

## CHAPTER 8

### ACCOUNTING FOR SHARE CAPITAL

Company	A Company is an artificial person created by law, having separate entity with a perpetual succession and a common seal.
Characteristics of a company	<ol style="list-style-type: none"><li>1. A company has a separate legal entity which is distinct and separate from its members.</li><li>2. It has perpetual existence</li><li>3. It has its own common seal.</li><li>4. Shares of a company are transferrable subject to certain conditions.</li><li>5. The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them.</li></ol>
Types of company	<p>On the basis of the number of members, companies can be divided as follows:</p> <p><b>(i) Public Company:</b> A company which is not a private company and which is not a subsidiary of a private company.</p> <p><b>(ii) Private Company:</b> A private company is one which by its articles-Restricts the right to transfer its shares, must have at least 2 persons, except in case of one person company and limits the number of its members to 200 (excluding its employees)</p> <p><b>(iii) One Person Company (OPC) :</b> The companies Act, 2013, defines OPC as a "company which has only one person as a member ". Rule 3 of the companies (Incorporation) Rules, 2014, provides that: Only a natural person being an Indian Citizen and resident in India can form one person company, (b) It cannot carry out non-banking financial investment activities (c) Its paid up share capital is not more than Rs. 50 Lakhs (d) Its average annual turnover of three years does not exceed Rs. 2 Crores.</p>

<p>Important Terms used in Accounting for Share Capital</p>	<p><b>a) Minimum Subscription-</b> It is the minimum amount stated in the prospectus that must be subscribed by the public before allotment of any security is made.</p> <p><b>b) Share Capital:</b> Capital raised by issue of shares is called share capital.</p> <p><b>c) Authorised Capital:</b> It is also called as Nominal or registered capital. It is the Maximum amount of or Capital a company can issue. It is stated in the memorandum of Association.</p> <p><b>d) Issued Capital:</b> This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.</p> <p><b>e) Called Up Capital:</b> It is the amount of nominal values of shares that has been called up by the company for payment by the subscriber towards the share.</p> <p><b>f) Paid Up Capital:</b> It is part of called up capital that the members of company or shareholders have paid.</p> <p><b>g) Reserve Capital:</b> It is part or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company.</p> <p><b>h) Capital Reserve:</b> It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholders' Funds.</p> <p><b>i) Private Placement of Shares</b></p> <p><b>[Section-42]:</b> When Shares are offered by the company to a selected group of persons, not to the public through public offer, it is called private placement of shares. This is an issue of shares to institutional investors or some selected group of persons subject to prior approval of existing shareholders. There is no need of issuing formal prospectus and it is cost and time saving method of raising capital.</p>
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	<p><b>j) Calls in arrear:</b> Any Amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as call in arrear., Company can charge interest on this rate mentioned in Article of Association or 10% p.a. as per Table F</p> <p><b>k) Calls in advance:</b> Any Amount paid in excess of what they has asked to pay is called as call in advance. Interest is paid on this at rate mentioned in Article of Association or 12% p.a. as per Table F</p>
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**Issue of shares at discount [Section 53]POINTS TO REMEMBER**

Issue of shares at discount (Sec-53)	A Company cannot issue shares at discount other than sweat equity shares.
Issue of shares at premium (Sec 52)	<p>The Money received on premium is transferred to Security Premium Reserve (SPR) account and the amount received on SPR can be utilized for the following purpose; (Section 52)</p> <ol style="list-style-type: none"> <li>1. Issue of fully paid bonus shares to the shareholders</li> <li>2. Write off preliminary expenses of the company</li> <li>3. Writing off securities issue expenses commission paid discount on issue of securities.</li> <li>4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company.</li> <li>5. For Buy back of its own shares as per Secion 68.</li> </ol>

Employee stock option plan (ESOP)	ESOP or sweat equity share refers to option granted by any company to its employee to subscribe its shares at a price lesser than market price. It is employees' right to exercise or not to exercise the option, it is not an obligation on the employee to subscribe it. The difference between the market price and issue price is an expense for the company and this is accounted over the vesting period on proportionate basis on straight line basis.
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### POINTS TO REMEMBER

- > Shares can never be issued at discount. except in case of ESOP
  - > Only at the time of reissue of forfeited shares, Maximum discount that can be allowed = total amount forfeited on such share.
  - > The reason being, the company can not issue shares at amount less than its face value, in any condition.
  - > It compensates the discount allowed on reissued shares out of the forfeited amount already received from the previous(first) shareholder.
  - > Only after reissue of shares , forfeited amount can be capitalised by transferring it to capital reserve
  - > Calculation of maximum amount of discount on reissue of forfeited shares can be done as per the following formula.
- A) If only a part of total forfeited shares is being reissued than Maximum amount of discount that can be allowed on reissue = total amount forfeited / total no of shares forfeited x total no. Of shares being reissued.

- B) If all the forfeited shares are being reissued than Maximum amount of discount that can be allowed on reissue = total amount forfeited
- > If the total forfeited amount and amount received on reissue is less than face value of shares , it will be in contravention of section (78) of company's Act, 2013

Illustration 1: STL Global Ltd. was formed with a nominal Share Capital of Rs. 40,00,000 divided into 4,00,000 shares of Rs. 10 each. The Company offered 1,30,000 shares to the public payable Rs. 3 per share on Application, Rs. 3 per share on Allotment and the balance on First and Final Call. Applications were received for 1,20,000 shares. All money payable on allotment was duly received, except 2,000 shares held by Y. First and Final Call was not made by the Company.

How would you show the relevant items in the Balance Sheet of STL Global Ltd.?

