

Unit 1. Issue of Shares

A Joint Stock Company is a very important form of business organization. The Public Limited Companies raise their capital by issuing shares to the public. This is major portion of capital to any Public Limited Company.

Types of Shares:

The capita of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company. They are two types of shares. They are:

1. Preference Shares and
2. Equity shares.

1. Preference Shares:

Shares which enjoy the preferential rights such as to dividend and repayment of capital over the equity shares, in the event of winding up of the company are called preference shares. The holders of preference shares will get a fixed rate of dividend.

Preference shares are classified as follows:

- a. Cumulative Preference shares
- b. Non- Cumulative Preference shares
- c. Redeemable Preference shares
- d. Participating Preference shares
- e. Non-Participating Preference shares

a. Cumulative Preference shares:

If the company does not earn adequate profit in any year, dividends on preference shares may not be paid for that year. But if the preference shares are cumulative such unpaid dividends are treated as arrears and can be carried forward to subsequent years. Such unpaid dividends on these shares go on accumulating and become payable out of the profits of the company, in subsequent years. Only after such arrears have been paid off, any dividend can be paid to the equity shares.

b. Non- Cumulative Preference shares:

The holders of non-cumulative preference shares will get a preferential right in getting fixed dividend before it is distributed to equity shareholders. The fixed dividend is to be paid only out of the divisible profits but if in a particular year there is no profit, the non-cumulative preference shareholders will not get any dividend for that year and they cannot claim in future. Such dividend cannot be carried forward to next year.

c. Redeemable Preference shares:

Capital raised by issuing equity shares, is not to be repaid to the shareholders but capital raised through the issue of redeemable preference shares it to be paid back. So, the preference shares on which amount is repayable on the expiry of the period of the shares, are called redeemable preference shares.

As per the sec 55 of Companies Act 2013 a company can issue preference shares for a maximum period of 20 years.

KINDS OF CAPITAL:

In Company Law, there are several words used in connection with capital, they may be classified as follows:

1. Authorized Capital: This is also called Registered or Nominal Capital. The amount of capital mentioned in the Memorandum of Association at the time of registration of Company is called Authorized Capital. This is the maximum amount of capital authorized to be raised by issue of shares.

2. Issued Capital: The total Authorized Capital may not be needed by the Company at the time it commences business. Therefore, it may issue shares to the required amount. So, Issued Capital is that part of the Authorized Capital which is actually offered to the public for subscription.

3. Subscribed Capital: Subscribed Capital is that part of the Issued Capital which has been subscribed by the public. This Capital is either equal to or less than the Issued Capital.

4. Called up Capital: Called up Capital means the amount actually called by the Company on the shares of the members.

5. Paid up Capital: It is the amount of money actually paid by the subscribers. The amount not paid by the members becomes Calls in arrears.

6. Uncalled Share Capital: The unpaid portion of the Subscribed Capital is called Uncalled Capital.

Shares may be issued (a) at par (Face Value), (b) at a premium and (c) at a discount.

(a) Issue of Shares at par: Generally share amount is collected in some installments' like some amount on application, on allotment and the remaining on calls. If shares are so issued, the following entries are to be recorded.

i) When money is received along with the application:

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

(Being application money received on ... shares at ... per share)

ii)(a) When application money is transferred to the Share Capital A/c.:

Share Application A/c. Dr.
To Share Capital A/c. 2

ii)(b) When application money is rejected :

Share Application A/c. Dr.

To Bank A/c.

ii)(c) When Share application money is received in excess and the same is adjusted to allotment :

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

iii) When allotment money is due:

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

(Being the share allotment money on shares at Rs..... per share due from shareholders)

iv) When the allotment money is received:

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

v) When the first call made and due:

Share first call A/c. Dr.
To Share Capital A/c.

(Being the first call money on shares at Rs. . per share due)

vi) For receipt of first call:

Bank A/c. Dr.
To Share first call A/c.

Note: Similar call entries are to be passed for further calls.

