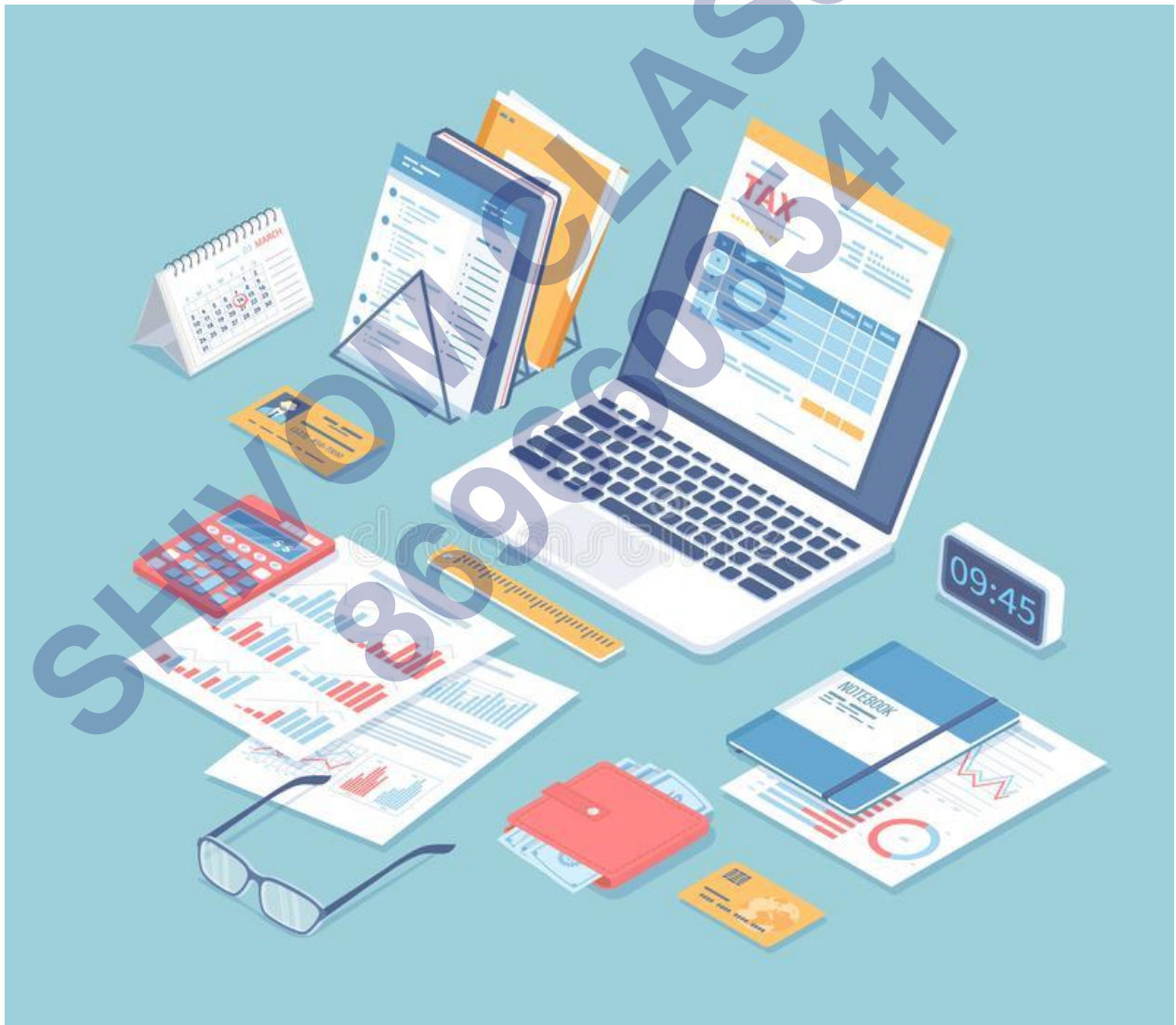


# ACCOUNTANCY

## Chapter 6: Accounting for Share Capital



## Accounting for Share Capital

### Introduction to a Company

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#### Meaning, Characteristics and Kinds of Company:

- **Meaning of a Company:**

- As per section 2(20) of the Companies Act, 2013, "Company means a company incorporated under this Act or any previous Company Law."
- A company (or a joint stock company) is an entity incorporated by a group of persons through the process of law in order to undertake a business.
- A company is divided into units called shares, the owners of which are known as members or shareholders.
- A company is an artificial person which is separate from its members (shareholders). Therefore, insolvency or death of a member does not affect the company, i.e., the company continues even if a member becomes insolvent or dies.
- A company is an artificial person, created by law having separate legal entity with perpetual succession and a common seal.

- **Characteristics (features) of a Company:**

- Incorporation:** A company is created through the process of incorporation under the the Companies Act, 2013 or any other previous Companies Act.
- Separate Legal Entity:** It is an artificial person which is separate legal entity from its members (shareholders).
- Artificial Person:** It is an artificial person which is separate from its members (shareholders) and therefore, can own property, enter into contracts, conduct business on its own, sue or be sued for any of its debts or acts.
- Perpetual Existence:** Since, it is an artificial person which is separate from its members (shareholders), insolvency or death of a member does not affect the company, i.e., the company continues even if a member becomes insolvent or dies. Life of the company comes to an end only by winding up through the process of law.
- Limited Liability:** The members of a company are liable only to the extent of value of shares subscribed by them or amount guaranteed to be paid at the time of winding up in case of companies limited by guarantee. However, the liability of the members is unlimited, in case if the company that is incorporated with unlimited liabilities, liability of members is unlimited.
- Transferability of Shares:** Shares of a company other than a private company are freely

transferable. For a private company, transfer of shares is regulated by its Articles of Association.

- vii. **Management and Ownership:** Shareholders of the company are known as owners of the company and therefore, ownership of a company remains with the shareholders. To manage the business activities of a company, representatives are chosen who are known as Directors. Therefore, management and ownership are separate.
- viii. **Common Seal:** A cannot sign or enter into any contract on its own by signing the documents. Therefore, a common seal is maintained by many companies to affix it on all important documents of the company.

● **Difference between Partnership and a Company (Joint Stock Company):**

Sr. no.	Basis	Partnership	Company (Joint Stock Company)
1	<b>Formation</b>	It is formed by an agreement among the partners irrespective of whether it is registered under the Indian Partnership Act, 1932.	It is formed/set up by registration under the Companies Act, 2013 or under any previous Companies Acts.
2	<b>Governing Act</b>	It is governed by the provisions of Indian Partnership Act, 1932.	It is governed by the Companies Act, 2013.
3	<b>Members</b>	It should have a minimum of 2 and maximum of 50 members as per the rules and provisions of the Companies Act, 2013.	It should have a minimum of 7 members without a maximum limit if it is a public company. In case of a private company, there should be at least 2 members but not more than 200 members excluding its present or past employee members. In case of a One Person Company, there is only 1 member.
4	<b>Liability</b>	In this case, liability of the partners is unlimited.	In case of companies with unlimited liability, liabilities of members is unlimited, however, in case of other companies liability of members is limited to amount of shares held.
5	<b>Profit Distribution</b>	In this case, profits are distributed as per the terms of the Partnership Deed or equally if there is no agreement.	In this case, distribution of profits depends upon the Articles of Association or its directors as to what share of profits should be distributed to the shareholders in the form of dividend.
6	<b>Existence</b>	Stability or survival of a partnership is affected by death, retirement or insolvency of partners.	Stability and survival of a company is not affected by the shareholder's death, insolvency or transfer of shares.
7	<b>Audit</b>	Audit is not mandatory.	Audit is mandatory.

8	<b>Management</b>	Operations and transactions are managed by all the partners or any of them acting for all.	Operations and transactions are managed by all the directors who are elected by the shareholders.
9	<b>Transfer of Shares</b>	It is not possible for the partners to transfer the shares to any other person without the consent of all the partners.	Transfer of shares is not restricted except in case of a private company.
10	<b>Business</b>	If all the partners agree, a partnership can carry on any business.	The business specified in the Object Clause of the Memorandum of Association is the only business the company can carry on.
11	<b>Winding Up</b>	A partnership may be wound up by an agreement or by an order of the court. If the firm is unable to pay its debts, the Insolvency Act will apply.	A company can be wound up only by carrying out the winding up process prescribed in the Companies Act, 2013.

