**23****ISSUE OF SHARES**

In the preceding lesson you have studied about the company, its meaning, characteristics and its various types. You are also familiar with share capital, and its various kinds. Share capital is one of the main sources of finance for a company. In this lesson we shall study the procedure of issuing shares for raising capital and its accounting treatment in the books of the company.

**OBJECTIVES**

After going through this lesson you will be able to

- explain the procedure of issuing shares;
- explain that the share money may be called in lump sum or in two or more instalments;
- state that shares may be issued at par, at premium, and at discount;
- make journal entries to record the issue of shares;
- explain the terms calls in arrears and calls in advance.

23.1 PROCEDURE OF ISSUE OF SHARES

Face value of a share is the par value of the share. It is also known as the Nominal value or denomination of a share. To issue shares a company follows a definite procedure which is controlled and regulated by the Companies Act and Securities Exchange Board of India (SEBI). There are different ways of issue of shares which may be:

- (A) For consideration other than cash
- (B) For cash

(A) Issue of shares for consideration other than cash

- Sometimes shares are issued to the promoters of the company in lieu of the services provided by them during the incorporation of the



Notes

company. The issue price of these shares is normally debited to 'Goodwill A/c' and journal entry is made as follows :

Goodwill A/c	Dr
To Share Capital A/c	

In case a company does not have sufficient funds for the purchase of fixed assets or for payment to creditors it may offer and allot its shares to vendors/creditors in lieu of cash. Any allotment of shares against which cash is not to be received is called 'issue of shares for consideration other than cash'. For example building is purchased and payment is made by issuing shares.

In case of purchase of assets like building, machinery, stock of materials, etc. the following journal entry is made :

1. Assets A/c Dr
 To Vendors/Creditors A/c
 (Assets purchased)
2. Vendors/Creditors A/c Dr
 To Share Capital A/c
 (Issue of shares of Rs.....each fully paid up)

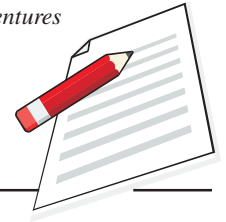
(B) Issue of Shares for cash

In general, shares are issued for cash. The company may call the share money either in one instalment or in two or more instalments. But company always collects this money through its bankers.

(i) Receipt of share money in one instalment

The company may receive the share money in one instalment along with application. In this case the following journal entries are made in the books of the company

1. On Receipt of Application Money
 Bank A/c Dr
 To Share Application A/c
 (Application money received onshares of Rs...each)
2. On transferring the Application Money
 Share Application A/c Dr
 To Share Capital A/c
 (Application money transferred to share capital A/c)



Notes

(ii) Share money received in two or more instalments

Instead of receiving payment in one instalment i.e. at the time of application the company collects it in two or more instalments. The first, instalment which the applicants have to pay along with the applications for shares is known as application money. On the allotment of shares the allottees are required to pay the second instalment which is termed as allotment money. If the company decides to call the share money in more than two instalments the other instalment is/are termed as call money (i.e. first-call, second call or final call).

In the above case the transactions are recorded in journal as given below :

(a) On receipt of application money

(i) Bank A/c Dr
 To Share Application A/c
 (Receipt of share application money for Shares @ Rs.. per share)

(b) On allotment of shares

After receiving the application for shares within the prescribed time, the Board of Directors of the company proceed to allot shares. On allotment of shares the application money is transferred to Share Capital A/c. For this the following journal entry is made :

Share Application A/c Dr
 To Share Capital A/c
 (Share application for Shares @ Rs... per share transferred to share capital A/c)

Allotment Money becoming due and received

On the allotment of shares the amount receivable on the next instalment i.e. on allotment becomes due. The following entry is made for recording the amount due :

(i) Allotment money becoming due

Share Allotment A/c Dr
 To Share Capital A/c
 (Share allotment money due on shares @Rs ... per share)



Notes

(ii) Receipt of allotment money

On the receipt of share allotment money the following journal entry is made:

Bank A/c	Dr
To Share Allotment A/c.	

(Receipt of the amount due on allotment of ... shares)

Calls on shares

After the receipt of application and allotment money the money that remains unpaid can be called up by the company as and when required. Thus a call is a demand made by the company asking the shareholders to remit the called up amount on shares allotted to them.