Adjustments Entries:

1. When call money is received in advance:

Bank A/c. Dr.
To Share first call A/c.

2. When call money is in arrear:

Calls in arrear A/c. Dr.
To Share call A/c.

3. When interest is received on Calls in arrears:

Bank A/c. Dr.
To Interest A/c.

4. When Interest is paid on Calls in advance :

Interest A/c. Dr.
To Bank A/c.

PROBLEMS

1. A Limited Company has been incorporated with an authorized capital of Rs.2,00,000 divided into 2000 equity shares of Rs.100 each. The Company issued 1000 equity shares to the public payable as Rs.20 on application, Rs.25 on allotment, Rs.35 on first call and the balance on final call. All the money was duly received. Make journal entries to record the issue of shares.

Sol.

Journal entries

Date	Particulars	If no	Debit Rs.	Credit Rs.
	Bank a/c Dr. To Share application a/c <u>(Being application money received for 1000 shares at Rs.20 per share)</u>		20,000	20,000
	Share Application a/c Dr. To Share Capital a/c <u>(Being share application money transferred to share capital account)</u>		20,000	20,000
	Share allotment a/c Dr. To Share capital a/c <u>(Being allotment money due on 1000shares at Rs.25 per share)</u>		25,000	25,000
	Bank a/c Dr. To Share allotment a/c <u>(Being allotment money received)</u>		25,000	25,000
	Share first call a/c Dr. To Share capital a/c <u>(Being first call money due on 1000shares at Rs.35 per share)</u>		35,000	35,000
	Bank a/c Dr. To Share first call a/c <u>(Being first call money received)</u>		35,000	35,000
	Share final call a/c Dr. To Share capital a/c <u>(Being final call money due on 1000shares at Rs.20 per share)</u>		20,000	20,000
	Bank a/c Dr. To Share final call a/c <u>(Being final call money received)</u>		20,000	20,000
			4	

2. Prameel Co. Ltd. was registered with a capital of Rs.20,00,000 divided into 80,000 shares of Rs.25 each. The Company offered to the public subscription 50,000 shares payable at Rs.5 on application, Rs.10 on allotment and the balance equal call. The Company received applications for 40,000 shares. All the money was duly received. Pass necessary journal entries and show how they would appear in Balance Sheet.
Sol.

Journal Prameel Company limited

Date	Particulars	If no	Debit Rs.	Credit Rs.
	Bank a/c Dr. To Share application a/c <u>(Being application money received for 40000 shares at Rs.5 per share)</u>		2,00,000	2,00,000
	Share Application a/c Dr. To Share Capital a/c <u>(Being share application money transferred to share capital account)</u>		2,00,000	2,00,000
	Share allotment a/c Dr. To Share capital a/c <u>(Being allotment money due on 40000shares at Rs.10 per share)</u>		4,00,000	4,00,000
	Bank a/c Dr. To Share allotment a/c <u>(Being allotment money received)</u>		4,00,000	4,00,000
	Share first and final call a/c Dr. To Share capital a/c <u>(Being first call money due on 40000shares at Rs.10 per share)</u>		4,00,000	4,00,000
	Bank a/c Dr. To Share first call a/c <u>(Being first call money received)</u>		4,00,000	4,00,000

3. X Ltd. was registered with a capital of Rs.2,50,000 divided into 25,000 equity shares of Rs.10 each. The Company offered to public2 subscription 20,000 shares, payable Rs.3 on application, Rs.4 on allotment and the balance on call. The Company received applications for 15,000 shares. The Company did not make call for. All the money was duly received. Make necessary journal entries and show how the Share Capital will appear in the Balance Sheet.

4. On 01.01.2019 the directors of X Ltd. decided to issue 1,00,000 shares of Rs.10 each, payable Rs.2-50 on application and Rs.2-50 on allotment. Applications are received for 1,20,000 shares on 10th January and the Board of Directors decided to reject 20,000 share applications, money being refunded. All allotment money is received in full. The balance on shares is not called up. Pass necessary journal entries.

