One Two academy

UNIT 7

COMPANY ACCOUNTS

I. Choose the correct answer:

1. A preference share is one

   (i) which carries preferential right with respect to payment of dividend at fixed rate

   (ii) which carries preferential right with respect to repayment of capital on winding up

   (a) Only (i) is correct (b) Only (ii) is correct

   (c) Both (i) and (ii) are correct (d) Both (i) and (ii) are incorrect

2. That part of share capital which can be called up only on the winding up of a company is called:

   (a) Authorised capital (b) Called up capital

   (c) Capital reserve (d) Reserve capital

3. At the time of forfeiture, share capital account is debited with

   (a) Face value (b) Nominal value

   (c) Paid up amount (d) Called up amount

4. After the forfeited shares are reissued, the balance in the forfeited shares account should be transferred to

   (a) General reserve account (b) Capital reserve account

   (c) Securities premium account (d) Surplus account

5. The amount received over and above the par value is credited to

   (a) Securities premium account (b) Calls in advance account

   (c) Share capital account (d) Forfeited shares account

6. Which of the following statement is false?

   (a) Issued capital can never be more than the authorised capital

   (b) In case of under subscription, issued capital will be less than the subscribed capital

   (c) Reserve capital can be called at the time of winding up

   (d) Paid up capital is part of called up capital

7. When shares are issued for purchase of assets, the amount should be credited to

   (a) Vendor's A/c (b) Sundry assets A/c

   (c) Share capital A/c (d) Bank A/c

8. Match the pair and identify the correct option

(1) Under subscription	-	(i) Amount prepaid for calls
(2) Over subscription	-	(ii) Subscription above the offered shares
(3) Calls in arrear	-	(iii) Subscription below the offered shares
(4) Calls in advance	-	(iv) Amount unpaid on calls

	(1)	(2)	(3)	(4)
(a)	(i)	(ii)	(iii)	(iv)
(b)	(iv)	(iii)	(ii)	(i)
(c)	(iii)	(ii)	(iv)	(i)
(d)	(iii)	(iv)	(i)	(ii)

9. If a share of ₹ 10 on which ₹ 8 has been paid up is forfeited. Minimum reissue price is

(a) ₹ 10 per share (b) ₹ 8 per share

(c) ₹ 5 per share (d) ₹ 2 per share

10. Supreme Ltd. forfeited 100 shares of ₹ 10 each for non-payment of final call of ₹ 2 per share. All these shares were re-issued at ₹ 9 per share. What amount will be transferred to capital reserve account?

(a) ₹ 700 (b) ₹ 800

(c) ₹ 900 (d) ₹ 1,000

Answers:

1 (c) 2 (d) 3 (d) 4 (b) 5 (a) 6 (b) 7 (c) 8 (c) 9 (d) 10 (a)

II. Very short answer questions:

1. What is a share ?

   i. The capital of a company is divided into small units of fixed amount. These units are called shares.

   ii. The shares which can be issued by a company are of two types - preference shares and equity shares.

2. What is over – subscription ?

   i. When the number of shares applied for is more than the number of shares offered for subscription, it is said to be over subscription.

   ii. This situation can be dealt with as per any of the following three alternatives: rejection, pro rata allotment, a combination of both.

3. What is meant by calls in arrear ?

   i. When a shareholder fails to pay the amount due on allotment or on calls, the amount remaining unpaid is known as calls in arrears.

ii. In other words, the amount called up but not paid is calls in arrear.

4. Write a short note on securities premium account.
   i. When a company issues shares at a price more than the face value (nominal value), the shares are said to be issued at premium.
   ii. The excess is called as premium amount and is transferred to securities premium account.

5. Why are the shares forfeited ?
   i. When a shareholder defaults in making payment of allotment and/or call money, the shares may be forfeited.
   ii. On forfeiture, the share allotment is cancelled and to that extent, share capital is reduced. The person ceases to be a shareholder of the company after the shares are forfeited.