The company may demand the remaining money in more than two instalments. The amount called after the allotment is known as call money. There may be one or more calls, depending on the funds requirements of the company. When only **one** call is made Call Money is Due :

Share First and Final Call A/c	Dr
To Share Capital A/c.	

(Call money due on share @ Rs ... per share).

Receipt of call money

The following journal entry is made for receipt of call money:

Bank A/c	Dr
To Share First & Final call A/c	

(call money due on ... shares @ Rs ... per share received)

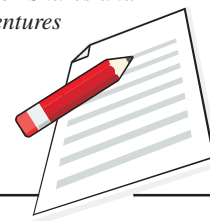
Note : If the company makes more than one call the same accounting treatment is followed for recording the second call or third call money due and their receipt. The last call made is termed as final call.

Illustration 1

Fashion Fabrics Ltd. issued 100000 shares of Rs. 10 each on 1st April, 2006. The amount payable on these shares was as under:

- Rs 2 per share on application.
- Rs 3 per share on allotment.
- Rs 5 per share on call.

Make journal entries and prepare relevant accounts in the books of company.

**Solution :****Fashion Fabrics Ltd.****Journal entries**

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c To Share Application A/c (Application money received @ Rs 2 per share)	Dr	200000	200000
2.	Share Application A/c To Share Capital A/c (Share application money for 100000 shares transferred to share capital A/c)	Dr	200000	200000
3.	Share Allotment A/c To Share Capital A/c... (Allotment money made due on 100000 shares @ Rs 3/- per share)	Dr	300000	300000
4.	Bank A/c To Share Allotment A/c. (Allotment money received on 100000 shares @Rs 3 per share.)	Dr	300000	300000
5.	Share First & Final call A/c. To Share Capital A/c (Call money on 1,00,000 shares @ Rs 5 per share made due)	Dr	500000	500000
6.	Bank A/c To Share First & Final call A/c. (Call money received on 1,00,000 shares @ Rs 5 per share)	Dr	500000	500000

Notes

Note : Although shares may be equity shares or preference shares but if the term shares is used it means equity shares)

MODULE - 5

Accounting for Shares and
Debentures



Notes

Issue of Shares

Relevant Accounts

Bank A/c

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Share Application A/c		200000		Balance cld		1000000
	Share Allotment A/c		300000				
	Share First and Final call A/c		500000				
			1000000				1000000
	Balance b/d		1000000				

Share Application A/c

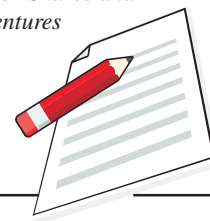
Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Share Capital A/c		200000		Bank A/c		200000
			200000				200000

Share Capital A/c

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Balance cld		1000000		Share Application A/c		200000
					Share Allotment A/c		300000
					Share First and Final call A/c		500000
			1000000				1000000
					Balance b/d		1000000

Share Allotment A/c

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Share Capital A/c		300000		Bank A/c		300000
			300000				300000



Share First and Final Call A/c

Dr				Cr			
Date	Particulars	JF	Amount Rs	Date	Particulars	JF	Amount Rs
	Share Capital A/c		500000		Bank A/c		500000
			500000				500000

Notes



INTEXT QUESTIONS 23.1

Fill in the blanks with appropriate word/words

- (i) Face value of share is value of the share.
- (ii) Shares in consideration other than cash are issued to
- (iii) Share money on issued shares can be demanded by the company in lump sum or in
- (iv) Share application money is received by the company from share

23.2 FULL, UNDER AND OVER SUBSCRIPTION

A company decides to issue number of shares to raise capital. It invites public to buy these shares. Now there may be three situations :

I. Full Subscription

Company may receive applications equal to the number of shares company has offered to people. It is called full subscription. In case of full subscription the journal entries will be made as follows :

- (a) On receipt of application money

Bank A/c Dr

To Share Application A/c

(Application money received for shares)

- (b) On allotment of shares

Share Application A/c Dr

To Share Capital A/c

(Application money of shares transferred to capital A/c on their allotment)



II. The company does not receive application equal to the number of shares offered for subscription, there may be two situations :

- (i) under subscription
- (ii) over subscription

(i) Under subscription

The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be allotted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

(ii) Over Subscription

When company receives applications for more number of shares than the number of shares offered to the public for subscription it is a case of over subscription. A company cannot allot more shares than what it has offered. In case of over subscription, company has the following options :