5. XY Ltd. was registered with an authorized capital of 2,00,000 shares of Rs.10 each, 1,40,000 shares were issued to the public. The public subscribed for 1,80,000 shares. The shares are payable as follows :

On Application	Rs.3
On Allotment	2
On First call	3
On Final call	2

All the money was received. Pass journal entries.

Issue of Shares at Premium:

Every share of a certain price is known as its face value. Generally, shares are issued at their face value. Sometimes, Companies may issue shares at a premium, i.e., at a price higher than its face value. The excess price over face value is known as Premium. For example, if a share of Rs.10 is issued at Rs.12, Rs.2 will be the premium. Share Premium is a capital profit. Hence, it is not available for payment of dividend to the shareholders. It appears on the Liabilities side of Balance Sheet.

Premium may be collected alongwith application or allotment or alongwith call. The usual practice is to collect the premium along with the allotment money.

Entries:

I. When Premium is received with application money:

- (i) Bank A/c. Dr.
To Share Application A/c.
- (ii) For Transfer:
Share Application A/c. Dr.
To Share Capital A/c.
To Share Premium A/c.

II. When Premium is payable alongwith Allotment money:

- (i) Share Allotment A/c. Dr.
To Share Capital A/c.
To Share Premium A/c.

(ii) For Receipt of Allotment money:
 Bank A/c. Dr.
 To Share Allotment A/c.

6. S Ltd. issued 15,000 equity shares of Rs.10 each at a premium of Rs.2 per share payable Rs.3 on application, Rs.6 on allotment (including premium) and the balance on call. Pass journal entries and show how they would appear in Balance Sheet.

7. M Ltd. offered 30,000 equity shares of Rs.20 each at Rs.24 per share payable as Rs.6 on application, Rs.8 on allotment (including premium) and the balance at the end of 3rd month from the date of allotment. All the money was duly received. Prepare a Cash Book and pass journal entries and also show them in Balance Sheet.

8. X Ltd. was registered with Rs.20,00,000 Capital divided into 20,000 shares of Rs.100 each. These shares are issued at 20% premium payable as Rs.35 on application (including Rs.5 premium), Rs.45 on allotment (including Rs.15 premium) and the balance on two equal installments after 3 months and 6 months respectively from the date of allotment. The allotment was made on 1st April, 1998. All the money was received.

Show Cash Book, necessary journal entries and the Balance Sheet.

ISSUE OF SHARES AT A DISCOUNT:

A Company can issue shares at a discount, i.e., at a price less than its face value. For example, if a share of Rs.10 each is issued at Rs.9, it is said to be issued at a discount of Re.1 per share.

Discount allowed on issue of shares is a loss of Capital nature. Hence, it is to be debited to a separate account namely Discount on issue of Shares A/c. It appears on the Assets side of Balance Sheet under Miscellaneous Expenditure. This is usually written off to Profit and Loss Account over a period of 3 to 5 years.

Generally, it is allotted at the time of allotment only.

Entries :

1. When shares are issued at a discount on allotment :

For Allotment Due :

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

For Receipt :

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

9. X Ltd. offered 20,000 equity shares of Rs.20 each at a discount of 5% payable as follows :

On Application	Rs.6	
On Allotment		8
On Call		5

The applications received were for 16,000 shares. All the money was duly received. Pass journal entries and show how these transactions would appear in Balance Sheet.

10. X Ltd. has been incorporated with Rs.20,00,000 Capital divided into 20,000 shares of Rs.100 each. It issued 15,000 shares to public at Rs.5 discount payable as Rs.25 on application, Rs.30 on allotment and the balance on two equal calls at Rs.20 each. The Company received applications for 12,000 shares. All the share money was10 duly received. Pass necessary journal entries and also show the relevant items in Balance Sheet.

Adjustment of excess application money towards the Allotment and Calls :

Sometimes a Company may not allot all the shares for which applications have been received. Because of over subscription, the allotment is either made of less number of shares or on pro-rata basis (Ratio basis).