Solution 1

Balance Sheet (Extract) of S T L Global Ltd. (Relevant Part only)

As at

Particulars	Note No.	(₹)
Equity and Liabilities		
Shareholder's Funds :		
(a) Share Capital	(1)	7,14,000
Assets		
Current Assets :		
Cash and Cash Equivalents (cash at Bank)		7,14,000

Note to Accounts:

Particulars	Details	(₹)
(1) Share Capital Authorised Capital:		
4,00,000 shares of Rs. 10 each		40,00,000
Issued Capital:		
1,30,000 shares of Rs.10 each		13,00,000
Subscribed but not Fully Paid Capital:		
1,20,000 shares of Rs. 10 each; Rs. 6 per share called-up	7,20,000	7,14,000
		7,14,000
Less: Calls in Arrears (2,000 shares * Rs. 3)	– (6,000)	

Illustration 2. On 1st April, 2012, Janta Ltd. was formed with an authorized capital of Rs. 50,00,000 divided into 1,00,000 equity shares of Rs.50 each. The company issued prospectus inviting application for 90,000 Shares. The issue price was payable as under:

On application Rs. 15 on allotment Rs. 20, balance on final call

The issue was fully subscribed and the company allotted shares to all the applicants. The company did not make the call during the year.

Show the following:

- Share capital in the Balance sheet of the company as per revised schedule III, Part-I of the companies Act, 2013.
- Also prepare 'Notes to Accounts for the same.

**Solution:**

### Balance Sheet of Janta Ltd.

As at.....(As per revised schedule III)

Particulars	Note No.	Amount Current Years Rs.	Amount Previous Years Rs.
Equity & liabilities	1.	31,50,000	—
1. Shareholder's funds			
(a) Share Capital			

#### Notes to Accounts

Particulars	(R s.)
<b>1. Share Capital</b>	
<b>Authorised Capital</b>	
1,00,000 equity shares of Rs.50 each	50,00,000
<b>Issued Capital</b>	
90,000 equity shares of Rs.50 each	
<b>Subscribed Capital</b>	45,00,000
Subscribed but not fully paid	
90,000 shares of Rs. 50 each Rs.35 called up	31,50,000

#### Issue of Shares

Shares can be issued in two ways

1. for cash
2. for consideration other than cash

#### Terms of Issue of Shares

Shares can be issued in two ways.

1. Issue of shares at Par
2. Issue of shares at Premium

Issue of shares against Lump sum payment: When whole amount due on shares is payable in one instalment i.e, at the time of application. The journal entries will be as follow:

Illustration 3: Vaibhav Ltd. issued 1, 00,000 shares of Rs.10 each at per. The whole amount was payable with application. Pass the necessary journal entries in the books of company.

Solution

**Journal**

Date	Particulars	LF	Debit (₹)	Credit (₹)
	Bank A/c <span style="float: right;">Dr.</span> To Share Application and Allotment A/c (Being the application money received on 1,00,000 shares at Rs. 10 per share)		10,00,000	10,00,000
	Share Application and Allotment A/c <span style="float: right;">Dr.</span> To Share Capital A/c ( Being share allotted and transfer of application money on 1,00,000 shares to shares capital account)		10,00,000	10,00,000

Illustration 4 : X Ltd. invited application for 10,000 shares of the value of Rs. 10 each. The amount is payable as Rs.2 on application and Rs. 5 on allotment and balance on First and final Call. The whole of the above issue was applied and cash duly received. Give Journal entries for the above transaction

### Journal

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	Bank A/c <span style="float: right;">Dr.</span> To equity share application A/c (Being the application money received on 10,000 shares at Rs. 2 per share)		20,000	20,000
	Share application A/c <span style="float: right;">Dr.</span> To Share Capital A/c (Being the transfer of application money on 10,000 shares to share capital account)		20,000	20,000
	Share Allotment A/c <span style="float: right;">Dr.</span> To share Capital A/c (Being allotment money on 10,000 shares at Rs. 5 per share) due.		50,000	50,000
	Bank A/c <span style="float: right;">Dr.</span> To Share Allotment A/c (Being the receipt of allotment money on 10,000 shares)		50,000	50,000
	Share first & final call A/c <span style="float: right;">Dr.</span> To equity Share Capital A/c (Being the amount due on 10,000 shares at Rs. 3 per share)		30,000	30,000
	Bank A/c <span style="float: right;">Dr.</span> To share equity first & final call A/c (Being the receipt of Rs. 3 on 10,000 shares)		30,000	30,000

**Note:** For each entry narration is compulsory

**Issues of Shares at Premium:** It is issue of shares at a price more than its face value.

This premium can be utilized for: (Section 52 of the Companies Act 2013 states that premium can be utilized for:-)

1. Issue of fully paid bonus shares to the shareholders.
2. Write off preliminary expenses of the company.
3. Writing off securities issue expenses, commission paid and discount on issue of securities.
4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company.
5. For Buy back of its own shares as per Section 68A.

The securities premium may be collected by the company with application money / Allotment money / First call/Final Call depend upon the terms of issue of shares. If questions is silent regarding the securities premium amount due, it is assumed that securities premium money is due with the allotment money. Following are the various situations of securities premium received with application, allotment and call.

### **Journal Entries for accounting of securities premium**

**Illustration 5:** Vikram Ltd. Issued 20,000 Equity shares of Rs. 10 each at a premium of Rs. 3 payable as follows: On Application Rs. 4

On Allotment Rs. 5 (including Securities Premium) On First Call Rs. 2 On Final Call Rs. 2 All shares were duly subscribed and all money duly received. Pass necessary Journal Entries.

