Chapter 1

Company Formation

Learning Objective

After comprehensive studying of this chapter, you will be able to understand:

- introduction of company,
- meaning of private company,
- features of private company,
- meaning and concept of public/joint stock company,
- features/characteristics of public/joint stock company,
- types of company,
- procedures of company formation in Nepal,
- company promoters.

INTRODUCTION OF COMPANY

The concept of Company has come due to the weaknesses of sole trading and partnership business organization. Company was first originated from Italy in the 12^{th} centuries. An organization that issued debenture to collect and raise loan from people was conceptualized as Company. The real development of Company took place in England with the establishment of "Society of the Mines Royal" in 1568 AD by Queen Elizabeth. Owing its merits several other Joint Stock Companies were established during 16^{th} and 17^{th} centuries. In 1855 AD, first Company Act was brought that gave a systematic route for the further establishment, operation and development of Company. In Nepal, Biratnagar Jute Mill is the first Company established under Company act 1993 B.S. Company act was timely amended and several other Joint Stock Companies have been established.

A Company is voluntary association of persons formed for carrying out business activities and has a legal status independent of its member. A company can be described as an artificial person having separate legal entity, perpetual succession and a common seal. In Nepal the company form of organization is governed by company act 2063, a company means company incorporated under this act or any other previous company law. Company is also known as an artificial person created by law. It can purchase and sale properties by its name, sign agreement with others by its seal and also can sue and be sued. Its establishment and dissolution does not depend upon individuals but depends upon law.

The shareholders are the owners of the company while the board of directors is the chief managing body elected by shareholders. Usually the owners exercise an individual control over the business. The capital of the company is divided into smaller parts called 'Shares" which can be transferred freely from one shareholder to another person.

According to Prof. L. H. Haney, "A Company is the voluntary association of individuals for profit, having a capital divided into numbers of transferable shares, the ownership of which is the conditions of membership."

According to Justice Lindley, "By a company is meant an association of many persons who contribute money or money worth to a common stock and employ it to a common purpose."

Articles of Nepal Company act 2063 BS (Amended 2074), "A company established under company act of Nepal is an organized and autonomous organization having perpetual existence. There will be a separate seal of a company .The company can by being under this law, like an individual receive, keep, sale and manage all kind of properties movable or immovable as required from time to time. The company can lodge complaint against anybody in its own name and others may also complain against the name of the company."

In conclusion, Company is an artificial person recognized by law with a distinctive name, common seal, capital divided into small portion known as shares and having perpetual succession.

MEANING OF PRIVATE COMPANY

A private company means a company which restricts the right of members to transfer its shares, has minimum of 2 and maximum of 101 members, does not invite public to subscribe to its securities and established by general people. A private limited company is privately held for small businesses. The liability of the members of a Private Limited Company is limited to the amount of shares respectively held by them. It is established according to the provision of company act and most of its terms of operation depend up on its article of association. A private company is not bound to publish prospectus as public is not invited to subscribe the shares. Allotment of shares can be done without receiving the minimum subscription. A private limited company can start business as soon as it receives the certificate of incorporation. It needs only two directors. A private company is also not bound to publish it financial statement for the knowledge of public.

FEATURES OF PRIVATE COMPANY

Following are the features of a private limited company:

1. **Members:** To form a private limited company minimum 1 member and a maximum of 101 members as per the provisions of Companies Act,2063 (2074 Amended).
2. **Limited Liability:** The liability of the members is limited to the number of shares held by them. For example, if the company faces any losses under any circumstances the shareholders are liable only to the shares held by them. The personal assets owned by the shareholders are not at risk.
3. **Perpetual Succession:** The company exists in the eyes of the law even in case of death, insolvency or bankruptcy of any of its members. This means the life of the company keeps on existing forever.

4. **Prospectus:** Prospectus is the detailed statement of the affairs of the company which is issued for the public. However, in the case of a private limited company, there is no such need to issue prospectus.
5. **Name:** The private limited company must use the word "PRIVATE LIMITED COMPANY" at the end.
6. **Non transferable shares:** Shares of private limited company are not transferable without consent of all members.

MEANING AND CONCEPT OF PUBLIC/JOINT STOCK COMPANY

It was evolved to meet the requirements of factory system in one hand and to overcome the defects of sole trading and partnership on the other hand. Joint Stock Company is a share capital based business concept. The total required capital is divided into numbers of small values share which can be offered to numbers of people to buy so as to collect money. Huge amount of capital can be collected for running large scale business by this concept in one hand, on the other hand it provides the facility of limited liabilities so that the liabilities of shareholders limits just up to their investment. It makes the business less risky. Further a company is managed by high professional in a democratic manner. They are Board of Directors, the representatives of shareholders who handle all the affairs of the company. The nation provides company act for the smooth operation of a company.

Concept Review
Joint stock company is an association of persons' for common economic goals having a separate legal existence, perpetual succession and common seal. The capital of which is accumulated by issuing transferable shares.

A joint stock company is voluntary association of people for profit, having separate legal existence, perpetual succession, common seal and limited liability. It is an association of persons who contribute money which is called capital for some common purpose. These persons are members of the company. The proportion of capital to which each member is entitled is his share and every member holding such share is called shareholders and the capital of the company is known as share capital. It is established by issuing share to the promoters and general share holders under the company act of the nation. It is known as an artificial person created by law. It can purchase and sale properties by its name, sign agreement with others by its seal and also can sue and be sued. It has a separate legal existence. Its establishment and dissolution does not depend upon individuals but depends upon law. It is to be registered according to the company act along with its memorandum and articles.

"A Joint Stock Company is a voluntary association of individuals for profit having a capital divided into transferable shares, the ownership of which is the condition of membership. Again company is an artificial person created by law having a separate entity with a perpetual succession and a common seal." *-By Prof. L.H. Haney*

"Joint Stock Company is an artificial being, invisible, intangible and existing only in the eyes of law. Being a mere creation of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence." *-By Chief Justice Marshall*

"It is a person created by law, separated and distinct from it stock holders and in certain sense, it is citizen." *-By W.A. Wood*

"By a company is meant an association of many persons' who contribute money or money's worth to a common stock and employ it for a common purpose." *-By Lord Lindley*

"Company means any limited company incorporated under this act." *-Nepal Co. Act 2063*

"A company established under company act of Nepal is an organized and autonomous organization having perpetual existence. There will be a separate seal of a company .The company can by being under this law, like an individual receive, keep, sale and manage all kind of properties movable or immovable as required from time to time. The company can lodge complaint against anybody in its own name and others may also complain against the name of the company."

Articles of Nepal Company act 2074, (New revised)

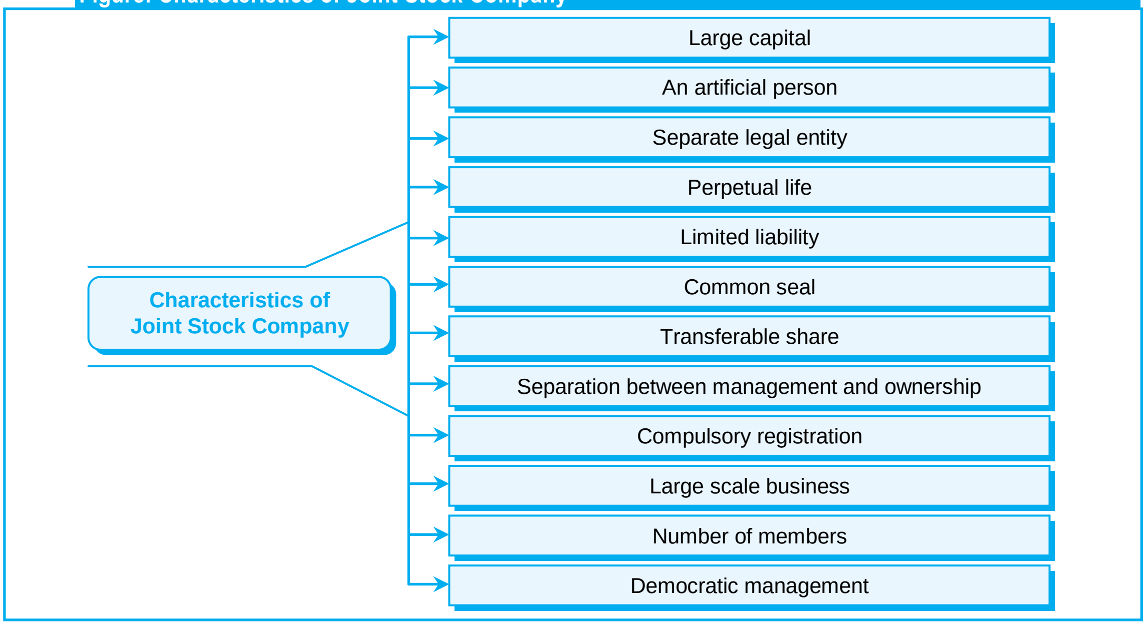
Joint Stock Company was first originated from Italy in the 12^{th} centuries. An organization that issued debenture to collect and raise loan from people was conceptualized as Joint Stock Company. The real development of Joint Stock Company took place in England with the establishment of "Society of the Mines Royal" in 1568 AD by Queen Elizabeth. Owing its merits several other Joint Stock Companies were established during 16^{th} and 17^{th} centuries. In 1855 AD, first Company Act was brought that gave a systematic route for the further establishment, operation and development of Joint Stock Company. In Nepal, Biratnagar Jute Mill is the first Joint Stock Company established under Company act 1993 B.S. Company act was timely amended and several other Joint Stock Companies have been established.