Option I

(i) Rejection of Excess Applications and Money Returned

The company may reject the applications for shares in excess of the shares offered for issue and a letter of rejection is sent to such applicants. In this case the application money received from these applicants is refunded to them in full. The journal entry made is as follows:

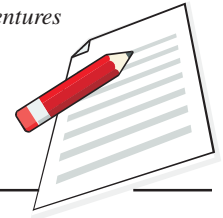
Share Application A/c	Dr
To Bank A/c	

(Application money on ... shares refunded to the applicants)

**(ii) Excess application money adjusted towards sums due on allotment.
Journal entry made is :**

Shares Application A/c	Dr
To Share Allotment A/c	

(Excess application money adjusted towards sums due on allotment)



If the application money received on partially accepted applications is more than the amount required for adjustment towards allotment money, the excess money is refunded. However, if the Articles of the company so authorise, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due later on and the following entry is made :

Share Application A/c	Dr
To Call-in-advance A/c	

(The adjustment of excess share application money retained as call-in-advance in respect of ... shares).

Option II

Partial acceptance of Applications.

In some cases the company accepts the applications for subscription partially. It means that the company does not allot the full number of shares applied for. For example if an applicant has applied for 5000 shares and is allotted only 2000 shares, then the applications is said to have been partially accepted. The company may evolve some formula of accepting applications partially or making proportionate allotment/ the Prorata allotment which means that the applicants are allotted shares proportionately. In such a case the company adjusts the excess share money received on application towards share allotment money due on partially accepted applications. The journal entry recording the adjustment of application money towards share allotment money, is as under :

Share Application A/c	Dr
To Share Allotment A/c	

(Share application money transferred to Share Allotment Account in respect of ... shares).

Illustration 2

The Full Health Care Ltd has offered to public for subscription 20000 shares of Rs 100 each payable as Rs 30 per share on application, Rs 30 per share on allotment and the balance on call. Applications were received for 30000 shares. Applications for 5000 shares were rejected all together and applicaiton money was returned. Remaining applicants were allotted the offered shares. Their excess application money was adjusted towards some due on allotment. Calls were made and duly received. Make journal entries in the books of the company.



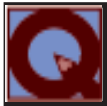
Notes

Solution

Full Health Care Ltd.

Journal entries

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c Dr To Share Application A/c (Application money received for 30000 shares @ Rs 30 per share)		900000	900000
2.	Share Application A/c Dr To Share Capital A/c To Bank A/c To Share Allotment A/c (Application money of 20000 shares transferred to share capital A/c on their allotment. That of 5000 shares returned and of 5000 shares adjusted towards sum due on allotment.)		900000	600000 150000 150000
3.	Share Allotment A/c Dr To Share Capital A/c... (Allotment money due)		600000	600000
4.	Bank A/c Dr To Share Allotment A/c. (Allotment money received)		450000	450000
5.	Share First and Final call A/c. Dr To Share Capital A/c (Call money due)		800000	800000
6.	Bank A/c Dr To Share First and Final call A/c. (Call money received)		800000	800000

**INTEXT QUESTIONS 23.2**

Fill in the blanks with appropriate word or words in the following sentences:

- (i) When company receives applications for more number of shares than offered for subscription it is a case of
- (ii) When share money is to be received in two or more instalments the first instalment is called
- (iii) Call is a demand made by the company asking the shareholders to pay the amount.
- (iv) A company allot more shares than it has issued.

23.3 ISSUE OF SHARES AT PREMIUM

A company can issue its shares at their face value. When company issues its shares at their face value, the shares are said to have been issued at par. Company can also issue its shares at more than or less than its face value i.e, at 'Premium' or at 'Discount' respectively. When shares are issued at premium or at discount an accounting treatment different from shares issued at par is required. Let us discuss issue of shares at premium.

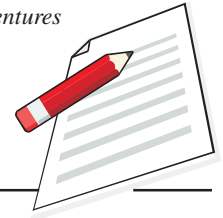
Issue of shares at premium

If a company issues its shares at a price more than its face value, the shares are said to have been issued at Premium. The difference between the issue price and face value or nominal value is called 'Premium'. If a share of Rs 10 is issued at Rs 12, it is said to have been issued at a premium of Rs 2 per share. The money received as premium is transferred to Securities Premium A/c. A company issues its shares at premium only when its financial position is very sound. It is a capital gain to the company. The Premium money may be demanded by the company with application, allotment or with calls.