**Solution:**

**In the Book of Vikram Ltd.**

Date	Particulars	L.F.	Debit (₹)	Credit(₹)
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received on 20,000 Equity Shares ar Rs. 4 per Equity Share)		80,000	80,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being the transfer of application money on 20,000 Equity Share capital account)		80,000	80,000
	Equity Share Allotment A/c Dr. To Equity share Capital A/c To Securities Premium Reserve A/c (Being the amount due on 10,000 Equity shares at Rs. 5 including Premium Rs. 3 shares)		1,00,000	40,000 60,000
	Bank A/c Dr. To Equity Share Allotment A/c (Being the receipt of L 5 on 10,000 Equity Shares)		1,00,000	1,00,000
	Equity Shares First Call A/c Dr. To Equity Share Capital Account (Being the amount due on 20,000 Equity Shares at Rs. 2 per Equity Share)		40,000	40,000

Bank A/c <span style="float: right;">Dr.</span> To Equity Share First Call A/c (Being the receipt of Rs. 2 on 20,000 Equityshares)		40,000	40,000
Equity Share Final Call A/c <span style="float: right;">Dr.</span> To Equity Share Capital A/c (Being the receipt of Rs. 2 on 20,000 Equity Shares)		40,000	40,000
Bank A/c <span style="float: right;">Dr. To</span> Equity Share Final Call A/c (Being the receipt of Rs. 2 on 20,000 Equity Shares)		40,000	40,000

### Shares Issued for Consideration other than Cash

When a company purchases any fixed asset or business and makes the payment to the vendor in form of shares in place of cash it is called the issue of shares for consideration other than cash.

Share can be issued at par or at premium

Journal entries for issue of shares to vendors/consideration other than cash

Date	Particulars	L.F.	Debit (₹)	Credit (₹)
	On Purchase of asset: Sundry Asset A/c <span style="float: right;">Dr.</span> To vender		Amount of purchase price	
	On Purchase of business: When purchase consideration in less than net asset			

	Sundry Assets A/c Dr. Goodwil (B/F) A/c Dr. To Sundry liability To Vender			Agreed value  Agreed value purchase consideration
	When purchase consideration is less than net asset Sundry Assets Account Dr. To Liabilities To Vendor To capital Reserve A/c (B/F)		Agreed Value	Agreed Value Purchase Consideration
	On Issue of share (a) at Par Vendor's A/c Dr. To Share Capital A/c (b) On Issue of share at Premium Vender A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c			

Note: When name of vendor is given write the name of vendor

**Illustration 6:** Ajay Co. Ltd. Purchased a machine from Vikram Co. for Rs. 64,000. It was decided to pay Rs. 10,000 in cash and balance paid by issue of shares of Rs. 10 each.

Pass journal entries if shares are

- (a) Issued at par
- (b) Issued at premium of 20%

**Solution:**

**Journal**

Date	Particulars	L.F.	Debit(₹)	Credit(₹)
	Machinery Account Dr. To Vikram Ltd. (Being the machine purchased)		64,000	64,000
	Vikram Ltd Dr. To Bank A/c (Being amount paid)		10,000	10,000
	(a) When shares are issued at par Vikram Ltd. (Vendor) Dr. To Share Capital (Being 5,400 shares of ₹ 10 each issued par to Vikram Ltd.)		54,000	54,000
	(b) When shares are issued at premium Vikram Ltd. (Vendor) Dr. To Share Capital Account To Security Premium Reserve Account (Being 4,500 shares of issued to vendor at a premium of Rs. 2 per share)		54,000	45,000 9,000

**Working Note:**

No. of shares to be issued = amount to be paid / issue price per

share (including premium) =

When issued at par =  $54000/10 = 5400$

When issued at premium =  $54000/12 = 4500$

**Illustration 7 :** A company issued 15,000 fully paid up equity shares of Rs. 100 each for the purchases of the following assets and liabilities from Gupta Bros.

Plant - Rs. 3,50,000; Stock Rs. 4,50,000; Land and Building Rs. 6,00,000; Sundry Creditors Rs. 1,00,000 Pass necessary Journal entries.

Solution:

**Journal**

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	Plant A/c Dr.		3,50,000	
	Land and Buildings A/c Dr.		6,00,000	
	Stock A/c Dr.		4,50,000	
	Goodwill A/c (b/f) Dr.		2,00,000	
	To Sundry Creditors A/c			1,00,000
	To Gupta Bros.			15,00,000
	(Being the purchased of business)		15,00,000	
	Gupta Bros. Dr.			
	To Equity Share Capital A/c			15,00,000
	(Being issue of 15,000 shares of Rs. 100 each as payment of business price)			

Note: Calculation: Goodwill = Purchases consideration + Liabilities - assets = Rs. 15,00,000 + Rs. 1,00,000 - Rs. 14,00,000 = Rs. 2,00,000.

**Illustration 8 .** Beta Ltd. issued 40,000 shares of Rs. 10 each at a premium of Rs. 2 payable Rs. 5 on application including premium, Rs. 4 on allotment and Rs. 3 on call.

Company received applications for 55,000 shares and allotment was made as under:

- (i) Applicants for 20,000 shares were allotted in full.
- (ii) Applicants for 25,000 shares were allotted 20,000 shares.
- (iii) Applicants for rest shares were allotted Nil shares.

Mr. X who was allotted 200 shares under category (i) paid full amount due on allotment.

Mr. Y holding 500 shares failed to pay call money. His shares were forfeited and reissued @ Rs. 8 per share fully paid.