In such a case, the excess application money will be adjusted either on allotment or calls. If there is still surplus it will be paid to shareholders in cash.

11. A Company issued Rs.5,00,000 new capital divided into Rs.10 shares at a premium of Rs.4 per share payable Re.1 on application, Rs.6 on allotment (including Rs.2 premium) and Rs.7 on call (including premium).

Over payments on applications were to be applied towards sums due on allotment. Where no allotment was made, application money was to be returned in full. The issue was oversubscribed to the extent of 13000 shares. Applicants for 12000 shares were allotted only 1000 shares and applicants for 2000 shares were sent letters of regret. All money due was received. Pass journal entries.

12. A Company issued 50,000 shares at Rs.10 each payable Rs.2 on application, Rs.3 on allotment, Rs.2 on first call and the balance on final call. The Company received applications of 75,000 and allotment was made on pro-rata. Surplus application money is to be adjusted to allotment and calls. All the money received. Pass journal entries.

Calls in arrears and Calls in advance:

If any amount has been called by the Company either as allotment or call money and a shareholder has not paid that money, this is known as Calls in arrears on which 5% interest is charged.

Similarly, if any call has been made but while paying that call, some shareholders have paid the amount of the rest of calls also, then such amount is called Calls in advance and will be credited to a separate account known as Calls in advance A/c. Calls in advance A/c. is shown on the Liabilities side of Balance Sheet. Generally interest is paid on such calls at 6% p.a.

13. On 01.03.1998 X Ltd. makes an issue of 20,000 equity shares of Rs.10 each payable as follows :

On application	Rs.2
On allotment	3
On first & final call	6 (3 months after allotment)

Applications were received for 26000 shares and directors made allotment in full to the applicants demanding 10 or more shares and returned money to the applicants for 6000 shares. One shareholder who was allotted 40 shares paid first and final call with allotment money and another shareholder allotted 60 shares did not pay allotment money on his shares but which he paid with the first and final call. Directors have decided to charge 5% and allow 6% interest on Calls in arrears and Calls in advance respectively. Give journal entries.

14. H Ltd. issued 40,000 equity shares of Rs.10 each, payable at Rs.2 on application, Rs.4 on allotment and Rs.4 on call. All the amount payable on allotment was duly received except in one case where the shareholder failed to pay the amount due on allotment on his 100 shares and another shareholder paid the shares in full on allotment itself of his 50 shares.

Pass necessary journal entries and also prepare the Balance Sheet.

15. Blue Moon Ltd. issued 50,000 shares of Rs.10 each payable as under :

Rs.2	On application
Rs.2.5	On allotment
Rs.3	On first call
Rs.2.5	On final call

The public applied for 90,000 shares. The allotment was made as follows on 1st April, 15.

To the applicants of 45,000 shares	Full
To the applicants of 20,000 shares	Quarter (25%) 9
To the remaining applicants	Nil

The first call was made on 1st November and the first call on 1st Feb., 16. According to the terms of issue the surplus application money could be kept by the Company against the money due on allotment and against subsequent calls. One shareholder to whom 5000 shares were allotted paid on allotment the full amount due on the shares.

The interest at 5% p.a. on Calls in advance was paid on 1st Feb.,16. Give Cash Book and journal entries in the books of the Company assuming that all the money was duly received. Also prepare Calls in advance A/c.

Forfeiture of Shares:

When a shareholder is called upon to pay call amount by the Company, he has to pay on or before the date specified by the Company. If he fails to pay the call, the Company has two remedies against the shareholder namely, (1) it may sue him for the amount due, (2) it may forfeit his shares subject to the provision of the articles.

The Company do not generally resort to the first remedy as it involved a lengthily procedure of litigation. They resort to the second one that is to forfeit the shares. The implication of forfeiture is to cancel the allotment and treat the amount already received thereon as forfeited. When shares are forfeited, the amount already paid by the shareholder is transferred to a separate account, i.e., Forfeited Shares Account. It is a Capital profit and so it appears on the Liabilities side of Balance Sheet. When forfeited shares are reissued at a discount, the discount may be written off from the Forfeited Shares A/c. If there is any further balance, it will be transferred to Capital Reserve A/c.