The Companies Act has laid down certain restrictions on the utilisation of the amount of premium.

According to Section 78 of this Act, the amount of premium can be utilised for :

- (i) Issuing fully-paid bonus shares;
- (ii) Writing off preliminary expenses, discount on issue of shares, underwriting commission or expenses on issue;
- (iii) Paying premium on redemption of Preference shares or Debentures.

**Notes**



Notes

Further, the company may demand the total amount of premium in more than one instalment. In case the company doesn't specify the particular call with which Securities Premium is to be paid it is supposed to be called at the time of Allotment.

Accounting Treatment of premium on Issue of Shares

Following is the accounting treatment of Premium on issue of shares :

(a) Securities premium collected with share Application money :

If the Securities premium is collected on application and the company has taken decision about the allotment of shares, the following journal entry is made :

Share Application A/c.	Dr
To Securities Premium A/c	

(The amount of Securities premium received on application of the allotted shares is transferred to Securities Premium A/c)

(b) Premium collected with Allotment money or Calls.

If the company decides to demand the premium with share Allotment or/and share call money, the journal entry made is:

Share Allotment A/c	Dr
Or/and	

Share Call A/c	Dr
To Securities Premium A/c	

(Adjustment of share premium due on.....shares @Rs.....per share.)

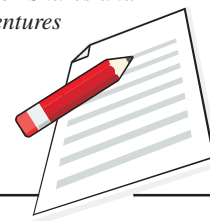
Illustration 3

Luxuary Cars Ltd. issued 100000 shares of Rs 10 each at a premium of Rs 5 per share, payable as:

- On application Rs. 4 (including Rs 2 premium) per share
- On allotment Rs 8 (including Rs 3 premium) per share
- On call Rs. 3 per share

Applications were received for 100000 shares and allotment was made to all.

Make journal entries.



Solution:

Books of Luxury Cars Ltd.

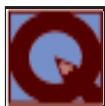
Journal entries

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1.	Bank A/c Dr. To Share Application A/c (Amount received for 1,00,000 shares)		400000	400000
2.	Share Application A/c Dr To Share Capital A/c To Securities Premium A/c (Share application money transferred to share capital A/c and securities Premium A/c)		400000	200000 200000
3.	Bank A/c Dr To Share Allotment A/c (Share allotment money is received on 1,00,000 shares @ Rs 8 per share)		800000	800000
4.	Share Allotment A/c Dr To Share Capital A/c To Securities Premium A/c (Share allotment money made Due)		800000	500000 300000
5.	Share First and Final Call A/c Dr To Share Capital A/c (Share call money made due on 1,00,000 shares @ Rs 3 per share.)		300000	300000
6.	Bank A/c Dr To Share First and Final Call A/c (Share call money received on 1,00,000 shares @ Rs 3 per share.)		300000	300000

Notes



Notes



INTEXT QUESTIONS 23.3

Fill in the blanks with suitable word/words and figure/figures :

- (i) Securities premium is a to the company.
- (ii) If allotment money demanded is Rs 5 per share including Rs 2 for premium. the share capital account will be credited by Rs
- (iii) A company issues its shares of Rs 50 each at Rs 60 per share. The excess money of Rs 10 each is
- (iv) If the premium per share is Rs 20 on a share of Rs 100 each, the share capital A/c will be credited with per share.

23.4 ISSUE OF SHARES AT DISCOUNT

When the issue price of share is less than the face value, shares are said to have been issued at discount. For example if a company issues its shares of Rs 100 each at Rs. 90 each, the shares are said to be issued at discount. The amount of discount is Rs 10 per share (i.e. Rs 100 – Rs 90). Discount on shares is a loss to the company.

Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows :

- (i) At least one year must have elapsed from the date of commencement of business;
- (ii) Such shares are of the same class as had already been issued;
- (iii) The company has sanctioned such issue by passing a resolution in its General meeting and the approval of the court is obtained.
- (iv) Discount should not be more than 10% of the face value of the share and if the company wants to give discount more than 10%, it will have to obtain the sanction of the Central Government.

Accounting Treatment of Shares Issued at Discount

The amount of discount is generally adjusted towards share allotment money and the following journal entry is made:

Share Allotment A/c	Dr
Discount on issue of shares A/c	Dr
To Share Capital A/c	

Allotment money due on....shares @Rsper share after allowing discount @Rsper share.