● **Kinds of Companies: There are 3 kinds of companies as follows:**

- i. **One Person Company {OPC}:** As per Section 2(62) of the Companies Act, 2013, 'One Person Company means a company which has only one person as member'. It is governed by Rule 3 of the Companies (Incorporation) Rules, 2014. Such company should have at least 1 director but not more than 15 directors.
- ii. **Private Company:** As per Section 2(68) of the Companies Act, 2013, it is a company which has a minimum paid-up share capital as may be prescribed and which by its Articles of Association:
  - a. restricts the right to transfer its shares, if any.
  - b. Except in the case of one person company, limits the number of its members excluding its present or past employee members to 200.  
Where shares are held by two or more persons jointly they shall be treated as a single member.
  - c. Prohibits any invitation to public to subscribe for any securities of the company.  
It is a company which should have at least 2 directors but not more than 15 directors and also the name of such company ends with the words, 'Private Limited'.
- iii. **Public Company:** As per Section 2(71) of the Companies Act, 2013, a Public Company is a company which:
  - a. is not a private company;
  - b. has a minimum paid-up capital as may be prescribed; and is a Private Company, being a subsidiary of a company which is not a Private Company. Such company must have at least 7 members and there is no restriction on the maximum number of members. Also, it should have at least 3 directors but not more than 15 directors. The name of such company ends with the word ' Limited'.

- **Understanding Limited Liability Company, Unlimited Liability Company, and Company Limited by Guarantee.**
  - a. **Limited Liability Company {or Company Limited by Shares):** As per Section 2(22) of the Companies Act, 2013, it is a company having the liability of its members limited by the memorandum to the amount if any, unpaid on shares respectively held by them.
  - b. **Unlimited Liability Company:** As per Section 2(92) of the Companies Act, 2013, it is a company where the liability of its members is unlimited. Therefore, in the event of winding up of such company, debts of the company shall be met from private property of the members.
  - c. **Company Limited by Guarantee:** As per Section 2(21) of the Companies Act, 2013, it is a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of it being wound up.
- **Difference among One Person Company, Private Company and Public Company:**

Sr. no.	Basis	One Person Company	Private Company	Public Company
1	Number of Members	It should have minimum and maximum of 1 member.	It should have minimum of 2 and maximum of 200 members excluding its present or past employee members, under the Companies Act, 2013.	It should have a minimum of 7 members and there is no limit as to the maximum number of members.
2	Number of Directors	It should have at least 1 director and not more than 15 directors.	It should have at least 2 directors and not more than 15 directors.	It should have at least 3 directors but not more than 15.
3	Prospectus	It is not required to have a prospectus.	It is not required to issue any prospectus.	It is required to issue prospectus to invite public to subscribe for shares, and if not a prospectus, a Statement in Lieu of Prospectus is filed with the Registrar of Companies.

4	Articles of Association	It requires special Articles of Association.	It requires special Articles of Association.	It can adopt Table F of the Companies Act, 2013 or it can have its own Articles of Association having clauses different from those given in the Table F of the Companies Act, 2013, which will override Table F.
5	Name of the Company	It uses the word 'OPC' as a part of its name.	It uses the words 'Private Limited' as a part of its name.	It uses the word 'OPC' as a part of its name.
6	Shares Subscription	It cannot offer any shares to public.	It cannot offer any shares to public.	It can offer shares to public.
7	Shares Allotment	Not Applicable	It can allot shares as the Directors decide.	It can allot shares only if Minimum Subscription has been received.
8	Public Deposit	It cannot accept deposits from public.	It cannot accept deposits from public.	It can invite and accept deposits from public.
9	Transferability of shares	It has only 1 member and therefore, such concept of transferability of shares is not applicable.	It cannot transfer the shares as per the restrictions specified in the Articles of Association.	It can transfer the shares without any restrictions.

## Incorporation of a Company

- **Process of Incorporating a Company:** Process for incorporating a company can be divided into four stages that are as follows:
  - i. **Promotion:** A person or a group of persons who agree to start a business in the form of a company are called Promoters. These promoters undertake the responsibility to bring the company into existence by promoting its objects and activities which is the first stage in incorporation of a company.
  - ii. **Registration of a Company:** In order to incorporate a company, procedure prescribed in the Companies Act, 2013 should be followed, this includes:

- Promoters have to get the proposed company name approved from the Registrar of Companies.
  - After getting the name of the proposed company approved, the promoters have to submit Memorandum of Association, Articles of Association, consent of first directors to act as directors and a declaration that the requirements of the Companies Act have been complied with.
  - Thereafter, if the Registrar is satisfied that the requirements of the Companies Act, 2013 have been complied with, he shall issue the Certificate of Incorporation to the Company.
- iii. **Capital Subscription:** Capital subscription consists of the following:
- Prospectus: It is a document in which terms and conditions of the issue are stated along with the purpose of the proceeds of issue.
  - Minimum subscription: It is the amount stated in the prospectus that must be subscribed and the amount payable on application for the amount stated as minimum subscription have been paid to and received by the company by cheque or other instrument.
  - In case, minimum amount is not subscribed and the amount payable on application is not received within the specified period, then the application money shall have to be refunded within fifteen days from the closure of the issue.
- iv. **Commencement of Business:** A company cannot commence its business or exercise borrowing powers unless:
- the directors do not file a declaration with the Registrar of Companies to the effect that every subscriber to the Memorandum of Association has paid the value of the shares, if any, agreed to be taken by him.
  - a verification of its registered office should be filed by the company with the Registrar of Companies.

## Share Capital of a Company

### Meaning and Classes of Shares of a Company:

- **Meaning:** It is the amount that a company receives towards Share Capital from issue of both Equity Share and Preference Shares. According to Section 43 of the Companies Act, 2013, Share Capital of the Company can be broadly of two types or classes namely:
  - i. Preference Shares; and
  - ii. Equity Shares.
- **Classes or Kinds of Shares:**
  - i. **Section 43(b) of the Companies Act, 2013 on Preference Shares:** These are the shares that

carry the following two preferential rights:

- Right to receive dividend before it is paid to Equity Shareholders. Such dividend is paid as a fixed amount or an amount calculated at a fixed rate which may either be free of or subject to income tax.
  - Right to receive capital before equity shares in the event of winding up.
- **Preference Shares can be classified with reference to:**
    - **Dividend:** With reference to dividend, Preference shares are classified as Cumulative and Non-Cumulative Preference Shares.
      - **Cumulative:** This class carries the right to receive arrears dividend before dividend is paid to the Equity Shareholders.
      - **Non-Cumulative:** This class do not carry the right to receive arrears of dividend.
    - **Participation in Surplus Profit:** With reference to participation, Preference shares are classified as Participating and Non-Participating Preference Shares.
      - **Participating:** This class has the right to participate in the profits remaining after the dividend has been paid to the Equity Shareholders.
      - **Non-Participating:** This class has no right to participate in the profits remaining after the dividend has been paid to the Equity Shareholders.
    - **Convertibility:** With reference to convertibility, Preference shares are classified as Convertible and Non-convertible Preference Shares.
      - **Convertible:** This class are those which carry a right to be converted into Equity Shares.
      - **Non-Convertible:** This class are those which do not carry a right to be converted into Equity Shares.
    - **Redemption:** With reference to redemption, Preference shares are classified as Redeemable and Irredeemable:
      - **Redeemable:** This class of preference shares can be redeemed by the company at the time specified for their repayment or earlier.
      - **Irredeemable:** This class of preference shares are those the amount of which can be returned by the company to the holders of such shares when the company is wound up.
  - ii. **Section 43(1) of the Companies Act, 2013 on Equity Shares:**
    - These are those shares which are not Preference Shares.
    - They are the most issued class of shares.
    - They carry the maximum 'risks and rewards' of the business, where the risks are losing part of the value of shares if the business incurs losses and the rewards are the payment of higher dividends and appreciation in the market value.



○ **Difference between Preference Shares and Equity Shares:**

basis	Preference shares	Equity shares
dividend	Preference in getting dividends	No such preference
Repayment of capital	Preference over equity shareholder in repayment of capital	After payment to the preference holder
Right of management	No right to participate	Have voting rights
Dividend rate	fixed	Higher than others
redemption	redeemed	Cannot redeemed
Issue expense	More expenses as compared to equity	cheap

● **Classification of Share Capital for Accounting purpose:**

For accounting purpose, provisions specified in the Companies Act, 2013 are to be followed. As per the form prescribed for preparation of Balance Sheet in Part I of Schedule III of the Companies Act, 2013, Share Capital of the company is to be classified and shown as follows:

- i. Authorised Capital;
- ii. Issued Capital;
- iii. Subscribed Capital for each class of Share Capital

**Understanding each of the heads:**

- i. **Authorised Capital:** It is the amount stated in the Memorandum of Association and such amount is the maximum amount that a company can raise as share capital. It is stated separately for each class or kind of shares. As per Section 2 (8) of the Companies Act, 2013, such capital as authorized by the memorandum of a company to be maximum amount of share capital of the company is called as Authorised Capital or Nominal Capital.
- ii. **Issued Capital:** It is a part of the nominal value or Authorised Share Capital which is issued from time to time for subscription. Therefore, amount of Issued Capital cannot exceed the company's Authorised Share Capital. As per Section 2 (50) of the Companies Act, 2013,

such capital of the company that it issues from time to time for subscription.

- iii. **Subscribed Capital:** It is a part of the capital which is for the time being subscribed by the members of a company. As defined by Section 2 (86) of the Companies Act 2013, such part of the capital which is for time being subscribed by the members of a company. This can further be divided into:
- **Subscribed and fully paid-up:** It is a situation where the company has called-up the total nominal value of the share and has received the same.
  - **Subscribed and not fully paid-up:** It is a situation where the company has called-up the total nominal value of the share, but has not receive it or has not called-up the total nominal value of the share.