	Ist group	Iind group	Rejected	Total
Applications received	20,000	25,000	10000	55,000
Shares allotted	20,000	20,000	0	40,000
Applications received (@ 5)	1,00,000	125000	50000	275,000
Trd. to Sh cap. (@ 3)	60,000	60,000	0	120,000
Trd. To sec. permium	40,000	40,000	0	80,000
BALACE AFTER TR.	NIL	25,000	50,000 (RE EUND)	25,000
Allt. money due (@ 4)	80,000	80,000	0	160,000
Less: adj from advance (already received)	Nil	(25,000)	0 0	25,000
Net amount due	80,000	55,000		135,000
Less default	Nil	Nil		0
Add:adv. calls received	600	Nil		600
Net amount received	80,600	55,000		135,600
First Call due (@ 3)	60,000	60,000	0	120,000
Less: adj from advance (already received)			0 0	
	(600)		0	(600)
Net amount due	59,400	60,000	0	119400
Less default		(1500)	0	(1500)
Add: adv. calls received		Nil	0	
Net amount received	59,400	58500		117,900

Date	Particular	Debit (₹)	Credit (₹)
	Bank A/c Dr. To Equity Share Application A/c (Being the application money received on 40,000 Equity Shares at Rs. 4 per Equity Share)	2,75,000	2,75,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c To security premium A/c To Equity share allotment A/c To Bank (Being the transfer of application money on 40,000 Equity Share capital account)	2,75,000	1,20,000 80,000 25,000 50,000
	Equity Share Allotment A/c Dr. To Equity share Capital A/c (Being the amount due on 40,000 Equity shares)	1,60,000	1,60,000
	Bank A/c Dr. To Equity Share Allotment A/c To call-in-advance (Being the receipt of Equity Shares)	1,35,600	1,35,000 600
	Equity Shares First Call A/c Dr. To Equity Share Capital Account (Being the amount due on 40,000 Equity Shares at Rs. 3 per equity share)	1,20,000	1,20,000

Bank A/c	Dr.	1,17,000	
Call-in-advance	Dr.	600	
Call-in-arrear	Dr.	1,500	120000
To Equity Share First Call A/c			
To call-in advance			
(Being the receipt of first call Equity shares)			
Share capital A/c	Dr.	5000	
To call-in-arrears			1500
To share forfeiture a/c			3500
(Being the receipt of first call Equity shares)			
Bank A/c	Dr.	4000	
share forfeiture a/c	Dr.	1000	
To Equity share capital			5000
(Being the reissue fo 500 forfeited shares)			
Share forfeiture a/c	Dr.	500	
To capital reserve			500
(Being their of forfeiture after reissue to capital reserve)			

### Balance Sheet of Beta Ltd.

As at..... (As per revised schedule III)

Particulars	Note No.	Amount Current Years ₹	Amount Previous Years ₹
Equity & liabilities			
1. Shareholder's funds			
(a) Share Capital	1.	4,00,000	—
(b) Reserves & surpluses	2.	80,500	—

#### Notes to Accounts

Particulars	₹
<b>1. Share Capital</b>	
Authorised Capital 1,00,000 equity shares of Rs. 10 each	10,00,000
<b>Issued Capital</b> 40,000 shares of Rs. 10 each	4,00,000
<b>Subscribed Capital</b> Subscribed and fully paid 40,000 shares of Rs. 10 each	4,00,000
reserves and surpluses	4,00,000
Security premium	80,000
Capital reserve	500

#### Forfeiture of shares issued at premium

**Illustration 9.** Elpha Ltd. Forfeited 400 shares of Rohit which were issued at Rs. 10 per share and Rs. 2 as premium for non payment of allotment money of Rs. 5 (including premium) and first call of Rs. 2, final call of Rs. 3 has not been done.

These shares were reissued @ Rs. 5 per share at Rs. 7 paid up.

No. of shares forfeited	Application (2)	Allotment (3+2)	First call (2)	2nd call (3)
400	$400 * 2 = 800$	$400 * 3 + 400 * 2 = 1200 + 800$	$400 * 2 = 800$	-not called
	33			-----

Share capital A/c	Dr.	$(800 + 1200 + 800) = 2800$	
Security premium	Dr.	800	
To call-in-arrears			2800
To share forfeiture a/c			800
(Being the forfeiture of 400 Equity shares, of Rohit security premium not received)			

**Illustration 10 :** A holds 100 share of Rs. 10 each on which he has paid Re. 1 per share on application.

B holds 200 shares of Rs. 10 each on which he has paid Re. 1 and Rs. 2 share on application and allotment respectively.

C holds 300 shares of Rs. 10 each and he has paid Re. 1, Rs. 2 and Rs. 3 per share on application, allotment and first call respectively.

They all failed to pay their arrears and the second call of Rs. 2 per share, subsequently, their shares were forfeited and then reissued at Rs. 11 per share as fully paid. Pass necessary journal entries.

	Amount forfeited	Allotment (2)	First call (3)	2nd call (2)	
A (100)	√ 100	× 200	× 300	× 200	800
B(200)	√ 200	√ 400	× 600	× 400	1600
C (300)	√ 300	√ 600	√ 900	× 600	2400
	√ 600	√ 1000 X 200	√ 900 X 900	× 1200	4800

Date	Particular	LF	Debit (₹)
	Share capital Dr.	4800	
	To Calls in Arrear A/c		2300
	To Forfeited share forfeited		2500
	Bank A/c Dr.	6600	
	To equity share capital		6000
	To Securities premium A/c (being reissue of 600 shares at Rs. 11 fully paid)		600
	Share forfeiture a/c	2500	
	To capital reserve (Being their of forfeiture after reissue to capital reserve)		2500

**Illustration 11 :** A Ltd. Forfeited 100 shares of Rs. 100 each issued at a premium of 50% to be paid at time allotment on which first call of Rs. 30 per equity share was not received, final call of Rs. 20 is yet to be made. These shares were reissued at Rs. 70 per share at Rs. 80 paid up. Pass necessary journal entries.