In conclusion, Joint Stock Company is an artificial person recognized by law with a distinctive name, common seal, capital divided into small portion known as shares and having perpetual succession.

FEATURES/CHARACTERISTICS OF PUBLIC/JOINT STOCK COMPANY

Joint Stock Company is advanced form of business organization. It is world-wide popular. It has some fundamental characteristics which are as follow:

Figure: Characteristics of Joint Stock Company



1. **Large capital:** Joint Stock Company is share based business organization. Most of its capital is raised by issuing shares. The required capital is divided into numbers of small values share and offered to the public. People of different classes can make their investment in company in the desired level. Huge amount of capital can be collected by this concept. However a company also issue debenture to raise fund. Therefore, capital of joint stock company huge.
2. **An artificial person:** The Company carries on its business activities in its own name. The company makes purchases, incurs expenses, sells goods, sues against other parties and is also sued. The company performs all these activities in its own name but it is not a natural person like human being, so it is called artificial person. It is a distinct legal person, separate from its members.

3. **Separate legal entity:** A joint stock company is established according to law. It becomes a legal body. Its existence is separate from individuals. The owners, managers and directors may change or die but the company's life is not affected. There is legal protection. Individuals can not dissolve it. Only law can dissolve it.

4. **Perpetual life:** The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life. The Company has got permanent life, irrespective of the death, lunacy and insolvency of its members.

5. **Limited liability:** A joint stock company is supposed as a risk less business because it has a facility of limited liability. The liability of shareholders is just up to their level of investment. They do not have to bring their personal properties to the additional debt of company in case the debt of company is more than its assets.

6. **Common seal:** As it is an artificial person, it has to sign documents or agreements. It uses a registered stamp 'Common Seal' as authorized signature. The company seal is affixed in important documents as the token of the company's approval. Without this seal the documents and the transaction of the company cannot get legal value.

7. **Transferable share:** The share of a company is transferable except some restriction. The shareholders of a public limited company can sale their share in the market price or can transfer it to the desired person. The share market or security exchange office work as the facilitator for the transfer of share.

8. **Separation between management and ownership:** A joint stock company can have large numbers of shareholders. They are the real owner of company. But they do not directly participate for the regular management and operation of company. A company is managed by board of directors formed legally in the general meeting of shareholders.

9. **Compulsory registration:** A joint stock company for its formal establishment and operation of business must get registered to the office of company registration. It must prepare some legal documents like memorandum of association, articles of association and others according to the nature of business and submit while applying for registration. It must follow the company act.

10. **Large scale business:** A joint stock company can collect large amount of capital by issuing share and debenture. It is managed by expert professionals. It aims to run large scale business not only for its profit but also to contribute for national economy by increasing productivity and social welfare.

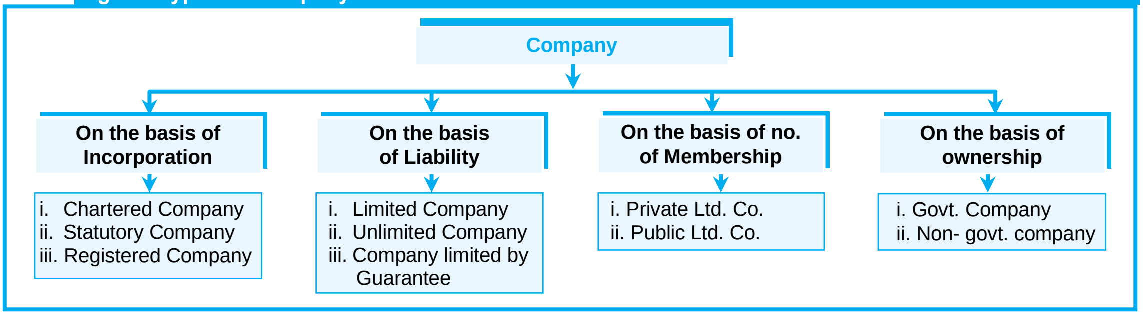
11. **Number of members:** Joint Stock Company is the voluntary association of numbers of members. Large numbers of people can be the owners as shareholders. Numbers of person become directors. In a private company, the minimum number of members is one and maximum is fifty and in a public company the minimum member is seven and the maximum is unlimited.

12. **Democratic management:** Joint Stock Company is handled by board of directors formed by the election of shareholders in the general meeting. Every kind of decision is taken on the basis of majority or common consent in the formal meeting of members. A person cannot impose individualism. Opinions of others are also considered. Members enjoy freedom of speech.

TYPES OF COMPANY

Joint Stock Company may be classified into various types from different angles. They are:

Figure: Types of Company



A. On the Basis of Incorporation

On the basis of incorporation joint stock company may be classified into three types. They are:

1. **Chartered company:** A Chartered Company is established by the special royal charter or sanction granted by the head of the nation. Before the enactment of the company act, the procedure of forming a company is by means of Royal Chartered. The promoters of companies need to apply to the king or president through the parliament for necessary approval. The special privilege and right of the company are granted in the charter. The British East India Company, The Bank of England, Charter Bank of India etc. are the examples of chartered company. This type of company is not established in Nepal and is rare at the present business world.

2. **Statutory company:** A company, when incorporated by a special act of the parliament, is known as statutory company. The objective, nature of business, right, power and other activities of the company are defined in special act under which it is formed. Generally, this type of company is established to cover certain sector of economy of national interest. In the context of Nepal, many statutory companies are established with special act in parliament, viz. Nepal Rastra Bank, Nepal Airline Corporation (NAC), Nepal Oil Corporation, etc.

3. **Registered company:** A company registered according to the provision of the company act is known as registered company. The procedures of establishment, right, duties, working area and procedures of winding up of such company are cleared at the time of incorporation. Generally, some documentation like memorandum of association, articles of association, prospectus etc. are prepared mentioning details about procedures and terms & conditions of establishment, management, objectives, etc. for incorporation in the concerned department. In the context of Nepal, a registered company should be incorporated according to the provision of company act 2063 and new revised 2074.

THINGS TO REMEMBER

i. Chartered company should be formed only in exceptional situation by special chartered from king or head of the nation through recommendation from parliament like in war, economic depression, natural calamities etc.

ii. Statutory company should be formed by passing specific act in parliament to involve in economic activity of public interest like supply of food, oil, electricity etc.

iii. Registered company should be formed in accordance of provision mentioned in company act which in common in present business environment.

B. On the Basis of Liability

On the basis of liability, company may be classified into three types. They are:

1. **Limited company:** This type of company is registered with certain numbers of shares; the liability of shareholders is limited up to the extent of the face value of shares held by each of them. The creditors cannot claim excess amount from shareholders even if assets or properties of the company become insufficient to fully meet their claim. It means shareholders have no extra burden for the payment of debts of the company more than their capital investment. In practical field, this type of company is common in business world.
2. **Unlimited company:** It is just like an ordinary partnership. Under this type of company, shareholders are liable for all liabilities of the company. The shareholders are liable for the payment of creditors' claim, if value of assets of the company become insufficient for the payment of debts, even by selling their personal properties. Generally, this type of extra burden is created to the shareholders when the company has been suffering from loss for many consecutive fiscal years and problem of dissolution has raised. The company of unlimited liability is rarely found in present business world.
3. **Company limited by guarantee:** Under this type of company, the liability of the shareholders is limited to a specified amount as mentioned in the memorandum of association. The amount of guarantee may differ from shareholder to shareholder. Every shareholder is liable for the payment of face value of shares held by him in addition to the guaranteed amount. Generally, guaranteed amount is just like a capital reserve which can be called up, when the company would suffer from loss or the problem of dissolution would have been raised. Thus, under this type of company the liability of shareholder is limited up to his written guarantee for payment in exceptional situation.

C. On the Basis of Number of Members

On the basis of number of members, Joint Stock Company may be classified into two types. They are:

1. **Private limited company:** It is one of the registered companies incorporated according to the company act in the concerned department. According to the company act 2063 and new revised 2074, the private company minimum member is 1 and maximum member is 101. A private limited company cannot issue shares to the public for subscription and remain limited to some limited number of shareholders. Shares of a private limited company are also not transferable without consent of all the members. In other words, it is nothing but a kind of partnership with limited liability. For quick identification of such company the word "Pvt. Ltd." or Private Ltd. or (P) Ltd. is written after the name of the company. A private limited company can start its business only after getting certificate of incorporation.
2. **Public limited company:** Company other than private Ltd. comes under public Ltd. company. According to section of the company act 2063 and new revised 2074, public company means any company incorporated according to this act. The minimum numbers of shareholders are seven (7) and maximum is unlimited for the registration of a public limited company. A Public Ltd. Company can issue shares for public subscription and shares are also easily transferable. It has to obtain the certificate of commencement before starting any business along with certificate of incorporation. It has to issue prospectus at the time of issuing shares or debentures for public subscription. For quick identification the word “Ltd.” or “limited” is written at the end followed by the name of company.