#### Understanding the two terms, i.e., Called-up and Paid-up:

- a. **Called-up Capital:** According to section 2(15) of the Companies Act, 2013, Called-up Capital means such part of the capital which has been called for payment.
- b. **Paid-up Capital:** According to section 2(64) of the Companies Act, 2013, Paid-up Share Capital or Share Capital Paid-up means the amount that the shareholder has paid and the company has received against the amount Called-up in respect of the shares towards share capital or has been credited to it as paid-up.

#### Difference between Authorised or Nominal Capital and Issued Capital:

Sr. no.	Basis	Authorised or Nominal Capital	Issued Capital
1	Meaning	It is the amount stated in the Memorandum of Association which a company can raise as share capital of the company.	It is the nominal value of that part of Authorised Share Capital which is issued for subscription.
2	Disclosure in Memorandum of Association	It is stated in the Memorandum of Association.	It is not stated in the Memorandum of Association.
3	Whether one can exceed the other	It is always equal or more than the Issued Share Capital.	It is always equal or less than the Authorised Share Capital.

#### • Understanding Reserve Capital and Capital Reserve:

- **Reserve Capital:** It is a part of Subscribed Capital remaining uncalled that a company resolves, by a Special Resolution, not to call except in the event of winding up of the company. Such number of shares are shown as "Subscribed but not fully paid-up".
- **Capital Reserve:** It is a type of reserve which is created out of capital profits and is not free

for distribution as dividend.

● **Difference between Reserve Capital and Capital Reserve:**

Sr. no.	Basis	Reserve Capital	Capital Reserve
1	<b>Meaning</b>	It is a part of uncalled capital which cannot be called-up except in the event of winding up.	It is a part of reserves which cannot be used for distribution of dividends.
2	<b>Creation</b>	It is a part of uncalled capital.	It is a part of capital profits.
3	<b>Optional/Mandatory</b>	It is not compulsory to have Reserve Capital.	It is considered appropriate to transfer capital profits to capital reserve.
4	<b>Special Resolution</b>	Reserve Capital requires a special resolution to be passed.	Capital Reserves do not require any special resolution to be passed.
5	<b>When can it be used</b>	It is a part of uncalled capital which can be called at the time of winding up.	It can be used anytime during the life of the company.
6	<b>Writing off Capital</b>	It cannot be used for writing off capital losses.	It is used to write off capital losses.
7	<b>Disclosure</b>	It is not disclosed in the Balance Sheet of the Company.	It is disclosed in the Note to Accounts on Shareholders' Funds under the head 'Reserves and Surplus.'

● **Disclosure of Share Capital in a Company's Balance Sheet:** Share Capital is shown in the Company's Balance Sheet as follows:

Balance Sheet of ... (Extract) as at ...

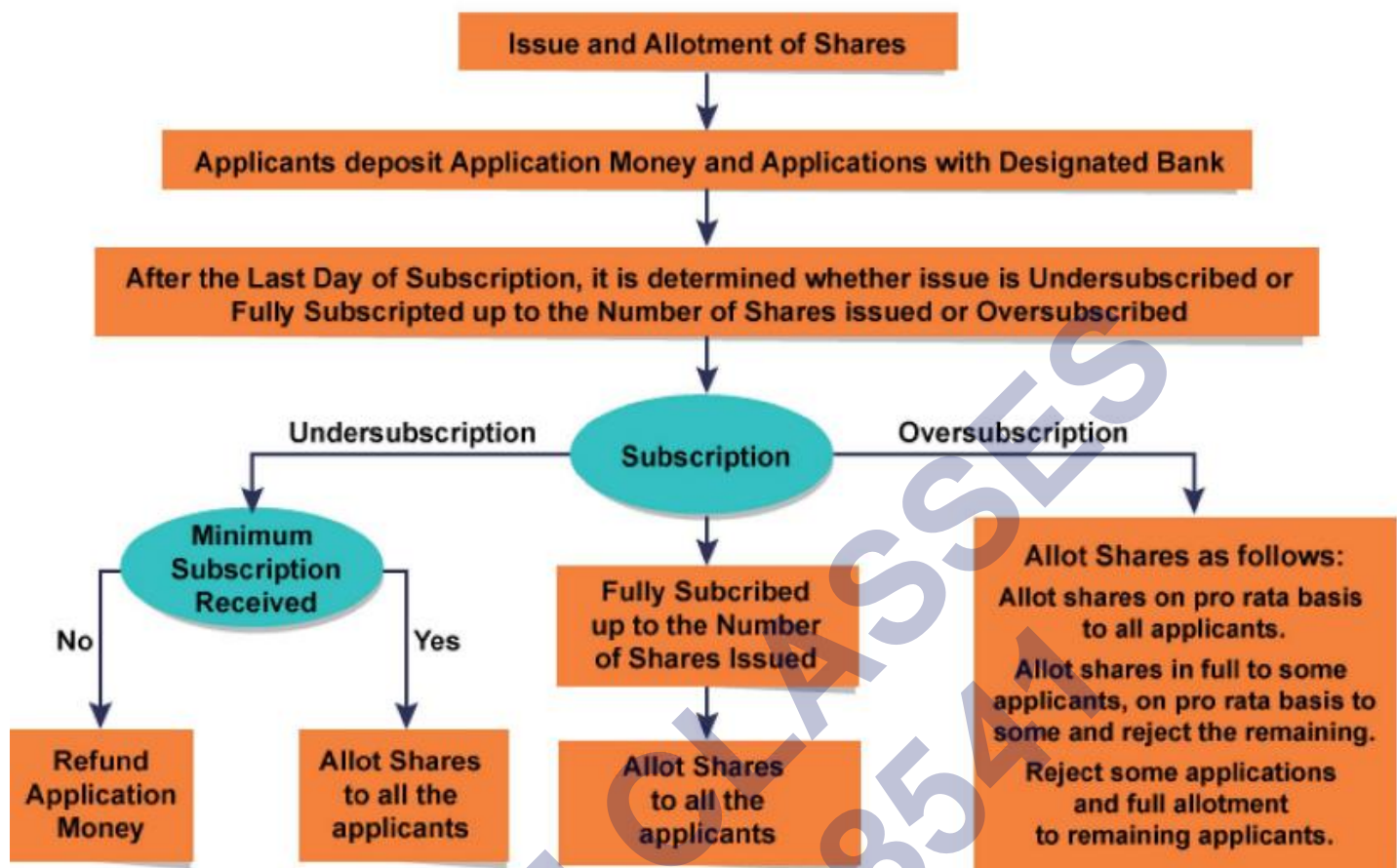
Particulars	Note No.	₹
<b>I. EQUITY AND LIABILITIES</b>		
<b>Shareholders' Funds</b>		
Share Capital	1	...

Note to Accounts

	₹
<b>1. Share Capital</b>	
<b>Authorised Capital</b>	
...Equity Shares of ₹ ... each	...
...Preference Shares of ₹ ... each	...
	---
<b>Issued Capital</b>	
...Equity Shares of ₹ ... each	...
...Preference Shares of ₹ ... each	...
	---
<b>Subscribed Capital</b>	
<b>Subscribed and fully paid-up</b>	
...Equity Shares of ₹ ... each	...
...Preference Shares of ₹ ... each	...
	---
<b>Subscribed but not fully paid-up</b>	
...Equity Shares of ₹ ... each, ₹ ... called-up	...
Less: Calls-in-Arrear	---
...Preference Shares of ₹ ... each, ₹ ... called-up	...
Less: Calls-in-Arrears	---
Add: Forfeited Shares	...
<b>Amount to be shown in the Balance Sheet against Share Capital</b>	---

## Process of issue and Allotment of Shares

A Public Company can issue shares only after meeting the prescribed legal compliances process of issues and allotting the shares is explained as below with the help of a diagram:



## Issue of shares for Cash

This is the issue of shares which means the shares are issued by a company against payment received by cheque or a banking instrument. Such issue can be made at par or premium but not at discount and the amount received on such issue can be received either in lump sum or in installments.

Following is the accounting treatment in each of these cases:

- i. **If issue price received in Lump Sum:** In this type of issue, total issue price of shares is payable in one instalment.
  - a. **To receive Shares Application Money:**

Bank A/c ...Dr. [amount received]

To Shares Application A/c

(Being application money received)
  - b. **To Allot Shares:**

Shares Application A/c ...Dr.

To Share Capital A/c [nominal value]

To Securities Premium Reserve A/c [premium amount, when issued at premium]

(Being shares allotted and application money transferred to Share Capital Account and Securities Premium Reserve Account)

Instead of Share Application Account, Share Application and Allotment Account may be used in the above entries.

