued at Rs 12 fully paid up

Pass journal entries and also show the balance sheet.

Question 6 (forfeiture and re-issue of shares which are allotted at premium on pro-rata)
X Ltd has authorised capital of 15,000 shares and company invited application for 10,000 shares of Rs 10 each at a premium of 2 per share payable as:-

On application Rs 3 per share (including Re1 premium)

On allotment Rs 4 per share (including Re1 premium)

On first call Rs 3 per share

Balance on second and final call

Application received for 15,000 shares and pr-rata allotment was made for 12,000 shares
It was decided excess application money adjusted towards allotment.

Mr jagu who holds 200 shares failed to pay the allotment money and first call money his shares are forfeited.

Mr sandeep who applied 360 shares failed to pay the two calls his shares are forfeited

Out of the forfeited shares 400 shares were sold to joginder for Rs 9 per share fully paid up including the whole share of jagu

Pass journal entries and also prepare the balance sheet (5 times of question 90)

Question 7 (forfeiture and re-issue of shares which are allotted at premium on pro-rata)
pee ltd has authorised capital of 25,000 shares and company invited application for 20,000 shares of Rs 10 each at a premium of 4 per share payable as:-

On application Rs 6 per share (including Re1 premium)

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On allotment Rs 2 per share (including Re1 premium)

On first call Rs 3 per share (including Re1 premium)

Balance on second and final call

Application received for 30,000 shares and pro-rata allotment was made for 24,000 shares

It was decided excess application money adjusted towards allotment.

Mrs Navpreet who holds 400 shares failed to pay the allotment money and first call money his shares are forfeited.

Mrs Sukhraj who applied 720 shares failed to pay the two calls his shares are forfeited

Out of the forfeited shares 800 shares were sold to Papu for Rs 9 per share fully paid up including the whole share of Sukhraj

Pass journal entries and also prepare the balance sheet (10 times of question 93)