III. Short answer questions :

1. State the differences between preference shares and equity shares.

Basis		Equity shares	Preference shares
1.	Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and payment of capital
2.	Payment of dividend	The dividend is paid after the payment of all liabilities	Priority in payment of dividend over equity shareholders
3.	Rate of dividend	Fluctuating	Fixed
4.	Voting rights	Equity shares carry voting rights	Preference shares do not carry voting rights
5.	Convertibility	Equity shares can never be converted	Preference shares can be converted into equity shares

2. Write a brief note on calls in advance.
   i. The excess amount paid over the called up value of a share is known as calls in advance.

ii. It is the excess money paid on application or allotment or calls. Such excess amount can be returned or adjusted towards future payment.

iii. If the company decides to adjust such amount towards future payment, the excess amount may also be transferred to a separate account called calls in advance account.

3. What is reissue of forfeited shares ?

i. Shares forfeited can be reissued by the company. The shares can be reissued at any price.

ii. But, the reissue price cannot be less than the amount unpaid on forfeited shares.

iii. When forfeited shares are reissued at a loss, such loss is to be debited to forfeited shares account. When forfeited shares are reissued at a premium, the amount of such premium will be credited to securities premium account.

4. Write short note on (a) Authorised capital
(b) Reserve capital

a) **Authorised capital** : It means such capital as is authorised by the memorandum of association. It is the maximum amount which can be raised as capital. It is also known as registered capital or nominal capital

b) **Reserve capital** : The company can reserve a part of its subscribed capital to be called up only at the time of winding up. It is called reserve capital.

5. What is meant by issue of shares for consideration other than cash ?

i. A company may issue shares for consideration other than cash when the company acquires fixed assets such as land and buildings, machinery, etc.

ii. A company may also issue shares as consideration for the purchase of business, to promoters for their services and to brokers and underwriters for their commission.

iii. Under such situation, the following journal entries are to be passed.

Date	Particulars	L.F	Debit ₹	Credit ₹
	For purchase of asset Respective vendor A/c Dr. To vendor A/c		 xxx	 xxx
	For issue of shares Vendor A/c Dr.		 xxx	

	To equity share capital A/c To securities premium A/c			xxx xxx

IV. Exercises :

1. Progress Ltd. issued 50,000 ordinary shares of ₹ 10 each, payable ₹ 2 on application, ₹ 4 on allotment, ₹ 2 on first call and ₹ 2 on final call. All the shares are subscribed and amount was duly received. Pass journal entries.

Solution: In the books of Progress Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 2) Dr. To share application A/c (Application money received)		1,00,000	 1,00,000
	Share application A/c Dr. To share capital A/c (Transfer of share application money to share capital account)		1,00,000	 1,00,000
	Share allotment A/c (50,000 x 4) Dr. To share capital A/c (Allotment money due)		2,00,000	 2,00,000
	Bank A/c Dr. To share allotment A/c (Allotment money received)		2,00,000	 2,00,000
	Share first call A/c (50,000 x 2) Dr. To share capital A/c (First call money due)		1,00,000	 1,00,000
	Bank A/c Dr. To share first call A/c (First call money received)		1,00,000	 1,00,000
	Share second and final call A/c (50,000 x 2) Dr. To share capital A/c (Second and final call money due)		1,00,000	 1,00,000
	Bank A/c Dr. To share second and final call A/c		1,00,000	 1,00,000

	(Second and final call money received)			

Under subscription:

2. Sampath company issued 25,000 equity shares at ₹ 10 per share payable ₹ 3 on application, ₹ 4 on allotment, ₹ 3 on first and final call. The public subscribed for 24,000 shares. The directors allotted all the 24,000 shares and received the money duly. Pass necessary journal entries.

Solution: In the books of Sampath company

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (24,000 x 3) Dr. To share application A/c (Application money received)		72,000	 72,000
	Share application A/c Dr. To share capital A/c (Transfer of share application money to share capital account)		72,000	 72,000
	Share allotment A/c (24,000 x 4) Dr. To share capital A/c (Allotment money due)		96,000	 96,000
	Bank A/c Dr. To share allotment A/c (Allotment money received)		96,000	 96,000
	Share first and final call A/c (24,000 x 3) Dr. To share capital A/c (First and final call money due)		72,000	 72,000
	Bank A/c Dr. To share first and final call A/c (First and final call money received)		72,000	 72,000

Over subscription:

3. Saranya Ltd. issued 20,000 equity shares of ₹ 10 each to the public at par. The details of the amount payable on the shares are as follows: On application ₹ 3 per share On allotment ₹ 4 per share On first and final call ₹ 3 per share Application money was received on 30,000 shares. Excess application money was refunded immediately. Pass journal entries to record the above.