**i. If issue price received in Instalments: In this type of issue, total issue price of shares is payable in instalments.**

**I. For receipt of Application money:**

Bank A/c ... Dr. [amount received with application]  
 To Shares Application A/c

**II. For Allotment of Shares:**

Shares Application A/c ... Dr. [application money on shares allotted]  
 To Share Capital A/c

**III. For Amount due on Allotment:**

Shares Allotment A/c ... Dr. [Money due on shares allotted]  
 To Share Capital A/c

**IV. For receipt of Allotment money:**

Bank A/c ... Dr. [amount received on shares allotted]  
 To Shares Allotment A/c

**V. For first call being due:**

Shares First Call A/c ... Dr. [amount payable on first call]  
 To Share Capital A/c

**VI. For receipt of first call:**

Bank A/c ... Dr. [amount received on first call]  
 To Shares First Call A/c

**● Points to remember when shares are issued to public for subscription:** The important points to follow as mentioned below:

- I. Calls are made as provided in the Articles of Association of the company.
- II. If the company does not have its own Articles of Association or Articles of Association does not have a clause to this effect, Table F of the Companies Act, 2013 will apply.
  - i. Table F has the following provisions:
  - ii. Period of one month must elapse between two calls.
  - iii. The amount of one call should not be less than 25% of the face value of the share.
  - iv. Notice of 14 days period should be given to the shareholders to pay the amount.
  - v. Calls should be made on uniform basis on all shares within the same class.

**● Terms of Issue of Shares:** A company may issue shares at par or at premium as explained below:

- i. Shares are issued at Par: It means that the issue price is same as the nominal value (face value) of the shares.
- ii. Shares are issued at Premium: It means that the issue price is more than the nominal value (face value) of the shares. Amount in excess of the nominal value of the share is termed as premium and such amount of premium is credited to Securities Premium Account or Securities Premium Reserve Account.

● **Accounting entries for issue of Shares at Premium:**

- i. For receipt of Application money:
 

Bank A/c	... Dr. [amount received on application including premium]	
	To Shares Application A/c	
- ii. For Allotment of Shares:
 

Shares Application A/c	... Dr. [application money on shares allotted]	To Share Capital A/c
[amount paid towards share capital]		
	To Securities Premium Reserve A/c	[amount of premium received with application money]
- iii. For Amount due on Allotment:
 

Shares Allotment A/c...	Dr. [amount due on shares allotted]	
	To Share Capital A/c	[amount paid towards share capital]
	To Securities Premium Reserve A/c	[amount due towards premium]
- iv. For receipt of Allotment money:
 

Bank A/c...	Dr. [amount received on shares allotted]	
Calls-in-Arrears A/c...	Dr. [amount not received against allotment money]	
	To Shares Allotment A/c	
- v. For first call being due:
 

Shares First Call A/c	... Dr. [amount payable on first call]	
	To Share Capital A/c	[amount paid towards share capital]
	To Securities Premium Reserve A/c	[amount due to towards premium]
- vi. For receipt of first call:
 

Bank A/c	....Dr. [amount received on first call]	
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Calls-in-Arrears A/c  
due]

...Dr. [amount not received towards first call money

To Shares First Call A/c

- **Section 52(2) of the Companies Act, 2013 on use of the amount received as premium on securities:** As per section 52(2) of the Companies Act, 2013, use of the amounts received as premium on securities is restricted to the following purposes only:
  - i. issuing fully paid bonus shares to the members;
  - ii. writing off preliminary expenses of the company;
  - iii. writing off the expenses of, or the commission paid or discount allowed on any issue of securities or debentures of the company;
  - iv. providing for the premium payable on the redemption of any redeemable Preference Shares of any debentures of the company;
  - v. in purchasing its own shares i.e., in case of buy back of shares.

## Oversubscription and Undersubscription of Shares

### Meaning and Accounting Treatment of Oversubscription of Shares:

- **Meaning of Oversubscription:**
  - Oversubscription means, the number of applications received are more than the number of shares offered.
  - In such case, allotment can be done by any of the 3 alternatives available.
    - i. First Alternative: Under this alternative, some applications are accepted and excess applications are rejected.
    - ii. Second Alternative: Under this alternative, all applicants are allotted shares in proportion which is known as Partial or Pro-rata Allotment.
    - iii. Third Alternative: Under this alternative, a combination of the above two alternatives may be adopted.
    - iv. If the shares are allotted against the application, then there is no adjustment required as share capital is credited against the application money received. However, if the applications are rejected, the application money with respect to the rejected applications can be refunded or adjusted (in case of pro-rata allotment) against the allotment or calls on shares.
- **Meaning of Pro-rata Allotment of Shares:**



- This is one of the alternative available with the company for allotment of shares when the number of shares applied for are more than the number of shares offered for subscription.
- As per this alternative, all applicants are allotted shares in proportion which is called Partial or Pro rata Allotment.
- **Treatment of Surplus Application Money on Pro-rata Allotment:**
  - If the question is silent or states that 'excess application money received is to be adjusted against allotment', surplus application money is adjusted against allotment money due and excess application money, if any is refunded.
  - If the question requires that surplus application money is to be refunded after adjustment of Allotment Money and Call Money, then the amount is transferred to Shares Allotment Account and Calls-in Advance Account. The balance, if still left, is refunded.
- **Computation of Amount not Received on Allotment in Case of Pro-rata:** In case where the shares are allotted on pro-rata basis and one or some of the shareholders of pro-rata category fail to pay the allotment money, then it is necessary to compute the amount not received on allotment as per the following steps:
  - i. Step 1: Compute the number of shares applied or allotted using the following formulae:
    - I. **When the shares allotted are given:**  
Number of Shares Applied are:  
 $(\text{Total Shares Applied} : \text{Total Shares Allotted}) \times \text{Number of Shares Allotted}$
    - II. **When the shares applied are given:**  
Number of Shares Allotted are:  
 $(\text{Total Shares Allotted} : \text{Total Shares Applied}) \times \text{Number of Shares Applied}$
  - ii. **Step 2: Calculate the Allotment Amount not paid by defaulting shareholders:**

	₹
Amount due on Allotment (Shares Allotted x Allotment Money per Share)	...
Less: Excess Application Money Adjusted on Allotment (Shares Applied – Shares Allotted) x Application Money per share	...
<b>Allotment Amount due but not paid</b>	...

- **Journal entries for the following in the event of Oversubscription of Shares are as follows:**
  - i. **For application money received:**  
Bank A/c ... Dr.

To Shares Application A/c

ii. **For application money for allotted shares:**

Shares Application A/c ... Dr.

To Share Capital A/c

iii. **For excess application money refunded:**

Shares Application A/c ...Dr.

To Bank A/c

iv. **For excess application money adjusted with allotment and calls:**

Share Application A/c ...Dr.

To Shares Allotment A/c

To Calls in Advance A/c

v. **A combined entry can be passed to give effect to refund and adjustment of excess application money at the same time as follows:**

Shares Application A/c ...Dr.

To Share Capital A/c

To Bank A/c

To Shares Allotment A/c

To Calls-in-Advance A/c

**Meaning of Undersubscription of Shares and Difference between Oversubscription and Undersubscription:**

- **Undersubscription:** It is a situation when the number of shares applied are less than the number of shares issued for subscription
- **Minimum Subscription:** As per SEBI Guidelines, minimum subscription is to receive subscription for at least 90% of the shares issued. If the company does not receive minimum subscription, it cannot allot the shares and therefore, it will have to refund the application money to the subscribers.
- **Difference between Oversubscription and Undersubscription of Shares:**

Sr. no.	Basis	Oversubscription of Shares	Undersubscription of Shares
1	<b>Shares Applied to Offered</b>	Number of shares applied are more than the shares offered for subscription.	Number of shares applied are less than the shares offered for subscription.
2	<b>Acceptance</b>	In this situation, all applications are not accepted, some are rejected or applications are allotted on pro rata basis.	In this situation, all the applications for shares are accepted, i.e., full allotment is made.
3	<b>Minimum Subscription</b>	Such problem of minimum subscription is not faced when there is over subscription of shares.	The problem of minimum subscription may arise in case of under subscription.
4	<b>Refund</b>	In this case, excess application money is refunded or adjusted towards allotment and calls.	In this situation, all the applications are accepted, therefore, there is no excess money to be refunded.

## Calls-in-Arrears and Calls-in-Advance

### Meaning and Accounting Treatment of Calls-in-Arrears:

- **Meaning of Calls-in-Arrears and Interest on Calls-in-Arrears:**
  - i. **Calls-in-Arrears:** If the shareholder does not pay the call amount due on allotment or on any subsequent calls according to the terms, the amount not received is called Calls-in-Arrears.
  - ii. **Interest on Calls-in-Arrears:** If the company is authorized by the Articles of Association, it may charge an interest at the specified rate on Calls-in-Arrears from the due date to the date of payment. In case Articles of Association is silent, Table F of the Companies Act, 2013 shall apply which provides for interest on Calls-in-Arrears at the rate of 10% p.a. However, directors have the right to waive such interest.
- **Accounting Treatment of Calls-in-Arrears:** This can be done in 2 ways as follows:
  - i. **Accounting treatment without opening Calls-in-Arrears Account:** In this method, amount S received from the shareholders is credited to the relevant call account. The respective call accounts (first, second, etc.) will continue showing debit balance equal to the total amount unpaid on those calls. On a subsequent date, when the amount of Calls-in-Arrears is received, Bank Account is debited and relevant call account is credited.