**Solution:**

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Share Capital A/c (100x80) Dr.		8,000	
	To Shares First Call Account (100x30)			3,000
	To Shares Forfeited Account (100x50)			5,000
	(Being 100 shares forfeited for non-payment of first call money)			

	Bank A/c (100x70) Dr.		7,000	
	Forfeited Shares A/c (100 × 10) Dr.		1,000	
	To Share Capital Account (100 × 80)			8,000
	(Being re-issued of 100 forfeited shares at Rs. 70 per share at L 80 paid up)			

**Illustration 12 :** AB Ltd. invited applications for 1,00,000 Equity Shares Rs. 10 each payable as Rs. 2 application, Rs. 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to the call money and his shares were forfeited and re-issued at Rs. 8 per share as fully paid. Pass necessary journal entries in the books of company prepare Cash Book and journal for the above transaction

**Solution:**

**Cash book Bank Column only)**

Dr.

Cr.

Particulars	Rs.	Particulars	Rs.
To Equity Share Application A/c	6,00,000	By Equity Share Application A/c	1,00,000
To Equity Share First & Final Calls A/c	4,95,000	By Balance c/d	10,03,000
To Equity Share Capital A/c	8,000		
	<b>11,03,000</b>		<b>11,03,000</b>

**Journal**

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Equity Share Application A/c Dr.		5,00,000	
	To Equity Share Capital A/c			2,00,000
	To Equity Share Allotment A/c			3,00,000
	(Being the transfer of application money into share capital and allotment and balance refunded)			

Equity Share allotment A/c Dr.		3,00,000	
To equity share capital			3,00,000

Equity Share First & Final Call A/c Dr. To Equity Share Capital A/c (Being the amount on 1,00,000 Equity Shares at Rs. 5 per Equity Share)		5,00,000	5,00,000
Equity Share Capital A/c To Equity Share First & Final A/c To Forfeited Shares A/c (Being 1000 Shares forfeited to non-payment of first and final call money)		10,000	5,000 5,000
Forfeited Shares A/c (1000 × 2) To Equity Share Capital A/c (Being the Reissue of 1000 Equity Shares at RS. 8 per share as fully paid up)		2,000	2,000
Forfeited Shares A/c To Capital Reserve A/c (Being the transfer of profit on reissue to Capital Reserve)		3,000	3,000

### Some Important Terms Related with ESOP

**Grant date:** The date at which the company and its employees agree to the conditions of ESOP.

**Vesting Period:** Period between Grant date and the date on which all the conditions are fulfilled.

**Exercise Period:** Period within which employees have to exercise the option granted under ESOP.

**Exercise Price:** Price to be paid by the employee on exercising the options.

## EMPLOYEE STOCK OPTION PLAN/SCHEME

Employee stock option plan scheme or sweat equity share refers to option granted by any company to its employees to subscribe its shares at a price lesser than market price. It is employees' right to exercise or not to exercise the option, it is not an obligation on the employees to subscribe it. The difference between the market price and issue price is an expense for the company and this is accounted over the vesting period on proportionate basis on straight line basis.

### Objectives/Significance of ESOP:

1. It helps in creating a long term wealth for the employees.
2. It motivates the employees to have a higher participation in the company
3. It helps the company to attract efficient employees and keep them retained on long term basis.

Ques 1: A company purchased a running business from Mahesh for a sum of Rs.1,50,000 payable as Rs., 1,20,000 in fully paid equity shares of Rs. 10 each and balance in cash. The assets and liabilities consisted of the Plant and Machinery Rs.40,000; Stock Rs.50,000; Building Rs.40,000; Cash Rs.20,000 Sundry debtors Rs.30,000; Sundry creditors Rs.20,000 Pass necessary journal entries for above transactions.

Hint to Solution: Capital reserve = Net Asset - Purchase consideration = Rs. 1,60,000 -Rs. 1,50,000= 10000

Q 2 Pass necessary journal entries for the following transactions in the Books of Rajan Ltd.

(a) Rajan Ltd. purchased machinery of Rs. 7,20,000 from Kundan Ltd. The payment was made to Kundan Ltd. by issue of equity shares of Rs.100 each at 20% premium.

(b) Rajan Ltd. purchased a running business from Vikas Ltd. for a sum of Rs.2,50,000 payable as Rs.2,20,000 in fully paid equity shares of Rs.10 each and balance by a bank draft. The assets and liabilities consisted of the following:

Plant & Machinery Rs.90,000; Buildings Rs. 90,000; Sundry Debtors Rs.30,000; Stock Rs.50,000; Sundry Creditors Rs. 20,000

Ques 3. Z Co. Ltd offered 20,000 shares of Rs. 100 each to the public for subscription at a premium of Rs. 10 per share payable as Rs. 30 on application Rs. 40 on allotment (including Rs. premium) and balance on 1st call

The issue was over subscribed by 15,000 share and allotment was made as under Full allotment to the applicants of 5,000 shares . and remaining applicants were given pro-rata allotment, all money was duly received with an exception of allotment and call money of monu who had applied for 2,000 shares in the 2nd group, and his shares were forfeited. Later on, 750 of these shares were reissued at Rs. 105 per share fully paid. Pass journal entries in the books of the company and draw a proforma balance sheet as per revised schedule of the companies Act.

Ques 4: Daisy Systems Ltd. Issued 50,000 Equity Shares of Rs. 10 each, at a premium of 50%, payable as follows:

On Application (including premium)	8 per share
On Allotment	Rs. 4 per share
On First Call	Rs. 2 per share
On Final Call balance	

Applications were received for 65,000 shares and the Directors made pro-rata allotment to the applicants for 60,000 shares X did not pay allotment and first call money on 1,000 shares allotted to him. His shares were forfeited immediately, while Y did not pay the First Call on his 2,000 Shares. These shares were forfeited and 2,200 of these shares were re-issued to Mr. Gupta as Rs. 10 paid at Rs.7 per share, whole of Y's shares being included in the re-issued shares. Show the journal entries to record the above transactions and prepare the Balance Sheet.