Solution: In the books of Saranya Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (30,000 x 3) Dr. To equity share application A/c (Application money received)		90,000	90,000
	Equity Share application A/c (20,000 x 3) Dr. To equity share capital A/c (Transfer of share application money to share capital account)		60,000	60,000
	Equity share application A/c (10,000 x 3) Dr. To bank A/c (Excess share application money refunded)		30,000	30,000
	Equity Share allotment A/c (20,000 x 4) Dr. To equity share capital A/c (Allotment money due)		80,000	80,000
	Bank A/c Dr. To equity share allotment A/c (Allotment money received)		80,000	80,000
	Equity share first and final call A/c (20,000 x 3) Dr. To equity share capital A/c (First and final call money due)		60,000	60,000
	Bank A/c Dr. To equity share first and final call A/c (First and final call money received)		60,000	60,000

4. Gaja Ltd issued 40,000 equity shares of ₹ 10 each to the public payable ₹ 2 on application, ₹ 5 on allotment and ₹ 3 on first and final call. Applications were received for 50,000 shares. The Directors decided to allot 40,000 shares on pro rata basis and surplus of application money was utilised for allotment. Pass journal entries assuming that the amounts due were received.

Solution: In the books of Gaja Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 2) Dr. To share application A/c (Application money received)		1,00,000	 1,00,000
	Share application A/c (40,000 x 2) Dr. To share capital A/c (Transfer of share application money to share capital account)		80,000	 80,000
	Share application A/c (10,000 x 2) Dr. To share allotment A/c (Excess share application money utilised for allotment)		20,000	 20,000
	Share allotment A/c (40,000 x 5) Dr. To share capital A/c (Allotment money due)		2,00,000	 2,00,000
	Bank A/c (2,00,000 – 20,000) Dr. To share allotment A/c (Allotment money received)		80,000	 80,000
	Share first and final call A/c (40,000 x 3) Dr. To share capital A/c (First and final call money due)		1,20,000	 1,20,000
	Bank A/c Dr. To share first and final call A/c (First and final call money received)		1,20,000	 1,20,000

5. Lalitha Ltd. offered 30,000 equity shares of ₹ 10 each to the public payable ₹ 2 per share on application, ₹ 3 on share allotment and the balance when required. Applications for 50,000 shares were received on which the directors allotted as:
Applicants for 10,000 shares - Full
Applicants for 35,000 shares - 20,000 shares (excess money will be utilised for allotment)
Applicants for 5,000 shares - Nil
All the money due was received. Pass journal entries upto the receipt of allotment.

Solution:

Working notes:

Subscribed shares (50,000) — Allotted shares (30,000)

- 10,000 - 10,000
- 35,000 - 20,000 (excess 15,000 utilised for allotment)
- 5,000 - Refunded

In the books of Lalitha Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 2) Dr. To equity share application A/c (Application money received)		1,00,000	1,00,000
	Equity Share application A/c (30,000 x 2) Dr. To equity share capital A/c (Transfer of share application money to share capital account)		60,000	60,000
	Equity share application A/c (5,000 x 2) Dr. To bank A/c (Excess share application money refunded)		10,000	10,000
	Equity share application A/c(15,000 x 2) Dr. To equity share allotment A/c (Excess share application money utilised for allotment)		30,000	30,000
	Equity Share allotment A/c (30,000 x 3) Dr. To equity share capital A/c		90,000	90,000

	(Allotment money due)			
	Bank A/c (90,000 – 30,000) Dr. To equity share allotment A/c (Allotment money received)		60,000	60,000

Calls in advance :

6. Anjali Flour Ltd. with a registered capital of ₹ 4,00,000 in equity shares of ₹ 10 each, issued 30,000 of such shares; payable ₹ 2 per share on application, ₹ 5 per share on allotment and ₹ 3 share on first call. The issue was duly subscribed.
All the money payable was duly received but on allotment, one shareholder paid the entire balance on his holding of 500 shares. Give journal entries to record the transactions.