#### Call Money Due:

Share First Call A/c                   ...Dr. [with actual amount due on say, 100 shares @ 3 each]  
     To Share Capital A/c

**Call Money Received:**

Bank A/c                                   ... Dr.[with actual amount received, say 90 shares @ 3 each]  
     To Share First Call A/c

- ii. **Accounting treatment by opening Calls-in-Arrears Account:** In this method, unlike the first method, the unpaid amount is transferred to Calls-in-Arrears Account. On account of this, Share Allotment Account and Shares Call Accounts will not show any balance. The Calls-in-Arrears Account will show a debit balance equal to the total unpaid amount on allotment or the calls. At a later date, on receipt of arrear amount, it is credited to the Calls- in-Arrears Account and same is closed with a corresponding debit to Bank A/c.

**Call Money Due:**

Share First Call A/c                   ... Dr.[with actual amount due on say, 100 shares @ 3 each]  
     To Share Capital A/c

**Call Money Received:**

Bank A/c                                   ...Dr.[with actual amount received, say 90 shares@ 3 each]  
 Calls-in-Arrears A/c                   ...Dr. [with amount not received, 10 shares @ 3each]  
     To Share First Call A/c

- iii. **Disclosure in Balance Sheet:** Calls-in-Arrears Account is shown in the Notes to Accounts on 'Share Capital'. This is shown as a deduction from the amount of 'Subscribed but not fully paid-up' under 'Subscribed Capital'.

**Meaning and Accounting Treatment of Calls-in-Advance:**

● **Meaning of Calls-in-Advance and Interest on Calls-in-Advance:**

- i. **Calls-in-Advance:** An amount which is accepted by the company against the call or calls not yet made is termed as Calls-in-Advance. A company may accept such calls-in-advance amount only if it is allowed by the Articles of Association of the Company.
- ii. **Interest on Calls-in-Advance:** If the Articles of Association provides for any interest on Calls-in-Advance, then interest can be paid by the company. In case when the Articles of Association is silent, Table F of the Companies Act, 2013 shall apply where company is liable to pay interest at the rate of 12% p.a.

● **Accounting Treatment of Calls-in-Advance: Journal Entry passed:**

- i. To record calls-in-advances:

Bank A/c ...Dr. [amount of calls money received in advance]  
     To Calls-in-Advance A/c

- ii. To adjust when the respective call is made due:

Calls-in-Advance A/c ...Dr.  
     To Respective Call A/c

● **Difference between Calls-in-Arrears and Calls-in-Advance:**

Sr. no.	Basis	Calls-in-Arrears	Calls-in-Advance
1	<b>Meaning</b>	Amount which is called-up by the company but not paid by the shareholders.	Amount which is not called-up by the company, but paid by the shareholders.
2	<b>Interest</b>	Interest is charged on such Calls-in-Arrears.	Interest is allowed on Calls-in-Advance.
3	<b>Rate of Interest</b>	Rate of interest is charged as per Table F of the Companies Act, 2013 which @10% p.a.	Rate of interest is paid as per Table F of the Companies Act, 2013 which @12% p.a.
4	<b>Authority under Articles of Association</b>	No Such clause in the AoA as non-payment is beyond the company's control.	Such Calls-in-Advance can be accepted by the company only if it is authorised by its Articles of Association to do so.
5	<b>Disclosure</b>	It is shown in the Note to Accounts on Share Capital in the Balance Sheet by way of deduction from the Subscribed but not fully paid-up Capital.	It is shown as a separate item as Other Current Liability under Current Liabilities.

## Shares Issued for Consideration Other Than Cash

Such issue is possible under the following circumstances where Shares are issued to:

- **Vendors against purchase of assets or business: Entry to be passed is as follows:**

- a. if shares are issued for purchase of assets:

Sundry Assets A/c (individually) ..Dr (with the amount of purchase price)

To Vendor's A/c (with purchase consideration)

b. **if shares are issued for purchase of business:** When a business is purchased, both assets and liabilities are taken over for a consideration which can be equal to, more than or less than the difference between values of assets and liabilities. Entry to be passed in each of these cases is as follows:

i. if consideration is equal to the difference between the value of assets and liabilities:

Sundry Assets A/c (individually) ...Dr. (agreed value)

To Sundry Liabilities (individually) (agreed value)

To Vendor's A/c(purchase consideration)

ii. if consideration is more than the difference between the value of assets and liabilities, such excess is debited to Goodwill Account:

Sundry Assets A/c (individually) ...Dr. (agreed value)

Goodwill A/c ...Dr. (excess consideration over net assets)

To Sundry Liabilities (individually) (agreed value)

To Vendor's A/c (purchase consideration)

iii. if consideration is less than the difference between the value of assets and liabilities, such shortfall is credited to Capital Reserve Account:

Sundry Assets A/c (individually) ... Dr. (agreed value)

To Sundry Liabilities (individually) (agreed value)

To Vendor's A/c (purchase consideration)

To Capital Reserve A/c (excess of net assets over consideration)

● **Accounting Entries for issue of Shares to Vendors when Shares are:**

i. Issued at par:

Vendor's A/c ...Dr. (nominal value of shares allotted)

To Share Capital A/c

ii. Issued at premium:

Vendor's A/c ...Dr. (purchase consideration)

To Shares A/c (nominal value of shares allotted)

To Securities Premium Reserve A/c (premium amount)

**Calculation of Number of Shares:** When a business is purchased and consideration is paid in the form of issue of shares, number of shares is to be calculated as follows:

Number of Shares Issued = Purchase Consideration : Issue Price of Share

- **Issue of Shares to Promoters:** Such issue is made for services rendered by promoters for incorporating the company. Entry to be passed is as follows:

Amount due to Promoters			
Incorporating Expenses or Formation Expenses	A/c		Dr

To Promoter's A/c

Issue of shares to Promoters	
promoter's A/c	Dr.

To Share Capital A/c

- **Issue of Shares to Underwriters:** Such issue is made for services rendered by the underwriters where the underwriter agrees to take shares instead of charging commission in cash for his services rendered. Entry to be passed is as follows:

Amount due as Underwriting Commission	
Underwriting Commission A/c	... Dr.

To Underwriters' A/c

Issue of shares to Underwriters	
Underwriters' A/c	..... Dr.

- **Disclosure in the Balance Sheet:**

Shares issued for consideration other than cash are disclosed in the Balance Sheet under 'Subscribed Capital'. This may be further subscribed and fully paid or subscribed but not fully paid as the case may be and shown in Notes to Accounts under Share Capital.

## Forfeiture of Shares and Reissue of Forfeited Shares

### Meaning and Accounting Entries for Forfeiture of Shares:

- **Meaning:**

- i. It means cancellation of shares for non-payment of calls due.
- ii. It can be done by the company only if it is allowed by its Articles of Association.
- iii. If any of the shareholders of the company does not pay the amount of call, the company may exercise this power to forfeit the shares held by the shareholder on which amount of call is not paid.
- iv. In case of such forfeiture, the company must first give a clear 14days' notice to the defaulting shareholder to pay the amount due on call and interest thereon if any.

- v. If the shareholder does not pay, the company may forfeit the shares by passing an appropriate resolution
- vi. In the event of such forfeiture, forfeited shares are cancelled and Share Capital is reduced to that extent

● **Accounting Entries for forfeiture of Shares:**

- i. **Forfeiture of Shares issued at Par:** Following entry is passed for forfeiture of shares: Share Capital A/c Dr. (Shares forfeited x Called up value per share)

To Forfeited Shares A/c (Amount received on forfeited shares)

To Share Allotment A/c (Amount due but not paid on allotment)

To Shares Call A/c (Amount due but not paid on call)

Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.

- ii. **Forfeiture of Shares issued at Premium: In this case, there are 2 possibilities:**

- a. **Securities Premium Amount has been received:** Following entry is passed for forfeiture of shares:

Share Capital A/c Dr. (Called up value less Premium)

To Share Allotment A/c (Amount not received on allotment)

To Shares Call A/c (Amount not received on calls)

To Forfeited Shares A/c (Amount received less premium)

- b. **Securities Premium Amount has not been received:** Following entry is passed for forfeiture of shares:

Share Capital A/c Dr. (Called up value less premium)

Securities Premium Reserve A/c Dr. (Premium amount called-up but not received)

To Share Allotment A/c (Amount not received on allotment)

To Shares Call A/c (Amount not received on calls)

To Forfeited Shares A/c (Amount received less premium)

Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.