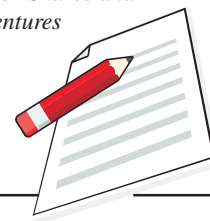


Illustration 4

Sri Krishna Agro Chemical Ltd. was registered with a capital of Rs 5000000 divided into 50000 shares of Rs 100 each. It issued 10000 shares at discount of Rs 10 per share, payable as :

Rs 40 per share on application

Rs 30 per share on allotment

Rs 20 per share on call.

Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.

Solution

Sri Krishna Agro Chemicals Ltd

Journal entries

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1	Bank A/c Dr. To Share Application A/c (Application money received for 15000 shares @ Rs 40 per Share)		6,00,000	6,00,000
2.	Share Application A/c Dr To Share Capital A/c (Application money of 10000 shares transferred to share Capital A/c on their allotment)		4,00,000	4,00,000
3.	Share Application A/c Dr To Share Allotment A/c To Bank A/c (Application money of 3000 shares returned and of 2000 shares adjusted towards sum due on allotment)		2,00,000	80,000 1,20,000

MODULE - 5

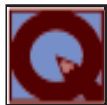
Accounting for Shares and
Debentures



Notes

Issue of Shares

4.	Shares Allotment A/c	Dr	3,00,000	
	Share discount A/c	Dr	1,00,000	
	To Share Capital A/c.			4,00,000
	(Allotment money due)			
5.	Bank A/c	Dr	2,20,000	
	To Share Allotment A/c			2,20,000
	(Allotment money received)			
6.	Share First & Final Call A/c	Dr	2,00,000	
	To Share Capital A/c			2,00,000
	Amount due on call			
7.	Bank A/c	Dr	2,00,000	
	To Share First & Final Call A/c			2,00,000
	(Call money received)			



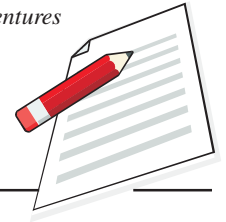
INTEXT QUESTIONS 23.4

Fill in the blanks with suitable word/words :

- Discount on issue of shares is a to the company.
- A company issues its shares of Rs. 100 each at a discount of 10%, money receivable on each share is
- If discount per share is Rs. 5 on shares of Rs 100 each, the share capital A/c will be credited with Rs.

23.5 CALLS IN ADVANCE AND CALLS IN ARREARS

If a shareholder pays any amount to company before it is demanded, it is called Call-in-Advance. This amount is put in a separate account known as Calls-in-Advance A/c. This amount is not shown as capital of the company, till such time the company makes a demand from all the shareholders. Call-in-Advance A/c is shown on the liabilities side of the Balance Sheet. For example if a company issued shares of Rs 10 on which it has already called Rs 5. Against the uncalled portion of Rs 5 per share the company makes a call Rs 3 per share, the entry for call money due will be made only for Rs 3 per share. Now suppose a shareholder pays Rs 5



per share including the uncalled amount of Rs 2 per share along with the call money, it means he has paid Rs 2 per share in advance, which will be credited to calls in Advance A/c. The company is required to pay interest on this amount @ 6% till the date of its appropriation.

Accounting treatment

Following journal entry is made for calls-in-advance.

Bank A/c	Dr
To Calls-in-Advance A/c	
(Calls in advance received on.....shares @ Rsper share)	

Appropriation of calls-in-Advance A/c say in the final call

Journal entry will be :

Calls-in-Advance A/c	Dr
To Share Final call A/c	
(Calls in advance amount adjusted)	

For interest given on Calls-in-Advance

Journal entry will be

Interest on calls-in-Advance A/c	Dr
To Bank A/c	
(Interest paid on the amount of Call-in-Advance)	

Illustration 5

India Software Ltd. offered 50000 shares of Rs 10 each to the public payable as:

Rs 2 on application

Rs 3 on allotment

Rs 2 on First call and the balance as and when required.

All the shares were applied for and duly allotted but Mukesh a shareholder holding 200 shares paid the entire balance on allotment.

Make necessary journal entries.