Solution: In the books of Anjali Flour Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (30,000 x 2) Dr. To equity share application A/c (Application money received)		60,000	60,000
	Equity Share application A/c Dr. To equity share capital A/c (Transfer of share application money to share capital account)		60,000	60,000
	Equity Share allotment A/c (30,000 x 5) Dr. To equity share capital A/c (Allotment money due)		1,50,000	1,50,000
	Bank A/c (30,000 x 5) + (500 x 3) Dr. To equity share allotment A/c To calls in advance A/c (Allotment money received)		1,51,500	1,50,000 1,500
	Equity share first call A/c (30,000 x 3) Dr. To equity share capital A/c (First call money due)		90,000	90,000
	Bank A/c (29,500 x 3) Dr. Calls in advance A/c Dr.		88,500 1,500	

	To equity share first call A/c (First call money received and calls in advance adjusted)			90,000

Calls in arrear :

7. Muthu Ltd. issued 50,000 equity shares of ₹ 10 each payable as follows; ₹ 2 on application; ₹ 4 on allotment; ₹ 4 on first and final call.

All money were duly received except one shareholder holding 1,000 shares failed to pay the call money. Pass the necessary journal entries for calls by using calls in arrear account.

Solution : In the books of Muthu Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share first and final call A/c (50,000 x 4) Dr. To share capital A/c (First and final call money due)		2,00,000	 2,00,000
	Bank A/c (49,000 x 4) Dr. Calls in arrear A/c (1,000 x 4) Dr. To share first and final call A/c (First and final call money received and calls in arrear adjusted)		1,96,000 4,000	 2,00,000

Forfeiture of shares :

8. Arjun was holding 1,000 equity shares of ₹ 10 each of Vanavil Electronics Ltd, issued at par. He paid ₹ 3 on application, ₹ 4 on allotment but could not pay the first and final call of ₹ 3. The directors forfeited the shares for nonpayment of call money. Give Journal entry for forfeiture of shares.

Solution : In the books of Vanavil Electronics Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share capital A/c (1,000 x 10) Dr. To share first and final call A/c (1,000 x 3)		10,000	 3,000

	To forfeited shares A/c (1,000 x 7) (1,000 shares forfeited for non-payment of call money)			7,000

9. Lakshith was holding 50 shares of ₹ 10 each on which he paid ₹ 2 on application but could not pay ₹ 4 on allotment and ₹ 2 on first call. Directors forfeited the shares after the first call. Give journal entry for recording the forfeiture of shares.

Solution : Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share capital A/c (50 x 8) Dr. To share allotment A/c (50 x 4) To share first call A/c (50 x 2) To forfeited shares A/c (50 x 2) (50 shares forfeited)		400	 200 100 100

Note :

Share capital is debited with the called up amount of ₹ 8

Reissue of shares :

10. Goutham Ltd. forfeited 500 equity shares of ₹ 10 each issued at par held by Ragav for nonpayment of the final call of ₹ 2 per share. The shares were forfeited and reissued to Madhan at ₹ 8 per share. Show the journal entries for forfeiture and reissue.

Solution: In the books of Gowtham Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Equity share capital A/c (500 x 10) Dr. To equity share final call A/c (500 x 2) To forfeited shares A/c (500 x 8) (500 shares forfeited)		5,000	 1,000 4,000
	Bank A/c (500 x 8) Dr. Forfeited shares A/c (500 x 2) Dr. To equity share capital A/c (500 x 10) (Forfeited shares reissued)		4,000 1,000	 5,000

	Forfeited shares A/c (4,000 – 1,000) Dr. To capital reserve A/c (Balance in shares forfeited account transferred to capital reserve account)		3,000	 3,000

11. Nivetha Ltd. forfeited 1,000 equity shares of ₹ 10 each for non payment of call of ₹ 4 per share. Of these 800 shares were reissued @ ₹ 7 per share. Pass journal entries for forfeiture and reissue.