**Meaning and Accounting Entries for Reissue of Forfeited Shares:**

- **Meaning:** It is the selling of shares that were cancelled by the company in the event of forfeiture. Such forfeited shares can reissued by the company at par, premium or discount. If issued at discount, the amount of discount should be within the maximum permissible limits. Accounting entry passed in each case is as follows:



- i. When reissue is at par, i.e., nominal value of share:

Bank A/c	... Dr. (amount received on reissue)
To Share Capital A/c	(amount credited as paid-up)

- ii. When reissue is at discount:

Bank A/c	... Dr. (amount received on reissue)
Forfeited Shares A/c	...Dr. (discount allowed on reissue i.e., paid up value less reissue price)
To Share Capital A/c	(amount credited as paid-up)

- iii. When reissue is at premium:

Bank A/c	... Dr. (amount received on reissue)
To Share Capital A/c	(amount credited as paid up)
To Securities Premium Reserve A/c (excess amount received on reissue)	

- **Maximum Permissible Discount:** At the time of reissue of the forfeited shares, care has to be taken with respect to the maximum permissible discount on the shares reissued. The maximum permissible discount that can be allowed on reissue of forfeited shares is the amount forfeited, i.e., the amount credited to the forfeited shares. In simple terms, the reissue price cannot be less than the amount unpaid on the forfeited shares.

- **Accounting treatment of Balance in Forfeited Shares Account:** When a company has to reissue the forfeited shares there are 2 options for which different accounting entries are required to be passed as follows:

- a. All forfeited shares are reissued: In this case, the balance left in Forfeited Shares Account is transferred to Capital Reserve as follows:

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

(Being the gain on reissue transferred to Capital Reserve)

- b. All forfeited shares are not reissued: In this case, the amount of discount allowed on reissue of forfeited shares is a Capital gain (Profit) and therefore, transferred to Capital Reserve. The amount of forfeited shares not reissued will remain in the Forfeited Shares Account till the time these shares are reissued.

$$\left( \frac{\text{Total Amount Forfeited}}{\text{No. of shares Forfeited}} \times \text{No. of shares reissued} \right) - \left( \begin{array}{l} \text{Amount with which Forfeited Shares} \\ \text{Account was debited at the time of reissue} \\ \text{of such shares Or the Reissue Discount} \end{array} \right)$$

- **Forfeiture of Shares Under Pro-Rata Category:** Following process is required to be followed when shares belonging to pro rata category are forfeited:

- Calculate number of shares applied (if not given) by the shareholder whose shares are being forfeited

$$\left( \frac{\text{Shares Applied under Pro-rata Category}}{\text{Shares Allotted under Pro-rata Category}} \right) \times \text{Number of shares Allotted to shareholder}$$

Or

Calculate total number of shares allotted (if not given):

$$\left( \frac{\text{Shares Allotted under Pro-rata Category}}{\text{Shares Applied under Pro-rata Category}} \right) \times \text{Number of shares Applied to shareholder}$$

- Compute the total application money received on shares applied by defaulting shareholder as under:  
Number of shares Applied by shareholder x Application money per share
- Compute Application money due on shares allotted to defaulting shareholder as under:
- Number of shares Allotted to shareholder x Application money per share
- Determine the excess application money received:
- Application Money received (step 2) - Application Money required (step 3)
- Determine the amount due on allotment (by multiplying number of shares allotted by the amount of allotment money per share) and deduct from it the excess application money (step 4).
- The resultant amount is arrears on allotment

- **Concept of Preferential Allotment:**

- It is the allotment of shares at a predetermined price to the pre-identified people who are interested in taking a strategic stake in the company.
- Requires special resolution for the same has been passed in the shareholder's meeting.
- Such interested people includes promoters, venture capitalists, financial institutions, people who buy company's products or any other party related.

- **Concept of Private Placement of Shares as per Section 42 of the Companies Act, 2013:**

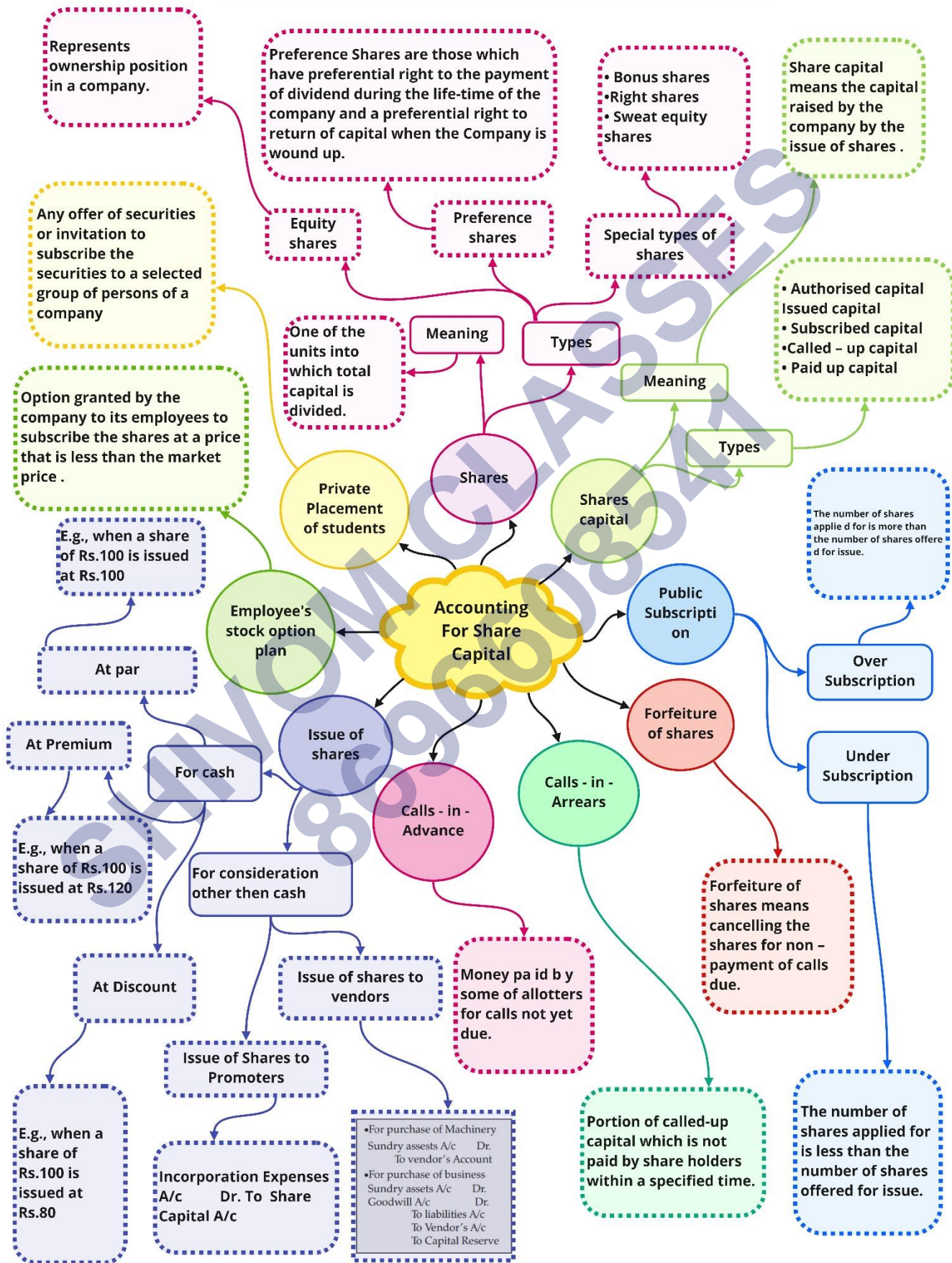
- As per Section 42 of the Companies Act, 2013, Private Placement means any offer of the securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of private placement offer letter and which satisfies the conditions specified in this section.
- In simple terms, securities offered to the selective group of persons by issuing private placement offer is known as the Private Placement of Shares. There are conditions specified by Companies Act, 2013 that are to be fulfilled for offering such private

placement of shares.

- **Conditions to be fulfilled for offering Private Placement of Shares:** Conditions have been prescribed for the following points:
  - i. **Limit on offers:**
    - Invitation to subscribe securities shall be made in a financial year to persons not exceeding 50 in number or such higher number as may be prescribed.
    - Also, the maximum number of persons to whom offer of Private Placement can be made is prescribed as 200.
    - For this purpose, Qualified Institutional buyers and employees of the company offered securities under a scheme of employees stock option is excluded.
  - ii. **Previous/Earlier offers:** Such offer or invitation shall not be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company.
  - iii. **Subscription Amount:** Amount of subscription should not be less than 20,000. Any amount payable towards subscription of securities shall be paid through cheque or bank draft or any other banking instrument but not by cash.
  - iv. **Allotment:** Condition with respect to allotment prescribes that the company shall allot its securities within 60 days from the date of receipt of application money. In case the company is not able to allot securities within 60 days, it shall refund the application money within 15 days from the day of completion of 60 days.
  - v. **Application money received:** Any amount received towards application of securities shall be kept in a separate bank account and shall be utilised for:
    - a. adjustment against allotment of securities; or
    - b. repayment of money against which the company is not able to allot securities.
  - vi. **Offers:** Offer for such securities shall be made only to such persons whose names are recorded by the company before the invitation to subscribe.
  - vii. **Filing with Registrar of Companies:** It is necessary to file complete information with the Registrar of Companies within 30 days of the circulation of offer for private placement.
  - viii. **Public Advertisement:** No public advertisement or use of any media, marketing or distribution channels or agents to inform the public at large about the offer.
- **Concept of Employees Stock Option Plan (ESOP):**
  - i. It is a category of Sweat Equity which is a wider term than ESOP and includes issue of shares to promoters as remuneration for their contribution towards incorporating the company and other related services.