**Ques 5:** A company forfeited 200 shares of Mr. X , face value of Rs. 20 per share who has paid Rs. 10 each on application, for non payment of the allotment money of Rs. 5 and 1st call of Rs. 3 per share calculate

- the amount forfeited by the company.
- What is maximum discount per share the company can give at the time of reissue of each share.

- c) If the company sells 150 shares at Rs. 16 per share, being Rs. 18 paid up, what will be the amount of capital reserve at the time of reissue.
- d) If the company sells 50 shares at Rs 18 per share, fully paid up, what amount will be transferred to the capital reserve at the time of such reissue.

Ques 6: Alok Ltd. offers 1,00,000 shares of Rs. 10 each payable Rs.3 application, Rs. 5 on allotment (including premium of Rs. 2), Rs. 4 on call (after 3 months of allotment). Company received applications for 1,42,000 shares and allotment was made as under:

- I. Allotment in full to applications for 18,000 shares (Ram paid in full on allotment on 4,000 shares)
- II. Allotment of  $\frac{2}{3}$  shares applied for 1,20,000
- III. Allotment of  $\frac{1}{2}$  shares applied for 4,000

All money is received except first call on 200 shares which were forfeited and reissued @ Rs. 8 each. Journalise the transactions

**Ques 7 .** HP Ltd. issued 50,000 shares of ₹ 10 each payable ₹ 3 on application, ₹ 4 on allotment and ₹ 2 on final call.

Company received applications for 70,000 shares and allotment was made on pro-rata basis. Alok who had applied for 700 shares failed to pay allotment and his shares were forfeited after allotment. Mohit failed to pay call money on 300 shares and his shares were forfeited. Company reissued 500 shares @ ₹ 8 each fully paid up, including all the shares of Mohit.

Journalise the transactions and draw Balance Sheet.

(capital Reserve Rs. 2440)

**Q 8 )Sibar Media & Entertainment Ltd. invited applications for 1,00,000 shares of ₹ 10 each at a premium of 10% payable as follows:**

**On Application Rs. 3**

**On Allotment Rs. 4 (including premium)**

**On first & final call 4**

**The applications were received for 90,000 shares and all of these were accepted. All money due were received except the first and final call on 2,000 shares which were forfeited. 1,000 shares were re-issued @ ₹ 9 per share as fully paid. Assuming that all requirements of law were complied with, show how these transactions will be reflected in the company's Balance Sheet.**

**Ans. Subscribed and fully paid: Rs. 8,90,000**

Q 9) ABC Ltd. issued 20,000 shares of Rs. 10 each at a premium of Rs. 4 per share, payable as under: Rs. 4 on application, Rs. 7 on allotment (including premium) and Rs. 3 on first and final call. The issue was fully subscribed. Mr. Ajay, a holder of 200 shares, failed to pay the allotment and his shares were forfeited immediately. Bhagat, a holder of 100 shares, did not pay the call money and his shares were also forfeited. 150 shares (including all the shares of Ajay) were reissued at ₹ 9 per share fully paid. Calculate the amount received on allotment. Present the Above information in the balance-sheet of star ltd. On 31st March 2018, as per revised proforma of schedule III.

Q 10) A holds 200 share of Rs. 10 each on which he has paid Re. 1 per share on application.

B holds 500 shares of Rs. 10 each on which he has paid Re. 1 and Rs. 2 share on application and allotment respectively.

C holds 600 shares of Rs. 10 each and he has paid Re. 1, Rs. 2 and Rs. 3 per share on application, allotment and first call respectively.

They all failed to pay their arrears and the second call of Rs. 2 per share, subsequently, 900 shares were forfeited (except 400 shares of C) and then reissued at Rs. 9 per share as fully paid. Pass necessary journal entries.

Q 11) A Ltd., forfeited 300 shares of Rs.10 each fully called up, held by Ramesh for non-payment of allotment money of Rs. 3 per share and final call money of Rs. 4 per share. Out of these 250 shares were reissued to Rishi for a total payment of Rs. 2,000. Pass necessary journal entries.

Q 12) X Ltd. issued 10,000 shares of Rs. 10 each at a premium of Rs 2 per share payable as Rs. 5 on application and Rs. 4 on allotment (including premium) and Rs. 2 on first call, all the shares were fully subscribed and received except Varun, who was allotted 200 shares by the company, did not pay the allotment amount and his shares were forfeited by the company immediately, Later on 100 of these forfeited shares were reissued to Rishi at Rs. 6 , 8 paid up. Second call has not been made till 31st March, 2018. Present the Above information in the balance-sheet of star ltd. On 31st March 2018, as per revised proforma of schedule III..

Q 13) Ram Ltd., forfeited 100 shares of Rs. 10 each issued at a premium of Rs. 2 (to be paid at the time of allotment) for non payment of allotment money of Rs 5 per share and first call money of Rs. 3 per share. The final call of Rs. 2 was not made, shares were originally issued on prorata basis on an application of 150. These shares were, later on, reissued at Rs. 6 per share as Rs. 8 Paid up. Give journal entries assuming that company followed the practice of adjusting the excess application money towards the allotment.

Q 14) Mohan applied for 200 shares of Rs. 10 each at a premium of Rs. 2 per share. But he was allotted 150 shares. After having paid Rs. 2 on application, he did not pay allotment money of ₹ 5 per share (including premium). On his subsequent failure to pay the first call of Rs. 2 per share his shares were forfeited. 100 of these shares were subsequently reissued at Rs. 8 per share fully paid. Give journal entries assuming that company followed the practice of adjusting the excess application money towards the allotment.