D. On the Basis of Ownership

On the basis of ownership, company may be classified into two types. They are:

1. **Government company:** In this type of company, government has minimum 51% or maximum 100% of the paid up value of share capital of the company. As government has maximum shares of the company, the management of the company is taken by the government authority. Generally, public utility companies are established under government leadership. In the context of Nepal, Nepal Dairy Development Corporation, Janakpur Cigarette Factory, Birgunj Sugar Mill Ltd. etc. are the example of Government Company.
2. **Non-government company:** This type of company is established under private ownership. Government has no involvement in the ownership of the company, if involvement is there that is less than 50% of total paid-up share capital of the company. The private members have to complete some government procedures only for registration of the company. It is managed and controlled by the private owners themselves according to their requirement. Government does not interrupt in the regular business activities of the company, only completion of few rules of government is sufficient.

DIFFERENCE BETWEEN PRIVATE AND PUBLIC LIMITED COMPANY

Some points of difference between private limited and public limited company may be studied under the following headings:

Basis of difference	Private Limited Company	Public Limited Company
1. Number of members	According company act 2063 and new revised 2074, in private limited company the minimum number of member is one (1) and maximum is not exceeded one hundred one (101).	In company act 2063 and new revised 2074, for public limited company the minimum number of members is fixed to seven (7) and maximum members are unlimited.
2. Commencement of business	A private limited company can start its business immediately after getting certificate of incorporation from the concerned department of government of Nepal.	A public limited company can start its business only after getting certificate of commencement from concerned department of government of Nepal.
3. Numbers of directors	In private company, the number, appointment and term of office of the directors will be as prescribed in the articles of the company.	A public company must have at least three and maximum eleven directors. The term of office of the directors will be four years.
4. Issue of prospectus	It is not bound to publish prospectus at the time of issue of shares for subscription.	It is bound to publish its prospectus at the time of issue of shares for public subscription.
5. Issue of shares and debentures	It cannot issue shares and debentures to general public for collection of capital. It can issue of shares among the limited number of members.	It can issue shares and debentures to unlimited general public for collection of capital and other fund.
6. Transfer of shares	In it, shareholders cannot transfer their shares according to need. Transfer of shares can be possible only through mutual agreement of existing shareholders.	In it, shareholders can easily transfer their shares to others without any restriction from management.
7. Statutory meeting	It is not bound to hold statutory meeting of shareholders.	It is essential to hold statutory meeting of shareholders within the period of 1 to 6 months of the commencement of the business.
8. Use of word "limited"	In it, for quick identification, the word "Pvt. Ltd." or" (P) Ltd. is used followed by the name of the company.	In it, for quick identification, the word "Ltd." or" Limited" is used followed by the name of the company.
9. Publication of statements	It is not necessary to publish financial and other statements at the end of every fiscal year in any newspaper.	It is essential to publish audited financial and other statements at the end of every fiscal year in national newspaper.

Merits/Advantage of Company Form of Organization

Some of the common merits/advantages of Joint Stock Company may be studied under the following headings:

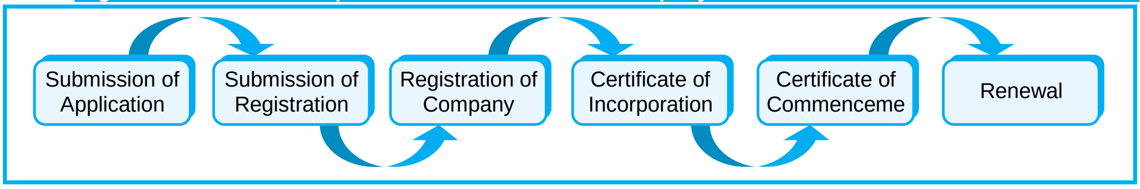
1. **Limited liability:** The liability of the shareholders of the company is limited up to their capital investment. The company can borrow loan for expansion and diversification of business or purchase goods on credit during regular business, but in its own name. The shareholders are not liable of excess claims of creditors even if capital value of company become insufficient. This facility has attracted the general people for investment in company. Therefore, it has become easy for accumulation of capital for the company.
2. **Adequate capital:** Comparatively, capital investment in company is more than partnership firm and sole trading concern. The company can collect capital by issuing shares or debentures among unlimited peoples for subscription. In a public limited company, the maximum numbers of shareholders are unlimited and the value of per unit of share is also minimums and, as such, it can collect more capital by issuing shares to the general public. With large capital, it can operate large scale business. The large scale production and distribution minimizes per unit cost of products or services. And, as such, it becomes easy to cover market and to face competition in the market.
3. **Perpetual existence:** Company is an artificial person created by law. As a corporate body its existence is perpetual. The death, retirement, lunacy of shareholders or promoters do not affect in regular function of the company. Similarly, it performs functions without any interruption even if any change in management, member of board of directors, working procedures etc. The members of the company may come and the members may go, but the company remains as it is. The company brings stability in business, which is beneficial, both for the company and to the customers.
4. **Transferability of shares:** Shares of joint stock Company, especially shares of public limited company, are easily transferable from one person to another. Such transfer of shares does not affect the regular function of the company and prior permission from management is not required to transfer shares. The shareholders can transfer their shares at the time of requirement.
5. **Effective management:** We know that management is the back-bone of an institution and success of it depends upon its management system. In company for the function of management, members of the board of directors are elected. They are the representatives of the shareholders and responsible for management of the company. Each director is efficient in certain sector of management of the company. For better management of the company, skilled, experienced, trained and qualified employees are hired by paying better salary and facilities. Therefore, effective and result oriented management is possible in the company.
6. **Easy to obtain loan:** For the expansion of the business, the company can obtain loan in easy manner. It performs business in large scale with the investment of maximum capital and, as perpetual existence; it also performs business for long duration of time. At the same time, it publishes financial statement at the end of every fiscal year for the knowledge of shareholders and other stakeholders. It is helpful to earn goodwill and reputation in the market and also easy to obtain loan at the time of requirement.
7. **Stimulus to saving:** A company issues share capital to general public in small value. General public can purchase shares of the company according to their financial capability. It stimulates to saving and even the minimum savers can invest in shares of small value. Thus, it plays more crucial role for mobilization of resources available in the society.

8. **Public confidence:** A company is able to earn public confidence through its activities. It is established after completing some legal procedures and would be dissolved only according to legal procedures. The shareholders or management cannot dissolve it according to their desire; they have to fulfill some procedures as provided in the act for dissolution. Besides, company performs huge business, publishes financial statement at the end of every fiscal year and its perpetual existence inspire public confidence.

PROCEDURES OF COMPANY FORMATION IN NEPAL

Joint stock company must be registered in Office of Company Registrar under Department of Industry and Commerce of Government of Nepal. A company cannot perform any kind of legal business without incorporation in Office of Company Registrar. A company is incorporated when it receives the certificate of incorporation from the Registrar. The following procedures must be completed for the incorporation of Joint Stock Company:

Figure: Procedures Incorporation and Renewal of a Company



1. **Submission of Application:** It is the first step of company registration. According section 4 of company act, any person desirous of incorporating a company should make an application to company Registrar Office. Any person or group of persons who want to undertake any enterprise with the motive of earning profits may establish a company. It is essential to submit a prescribed application form along with other evidential documents like memorandum of association, articles of association etc. In case of a public company a copy of agreement, if any, which has been concluded among the promoters before the establishment of the company also is submitted. In the case of private company a copy of the unanimous agreement, if any, is submitted. In case of public company at least seven promoters must sign in application form before submission in office. Whereas in the case of private company signature of directors should be provided in application form as mentioned in articles of association.
2. **Submission of Registration Fees:** Along with application form and other document, it is also essential to submit registration fees. Generally, prescribed registration fee is deposited in Nepal Rastra Bank in the account of Office of Company Registrar and bank deposit voucher is submitted to the office. The amount of registration fee depends upon the amount of capital investment i.e. authorized capital. The amount of registration fee will be amended by publishing notice in Nepal Gazette.
3. **Registration of Company:** In case an application is received along with other document for the establishment of a company. The Registrar conducts necessary investigation and should register in the company registration book within 15 days after the application is received. But the Registrar may refuse to register a company in any of the following circumstance:
   - In case the name of the proposed company is identical with the name of company which has already been registered and is still in existence.
   - In case the name of the proposed company seems to be inappropriate or undesirable from the view of the public interest, morality, etiquette etc.

- In c ase the objectives of the proposed company are contrary to current law.
- In case necessary condition relation to establishment of a company under this act are not fulfilled.

In case, the Registrar refuses to register a company in any of the above circumstances, it should send a notice there to the applicants for within 15 days after submission of application for company establishment a4long with the reasons there of.

4. **Providing Certificate of Incorporation:** After receiving application for establishment of company from promoters along with other necessary documents, the registrar should conduct necessary investigations. After completing necessary investigation it should register the company within 15 days after the application is received and issue a certificate of registration of the company in the prescribed form to the applicants. The company should be regarded as having been established after it is registered in book of the office. After getting the certificate of incorporation, company should obtain the status of autonomous and corporate body with perpetual succession. The company should have a separate legal entity.

