



CHAPTER – 6

Quick Revision Notes

ACCOUNTING FOR SHARE CAPITAL

Presentation of Share Capital in Company's Balance sheet

Ex. S Ltd. Registered with an authorized capital of Rs. 4, 00,000 divided into 40,000 equity shares of Rs. 10 each. The company offered to the public for subscription 30,000 equity shares. Applications for 28,000 equity shares were received and allotment was made to all the applicants. All calls were made and were duly received except the final call of Rs. 2 per share on 200 shares. Prepare the Balance Sheet of the company showing the different categories of share capital

Sol:-

Balance Sheet of S Ltd.

As at

Liabilities	Rs.	Assets	Rs.
<i>Share Capital :</i>			
Authorized Capital			
40,000 Equity shares @ Rs. 10 each	4,00,000		
<i>Issued Capital :</i>			
30,000 Equity shares of Rs. 10 each	3,00,000		
<i>Subscribed Capital</i>			
28,000 Equity shares of Rs. 10 each	2,80,000		
<i>Called and Paid – up Capital :</i>			
28,000 Equity shares of Rs. 10 each			
2,80,000	2,79,600		
Less: calls- in- Arrears (200 x Rs. 2 Per Share)			
(400)			

Issue of Shares for Cash at Par

For Share Application money received:

Bank A/c

Dr.

To Share Application

For Share Application money adjusted :

Share Application A/c

Dr.

To Share Capital

For Share Allotment money due :

Bank A/c

Dr.

To Share Capital A/c

For Share Allotment money received:

Bank A/c

Dr.



To Share Allotment A/c

For Call money due:

Share (First/ Final) Call A/c

Dr.

To Share Capital A/c

For Call money received:

Bank A/c

Dr.

To Share (First/ Final) Call A/c

Issue of Shares for cash at Premium

Transactions	Journal Entries
If premium amount due with application money, For share application money received including premium : For share application money transferred to share capital A/c and securities premium A/c	Bank A/c Dr.
	To Share Application A/c
	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c
If premium amount due with allotment money, For share allotment money due including premium : For share allotment money received: (I)	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c
	Bank A/c Dr. To Share Allotment A/c
If premium amount due with share call money, For share call money due including premium : For share call money received :	Share call A/c Dr. To Share Capital A/c To Securities Premium A/c
	Bank A/c Dr. To Share call A/c

Issue of Shares for Cash at Discount

For allotment money due excluding discount:

Share Allotment A/c

Dr.

Discount on Issue of Shares A/c

Dr.

To Share Capital A/c

Under subscription of Shares

Accounting Treatment : The accounting for under subscription is taken care of by the usual pattern of entries regarding share issue but the entries in this situation will be passed on the basis of number of shares applied for by the public.

Over subscription of Shares

Alternatives: The board of directors cannot allot shares more than that offered to the public for subscription. Under such condition, following three alternatives are available to deal with situation.

- They can make full allotment to some applicants and totally reject the others.



- ii. They can make a *pro – rata allotment*. It means the proportion is determined by the ratio which the number of shares to be allotted bear to the number of shares applied for. In other words, smaller number of shares is allotted to each applicant according to the number of shares applied by him.
- iii. They can adopt a combination of the above two alternatives.

If the applicants are totally refused for allotment,

Share Application A/c	Dr.
To Bank A/c	
(For application money refunded)	

If the applicants are made partial allotment (or *pro-rata* allotment) :

Share Application A/c	Dr.
To Share Allotment A/c	
To Calls-in-Advance A/c	
(For excess money received on application transferred to share allotment and calls-in-advance a/c)	

Calls-in-Arrears

Without opening calls-in-arrears account :

For share first call money due :

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

For share first call money received:

Bank A/c	Dr.
To Share First Call A/c	

By opening calls-in-arrears account :

For share first call money due :

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

For share first call money received:

Bank A/c	Dr.
Calls-in-Arrears	Dr.
To Share First Call A/c	

Calls-in-Advance

Bank A/c	Dr.
To Calls-in-Advance	

Adjustment: In future, particulars calls become actually due, the amount of particulars calls-in-Advance is deducted from the particular calls by debiting the calls-in-Advance Account. The entry will be :

Bank A/c	Dr.
Calls-in-Advance	Dr.
To Particulars calls A/c	
(For net amount of calls received and calls in advance adjusted)	



Issue of shares for a consideration other than cash

Issue of shares to vendors :

On purchase of assets :

Assets A/c Dr.