- ii. It is an option granted to the employees and employee directors of a Company to subscribe the company's shares at a price that is lower than the market price (fair value) of the share.
  - iii. It is an option and not an obligation for the employees and employee directors. Therefore, they may or may not exercise the option.
  - iv. It is necessary to fulfil the prescribed conditions to issue such stock options.
- **Terms associated with Employees Stock Option Plan (ESOP):**
    - i. **Grant:** It is the option given to the Employees to subscribe to the share of the company.
    - ii. **Grant Date:** It is the date at which the enterprise and its employees agree to the terms of Employees Stock Option Plan (ESOP).
    - iii. **Vesting:** It is the process by which the employee is given the right to apply for shares of the company against ESOP.
    - iv. **Vesting Date:** It is date when all the specified vesting conditions are satisfied by the employee and therefore, becomes entitled to receive the shares.
    - v. **Vesting Period:** It is the period between the grant date and the date on which all the specified vesting conditions of an Employee Stock Option Plan are to be satisfied.
    - vi. **Exercise:** It is an application by the employee for issue of shares against the option vested in him in pursuance of the Employees Stock Option Plan (ESOP).
    - vii. **Exercise Period:** It is the period after vesting within which the employee should exercise the right to apply for shares against the option vested in him in pursuance of the Employees Stock Option Plan (ESOP).
    - viii. **Exercise Price:** It is the price payable by the employee for exercising the option granted in pursuance of the Employees Stock Option Plan.
    - ix. **Value of Option:** It is the difference between the market price and the issue price of the security.
  - **Conditions to issue stock options:**
    - i. shares issued are of the same class of shares already issued;
    - ii. such issue is authorised by a special resolution passed by the company;
    - iii. such resolution specifies all possible details of the number of shares, consideration, market price, and class or classed of employees or directors to whom such shares are to be issued;
    - iv. at the date of issue, not less than 1 year has been elapsed since the date on which the company had commenced business; and
    - v. all the regulations prescribed by SEBI with respect to such issue have been duly complied with.

Class : 12th Accounts  
Chapter - 6 : Accounting For Share Capital



## Important Questions

### Multiple Choice questions-

Question 1. A Joint stock company has:

- (a) Common Seal
- (b) Limited Liability
- (c) Separate Legal Entity
- (d) All of these

Question 2. Private company is one which:

- (a) Restrict the right of members to transfer shares
- (b) Prohibits any invitation to the public to subscribe
- (c) Limit the number of members to two hundred
- (d) All of the above.

Question 3. Minimum number of members in a public company:

- (a) 2
- (b) 7
- (c) 50
- (d) No limit.

Question 4. Minimum number of members in a private company:

- (a) 2
- (b) 7
- (c) 50
- (d) No limit.

Question 5. Maximum number of members in a private company:

- (a) 7
- (b) 50
- (c) 100
- (d) 200.

Question 6. Maximum number of members in a public company:

- (a) 2
- (b) 7

- (c) 50
- (d) No limit.

Question 7. Equity shareholders are the \_\_\_\_\_ of the company.

- (a) Owners
- (b) Creditors
- (c) Money lenders
- (d) Customers.

Question 8. Debenture holders are the \_\_\_\_\_ of the company.

- (a) Owners
- (b) directors
- (c) Moneylenders
- (d) Customers.

Question 9. Preference shareholders are the \_\_\_\_\_ of the company.

- (a) First Owners
- (b) Second Owners
- (c) Money lenders
- (d) Customers.

Question 10. Companies in India are governed by companies Act:

- (a) 1912
- (b) 1976
- (c) 1932
- (d) All of these.

#### Very Short Questions-

1. What is meant by over subscription of shares?
2. What is meant by 'par value' of a share?
3. Is Reserve Capital a part of Unsubscribed Capital or Uncalled Capital?
4. A company issued 25,000 equity shares of ₹ 10 each but received applications for 30,000 shares. Name the case of subscription.
5. Where will you show call in arrears in the balance sheet?

6. Where will you show call in advance in the balance sheet?
7. At what rate of interest, interest on call in arrears, is charged?
8. At what rate interest on calls-in-advance is paid by the company according to Table F of Companies Act, 2013?
9. How would you deal in a situation where the value of purchase considerations is more than the value of net assets while acquiring a business?
10. When can shares held by a shareholder be forfeited?

### Short Questions-

1. What is public company?
2. What is private limited company?
3. When can shares be forfeited?
4. What is meant by Calls-in-Arrears?
5. What do you mean by a listed company?
6. What are the uses of securities premium?
7. Write a brief note on 'Minimum Subscription'.
8. What is meant by 'over-subscription' of shares ? With the help of an example, briefly explain the alternatives available for allotment of shares in case of over-subscription.
9. What is meant by 'Forfeiture of shares' ₹ When does 'gain on forfeited shares' arise and when is it transferred to capital reserve ?
10. A Company forfeited 800 equity shares of ₹ 10 each issued at a discount of 10% for non-payment of two calls of ₹ 2 each. Calculate the amount forfeited by the company-and pass the journal entry for forfeiture of the shares.

### Long Questions-

1. What is meant by the word 'Company'? Describe its characteristics.
2. Explain in brief the main categories in which the share capital of a company is divided.
3. What do you mean by the term 'share'? Discuss the type of shares, which can be issued under the Companies Act, 2013 as amended to date.



4. Describe the provision of law relating to 'Calls-in-Arrears' and 'Calls-in-Advance'.
5. Describe the purposes for which a company can use 'Securities Premium Account'.
6. King Ltd took over Assets of 25,00,000 and liabilities of 6,00,000 of Queen Ltd. King Ltd paid the purchase consideration by issuing 10,000 equity shares of 100 each at a premium of 10% and 11,00,000 by Bank Draft.

Calculate Purchase consideration and pass necessary Journal entries in the books of King Ltd.

7. Janta Ltd. had an authorized capital of ₹ 2,00,000 divided into equity shares of ₹ 10 each. The company offered for subscription of ₹ 10,000 shares. The issue was fully subscribed. The amount payable on application was ₹ 2 per share. ₹ 4 per share were payable each on allotment and first and final call. A share holder holding 100 shares failed to pay the allotment money. His shares were forfeited. The company did not make the final call. How the 'share capital' will be presented in the company's balance-sheet?

Also prepare Notes to Accounts for the same.

#### Assertion Reasons Questions-

1. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

- a. Assertion and Reason both are correct and Reason is the correct explanation of the assertion
- b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
- c. Both Assertion and Reason are not correct
- d. Only Assertion is correct

Assertion [A]: A portion of uncalled capital of a company to be called only in the event of winding up of the company, is known as Reserve Capital.

Reason (R): Company will call the uncalled capital on the due date except the Reserve Capital because It will not be called during the life time of the business. It will be called only the case of winding up.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

- a. Assertion and Reason both are correct and Reason is the correct explanation of the assertion
- b. Assertion and Reason both are correct but Reason is not correct explanation of assertion

- c. Both Assertion and Reason are not correct
- d. Only Assertion is correct

Assertion [A]: Amount received on shares as 'Securities Premium' can be utilized to write off the 'Share Issue Expenses'.

Reason (R): Amount of Securities Premium can be utilized only for the purposes which are specified in the Section 52 (2) of the Companies Act, 2013.

### Case Study Questions-

#### MCQ Answers-

1. Answer: (d) All of these
2. Answer: (d) All of the above.
3. Answer: (b) 7
4. Answer: (a) 2
5. Answer: (d) 200.
6. Answer: (d) No limit.
7. Answer: (a) Owners
8. Answer: (c) Moneylenders
9. Answer: (b) Second Owners
10. Answer: (d) All of these.

#### Very Short Answers-

1. Answer: Oversubscription of shares means that the company receives applications for more than the number of shares offered to the public for subscription.
2. Answer: Par value is the nominal value or the face value of the share.
3. Answer: Yes.
4. Answer: Over subscription
5. Answer: As deduction from the subscribed but not fully paid share capital.
6. Answer: It is shown under other current liabilities.
7. Answer: 10%p.a.
8. Answer: As per Table F, company is required to pay interest on the amount of calls in advance @ 12% p.a.
9. Answer: It would refer to loss.
10. Answer: On the non-payment of call money due.

#### Short Answers-

1. A Public company as per section Sec 2(71) and Sec.3 (1) (a) of Company Act, 2013 means a

company which:

- i. Is not a private company.
- ii. Has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed.
- iii. Is a private company, being a subsidiary of a company which is not a private company.