5. **Certificate of Commencement:** A private company can start its business immediately after getting the certificate of incorporation or registration certificate. However, a public company cannot start business immediately after receiving certificate of incorporation, it has to obtain certificate of commencement from the concerned office to start business. For certificate of commencement of business, it is essential to submit a report of at least 25 percent of issued capital already paid by the promoters, duly signed by at least one director. The office should issue certificate of commencement after completing necessary investigation. A public company can issue prospectus only after receiving certificate of commencement.

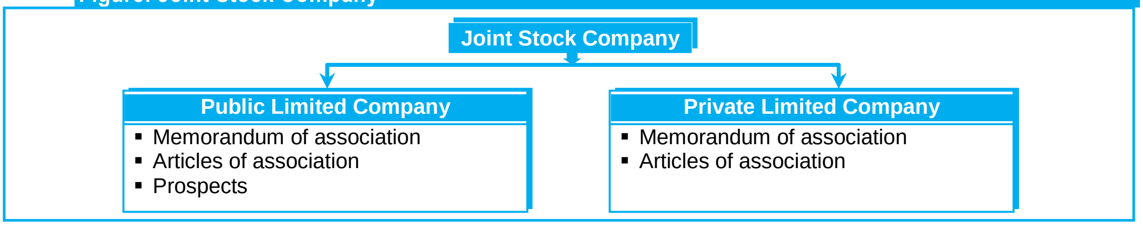
COMPANY PROMOTERS

Promoters are the initial shareholders who are responsible to bring the company into operation. Promoters may be an entrepreneur, a professional, an enterprise, or government. They are the key source of creating an idea of formation of a joint stock company. They study about the future scope of business opportunity and strength position the company. Besides, they are responsible to set business objectives, accumulate financial resources and to determine a line of planned action of the company.

Concept Review
Promoters are the main shareholders who incorporate company and bring it into operation.

They prepare necessary documents consisting of memorandum of association, articles of association and prospectus essential for company incorporation. They also fully involve in incorporation of company in concerned department of government and even to obtain, in case of public limited company, a certificate of commencement. In practical, promoters are less in numbers as compare with general shareholders but they hold maximum number of shares i.e. up to 75% of paid capital of the company. Therefore, they have crucial role in decision making process and in day to day operation of the company.

Figure: Joint Stock Company



MAIN DOCUMENTS OF COMPANY

Company is a legal body. It has separate legal existence. Most of the legal provision of a Company is directed by company act. Besides this, some other documents are to be prepared by a company for its entire management. The major documents are memorandum of association, article of association and prospectus which are necessary to prepare and submitted to company registration at the time of registration of a company.

Memorandum of Association

The memorandum of association of company, often simply called the memorandum is one of the most important documents and must be drafted with care. It has to be filed with the Registrar of Companies during the process of incorporation of a Company. It contains the fundamental conditions upon which the company is allowed to operate. Its purpose is to enable shareholders, creditors, and those who deal with the company to know what is its permitted range of enterprise. It informs all persons what the company is formed to do and what capital it has to do with. It is the document that regulates the company's external affairs.

Concept Review

Memorandum of association is the charter or constitution of the company. It contains all the contents necessary for company formation and operation. It is the foundation of company structure.

Memorandum of association is the most important legal document of Company. It is regarded as charter or the constitution of a company. It is life giving document of company which states the objectives, power, company's relationship with others, functions and limits of a company. A company's activities cannot go beyond the power given by memorandum.

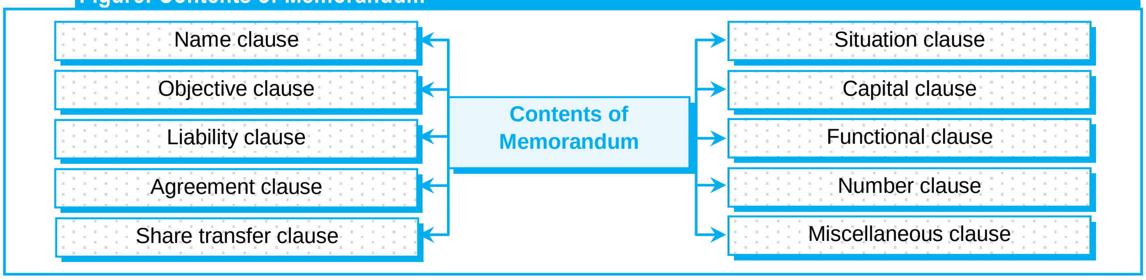
> "The memorandum of association sets out the constitution of the company. It is, so to speak, the charter of the company and provides the foundation on which the structure of the company is built. It enables persons who deal with the company to know its permitted range of activities." *–Lord Macmillan*
>
> "The memorandum of association of a company is its charter and defines the limitations of powers of the company established under the act. The memorandum contains the fundamental conditions upon which alone the company is allowed to be incorporated." *–Lord Cains*

A memorandum of association is a legal document prepared in the formation transfer and registration. This document should be prepared by the promoters of a company at the time of incorporation and submitted to company registration office, signed by prescribed number of members as per the provision in the company act. If any amendment is needed, it can be amended by passing special resolution in the general meeting of shareholders.

Contents of Memorandum of Association

Section 18 of the Company Act, 2074 contents the following matters to be in the memorandum of a company:

Figure: Contents of Memorandum



1. **Name clause:** Every company must decide the name of company carefully in which the company gets registered. It must follow company act while naming i.e. if it is private company it must write "private limited or PVT. LTD." in its name and if it is public company, it should write "limited or LTD" in its name. The decided name should not already be existed in other company.
2. **Situation clause:** It is also dominant clause. It must have registered office. All the official communication may be sent by concerned office or other organizations in a specified location. Therefore there is need to maintain registered office location. Once the location is set then it is very difficult to change the location.
3. **Objective clause:** It is important part of memorandum. It must clearly state the objective of the company for which it was established. It informs the members about the objectives. It can carry out only those activities which meet the objectives in the memorandum.
4. **Capital clause:** It includes the amount of authorized capital which can be utilized by the company. It includes the amount of share capital and the considerations of issuing and subscribing the share capital. It must include the nature of shares and face value of share with the prices of shares.
5. **Liability clause:** In the memorandum it is necessary to mention the level of liability of the shareholders.
6. **Functional clause:** It includes the functions needed to achieve the objectives. The functions mainly the managerial and some are operating activities to make the business success.
7. **Agreement clause:** It includes the agreement to form the company, the name and signature of subscribers and the criteria for subscription.
8. **Number clause:** It includes the number of members involved in the company being in the bound of company act.
9. **Share transfer clause:** It contains the criteria and provisions regarding the transfer the share in private or public company.
10. **Miscellaneous clause:** In this clause the remaining information necessary to include are mentioned. Such as the relationship of company with outsiders like banks, insurance, creditors etc.

Articles of Association

Articles of association are document of internal management of the company. They contain rules, regulations and bye-laws of the company for its systematic management. The company should manage the business activities, internal structure, and internal control system on the basis of rules and regulations mentioned in articles of association. They are subordinate to memorandum of association. Outsiders also believe that the company performs its business according to the rules and regulations. The memorandum of association defines the relationship between the company and the outsiders where articles define the relationship between the company and its members. Thus, articles of association of the company prepare a contract between company and its members, which also involve the respective rights and duties for company members.

Concept Review

Articles of association contain rules, regulations, and bye-laws of the company which are essential to maintain hierarchy in management system. It provides framework to maintain internal control to gain defined objectives.

According to section 20 (I) of Company Act 2063 and new revised 2074, the company must prepare its articles of association in order to manage its functions systematically and to attain the objectives mentioned in its memorandum of association.

A limited company either private or public has to prepare articles of association along with other documents for incorporation. More care should be given while preparing articles of association because matters involve in memorandum should also involve in them. Thus, matters contained in the articles should not be against the memorandum of association and company act. Finally, they are signed by the members as in the memorandum of association for official validity in the presence of minimum one witness.

Contents of Articles of Association

According to the Company Act 2063 and new revised 2074 under section 20 (2), articles of association contain the following contents:

- Share capital including sub-division, rights of various shareholders, the relationship of these rights, payment of commission, share certificates.
- Lien of shares: Lien of shares means to retain possession of shares in case the member is unable to pay his debt to the company.
- Calls on shares: Calls on shares include the whole or part remaining unpaid on each share which has to be paid by the shareholders on the company's demand.
- Transfer of shares: The articles of association include the procedure for the transfer of shares by the shareholder to the transferee.
- Transmission of shares: Transmission includes devolution of title by death, succession, marriage, insolvency, etc. It is not voluntary but is in fact brought about by operation of law.
- Forfeiture of shares: The articles of association provide for the forfeiture of shares if the purchase requirements such as paying any allotment or call money, are not met with.
- Surrender of shares: Surrender of shares is when the shareholders voluntary return the shares they own to the company.
- Conversion of shares in stock: In consonance with the articles of association, the company can convert the shares into stock by an ordinary resolution in a general meeting.
- Share warrant: A share warrant is a bearer document relating to the title of shares and cannot be issued by private companies; only public limited companies can issue a share warrant.
- Alteration of capital: Increase, decrease or rearrangement of capital must be done as the articles of association provide.
- General meetings and proceedings: All the provisions relating to the general meetings and the manner in which they are to be conducted are to be contained in the articles of association.
- Voting rights of members, voting by poll, proxies: The members right to vote on certain company matters and the manner in which voting can be done is provided in the articles of association.
- Directors, their appointment, remuneration, qualifications, powers and proceedings of the boards of directors meetings.
- Dividends and reserves: The articles of association of a company also provide for the distribution of dividend to the shareholders.
- Accounts and Audits: The auditing of a company shall be done subject to the provisions of the articles of association of the company.
- Borrowing powers: Every company has powers to However, this must be done according to the articles of association of the company.