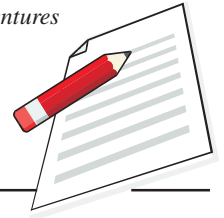


Notes

Solution

**India Software Ltd.
Journal entries**

Date	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
	Bank A/c Dr. To Share Application A/c. (Share application money received for 50000 shares @ Rs 2 per share)		100000	100000
	Share Application A/c Dr To Share Capital A/c (Share application money transferred to share capital A/c on allotment.)		100000	100000
	Share Allotment A/c Dr To Share Capital A/c (Share allotment money made due on 50000 shares @ Rs 3 per share.)		150000	150000
	Bank A/c. Dr To Share Allotment A/c To Calls-in-Advance A/c (Amount received on allotment @ Rs 3 per share and advance for 200 shares @ Rs 5 per share.)		151000	150000 1000
	Share First Call A/c Dr To Share Capital A/c (Share first call money due on 50000 shares @ Rs 2 per share.)		100000	100000
	Bank A/c Dr Call-in-Advance A/c Dr To Share First call A/c (First call money is received on 49800 shares and on 200 shares call in advance is adjusted.)		99600 400	100000



Notes

Calls in arrears

When the company sends notice to the shareholders to pay allotment and /or call money, it has to be paid by them within the specified time period. If it is not paid by any one or more of the shareholders, the unpaid amount becomes arrears due from them. Such arrears are transferred to an account termed as Calls-in-Arrears A/c. The company is authorised to charge interest on calls-in-Arrears @ 5% p.a. for the intervening period. (The period between date of non-receipt of the due amount and the date of actual receipt of the due amount).

Accounting Treatment

The following journal entry is made to record Calls-in-Arrears:

Calls-in-Arrears A/c	Dr
To Share Allotment/Call A/c	
(Share allotment/ Call money not received on shares)	

When the unpaid balance is received later on the following journal entry is made:

Bank A/c	Dr
To Calls in Arrears A/c	

(Amount due on allotment/ call remaining unpaid now received on..... shares.)

The company may charge interest on the amount of calls in arrears at a given rate from the date of amount due till it is paid journal entry will be

Bank A/c	Dr
To Interest on calls in arrears A/c	

Illustration 6

X Ltd. made its first call of Rs 20 per share on 1st July 2006. Zahir holding 200 shares failed to pay the call money. He could pay the money only on 31st December, 2006. Company charged interest @12% per annum.

Make necessary journal entry for the interest charged by the company.

Solution

Amount of interest due $4000 \times \frac{12}{100} \times \frac{6}{12} = 240$



Notes

Journal entry

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
	Bank A/c Dr. To Interest on call in Arrears A/c (Receipt of interest on calls in arrears)		240	240

Illustration 7

ABC Ltd issued 20000 shares of Rs 10 each payable as Rs 2 per share on application, Rs 5 (including premium of Rs 2 per share) on allotment, Rs 3 per share on first call and the balance on Final Call.

All the money were received except the first call money on 400 shares; which was received later on with final call.

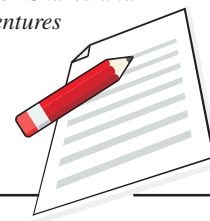
Make necessary journal entries.

Solution :

Journal entries

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1	Bank A/c Dr. To Share Application A/c (Application money received for 20000 shares @ Rs 2 per Share.)		40000	40000
2.	Share Application A/c Dr To Share Capital A/c (Application money of 20000 shares transferred to share Capital A/c on allotment)		40000	40000
3.	Share Allotment A/c Dr To Share Capital A/c To Securities Premium A/c (Allotment money make due with premium @ Rs 5 (3+2) per share on 20000 shares.)		100000	60000 40000

4.	Bank A/c	Dr	100000	
	To Share Allotment A/c			100000
	(Share allotment money received)			
5.	Shares First Call A/c	.Dr	60000	
	To Share Capital A/c.			60000
	(Share first call money is due on 20000 shares @ Rs 3 per share.)			
6.	Bank A/c	Dr	58800	
	Calls-in-Arrears A/c	Dr	1200	
	To Share First Call A/c			60000
	(First call money received on 19600 shares @ Rs 3 per share.)			
7.	Share Final Call A/c	Dr	40000	
	To Share Capital A/c			40000
	(Final Call money due on 20000 shares @ Rs 2 per share.)			
8.	Bank A/c	Dr	41200	
	To Share Final Call A/c			40000
	To Calls-in-Arrears A/c			1200
	(Final Call money received on 20000 shares @ Rs 2 per share along with arrears of first call on 400 shares.)			