Solution: In the books of Nivetha Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Equity share capital A/c (1,000 x 10) Dr. To equity share call A/c (1,000 x 4) To forfeited shares A/c (1,000 x 6) (1,000 shares forfeited)		10,000	 4,000 6,000
	Bank A/c (800 x 7) Dr. Forfeited shares A/c (800 x 3) Dr. To equity share capital A/c (800 x 10) (800 Forfeited shares, reissued @ ₹ 7 per share)		5,600 2,400	 8,000
	Forfeited shares A/c Dr. To capital reserve A/c (Profit on reissue transferred to capital reserve account)		2,400	 2,400

<u>Working notes:</u>

Profit on forfeiture for 1,000 shares = ₹ 6,000

Profit on forfeiture for 800 shares $= \frac{6,000}{1,000}$ x 800 = ₹ 4,800

Less: Loss on forfeiture for 800 shares = <u>₹ 2,400</u>

Net Profit / Gain on reissue = <u>₹ 2,400</u>

12. Nathiya Textiles Ltd. forfeited 100 shares of ₹ 10 each, ₹ 8 called up, on which Mayuri had paid application and allotment money of ₹ 6 per share. Of these 75 shares

were re-issued to Soundarya by receiving ₹ 7 per share paid up as ₹ 8 per share. Pass journal entries for forfeiture and reissue.

Solution: In the books of Nathiya textiles Ltd.

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Equity share capital A/c (100 x 8) Dr. To equity share first call A/c (100 x 2) To forfeited shares A/c (100 x 6) (100 shares forfeited, ₹ 8 called up)		800	 200 600
	Bank A/c (75 x 7) Dr. Forfeited shares A/c (75x 1) Dr. To equity share capital A/c (75 x 8) (75 Forfeited shares, reissued @ ₹ 7 per share)		525 75	 600
	Forfeited shares A/c Dr. To capital reserve A/c (Profit on reissue transferred to capital reserve account)		375	 375

<u>Working notes:</u>

Profit on forfeiture for 100 shares = ₹ 600

Profit on forfeiture for 75 shares $= \frac{600}{100} \times 75 =$ ₹ 450

Less: Loss on forfeiture for 75 shares = <u>₹ 75</u>

Net Profit / Gain on reissue = <u>₹ 375</u>

13. Simon Ltd issued 50,000 equity shares of ₹ 10 each at par payable on application ₹ 1 per share, on allotment ₹ 5 per share, on first call ₹ 2 per share and on second and final call ₹ 2 per share. The issue was fully subscribed and all the amounts were duly received with the exception of 2,000 shares held by Chezhian, who failed to pay the second and final call. His shares were forfeited and reissued to Elango at ₹ 8 per share. Journalise the above transactions.

Solution: In the books of Simon Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 1) Dr. To equity share application A/c (Application money received)		50,000	 50,000
	Equity Share application A/c Dr. To equity share capital A/c (Transfer of share application money to share capital account)		50,000	 50,000
	Equity Share allotment A/c (50,000 x 5) Dr. To equity share capital A/c (Allotment money due)		2,50,000	 2,50,000
	Bank A/c Dr. To equity share allotment A/c (Allotment money received)		2,50,000	 2,50,000
	Equity share first call A/c (50,000 x 2) Dr. To equity share capital A/c (First call money due)		1,00,000	 1,00,000
	Bank A/c Dr. To equity share first call A/c (First call money received)		1,00,000	 1,00,000
	Equity share second and final call A/c Dr. To equity share capital A/c (50,000 x 2) (Second and final call money due)		1,00,000	 1,00,000
	Bank A/c (48,000 x 2) Dr. To equity share second and final call A/c (Second and final call money received)		96,000	 96,000
	Equity share capital A/c (2,000 x 10) Dr. To equity share second and final call A/c (2,000 x 2) To forfeited shares A/c (2,000 x 8) (2,000 shares forfeited)		20,000	 4,000 16,000
	Bank A/c (2,000 x 8) Dr. Forfeited shares A/c (2,000 x 2) Dr.		16,000 4,000	

	To equity share capital A/c (2,000 x 10) (Forfeited shares, reissued)			20,000
	Forfeited shares A/c (16,000 – 4,000) Dr. To capital reserve A/c (Profit on reissue transferred to capital reserve account)		12,000	12,000

14. Kanchana Ltd. issued 50,000 equity shares of ₹ 10 each payable as under.

On application ₹ 1

On allotment ₹ 5

On first call ₹ 2

On second and final call ₹ 2

Applications were received for 70,000 shares. Applications for 8,000 shares were rejected and allotment was made proportionately towards remaining applications. The directors made both the calls and the all the amount were received except the final call on 1,500 shares which were subsequently forfeited. Later 1,200 forfeited shares were reissued by receiving ₹ 8 per share. Give journal entries.