(i) When shares issued at par are forfeited :

Share Capital A/c.	Dr.
To Share Calls A/c.	
To Forfeited Shares A/c.	

(ii) When shares are issued at a premium and the premium amount not paid by the shareholder and the shares are forfeited :

Share Capital A/c.	Dr.
Share Premium A/c.	Dr.
To Calls in arrears A/c.	
To forfeited Shares A/c.	

Note: If the premium is once collected, it should not be appropriated when the shares are forfeited. So, It only appears in Premium A/c.

(iii) When shares issued at a discount are forfeited :

Share Capital A/c.	Dr.	10
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To Calls in arrears A/c.
 To Discount on issue of shares A/c.
 To Forfeited Shares A/c.

Reissue of Forfeited Shares:

Forfeited Shares may be reissued by the Company for any amount. If such shares are issue at a discount, then the discount should not exceed the forfeited amount. There is no bar to reissue of the forfeited shares at par or at premium.

(i) When the Forfeited shares are reissued at a discount:

Bank A/c.	Dr.(Amount received on reissue)
Forfeited Shares A/c.	Dr. (With discount allowed)
To Share Capital A/c.	

(ii) When Forfeited Shares are reissued at a premium:

Bank A/c.	Dr.
To Share Capital A/c.	
To Share Premium A/c.	

(iii) After reissue of Forfeited shares, the balance in Forfeited Shares A/c. if any should be transferred to Capital Reserve by passing the following entry.

Shares forfeited A/c.	Dr.
To Capital Reserve A/c.	

16. A Company offered for subscription 55000 shares of Rs.10 each, payable Rs.3 on application, Rs.4 on allotment and Rs.3 on final call. The offer was fully subscribed and all the money called up was duly received with the exception of the call Rs.3 on 820 shares. The Company after due notice, forfeited the shares. The shares were reissued subsequently at a price of Rs.6 per share. Give journal entries, prepare Forfeited Shares A/c. and also Balance Sheet.

17. R.S.Ltd. having a nominal capital of Rs.20,00,000 in shares of Rs.100 each, invited applications for 10,000 shares payable as follows:

On application	Rs.25
On allotment	35
On first call	20
On final call	20

The Company received applications for 9000 shares. All the money due is received with the exception of second and final call on 250 shares, these shares were forfeited and reissued as fully paid at Rs.90 per share. Write journal entries and show Balance Sheet.

18. A Limited Company issue 10,000 shares of Rs.10 each payable Rs.3 on application, Rs.3 on allotment, Rs.2 on first call and Rs.2 on final call. All the shares were duly subscribed and allotted and both the calls were made. All cash was received except final call on 200 shares. The directors forfeited them and reissued as fully paid for Rs.1400.

Give necessary entries.

19. Krishna Ltd. issued 10,000 equity shares of Rs.20 each and 2000 preference shares of Rs.20 each, the latter at a premium of 5%. The amount on shares is 14 to be paid as follows: Rs.5

On application

On allotment (including premium)
and the balance on Call.

Govinda failed to pay the call due on his 100 equity shares. There were no calls in arrears on any other shares. An amount of Rs.6000 was paid to the underwriters as formation expenses. The 100 shares were forfeited and reissued at par. Prepare Cash Book, pass journal entries and show the Balance Sheet.

20. G Ltd. issued 10,000 equity shares at Rs.10 each payable Rs.5 on application (including Rs.2 premium), Rs.4 on allotment and Rs.3 on call. All the money is received in full with the exception of allotment on 200 shares and call on 500 shares (including the above 200 shares). The shares were forfeited and 400 (including the above 200) shares were reissued at Rs.7 per share. Prepare Cash Book, pass journal entries and show Balance Sheet.