- Winding up: Provisions relating to the winding up of the company finds mention in articles of association of the company and must be done accordingly.

Any provision of the articles of association which conflict with the memorandum shall be invalid to the extent of such conflict. The format of the articles of the association shall be as prescribed.

Difference between Memorandum of Association and Article of Association

Basis of difference	Memorandum of association	Articles of association
Status	It is the charter or constitution of company to regulate the external affairs of a company.	It contents the regulation and clauses require regulating the internal administration and management.
Preparation	It is prepared under the provision of the company act.	It is prepared under company act and memorandum.
Nature of contents	The memorandum explains the power and objectives of company and fixes the limit of business scope.	Articles involve the rules and regulation for the internal management and operation of business activities.
Validity or Legal effect	Activities done against the memorandum automatically turns invalid.	Some activities against the article can be accepted by the consent of members.
Relationship	It defines the relation of company with outsiders	It defines the relationship of company with its members.
Amendment or alternation	If any change or amen-dment is needed, permission of concerned department is needed.	It can be changed or amended by the consent of shareholders.
Motive	The main motive of memorandum is to clarify the nature and objective of the company	The main motive of article is to explain the rules and regulation for the operation of internal administration and management of business activities.

Prospectus

Prospectus is important document of the public limited company. It provides summary of past history, if any, present position and also reflects future policies and programs of the company. It is issued to the public while issuing shares and debentures. In other words, it is an invitation to the general public to subscribe the shares and debentures of the company. It provides detail information of the company. It is the main document to draw the attention of the public towards the company for the accumulation of capital. According to section 23 and 24 of Company Act 2074, a public limited company must publish its prospectus before issuing its securities publicly. As the prospectus reflects the personality of the company it should be drawn in systematic and attractive manner. All information of the company should be given in a separate paragraph and in step wise. For official validity, one copy of prospectus should be signed by the directors and send it to the registrar office. After getting approval from registrar office, company can issue prospectus to the public for subscription of share capital.

Concept Review

Prospectus is the profile of public limited company and provides past and present information and also future prospect of the company. Generally, it is issued at the time of issue of shares or debentures

Objectives of Prospectus

Generally, the objectives of issue of prospectus are as follows:

- To provide summary of past information (if any), present position and future programmes of the company.

- To draw attention of the public for subscription of capital by purchasing shares.
- To create confidence among the public about the company and its future prosperity.
- To provide information to the public about the procedures, terms and condition of issue of shares for subscription.
- To give the information about company to public.
- To inform public about company past and present performance.

Contents of Prospectus

The prospectus must be prepared in careful manner considering all the matters mentioned in memorandum of association and provisioned in company act. A minor mistake in it may provide negative impact in the reputation of the company and for which management of the company will be responsible. As per Nepal company act Section no. 23 and 24, the prospectus should involve the following contents:

a. The objectives of the company, the main points mentioned in the memorandum and articles of association, and the place where (copies of) such memorandum and articles of association can be obtained.
b. Minimum numbers of shares must be subscribed in order to qualify for the post of directors and salaries, allowances prescribed for directors.
c. Particulars of cash payments obtained or to be obtained by the promoters or directors of the company in the form of remuneration or rewards.
d. Arrangement relating to bonus shares.
e. Arrangement, if any, for reserving shares for shareholders employees or any other persons.
f. A biographical introduction of directors.
g. Reasons and justification for adding premium, if the shares are to be sold to the public by adding premium to the value of the shares.
h. Arrangement relating to representation in the board of directors of shareholders who take-up shares offered for public subscription.
i. The minimum number of share which must be subscribed and the amount of advance payment to be made along with the application.
j. Reasons for obtaining loan by debenture, if any, and the number of debenture redeemed and the outstanding amount of loans.
k. Assets purchased through the sale of shares, the name of the seller of such assets, and arrangement, if any, to accept or offer shares or debentures in lieu of cash payment.
l. Brokerage on shares and debentures.
m. The amount needed for the business of the company and the estimated.
n. Possible financial risk involved in the business to be undertaken by the company.
o. Financial arrangements of the company, and its net worth after making provision for all liabilities.
p. Name and address of auditors and particular of the audit report, if any
q. The amount paid, if any, by promoters or directors for the assets purchased or to be purchased by the company, and particulars or relationship, if any, of promoters or directors with any other firm or partnership firm or any other company.

REVIEW OF TERMS USED IN THE CHAPTER

Legal existence: established by completing official procedures and is performing business as an artificial person.
Perpetual succession: Long term or continuous existence
Common seal: similar type of stamp used for official documentation
Inherent: intrinsic, inbuilt, innate, natural
Legal procedures: procedures related with law, formal or official procedures
Voluntary association: organization formed intentionally for common interest
Transferable shares: shares those can be transferred from one person to another without managerial restriction.
Artificial person: person created by law by completing formal procedures
Incidental: minor, supplementary, subsidiary
Sue: take legal action, go to court, and prosecute
Consecutive: successive, continuous, and repeated
Certificate of incorporation: registration certificate issued by concerned department of government
Certificate of commencement: certificate issued to public limited company to start or commence business operation after issuing registration certificate
Representative: a person or institution plays the role of agent or ambassador
Liquidate: the process of winding up or dissolution of a company
Financial statements: statements related with monetary transactions of the company like final accounts, budgets etc.
Audited: the term related with verification and examination of books of account
Privilege: the act of having some special benefit, freedom or opportunity for a type of organization
Parliament: assembly or legislature of representatives of general people of the country
Claim: the process of arguing or demanding for compensation
Subscription: the act of paying payment or contributing
Public utility: the work that is related with public value or usefulness to general people
Restriction: the process of maintain limit, constraint or control
Fiscal year: Financial year, period of twelve months
Duty: the term related with government tax, source of government revenue
Limited liability: liability up to the face value of shares taken
Excessive: the term related with extreme or too much
Legal formalities: procedures related with law
Legal expert: the person having expertise in legal procedures such as lawyer or advocate
Social abuse: the activities related with social violence or social mistreatment
Constitution: the main charter of the country
Foundation: the term related with bas or groundwork of the activity
Charter: the act of making contract,, bond, or agreement
Incorporation: the process of making registration of a firm like company
Domicile: the term that hints to location
Bye-law: sub- part of main clause of law
Witness: the person who is observing the events
Profile: the term related with outline or summary of the concept
Amend: the process of making modification or change of present state or position
Etiquette: the term related with manner, custom or protocol

THEORETICAL PROBABLE QUESTION ANSWERS

VERY SHORT QUESTION ANSWER

1. What is joint stock company?

Joint stock company is an association of persons' for common economic goals having a separate legal existence, perpetual succession and common seal. The capital of which is accumulated by issuing transferable shares.

2. Mention main features of company?

Legal personality, Perpetual succession, Limited liability, Transferability of shares and Common seal are the main features of company.

3. What is registered company?

A company registered according to the provision of the company act is known as registered company. The procedures of establishment, right, duties, working area and procedures of winding up of such company are cleared at the time of incorporation.

4. What is statutory company?

A company, when incorporated by a special act of the parliament, is known as statutory company. The objective, nature of business, right, power and other activities of the company are defined in special act under which it is formed

5. What is Private company?

A private company can be formed with the one member but the maximum number of shareholders cannot exceed one hundred one and restricts the transfer of share from one shareholder to another is known as private company.

6. What do you mean by Company limited by Guarantee?

Those companies which are formed by giving the written guarantee by the members are 'Companies Limited by Guarantee'. The members' liability is limited up to the amount he/she have guaranteed for. This guarantee amount is specified in memorandum of association.

7. What do you mean by National company?

A company is said to be national company as and when it is registered in a country and restricted to operate within the national boundary.

8. What do you mean by Foreign company?

A company is said to be foreign company whose business is not restricted within the territory where it has been registered. It can do its business in other country's territory too.

9. What do you mean by Multinational company?

A company whose head office is in one country and business offices in two or more countries is multi-national company. The head office of the company influences the business of its branches over the other countries

10. What do you mean by Government company?

A government company is one whose majority of shares are taken up by the government i.e. the government must hold more than 50% of the shares of the company.

11. What are the main documents in case of private limited company?

The main documents in case of private company limited are as follows:

- Memorandum of association (MOA)
- Articles of association (AOA)

12. What are the main documents in case of public limited company?

The main documents in case of public company limited are as follows:

- Memorandum of association (MOA)
- Articles of association (AOA)
- Prospectus.

13. What is articles of association?

Article of Association is one of the important documents for establishment of the company. It relates with the internal rules and regulations of the company. It contains rules, regulations and by laws for the internal management of the company.

14. What is memorandum of association?

Memorandum of association is a document in which the main objective and external rules and regulations of the company will be stated. The company should operate as per the terms and conditions mentioned in the MOA.