Solution: In the books of Kanchana Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (70,000 x 1) Dr. To share application A/c (Application money received)		70,000	70,000
	Share application A/c (50,000 x 1) Dr. To share capital A/c (Transfer of share application money to share capital account)		50,000	50,000
	Share application A/c (20,000 x 1) Dr. To bank A/c (8,000 x 1) To share allotment A/c (12,000 x 1) (Excess application money of 8,000 share refunded and the remaining adjusted towards allotment)		20,000	8,000 12,000

	Share allotment A/c (50,000 x 5) Dr. To share capital A/c (Allotment money due)		2,50,000	 2,50,000
	Bank A/c (2,50,000 – 12,000) Dr. To share allotment A/c (Allotment money received)		2,38,000	 2,38,000
	Share first call A/c (50,000 x 2) Dr. To share capital A/c (First call money due)		1,00,000	 1,00,000
	Bank A/c Dr. To share first call A/c (First call money received)		1,00,000	 1,00,000
	Share second and final call A/c (50,000 x 2) Dr. To share capital A/c (Second and final call money due)		1,00,000	 1,00,000
	Bank A/c (50,000 – 1,500x 2) Dr. To share second and final call A/c (Second and final call money received)		97,000	 97,000
	Share capital A/c (1,500 x 10) Dr. To share second and final call A/c (1,500 x 2) To forfeited shares A/c (1,500 x 8) (1,500 shares forfeited)		15,000	 3,000 12,000
	Bank A/c (1,200 x 8) Dr. Forfeited shares A/c (1,200 x 2) Dr. To share capital A/c (1,200 x 10) (1200 forfeited shares reissued @ ₹ 8 per share)		9,600 2,400	 12,000
	Forfeited shares A/c Dr. To capital reserve A/c (Profit on reissue transferred to capital reserve account)		7,200	 7,200

<u>Working notes:</u>

Profit on forfeiture for 1,500 shares = ₹ 12,000

Profit on forfeiture for 1,200 shares $= \frac{12,000}{1,500}$ x 1,200 = ₹ 9,600

Less: Loss on forfeiture for 1,200 shares = ₹ 2,400

Net Profit / Gain on reissue = ₹ 7,200

Shares issued at premium :

15. Viswanath Furniture Ltd. invited applications for 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable.

₹ 2 on application

₹ 5 (including premium) on allotment

₹ 5 on first and final call

There was over subscription and applications were received for 30,000 shares and the excess applications were rejected by the directors. All the money due were received. Pass the journal entries.

Solution: In the books of Viswanath Furniture Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (30,000 x 2) Dr. To share application A/c (Application money received)		60,000	 60,000
	Share application A/c (20,000 x 2) Dr. To share capital A/c (Transfer of share application money to share capital account)		40,000	 40,000
	Share application A/c (10,000 x 2) Dr. To bank A/c (Money refunded for rejected applications)		20,000	 20,000
	Share allotment A/c (20,000 x 5) Dr. To share capital A/c (20,000 x 3) To securities premium A/c (20,000 x 2) (Allotment money ₹ 5 per share including premium ₹ 2 due)		1,00,000	 60,000 40,000
	Bank A/c Dr. To share allotment A/c (Allotment money received)		1,00,000	 1,00,000

	Share first and final call A/c (20,000 x 5) Dr. To share capital A/c (First and final call money due)		1,00,000	1,00,000
	Bank A/c Dr. To share first and final call A/c (First and final call money received)		1,00,000	1,00,000

16. United Industries Ltd. issued equity shares of ₹ 10 each at 10% premium payable ₹ 3 on application, ₹ 4 on allotment (including premium), ₹ 2 on first call and ₹ 2 on second and final call.

Journalise the transactions relating to forfeiture of shares for the following situations:

(i) Manoj who holds 250 shares failed to pay the second and final call and his shares were forfeited.

(ii) Manoj who holds 250 shares failed to pay the allotment money and first call and second and final call and his shares were forfeited.

(iii) Manoj who holds 250 shares failed to pay the allotment money and first call money and his shares were forfeited after the first call.

Solution : In the books of United Industries Ltd.