Notes

Illustration 8

The progressive Industries Limited was registered with a capital of Rs 5000000. It issued 20000 equity shares of Rs 100 each payable as Rs 25 on application, Rs 25 on allotment and balance on 1st and final call and 10000 9% preference shares of Rs 50 each payable as Rs 50 on application and allotment and the balance on two calls of Rs 25 each. All the shares were applied for and allotted. All money was duly received. Make necessary journal entries in the books of the company :



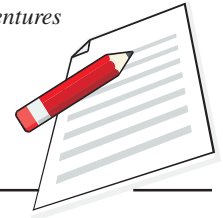
Notes

Solution

Progressive Industries Ltd

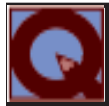
Journal entries

S.No.	Particulars	L.F	Dr Amount Rs	Cr Amount Rs
1	Bank A/c Dr. To Equity Share Application A/c To 9% Preference Share Application and Allotment A/c (Application money received for 2000 equity shares @ Rs 25 per Share and 10000 9% preference shares @ Rs 50 per share)		10,00,000	5,00,000 5,00,000
2.	Equity Share Application A/c Dr. 9% Preference Share Applicaiton & Allotment A/c Dr. To Equity Share Capital A/c To 9% Preference Share Capital A/c (Applicaiton money transferred to capital accounts)		500000 500000	500000
3.	Equity Share Allotment A/c Dr. To Equity share Capital A/c (Allotment money due on 20000 equity shares at Rs 25 per share)		500000	500000
4.	9% Preference share 1st call A/c Dr To 9% Preference Share Capital A/c (1st call money due on 10000 9% preference shares at Rs 25 pershare)		250000 250000	
5.	Bank A/c Dr To Equity Share Allotment A/c To 9% Preference Share 1st call A/c (Equity share allotment money and 9% preference share 1st call money received)		750000	500000 250000



6. Equity Share First & Final Call A/c Dr	10,00,000		
9% Preference Share Final Call A/c Dr	250000		
To Equity Share Capital A/c		1000000	
To 9% Preference Share Capital A/c	250000		
First & Final call on equity shares and Final call on 9% preference shares due			
7. Bank A/c Dr	1250000		
To Equity Share First & Final Call A/c		1000000	
To 9% Preference Share Final Call A/c		250000	
Equity share 1st and final call and 9% Preference share final call money received.			

Notes



INTEXT QUESTIONS 23.5

Fill in the blanks with suitable word/words and figure/figures.

- (i) The call money demanded by the company if not paid by a shareholder, will be debited toA/c.
- (ii) A shareholder pays Rs 6 per share on allotment which includes Rs 2 per share for the next call, extra amount paid is
- (iii) Interest charged by the company on the amount of calls-in-arrears will be credited to
- (iv) Interest allowed on the call paid in advance will be debited to



WHAT YOU HAVE LEARNT

- Face value of a share is its par value. Shares can be issued for other than cash i.e., for purchase of assets or payment to creditors or promoters.
- Share money can be collected in lump sum or in instalment.
- The first instalment is termed as Share Application money and second instalment is known as Share Allotment money.
- In case share money is collected in more than two instalments this is call money.

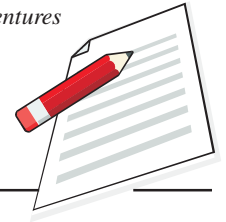


Notes

- Applications for shares may be received equal to the number of shares issued, (full subscription) less than number of shares issued (under subscription) or for more than the number of shares issued (over subscription)
- When shares are issued at more than their face value these are said to be issued at premium. The premium amount can be utilised only for purposes as specified under section 78 of Companies Act.
- When issue price of a share is less than its nominal value, it is said to be issued at discount. Section 79 of Companies Act has laid down certain conditions to be fulfilled while issuing shares at discount.
- If a shareholder fails to pay Share Allotment money or share call money when demanded by the company, the unpaid amount is called calls in Arrears. If a shareholder pays the amount for calls not made, the amount paid is known as Call-in-Advance.