The stock of a public company can be acquired by any individual and it may be through IPO or through trading on stock market.

2. As per Section 2(68) of Companies Act, 2013, Private limited companies are defined as companies that have following characteristics:
  - i. Companies whose article of association restricts transfer of shares.
  - ii. No minimum paid up capital.
  - iii. Minimum 2 members and maximum of 200 members (Only one in case of One Person Company).
  - iv. Must include "private limited" or "Pvt Ltd" in their names.
  - v. Shares of a private company are not traded in stock exchanges.
3. A shareholder has to pay allotment money for holding the shares and has to pay the calls which are part of share allotment. When a shareholder fails to do so, a 14 days' notice is served to the shareholder, if the shareholder does not pay in these 14 days, the shares will be forfeited.
4. When an investor (shareholder) fails to pay all the instalments for the allotted shares in the due time, the company expects the investor to pay the amount on subsequent calls or stages. The amount of money that is paid at later stages is called as Call-in-Arrears.
5. Public companies whose shares are listed in recognised stock exchanges for public trading are called as Listed Company. Such companies are also known as Quota Companies. Once the securities are listed it helps the investors in knowing the value of their investment in a listed company. It provides the potential investors an idea about the goodwill of the company and helps them on taking future investment decisions and evaluate the viability of investing in the company.
6. Securities premium can be used for these activities:
  - i. Issuing fully paid up bonus shares to existing shareholders.

- ii. Writing off expense of issue of shares and debentures, such as discount given on issue of shares.
  - iii. Writing off preliminary expenses
  - iv. Buying back shares
  - v. For paying premium payable on redemption of debentures.
7. It refers to the minimum amount of shares that must be subscribed by the public, so that the share allotting company can allot shares to the applicants, is termed as Minimum Subscription. If Minimum Subscription is not attained, the company cannot allot shares to its applicants and it should refund the amount received to the public. Minimum Subscription should not be less than 90% of the amount issued.
8. When the no. of shares applied is more than the no. of shares offered by the co., it is said to be case of over-subscription.

For Example: A company invited applications for 1,00,000 shares and received applications for 4,00,000 shares. Three alternatives are available for allotment of shares:

- To allot 1,00,000 shares in full to selected applicants and the remaining 3,00,000 applications were rejected outright.
- To make pro-rata allotment to all applicants.
- Totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make pro-rata allotment for 20,000 shares to remaining 1,20,000 applicants.

9. Cancellation of shares for the non payment of called up amount is termed as Forfeiture of shares.

Gain on Forfeited shares arises on reissue.

It is transferred immediately on the reissue of forfeited shares.

10.

## Journal Entry

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c (800 × 10) Dr.		8,000	
	Securities Premium A/c (800 × 1)			800
	To Calls in Arrear A/c (800 × 2)			1,600
	To Share Second call (in arrear) (800 × 2)			1,600
	To Share Forfeiture A/c			4,000
	(Being forfeiture of shares)			

## Long Answers-

- Section 2(20) of the Companies Act 2013, defines the term “company” to mean “a company incorporated under the Companies Act, 2013 or any previous company law. In general parlance, a company is an artificial person, created by law and having a separate legal entity, common seal, perpetual succession and limited liability. It is a voluntary association of persons who come together and contribute capital for doing business. Capital of a company is available in form of shares and the ownership of shares is subject to certain terms and conditions. Public and private are two forms of company.

## Characteristics of a Company:

- A company is an association formed voluntarily by a group of persons having a common business goal. Minimum number of members required for a private company is two and that for a public company is seven.
  - Company is a juristic and artificial person created by law.
  - Company is a separate legal entity from shareholders and directors. It has the authority to open a bank account, sign contracts and own property in its name.
  - The liability of the members of a company is limited to the unpaid value of the shares they are holding.
  - The company is having perpetual existence which means the existence of the company is not affected by death, insolvency or retirement of any of its members.
  - The company being an artificial person has no individual signature, hence it carries a common seal for validating the official documents.
  - Shares of a public company is transferrable while private companies do not allow transfer of shares without member’s consent.
- Following categories of share capital are there:

- i. **Authorised Capital:** This is the maximum amount a company can raise by issuing of shares. It is the amount mentioned during the formation of Memorandum of Association.
  - ii. **Issued Capital:** A portion of authorised share capital that is offered by the company to general public for subscription.
  - iii. **Unissued Capital:** A part of authorised capital that is not yet offered to general public for subscription but can be offered in near future.
  - iv. **Subscribed Capital:** A part of issued capital which is subscribed by the general public.
  - v. **Unsubscribed Capital:** Referred to as that part of issued capital that has not been subscribed by the people (public).
  - vi. **Called up Capital:** It is a portion of the subscribed capital for which the shareholders are called to pay.
  - vii. **Uncalled up capital:** It is that part of a subscribed capital that is not yet called up, but can be called up as per requirement.
  - viii. **Paid Up Capital:** It is part of called up share capital that is received by the shareholders.
  - ix. **Reserve Capital:** A company may call up certain part of uncalled share capital when a company is winding up. This cannot be used for any other purpose other than paying back creditors, hence it is called reserve capital.
3. In a company the capital is split into small denominations which are known as shares. Shares can be easily transferred from one person to another and this transfer is bound by certain terms and conditions. Shareholder is that person who is contributing capital in form of shares. Ownership is limited to the value of shares possessed by the shareholder.

**There are two types of shares:**

- i. **Preference Share:** Section 43 of the Company Act, 2013 defines preference shares as which entitles the holder to receive dividend and also the right to receive capital invested in order of preference before equity share holders when the company is wind up.
  - ii. **Equity Shares:** Equity shareholders manage the affairs of the company and also have a voting right. These type of share do not possess any preferential right for dividend payment or capital repayment. The dividend rate is not fixed and varies year on year which is dependent on available profit left after distributing to preference shareholders.
4. When an investor (shareholder) fails to pay all the instalments for the allotted shares in the due time, the company expects the investor to pay the amount on subsequent calls or stages. The amount of money that is paid at later stages is called as Call-in-Arrears. The company is

authorized by its Article of Association for charging a interest at a specified rate on the call in arrears amount from due date till the date of payment. If Article of Association does not mention or is silent about such a case, then a 5% charge is levied.

The amount is deducted from called up share capital on the liabilities side of Balance Sheet. If the due amount is not paid the shares can forfeited with proper notice to shareholders.

When the shareholder pays the whole amount before the share payment date becomes due i.e. before the share issuing company makes a call for it. It is known as Calls-in-advance. In case of advance payment the company has provision in their article of association to pay interest to shareholders from date of payment till date of call. If the article of association is silent in this regard, then a default 6% interest is provided.

It is shown on liabilities side of Balance Sheet under the heading of current liabilities.

5. Securities premium account can be used for these activities:
  - i. Issuing fully paid up bonus shares to existing shareholders.
  - ii. Writing off expense of issue of shares and debentures, such as discount given on issue of shares.
  - iii. Writing off preliminary expenses.
  - iv. Buying back shares.
  - v. For paying premium payable on redemption of debentures.

6. Calculation of Purchase Consideration:

Nominal Value of Shares issued =  $10000 \times ₹ 100 = ₹ 10,00,000$

Securities Premium Reserve = ₹ 1,00,000

Bank draft = ₹ 11,00,000

Purchase consideration = ₹ 22,00,000

## Journal Entries in the Books of King Ltd.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
(i)	Sundry Assets A/c Dr. Dr. Goodwill A/c (b/f) Dr. To Sundry Liabilities A/c To Queen Ltd. A/c (Being the purchase of assets and liabilities of Queen Ltd.)		25,00,000 3,00,000	6,00,000 22,00,000
(ii)	Queen Ltd. A/c Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c To Bank A/c (Being 10,000 Equity Shares issued of ₹ 100 each issued at a premium of 10% and ₹ 11,00,000 paid by Bank draft)		22,00,000	10,00,000 1,00,000 11,00,000

7.

Balance Sheet of Janta Ltd.  
As at .....

Particulars	Note No.	₹	
		Current year	Previous year
<b>EQUITY AND LIABILITIES</b>			
<b>(1) Shareholder's Funds</b>			
(a) Share Capital	(1)	59,400	
<b>Notes to Account:</b>			
		₹	₹
<b>Note No. 1</b>			
<b>Share Capital</b>			
<i>Authorized Capital</i>			
20,000 Equity shares of ₹ 10 each.			2,00,000
<b>Issued Capital</b>			
10,000 Equity share of ₹ 10 each.			1,00,000
<b>Subscribed Capital</b>			
Subscribed and fully paid up			
49,000 Equity of ₹ 10 each ₹ 6 called up		59,400	
Add: forfeiture Shares		200	59,600

## Assertion Reason Answer-

- (a) Assertion and Reason both are correct and Reason is the correct explanation of the assertion.
- (a) Assertion and Reason both are correct and Reason is the correct explanation of the assertion.