Journal entries

(i) When final call money is not paid :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share capital A/c (250 x 10) Dr. To share second and final A/c (250 x 2) To forfeited shares A/c (250 x 8) (250 shares forfeited)		2,500	500 **2,000**

(ii) When allotment, first call and second and final call money is not paid :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share capital A/c (250 x 10) Dr. Securities premium A/c (250 x 1) To share allotment A/c (250 x 4) To share first call A/c (250 x 2) To share second and final A/c (250 x 2)		2,500 250	1,000 500 500

	To forfeited shares A/c (250 x 3) (250 shares forfeited)			**750**

Note :

Since the premium amount is received by the company, premium should not be cancelled.

(iii) When allotment and first call money is not paid :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Share capital A/c (250 x 8) Dr. Securities premium A/c (250 x 1) To share allotment A/c (250 x 4) To share first call A/c (250 x 2) To forfeited shares A/c (250 x 3) (250 shares forfeited)		2,000 250	 1,000 500 **750**

17. Kasthuri Ltd. had allotted 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 each to applicants of 30,000 shares on a pro rata basis. The amount payable was ₹ 3 on application, ₹ 5 on allotment (including premium of ₹ 2 each) and ₹ 2 on first call and ₹ 2 on final call. Subin, a shareholder failed to pay the first call and final call on his 500 shares. All the shares were forfeited and out of them 400 shares were reissued @ ₹ 8 per share. Pass necessary journal entries.

Solution: In the books of Kasthuri Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (30,000 x 3) Dr. To share application A/c (Application money received)		90,000	 90,000
	Share application A/c (20,000 x 3) Dr. To share capital A/c (Transfer of share application money to share capital account)		60,000	 60,000

	Share application A/c (10,000 x 3) Dr. To share allotment A/c (Excess application money adjusted towards allotment)		30,000	 30,000
	Share allotment A/c (20,000 x 5) Dr. To share capital A/c (20,000 x 3) To securities premium A/c (20,000 x 2) (Allotment money due)		1,00,000	 60,000 40,000
	Bank A/c (1,00,000 – 30,000) Dr. To share allotment A/c (Allotment money received)		70,000	 70,000
	Share first call A/c (20,000 x 2) Dr. To share capital A/c (First call money due)		40,000	 40,000
	Bank A/c (19,500 x 2) Dr. To share first call A/c (First call money received)		39,000	 39,000
	Share final call A/c (20,000 x 2) Dr. To share capital A/c (Final call money due)		40,000	 40,000
	Bank A/c (19,500 – 2) Dr. To share final call A/c (Final call money received)		39,000	 39,000
	Share capital A/c (500 x 10) Dr. To share first call A/c (500 x 2) To share final call A/c (500 x 2) To forfeited shares A/c (500 x 6) (500 shares forfeited)		5,000	 1,000 1,000 3,000
	Bank A/c (400 x 8) Dr. Forfeited shares A/c (400 x 2) Dr. To share capital A/c (400 x 10) (400 forfeited shares reissued @ ₹ 8 per share)		3,200 800	 4,000
	Forfeited shares A/c Dr.		1,600	

	To capital reserve A/c (Profit on reissue transferred to capital reserve account)			1,600

Working notes:

Profit on forfeiture for 500 shares = ₹ 3,000

Profit on forfeiture for 400 shares $= \frac{3,000}{500}$ x 400 = ₹ 2,400

Less: Loss on forfeiture for 400 shares = ₹ 800

Net Profit / Gain on reissue = ₹ 1,600

18. Vairam Ltd. issued 60,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as follows:

On application ₹ 6

On allotment ₹ 4 (including premium)

On first and final call ₹ 2

Issue was fully subscribed and the amounts due were received except Saritha to whom 1,000 shares were allotted who failed to pay the allotment money and first and final call money. Her shares were forfeited. All the forfeited shares were reissued to Parimala at ₹ 7 per share. Pass journal entries.