To vendor's A/c

Shares can be issued to vendors in any manner out of the following :

At par :

Vendor's A/c Dr.

To Share Capital A/c

At premium :

Vendor's A/c Dr.

To Share Capital

To Securities Premium

At discount :

Vendor's A/c Dr.

Discount on Issue of Shares A/c Dr.

To Share Capital A/c

Issue of shares to promoters :

Goodwill A/c Dr.

To Share Capital A/c

(For shares issued to promoters for their services)

- Note:** (i) Goodwill account is debited on the assumption that promoter's function has resulted in forming the company into profitable unit.
- (ii) Such shares are disclosed separately under the head "*share capital*" (sub-head, subscribed capital) in the balance sheet of a company.

FORFEITURE OF Shares

Forfeiture of shares which were issued at par :

Share Capital A/c	Dr. (Amount called up so far)
To Share Allotment A/c	(amount not received on allotment)
To Share Calls/Calls A/c	(amount not received calls)
To Share Forfeiture A/c	(amount received so far)
(For shares forfeited)	

Forfeiture of shares which were issued at premium :

If premium has been paid by the shareholders:

Share Capital A/c	Dr. (Amount called up – premium)
To Share Allotment A/c	(amount not received on allotment)
To Share Calls/Calls A/c	(amount not received calls)
To Share Forfeiture A/c	(amount received so far)
(For shares forfeited)	



If premium has not been paid by the shareholders:

Share Capital A/c	Dr. (Amount called up so far less premium)
Securities Premium A/c	Dr. (Premium amount called up)
To Share Allotment A/c	(amount not received on allotment)
To Share Calls/Calls A/c	(amount not received calls)
To Share Forfeiture A/c	(amount received so far)

Forfeiture of shares which were issued at discount :

Share Capital A/c	Dr. (Amount called up so far plus discount)
To Discount on Issue of Shares A/c	(amount of share discount)
To Share Allotment A/c	(amount not received on allotment)
To Share Calls/Calls A/c	(amount not received calls)
To Share Forfeiture A/c	(amount received so far)
(For shares forfeited)	

Reissue of Forfeited Shares

For forfeited shares reissued at par :

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

For forfeited shares reissued at premium :

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

For forfeited shares reissued at :

Bank A/c	Dr.
Share Forfeiture A/c (Discount allowed)	Dr.
To Share Capital A/c	

Transfer: When all forfeited shares have been reissued, the credit balance left in the Share Forfeiture Account being capital profit is transferred to Capital Reserve Account. Entry will be:

Share Forfeiture A/c	Dr.
To Capital Reserve A/c	

Note: If all forfeited shares are not reissued, only that proportion of Share Forfeiture Account which belongs to the reissued shares should be transferred to Capital Reserve Account and the remaining balance of the share Forfeiture Account relating to shares not reissued is carried forward.

Important Notes:

- (i) In case of last call, the word 'final' is also added to the concerned 'Share Call Account'.
- (ii) In case the cash book is required to be prepared, all cash and bank transactions will be entered in the cash book and other transactions will be entered in the proper journal.
- (iii) Unless otherwise stated in the question, the excess application money over & above that due on allotment should be refunded to the allottees.



- (iv) In case the issue price is payable in lump sum in one installment the entries should be passed through 'Share Application & Allotment Account'.
- (v) The amount of securities premium may be demanded either in lump sum or in installment.
- (vi) The amount of securities premium may be demanded along with application, allotment or call money.
- (vii) Securities premium is the nature of capital receipt and not a revenue receipt.
- (viii) Unless otherwise stated the amount demanded on allotment should be presumed as net of discount.
- (ix) Interest on calls in advance is a charge against the profits and hence is to be paid whether there are profits or not.
- (x) The term buy back of shares implies the act of purchasing its own shares by a company.