**TERMINAL QUESTIONS**

1. What is meant by over subscription of shares? What accounting treatment is given to the amount over subscribed?
2. What is 'Shares Issued at Premium? State the purposes for which Premium amount can be utilised.
3. What is meant by issue of shares at discount? State the conditions to be fulfilled for the issue of shares at discount under the Companies Act.
4. Explain in brief the terms:
 - (i) Calls-in Arrears.
 - (ii) Calls-in Advance
5. Make journal entries:
 - (a) XY Limited whose share capital is divided into 20,000 equity shares of Rs. 10 each, issued 6,000 shares to the public. The entire money is payable along with the application. All the shares were subscribed and application money was received.
 - (b) A Limited issued 10,000 equity shares of Rs. 100 each, payable Rs 25 per share on application, Rs 25 per share on allotment, and Rs. 25 on each of the two subsequent calls. All the money was duly received.
 - (c) X Ltd., issued 10,000 shares of Rs. 10 each at Rs.15 payable Rs. 3 on application, Rs. 8 on allotment (including the premium of Rs. 5) and Rs. 4 on call. All the shares are subscribed, allotted and paid for at due dates.



- (d) A limited issued 10,000 shares of Rs 20 each at a discount of 10%. The shares were payable as Rs 4 per share on application, Rs 8 per share on allotment and the balance on first call. All the money was duly received.
6. (a) Akshay Ltd. made an issue of 20,000 shares of Rs.10 each payable as follows :
- Rs. 2 on application, Rs. 2 on allotment, Rs. 3 on first call and the balance on second call. The first call is made and all members pay, including a member holding 800 shares, who pays for the balance due in full. Later the final call is made and is fully met.
- Give journal entries.
- (b) Nirmal Ltd. with an authorised capital of Rs.10,00,000, in shares of Rs. 10 each, issued 50,000 of such shares, payable Rs.2 per share on application, Rs. 3 on allotment, Rs.2.50 per share three months later, and duly received. But when the call of Rs.2.50 was made a shareholder holding 200 share failed to pay the call money while another shareholder holding 400 shares paid the entire Balance. Give journal entries.
7. Goodluck Ltd. issued 50,000 shares of Rs.10 each at a Premium of Rs. 4 per share payable as :
- On Application Rs. 2 per share
- On Allotment Rs. 6 per Share (including Premium Rs. 3)
- On first and final Call Rs.6 per share (including Premium Rs.1)
- Over payment on applications were to be applied towards sums due on allotment only. Applications were received for 75,000 shares. Applicants for 15,000 shares were sent letters of regret and money returned to them in full. Applicants for 15,000 shares were allotted only 5,000 shares. All money due on Allotment and call was duly received.
- Make journal entries
8. Super India Petro Chemicals Ltd. was registered with a capital of Rs 1 crore divided into equity shares of Rs 100 each. Company purchased plant of Rs 2500000 and paid the amount by issuing shares at a premium of Rs 25 per share. Company also issued shares of Rs 5000000 to the general public at a premium of Rs 25 per share. The amount payable was :



Notes

Rs 65 on application and allotment

Rs 30 on first call and the balance on final call.

Company received applications for 75000 shares Allotment was made as follows :

Applicants for

10000 shares	nil
40000 shares	Full
25000 shares	10000

Allotment money was received in full but when calls were made all shareholders paid the amount in full except a shareholder holding 400 shares belonging to the category who were allotted full shares failed to pay the 1st call money which he paid along with the amount of final call company allows interest on call in advance @6% per annum and charges interest on call-in-arrears @ 12% p.a. After the allotment the calls are made at a interval of 2 months. Make necessary journal entries in the books of the company.



ANSWERS TO INTEXT QUESTIONS

Intext Questions 23.1

- | | |
|-------------------|-----------------|
| (i) Denominated | (ii) Vendors |
| (iii) Instalments | (iv) Applicants |

Intext Questions 23.2

- | | |
|-----------------------|---------------------|
| (i) Over subscription | (ii) Share 1st call |
| (iii) Called up | (iv) Cannot |

Intext Questions 23.3

- | | |
|--------------------------|-----------------------|
| (i) gain | (ii) Rs. 3 |
| (iii) Securities premium | (iv) Rs 100 per share |

Intext Questions 23.4

- | | | |
|----------|------------|-------------------------|
| (i) loss | (ii) Rs 90 | (iii) Rs 100 per shares |
|----------|------------|-------------------------|

Intext Questions 23.5

- | | |
|---------------------------------------|-----------------------|
| (i) Calls in arrears | (ii) Calls in advance |
| (iii) Intrest on calls in arrears A/c | |
| (iv) Interest on call in advance A/c | |