Q 15) R.P. Ltd., has an authorised share capital of Rs. 10,00,000 divided in 1,00,000 shares of Rs. 10 each. It offered to the public for subscription 20,000 shares of Rs. 10 each at a premium of Rs. 3 per share, payable as to Rs. 3 on application

(including premium Re. 1), Rs. 5 on allotment (including premium Rs. 2), Rs. 3 on first call and Rs. 2 on final call. Company received applications for 56,000 shares. Allotment was made as under

- 1) Rejected applications of those applicants who has either applied for 50 shares or less. Or the applicants who has attained age of 65 years or more. These applications totaled in 15,000 shares.
- 2) 11,000 applicants who had applied for more than 1,000 shares were given full allotment.
- 3) Pro-rata allotment was given to the remaining applications. Excess money was to be used on allotment or subsequent calls.

Mr. ramesh, a holder of 200 shares from the 2nd group, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mr. venkat, a holder of 100 shares, from the 3r group failed to pay the two calls. His shares were forfeited after the final call. Later on 200 share (including all the shares of venkat) forfeited shares were reissued to Chetan at Rs. 8 per share fully paid. Pass necessary journal entries in the books of the company. The company has incurred Rs. 5,000 for issuing the shares which it decided to write off from the securities premium. Show the information in the financial statements (revised proforma )of the company. Prepare cash book and other subsidiary books to record the above transactions

Ques 16) Ram holding 10 shares of Rs.10 each of which Rs.2 on application Rs.3 on allotment but could not pay Rs.3 on first call. His shares were forfeited by the Directors. The Final call is not made yet. Give Journal entries in the book of company.

Hint Share forfeited Rs. 50

Ques 17) Abhishek Ltd. Forfeited 200 shares of Rs. 10 each fully called up held by X for non-payment of allotment money of Rs. 3 per share and First & Final call of Rs. 4 per share. He paid the application money of Rs. 3 per share. These shares were reissued to Y for Rs. 8 per shares. Pass necessary journal entries.

(Hint capital reserve rs. 200)

Ques 18) AB Ltd. invited applications for 1,00,000 Equity Shares Rs. 10 each payable as Rs. 2 application, Rs. 3 on Allotment and the balance on first and final call. Application were received for 3,00,000 shares and shares were allotted on prorata basis. The excess application money was to be adjusted against allotment only. Ram, a shareholder who has applied for 3,000 shares failed to pay the call money and his shares were forfeited and re-issued at Rs. 8 per share as fully paid. Pass necessary journal entries in the books of company

(Hint ; share forfeited a/c 5000  
capital reserve Rs. 3000)

Ques 19) AB Ltd. invites application for 75,000 equities of Rs. 100 each at premium of Rs. 30 per share. The amount was payable as follows

On Application and allotment - Rs. 85 per share (including premium) First and final call - The balance amount.

Application for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on pro-rata basis to remaining applicants. Excess money received on application and allotment was adjusted towards sum due on first and final call. The calls were made. A shareholder who applied for 1,000 shares, failed to pay the first and Final call money. His shares were forfeited. All the forfeited shares were reissued at Rs.150 per share fully paid up. Pass necessary journal entries for the above transactions in the books of AB Ltd.

Hint: Capital reserve 62500

Ques 20) Fill in the missing figures

Journal

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Machinery A/c Dr		3,00,000	
	Furniture A/c Dr		100,000	
	Stock A/c Dr			
	Goodwill A/c Dr		50,000	
	To Sundry creditors A/c		_____	2,00,00
	A/c To Lakshika			3,00,000
	(Being Assets and liabilities acquired)			_____
	Lakshika Dr.			
	To Equity Share Capital A/c			_____
	To Securities Premium Reserve A/c			_____
	(Being Equity Share of Rs. 10 each issued at a premium of Rs.5 per share)			

Ques: 21) Fill in the missing figure in the following journal entries.

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Building A/c Dr.		2,00,000	
	Bills Receivable A/c Dr.		2,00,000	
	To Bills Payable A/c			1,00,000
	To Sundry creditors A/c			3,00,000
	To Anannya Ltd.			5,00,000
	To Capital Reserve A/c (Being Assets and liabilities acquired)			-----
	Anannya Ltd. Dr.		-----	
	To Bank A/c (Being Part Payment mode)			
	Anannya Ltd. Dr.		4,40,000	
	To Equity Share Capital A/c			-----
	To Securities Premium Reserve A/c			-----
	(Being Equity Share of Rs. 10 each issued at issued at 10% premium)			

Ques: 22) Fill in the missing figures:

**Journal**

Date	Particulars	LF.	Debit (₹)	Credit (₹)
	Equity Share Capital A/c Dr.			

Securities Premium Reserve A/c Dr.		-----	
To Equity Share Allotment A/c			1600
To Equity Share First Call A/c			-----
To Equity Share final call A/c			600
To Share Forfeited A/c			-----
(Being 200 shares of Rs. 10 each forfeited for non-payment of allotment money of Rs. 8 per share (including Rs.5 premium) first call of Rs. 2 and final call of Rs. 3 per share)			
Bank A/c Dr.		-----	
Share forfeited A/c Dr.		-----	
To Equity Share Capital A/c			-----
(Being 125 shares were re-issued @ Rs. 90 per share, as fully paid up)			
		-----	

Ques: 23) Fill in the missing figures:

Bank A/c Dr.		-----	
To Equity Share Capital A/c			67,500
To Securities Premium Reserve A/c			-----
(Being 900 shares were re-issued @ Rs. 90 per share, 75 paid up)			
Share Forfeited A/c Dr.		_____	
To capital reserve			_____

Ques. 24) Bajaj Ltd. was formed on 15 December, 2015, with a capital of Rs. 25,00,000 divided into shares of Rs. 10 each. It offered 60% of the shares to the public. The issue price was payable as follows: 5% of the face value per share was payable with application, 30% of the face value per share was payable with allotment.