Solution: In the books of Vairam Ltd

Journal entries

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (60,000 x 6) Dr. To share application A/c (Application money received)		3,60,000	 3,60,000
	Share application A/c Dr. To share capital A/c (Transfer of share application money to share capital account)		3,60,000	 3,60,000
	Share allotment A/c (60,000 x 4) Dr. To share capital A/c (60,000 x 3) To securities premium A/c (60,000 x 1) (Allotment money due)		2,40,000	 1,80,000 60,000

	Bank A/c (59,000 x 4) Dr. To share allotment A/c (Allotment money received except for 1,000 shares)		2,36,000	 2,36,000
	Share first and final call A/c (60,000 x 2) Dr. To share capital A/c (First and final call money due)		1,20,000	 1,20,000
	Bank A/c (59,000 x 2) Dr. To share first and final call A/c (First and final call money received)		1,18,000	 1,18,000
	Share capital A/c (1,000 x 10) Dr. Securities premium A/c (1,000 x 2) Dr. To share allotment A/c (1,000 x 4) To share first and final call A/c (1,000 x 2) To forfeited shares A/c (1,000 x 6) (1,000 shares forfeited)		10,000 2,000	 4,000 2,000 6,000
	Bank A/c (1,000 x 7) Dr. Forfeited shares A/c (1,000 x 3) Dr. To share capital A/c (1,000 x 10) (400 forfeited shares reissued @ ₹ 8 per share)		7,000 3,000	 10,000
	Forfeited shares A/c (6,000 – 3,000) Dr. To capital reserve A/c (Profit on reissue transferred to capital reserve account)		3,000	 3,000

Issue of shares for cash in lumpsum :

19. Abdul Ltd. issues 50,000 equity shares of ₹ 10 each payable fully on application. Pass journal entries if shares are issued (i) at par (ii) at a premium of ₹ 3 per share.

Solution : In the books of Abdul Ltd

Journal entries

a) Issued at par :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 10) Dr.		5,00,000	

	To share application A/c (Application money received)			5,00,000
	Share application A/c Dr. To share capital A/c (Application money transferred to share capital account)		5,00,000	5,00,000

b) Issued at premium :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c (50,000 x 13) Dr. To share application A/c (Application money received)		6,50,000	6,50,000
	Share application A/c (50,000 x 13) Dr. To share capital A/c (50,000 x 10) To securities premium A/c (50,000 x 3) (Application money transferred to share capital account)		6,50,000	5,00,000 50,000

Issue of shares for consideration other than cash :

20. Paradise Ltd. purchased assets of ₹ 4,40,000 from Suguna Furniture Ltd. It issued equity shares of ₹ 10 each fully paid in satisfaction of their claim. What entries will be made if such issue is: (a) at par and (b) at premium of 10%.

Solution : In the books of Paradise Ltd

Journal entries

a) Issued at par :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Assets A/c Dr. To Suganya furniture Ltd. A/c (Purchase of furniture)		4,40,000	4,40,000
	Suganya furniture Ltd. A/c Dr. To equity share capital A/c (Issue of ₹ 44,000 shares of ₹ 10 each fully paid)		4,40,000	4,40,000

b) Issued at premium :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Asset A/c Dr. To Suganya furniture Ltd. A/c (Purchase of asset)		4,40,000	 4,40,000
	Suganya furniture Ltd. A/c Dr. To equity share capital A/c (40,000 x 10) To securities premium A/c (40,000 x 1) (Issue of ₹ 40,000 shares of ₹ 10 each at a premium of 10%)		4,40,000	 4,00,000 40,000

Working Note :

<u>Computation of number of shares to be issued :</u>

Total amount = ₹ 4,40,000

Face value of the shares = ₹ 10

Premium = 10% = 10 x 10% = ₹ 1

Issue price = Face value + Premium

= 10 + 1 = ₹ 11

Number of equity shares to be issued = $\frac{\text{Total amount}}{\text{Issue price}} = \frac{4,40,000}{11}$ = ₹ 40,000

PYQ 5 mark problem: (Pg. 261 in textbook)

1. **Filling the missing information :**

Complete the following journal entries by filling the missing information:

Date	Particulars	L.F	Debit ₹	Credit ₹
	________________ Dr. To share application A/c (Application money received @ ₹ 2 per share)		2,00,000	 ________
	Share application A/c Dr. To share capital A/c		________	 2,00,000

	(Share application money for _______ shares transferred to _______)			

Solution :

Date	Particulars	L.F	Debit ₹	Credit ₹
	Bank A/c Dr. To share application A/c (Application money received @ ₹ 2 per share)		2,00,000	 **2,00,000**
	Share application A/c Dr. To share capital A/c (Share application money for **20,000** shares transferred to **share capital A/c**)		**2,00,000**	 2,00,000