15. What is prospectus?

Prospectus is the brief report of the company. In other words, Prospectus is an invitation to the general public to participate or purchase the shares of the company.

16. What is company promoter?

A person who takes initiative for the formation of a company is called promoters. There may be one or more promoters. Promoters are the main shareholders who incorporate company and bring it into operation.

SHORT QUESTION ANSWER

1. Mention any four important contents of memorandum of Association.

The four major contents of memorandum association are as follows:

i. Name of the company
ii. The address of the registered office of the company,
iii. Objective of the company
iv. The acts to be carried out to accomplish the objectives of the company,

2. Write the meaning of private limited company. Mention any three features of private company.

Private limited company is one of the registered companies incorporated according to the company act. According to the company act 2063 and new revised 2074, the minimum number of shareholder may be one and maximum shareholders should not be exceeded one hundred one. Shares of a private limited company are also not transferable without consent of all the members. A private limited company can start its business only after getting certificate of incorporation. The three main feature of private limited company are as follows:

i. In private limited company the minimum number of member is one (1) and maximum is not exceeded one hundred one (101).
ii. A private limited company can start its business immediately after getting certificate of incorporation
iv. The minimum numbers of directors should be two (2) and their terms of office will be as prescribed in articles of association of the company.

3. Write in brief any three advantages of public limited company.

The three common advantages of public limited company are as follows:

i. **Limited liability**: The liability of the shareholders of the company is limited up to their capital investment. The shareholders are not liable of excess claims of creditors even if capital value of company become insufficient.

ii. **Perpetual existence**: Company is an artificial person created by law. As a corporate body its existence is perpetual. The death, retirement, lunacy of shareholders or promoters do not affect in regular function of the company.

iii. **Transferability of shares**: Shares public limited company, are easily transferable from one person to another. Such transfer of shares does not affect the regular function of the company and prior permission from management is not required to transfer shares.

4. Write in brief in meaning of prospectus.

Prospectus is important document of the public limited company. It provides summary of past history, present position and also reflects future plans and policies of the company. It is issued to the public while issuing shares and debentures. The issue of prospectus is considered as an invitation to the general public to purchase the shares and debentures of the company. According to section 23 and 24 of Company Act 2063 and new revised 2074, a public limited company must publish its prospectus before issuing its securities publicly.

5. Write any three privilege of private company provided by the Company Act.

i. A private limited company can start its business only after getting certificate of incorporation from the concerned department of government of Nepal.
ii. It is not bound to publish prospectus at the time of issue of shares for subscription.
iii. It is not bound to hold statutory meeting of shareholders.

6. Write in brief about memorandum of association.

Memorandum of association is the charter or constitution of the company. It involves all the rules and regulations of the company for legal formalities and procedures. A company has to perform all the activities remaining within the rules and regulations as specified in memorandum of association. It is the foundation of company structure and management.

7. What do you mean by prospectus? Mention any 4 contents to be stated in prospectus.

Prospectus is important document of the public limited company. It provides summary of past history, present position and also reflects future plans and policies of the company. It is issued to the public while issuing shares and debentures. The four contents of prospectus are:

i. The objectives of the company as specified in memorandum and articles of association.

ii. Minimum numbers of shares must be subscribed in order to qualify for the post of directors.

iii. Arrangement relating to bonus shares.

iv. A biographical introduction of directors.

8. What do you mean by company? Write briefly any two features of it.

A joint stock company is an association of persons having common economic objectives. It has separate legal existence and common seal. It collects capital by issuing transferable shares. It is managed by the representative of shareholders known as member of board of directors. It is a corporate body of shareholders with perpetual existence.

Features: Two features of Joint Stock Company are as follows:

a. Artificial person: Joint Stock Company is an artificial person created by law. It has a separate legal entity distinct from its members. It can hold property, borrow debts, can carry on business and enter into contract in its own name. It is created by law and can also be dissolved only by the law.

b. Limited liability: The liability of shareholders of the company is limited up to their capital investment. Company can borrow loan for expansion of business in its own name. The shareholders are not liable for the payment of excess debts even if capital value of company become insufficient.

9. Write the meaning of registered company write a suitable example.

A company registered according to the provision of the company act is known as registered company. The procedures of establishment, right, duties, working area etc of such company are specified at the time of incorporation. In the context of Nepal, a registered company should be incorporated according to the provision of company act 2063 and new revised 2074. The examples of registered companies are Surya Tobacco Company Pvt. Ltd., Nepal Telecom Company Ltd, Himalaya Bank Ltd etc.

10. Mention any two features of a company.

The main three features of company are as follows:

i. Legal personality: Joint Stock Company has a separate legal entity independent from its members. It can hold property, borrow debts, can carry on business and enter into contract in its own name.

ii. Perpetual succession: Joint Stock Company is a corporate body. It is not affected by death, retirement or insolvency of its shareholders. Similarly, it performs business without any interruption even if change in management, change in members of board of directors, and other internal system.

☑ MULTIPLE CHOICE QUESTIONS

1. A company is formed by
   a. Government b. Directors
   c. Promoters d. Owners

2. The word limited should appear after the name of
   a. Partnership b. Registered company
   c. Statutory company d. Chartered company

3. Deferred shares are generally issued to:
   a. Promoters b. Government
   c. General Public d. Managing agents

4. The minimum members in public limited company are:
   a. 4 b. 2
   c. 8 d. 7

5. The Maximum members in private limited company are:
   a. 50 b. 7
   c. 101 d. Unlimited

6. A prospectus is issued by
   a. A private company
   b. A public company seeking investment from public
   c. A public enterprise
   d. A public company

7. The official signature of a company is called:
   a. Prospectus b. Debentures
   c. Shares d. Common seal

8. The company is managed by the group of persons known as:
   a. Board of directors b. Group of member
   c. Team of shareholdersd. None of the above

9. A copy of the ________ must accompany each from of application for shares offered to the public.
   a. Memorandum of association
   b. Prospectus
   c. Articles of association
   d. None of the above

10. _____ cannot give invitation to the public to subscribe for any shares in or debentures of the company
    a. Subsidiary company b. Statutory Company
    c. Private company d. Registered company

11. The shares of a _______ company can be freely transferable
    a. Private ltd b. Public ltd
    c. Partnership d. all of the above

12. "Men may come and men may go but the company exist"- this explains which characteristics of the company as per companies Act
    a. Separate legal entity b. Perpetual Succession
    c. Capacity to sue d. None of the above

13. _____ are the company created by special act of the legislature
    a. Registered company b. Public Ltd Company
    c. Private ltd company d. Statutory company

14. The liability of the members of the company can be limited by
    a. Share
    b. Guarantee
    c. Both a & b
    d. Neither a nor b
15. A company has ....
    a. Separate Legal Entity
    b. Perpetual Existence
    c. Limited Liability
    d. All of the Above
16. Shareholders are :
    a. Customers of the Company
    b. Owners of the Company
    c. Creditors of the Company
    d. None of these
17. Who are the real owners of a company
    a. Government b. Board of Directors
    c. Equity shareholders d. Debenture holders

Answers

1.c	2.b	3.a	4.d	5.c	6.b	7.d	8.a	9.b	10.c
11.b	12.b	13.d	14.c	15.d	16.b	17.c			

QUESTIONS TO TEST THEORETICAL KNOWLEDGE

VERY SHORT ANSWER QUESTIONS

1. What do you mean by public company?
2. What do you mean by private company?
3. List out the main document of a company.
4. What is registered company?
5. Write any two features of a public company.
6. What is an article of association?
7. What is prospectus?

SHORT ANSWER QUESTIONS

1. What is Joint Stock Company? list out its main characteristics.
2. Briefly explain the types of company on the basis of domicile.
3. Briefly explain the types of joint stock Company on the basis of liability.
4. Briefly explain the types of company on the basis of control.
5. Write some points of difference between private and public limited company.
6. Write the characteristics and privileges of private limited company.
7. Explain the advantage of company for an organization.

LONG ANSWER QUESTIONS

1. Write the features of private company and public company.
2. Explain the procedures of company formation in Nepal.
3. Introduce company promoters. Mention their role for company formation.
4. Define memorandum of association. Mention its main contents.
5. Introduce articles of association. Mention its main contents.
6. What do you mean by prospectus? Mention the objectives of issue of prospectus.
7. Write the advantages of public limited company.

Chapter 2

Capital of Company (Issue of Shares for Cash)

Learning Objective

After comprehensive studying of this chapter, you will be able to understand:

- concept and types of share capital.
- the meaning and importance of equity shares.
- the concept and types of preference of share.
- difference between equity and preference share.
- issue of shares and accounting for shares issues.
- the methods of issue of shares.
- the procedures of issuing the shares at lump sum basis and installment basis.
- minimum subscription of shares.
- under subscription and over subscription of shares.
- the transaction relating issue of shares.
- for the effect of issue and redemption of preference shares.

MEANING OF SHARE AND SHARE CAPITAL

Concept Review
Share capital is own capital and it is raised by the company by issuing among general public.