The balance as and when required. The company did not call for the balance during the year.

All the shares offered by the company were subscribed for. The company did not receive the allotment money on 5000 shares.

You are required to

- (i) Show the share capital in the Balance Sheet of the company as per schedule III of the Companies Act, 2013 at the end of the financial year.
- (ii) Prepare necessary notes to accounts.

(Hint: Shares offered to public  $25,00,000 \times 60/100 = \text{Rs. } 15,00,000$ ; Money payable Rs. 2.50 per share on Application, Rs. 3 per share on allotment and balance Rs. 4.50 on calls, Money received be shown under sub heading "Subscribed but not fully paid up" in the Balance Sheet)

Ques. 25) Dawar Ltd. issued 50,000 shares of 10 each at a premium of 10% payable at Rs. 2 per share on application, Rs. 3 on allotment, Rs. 3 each on first and final call. Applications were received for 70,000 shares. It was decided that:

- (a) Refuse allotment to the applicants for 10,000 shares;
- (b) Allot 20,000 shares to Pawan who had applied for similar number and
- (c) Allot the remaining shares on pro-rata basis.

Pawan failed to pay the allotment money and Monan who belonged to the category 'C' and was allotted 3,000 shares, paid both the calls with allotment.

Calculate the amount received on allotment.

(Hint: Allotment due  $50,000 \times 3 = 1,50,000$ , Excess application money adjusted

Rs. 20,000; Calls received in Advanced Rs. 18,000; Amount Received on Allotment  
Rs. 88,000( $1,50,000 - 20,000 - 60,000 + 18,000$ ))

Ques-26) Rama Ltd. issued 40,000 shares of Rs. 10 each at a premium of Rs. 2.50 per share. The amount was payable as follows:

On Application	-	Rs. 2 per share
On Allotment	-	Rs. 4.50 per
share And on First and Final Call	-	Rs. 6 per share

Owing to the heavy subscription, the allotment was made on pro-rata basis as follows:

- (i) Applicants for 20,000 shares were allotted 10,000 shares.
- (ii) Applicants for 56,000 shares were allotted 14,000 shares.
- (iii) Applicants for 48,000 shares were allotted 16,000 shares.

It was decided that excess amount received on applications would be utilized on allotment and the surplus, if any, would be refunded.

The directors decided to forfeit the shares of one shareholder Shyam, to whom, 1000 shares were allotted, who belongs to category (i), failed to pay allotment money. Shares were forfeited after final call.

You are required to Pass necessary journal entries in the books of Rama Ltd. for the issue and forfeiture of shares,

(Hint: (1) Transfer of share application money to Share Capital A/c Rs. 80,000; to Share Allotment A/c Rs. 1,47,000; to bank A/c Rs. 21,000. (2) Share Allotment Money Received in Cash Rs. 30,500, (3) Amount forfeited Rs. 4,000.

Ques 27) Complete the following journal entries of ABC lid. Which issued 60,000 equity

<p>_____ Dr.</p> <p>To _____</p> <p>(Being applications received for 90000 equity shares @ Rs. 4 per share against 60000 shares issued by the company)</p>	_____	_____
<p>Equity Amount received on share application transferred to the share capital A/c as follows group 1 applicants of 20000 shares given full allotment, group 2 applicants of 60,000 shares were given 40,000 shares and rest were rejected. Excess application money transferred to the allotment of Rs. 4 per share including premium of Rs. 2 per share</p>	_____	_____
<p>_____ Dr.</p> <p>To _____</p> <p>To _____</p> <p>(Share allotment money due)</p>	_____	_____
<p>_____ Dr.</p> <p>_____ Dr.</p> <p>To _____</p> <p>(Being share application money received after except a share holder Amit holding 400 shares from the second group did not sent the allotment money)</p>	_____	_____
<p>_____ Dr.</p> <p>Security premium Reserve Dr.</p> <p>To _____</p> <p>To _____</p> <p>(Shares of the defaulting shareholder forfeited after giving him notices )</p>	_____	_____

Equity share Ist call A/c	Dr	1	1
To Equity Share Capital A/c			
(1ts call due @ Rs. 3 per share)			
_____	Dr	_____	
To share Ist call A/c		_____	_____
(Being Ist call money except 600 shares)		_____	_____
_____	Dr.	_____	_____
_____	Dr	_____	_____
To share capital		_____	_____
(being 600 shares reissued @ Rs. 7 per share as Rs. 7 per share as Rs. 9 paid up		_____	_____
_____	Dr.	_____	_____
To _____		_____	_____
(_____		_____	_____
_____)		_____	_____
_____		_____	_____

Q 28) Xyx - Ltd. Forfeited 200 shares of Mr. A for non payment of allotment money of Rs. 5 (including premium of Rs. 2) and final call of Rs. 4 and 300 shares of Mr. B for non payment of final call. Later on 400 shares were reissued to C @ Rs. 8 per share including all the shares of A. pass journal entries for the above.

<p>_____ Dr.</p> <p>Security permium Dr.</p> <p style="padding-left: 40px;">To _____</p> <p style="padding-left: 40px;">To _____</p> <p>(Shares of the defaulting shareholder forfeited after giving him hotices)</p> <p>_____ Dr.</p> <p>_____ Dr. To share Capital</p> <p>( _____</p> <p>_____ )</p>	<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>
<p>_____ Dr.</p> <p style="padding-left: 40px;">To _____</p> <p>( _____</p> <p>_____ )</p>		