21. Suvega Ltd. issued 1,00,000 shares of Rs.10 each at a premium of Rs.1 per share. The amount payable was as follows:

Rs.2	On application
4	On allotment (including premium)
2.5	On first call
2.5	On final call

The public applied for 90,000 shares and these shares were allotted. The directors made both the calls. The allotment and were not received on 1000 shares and the final call on 1500 shares. The directors forfeited the shares on which allotment and first call were not paid. 800 of these shares were reissued as fully paid at Rs.8 per share. Give journal entries and Balance Sheet of the Company.

Unit II ISSUE OF DEBENTURES

The most usual form of borrowing by a Company is issue of debentures. Debenture refers to the borrows capital from the public and is popularly known as Loan Capital. Generally Companies which need funds for their development and expansion of long period, issue debentures to the public. A debenture is an acknowledgement of the borrowing made by the Company from the public.

Debentures are commonly issued in a manner similar to the issue of shares. The Company may collect the cost of debenture on one lump sum or in instalments like on application, allotment and calls. Debentures may be issued at par or at a premium or at a discount.

I. Issue of Debentures at Par:

Here, we get the same entries as in case of the issue of shares.

II. Issue of Debentures at Premium:

When debentures are issued at premium and repayable at par:

Bank A/c.	Dr.
To Debentures A/c.	
To Debenture Premium A/c.	

III. Issue of Debentures at Discount:

When debentures are issued at discount and redeemable at par:

Bank A/c.	Dr.
Loss on issue of Debentures A/c.	Dr.
To Debentures A/c.	

Different conditions of issuing Debentures:

I. When debentures are issued at par and redeemable at premium:

Bank A/c.	Dr. (with amount received)
Loss in issue of Debentures A/c.	Dr. (with difference between amount received & repayable)
To Debentures A/c. (with face value)	
To Premium on redemption of Debentures A/c.	

II. When debentures are issued at discount and redeemable at premium (at par):

Bank A/c.	Dr. (with amount received)
Loss in issue of Debentures A/c.	Dr. (with discount on issue and premium on redemption)
To Debentures A/c. (with face value)	
To Premium on redemption of debentures A/c.	

Redemption of Debentures:

When debentures are redeemed in the following cases:

- When debentures are issued at par and repayable at par,
- When debentures are issued at premium and repayable at par,

(c) When debentures are issued at discount and repayable at par, the following entry is to be passed.

Debentures A/c. Dr.
To Bank A/c.

When debentures are issued at par or at discount and repayable at premium:

Debentures A/c. Dr.
Premium on redemption of debentures A/c. Dr.
To Bank A/c.

PROBLEMS

1. A Limited Company issued 2000 debentures of Rs.100 each repayable at par at the end of the 10th year. The debentures were payable 25% on application, 25% on allotment and the balance on call. All the money was received by the Company in due course. Pass necessary journal entries.

2. M Ltd. issued 5000 debentures of Rs.100 each at a premium of 10% repayable at the end of the 5th year. The debentures were payable as 20% on application, 40% on allotment (including premium) and the balance on call. All the money was received. You are asked to journalise the above transactions.

3. On 1st July, 2021 Sports Ltd. issued 10000, 6% debentures of Rs.10 each at 95% repayable on 30th June, 2021 at par. Rs.6 per debenture is payable on application and the balance on allotment. Interest is payable on the full nominal value from 1st Sep., 2021.

Applications were received for 15000 debentures. Allotment was made for all proportionately, oversubscriptions being applied to the balance due on allotment which took place on 31st Aug., 2021. All sums due on allotment were received by 14th Sep., 2021.

Assuming that the discount is to be written off evenly over the whole period. You are required to draft journal entries to record (a) the issue of debentures, (b) the charges to P&L A/c. for the year ended 30th June, 2022.

4. A Company issued 10,000 debentures of Rs.100 each for subscription. The debenture money is payable as follows:

Rs.30	On application
40	On allotment
20	On first call
10	On final call

A person who holds 200 debentures fails to pay the amount due at the time of allotment. However, he pays this amount with the first call money. Another person who is holding 400 debentures has paid all the calls in advance at the time of allotment. Give journal entries.