Share capital is known as own capital and it is the primary source of collecting amount for the company. In other words, share capital means the capital raised by a company by the issue of shares. According to company act 2074, "share" is the divided units of share capital of the company. Share capital of a company is divided into certain fixed number of units of rupees hundred or rupees divisible of ten each. These units are known as shares which represent the shares in the capital of company. The person or institution holding some units of shares is called shareholder. A shareholder is the part of owner and responsible to take risk of the company. Shareholders get return on their investment in terms of dividend from the company. Dividend is that part of profit which is distributed among the shareholders on the basis of units of shares of the company they held.

Features of Share

Total share capital of a company is divided into many units of small denominations. Each such unit is called as a share. In other words, a share is small part of the total capital of a company. The features of share are given below:

1. **Face value:** Each share has a definite face value, Rs. 10 and Rs. 25, Rs. 100 of so. The share has a market value which may be more or less than the face value.
2. **Issue value:** A share may be issued at par (exact face value), at premium (more than the face value) or at discount (less than the face value).
3. **Paid up value:** Shares may be fully paid-up or partly paid-up. A company can forfeit partly paid-up shares, if calls on shares not paid in time.
4. **Distinctive number:** Each share has a distinctive number. The shares are allotted in lots say 10 shares, 50 shares, 100 shares, or so.
5. **Ownership:** The owner of the share is called shareholder or member of the company. The shareholders are the owners of the company.
6. **Rights:** A share confers certain rights on its holder, such as right to vote at a meeting, right to inspect books of accounts, right to receive dividend, etc.
7. **Proof of title:** The title of a share is evidence by a share certificate, issued by the company under its common seal.
8. **Transferability:** The share of a public limited company is freely transferable. The equity share of companies can be easily listed on the stock market.

Types of Share Capital

Share capital of a company can be divided into following different categorized.

1. **Authorized capital**: It is also known by registered capital of the company. It is the nominal units of share capital which the company is authorised to issue by its Memorandum of Association. This is the maximum capital which company can have in its life time.For instance, the shared capital of A Ltd. is Rs. 1,00,00,000 divided into 1,00,000 shares of Rs. 100 each.

   However, if any company intends to increase its authorised capital it may increase by adopting a special resolution to this effect at its General Meeting and by obtaining approval of the Registrar of the office of Government of Nepal, and shall make necessary amendment to the Memorandum and Ariticles accordingly.

2. **Issued capital:** It is the part of authorized capital that is offered to the public for subscription. A company does not issue all the authorized capital at a time but keeps un-issued for future requirement. At the initial stage of operation, on the basis of scope of business, company issues 25%, 40%, 50% or any part of authorized capital as it is published in prospectors. For instance, A Ltd. issued 50,000 shares (i.e. 50% of 1,00,000 shares) of Rs. 100 each.

   It is to be noted that if it is necessary for the company to increase the capital up to the limit of the authorized capital, the issued capital may be increased by adopting an ordinary resolution at the General meeting of shareholders.

3. **Called-up capital:** It is the part of issued capital which is actually called-up from public on installment. A company is not allowed to collect all the issued value of shares at a time; it should be collected in installments like as share application, shares allotment, and shares calls. Therefore, the called up capital is the sum total of installments called up for payment on the number of shares allotted. For instance, A Ltd. issued 50,000 shares of Rs. 100 each, but called-up capital value may be Rs. 25 on application, Rs.25 on allotment, Rs.50 on first and final call, as it is published in prospectus.
4. **Subscribed capital:** It is that part of issued and called up capital which has been applied by the public for getting shares of the company. In subscribed capital there is three possibilities i.e. equal subscription, over subscription and under subscription. If all the shares offered to the public are taken up by the public, subscribed capital will be equal to issued capital. For instance, A Ltd. issued 50,000 shares of Rs. 100 and if all issued shares are taken up by the public then subscribed capital will be equal to issued capital. Similarly, when subscribed capital becomes more than issued capital it is known as oversubscription and vice versa.
5. **Paid-up capital:** It is that part of the called-up capital which is actually received in cash as capital from shareholders. If all the called up capital has been received, paid-up capital will be equal to called up capital. When any part of called up capital is not received that is known as calls in arrear and in such situation, paid up capital will be called up capital minus calls in arrears. For instance, A Ltd. called up 50,000 shares of Rs. 100 each consisting of Rs. 25 on applications, Rs.25 on allotment, and Rs. 50 first and final call, and a shareholder holding 500 shares failed to pay first and final call. In such cases, called up capital is Rs. 50, 00,000 (i. e. 50,000 x 100) whereas paid up capital will be Rs. 49, 75, 000 (i.e. 50,000×100 – 500×50). Here it is to be noted that dividend is always paid only of paid capital of the company.
6. **Reserve capital:** In case a company, by special resolution, determines that any portion of its authorized and issued share capital as un-called capital till the liquation of company, such capital is known as reserve capital. For instance, A Ltd. issued 50,000 shares of Rs. 100 each consisting called up value of Rs. 50 on application, Rs. 25 on allotment and Rs. 25 of first and final call, and if company does not called up first and final call, then Rs. 12,50,000 (50,000x25) will be reserve capital. Such capital is kept to meet financial crises in the situation of winding up of the company

Illustration 1. A Ltd. registered with an authorized capital of 1,00,000 shares of Rs. 100 each, payable Rs. 25 on application, Rs.25 on allotment and Rs. 30 on first call and Rs. 20 on final call. The Company issued to public for subscription 50,000 shares. The public applied for all shares and duly allotted. It made call to first call and all due money is received in due time except first call money on 500 shares.

Required: The effect of shares in opening balance sheet

Solution:

Opening Balance Sheet

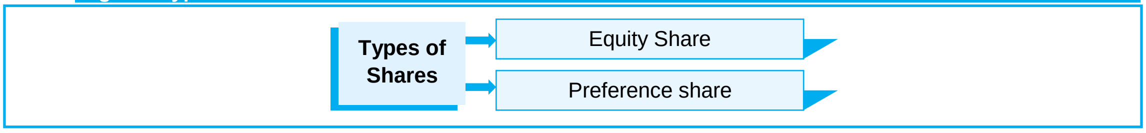
Capital and liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital		Cash at bank	39,85,000
Authorized Capital			
1,00,000 shares of Rs. 100 each.....................	1,00,00,000		
Issued and Subscribed Capital			
50,000 shares of Rs. 100 each	50,00,000		
Called up Capital			
50,000 shares of Rs. 80 each	40,00,000		
Paid up Capital			
50,000 shares of Rs. 80 each 40,00,000			
Less: Call in arrear (500x30)................... 15,000	39,85,000		
Total	**39,85,000**	**Total**	**39,85,000**

TYPES OF SHARES

"Shares" means the allotted portion of share capital of a company. Usually each share in a company is valued at Rs. 100 or Rs. 10. The investors are known as shareholders who take risk of company operation and its performance. They get income on their investment on shares in terms of dividend from the company, which is part of the profit of the company. Here shares of a company may be classified as:

1. Equity share
2. Preference share

Figure: Types of Shares



1. Equity Share

In general, shares which are not preference shares, are equity shares. The holders of these shares have not preferential right in the payment of annual dividend and repayment of their investment. Equity shareholders will get annual dividend only after payment of dividend to preference shareholders. However, there is no limitation to the payment of dividend to equity shareholders, it depends upon the amount of profit of the company. If company earned more profit equity shareholders will get more dividends and vice versa. In case of liquidation of the company, equity shareholders will get back their investment, if any balance remains, after payment of amount due to creditors and preference shareholders. The equity shareholders have voting right in the election of the members of Board of Directors, therefore, they can participate in the management of the company.

Concept Review
Shares other than preference shares are equity or ordinary shares.

Importance of Equity Share

Equity share is advantageous both to the company and to the shareholders. The following are the importance of equity share:

1. **Participation in management:** Equity shareholders have voting right in the election of members of Board of Directors. Board members are representatives of equity shareholders who play major role in management of the company. The success of a joint stock company mainly depends upon the efficiency of representatives of equity shareholders.
2. **Fixed fund:** Equity share capital is of fixed fund up to the existence of the company. Therefore, the company can mobilize such fund in the long-term profitable projects. The amount of equity capital will be refunded only at the winding up of the company.
3. **No fixed dividend:** The amount of annual dividend payable to the equity shareholders depends upon the volume of profit. If company earned more profit, more amount of dividend is paid to shareholders and if company earned low profit, minimum amount of dividend is paid. Similarly, if company earned no profit, there is no obligation to pay dividend to shareholders.

4. **Transferability of shares:** Equity shares of a public limited company are easily transferable from one person to another without any pre-permission from the company management. An equity shareholder can sale his shares in shares market whenever he things necessary. Such transferable facility encourages to the public to invest in such shares.

5. **No collateral security to issue:** For issue of equity shares, it is not necessary for a company to keep it's any assets as mortgage or security. It can issue such shares only after completing necessary documentations and official procedures. Public invest in such shares only by considering reputation and future scope of business of the company.

6. **Good scope of investment:** The face value of equity share is only rupees hundred. Besides, the amount of dividend is varying from volume of profit and there is also voting right vested to such shareholders. Therefore, it is taken as a good scope of investment, even to the small investors.

2. Preference Share

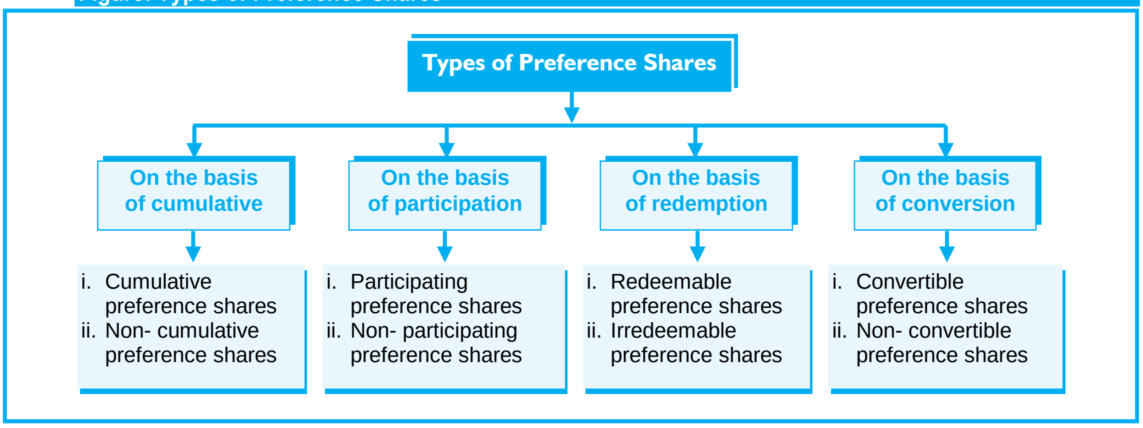
Preference shares are those shares, which carry a preferential right firstly as to payment of annual dividend and secondly as to the return of capital when the company is wound up. These shares carry a preferential right of dividend at a fixed rate before any dividend paid to equity shareholders. The fixed rates of dividend like 10%, 11%, 12% and so on, payable to shareholders is declared at the time of issue of such shares. However, preference shareholders have no voting right in the election of Board of Directors, therefore, they have no authority to participate in the management of the company. The amount of preference shares may be redeemed after expiry of certain fixed time, before liquidation of the company, which is mentioned at the time of issue of such share.

Concept Review
Shares under which there is preferential right in payment of dividend and repayment of investment is preference shares.

Types of Preference Share

Preference shares may be classified into different types on the basis of different angles. The following are the major types of preference shares:

Figure: Types of Preference Shares



1. **On the basis of cumulative:** Under this basis, preference shares are classified into two: cumulative preference shares and non-cumulative preference shares.

   a. **Cumulative preference shares**: In cumulative preference shares, the amount of dividend if not paid in any fiscal years will be carried forward to following years as liability. The holders of such shares are entitled to recover the accumulative dividend before any dividend paid to equity shareholders. If the articles of the company are silent, the assumption is that preference shares are cumulative.

   b. **Non-cumulative preference shares**: In case of non-cumulative preference shares, arrears of dividend do not accumulate to the following years. Under such preference shares, dividend is only to be paid out of the profit of concerned (current) fiscal year before the payment of dividend to equity shareholders.

2. **On the basis of participation:** Under this basis, preference shares are classified into two: participating preference shares and non-participating preference shares.

   a. **Participating Preference shares**: In participating preference shares, preference shareholders have the right to participate in any surplus profit which remains after dividend has been paid at a certain rate to equity shareholders. The surplus profit is distributed in a certain agreed ratio between preference and equity shareholders. Besides, such preference shareholders may also been given the right to participate in the surplus assets remaining after amount repaid to equity shareholders in winding up of the company.

   b. **Non-participating preference shares:** In non-participating preference shares, preference shareholders have no right to participate in any surplus profit after getting first round of fixed rate of dividend. If articles of the company are silent, preference shares are assumed to be non-participating preference shares.

3. **On the basis of redemption:** Under this basis, preference shares are classified into two: redeemable preference shares and irredeemable preference shares.

   a. **Redeemable preference shares**: The amount of such preference shares will be refunded to their holders after expiry of certain fixed period of time. The time and condition of repayment of investment is mentioned in prospectus at the time of issue of such shares.

   b. **Irredeemable preference shares**: These preference shares will remain as shares up to the operation of the company. The amount of such preference shares will be refunded to the holders only at the liquidation of the company.

4. **On the basis of conversion**: Under this basis, preference shares are also classified into two: convertible preference shares and non-convertible preference shares.

   a. **Convertible Preference Shares**: The holders of such preference shares have given right to get their preference shares converted into equity shares according to terms of issue.

   b. **Non-convertible Preference Shares**: The holders of such preference have given not right to convert their preference into equity shares.

Difference between Equity and Preference Shares

The following are the some points of difference between equity shares and preference shares:

Basis	Equity shares	Preference shares
i. **Concept**	Ordinary share means a share other than a preference share.	Preference share means a share having preference over ordinary share in payment of dividend and repayment of capital at the liquidation of a company.
ii. **Participation in management**	The holders of equity shares have voting right in the election of board members who participate in the management of the company.	Preference shareholders have no voting right in the election of members of board of directors.
iii. **Payment of dividend**	Equity shareholders will get annual dividend on the profit of the company only after distribution to preference shareholders.	Preference shareholders have preferential right to get annual dividend before distribution to equity shareholders.
iv. **Rate of dividend**	There is no any fixed rate of annual dividend is paid to equity shareholders. It depends upon the volume of profit of the company.	A fixed rate of annual dividend is paid to preference shareholders.
v. **Conversion**	These shares cannot be converted into other securities.	On the basis of terms of issue a preference shares may be converted into ordinary shares.
vi. **Redemption**	The amount of such shares will be repaid to investors only at the liquidation of the company.	In case of redeemable preference shares, capital investment will be repaid to investors in the life time of the company at the expiry of predetermined time.

PROVISION REGARDING SHARE ISSUE IN NEPAL COMPANY ACT

According to Section 27 of Nepal Company Act 2063

The face value of shares of a private company shall be as specified in its articles of association.

- The face value of shares of a public company shall be fifty rupees per share or shall be equivalent to such amount exceeding fifty rupees as is divisible by the figure ten as provided in the memorandum of association and articles of association. In inviting an application by a public company for the subscription of its shares, no amount exceeding fifty per cent of the face value of each share shall be demanded with the application. Provided, however, that in raising capital by a company which has been in operation since at least three years ago by publishing its audited fiscal statements for its last three years, at the time of publication of its prospectus, this provision shall not be applicable.
- A person who intends to subscribe the shares of a public company has to make an application in the format as prescribed.

According to Section 28 of Nepal Company Act 2063

- Where a public company invites the general public to apply for the subscription of its shares it shall allot the shares and give the shareholders a notice in the format as prescribed, within a maximum period of three months after the date of closure of share issue. in cases where at least fifty percent of the total shares issued publicly cannot be sold failing a guarantee/underwriting agreement on the subscription of at least fifty percent of the publicly issued shares, no shares shall be allotted.

- If the company makes an application, explaining the reasons for failure to allot shares within the time-limit owing to the circumstance mentioned in the proviso to that Sub-section within seven days after the expiration of that time-limit, the Office may extend the time limit for up to three months for the allotment of shares. If the shares cannot be allotted even within such extended time limit, the company may allot such shares through negotiations or any other methods.
- If the allotment of shares cannot be made even within the time limit the amount received for the subscription of shares as well as an interest thereon, as prescribed, from the day of expiration of such time-limit to the day of refund of such amount shall be refunded.
- If the funds are insufficient to refund the amount required to be refunded the shortfall amount shall be borne by the promoters personally.

According to Section 29 of Company Act 2063

Any company fulfilling the following conditions may, with the prior approval of the Office, issue shares at a premium:

- The company has been making profits and distributing dividends for three consecutive years,
- The company's net worth exceeds its total liabilities,
- The company's general meeting has decided to issue shares at a premium.
- Where the shares are sold at a premium a sum in excess of the face value, out of the proceeds thereof, shall be deposited in a premium account to be opened to that effect.

According to Section 64 of Company Act 2063,

Prohibition on issue or sale of shares at a discount: A company shall not issue or sell its shares at a discount. Notwithstanding anything contained, a company may, on the following conditions, issue or sell shares at a discount by adopting a special resolution at the general meeting

a. In issuing or selling shares pursuant to a capital restructuring scheme of the company,

b. In issuing or selling shares pursuant to a scheme of converting loans borrowed by the company into shares with the consent of creditors;

c. In issuing or selling shares pursuant to an employee share scheme;

d. In issuing shares on such other conditions as approved by the Office .

According to Section 65 of Company Act 2063

A company may issue preference shares as provided for in this Act, memorandum of association or articles of association. In issuing preference shares the following maters shall be disclosed:

a. Whether preference is given to receive dividends against ordinary shares;

b. Percentage of dividends receivable by preference shareholders;

c. Whether dividends get cumulated every year (cumulative) or profits are distributed only in a year wherein profit is made (non-cumulative);

d. Whether preference is given while paying amount of share in the event of liquidation of company;

e. Whether voting right is attached there to or not.

f. Whether preference shares can be converted into ordinary shares;

h. Whether the amount of preference shares can be redeemed (redeemable) or cannot be redeemed (irredeemable) after a certain period;

- Where any redeemable shares are issued, the shares shall not be redeemed unless they are fully paid.
- No amount of preference shares shall be redeemed except out of profits which would otherwise be available for dividend or out of the proceeds of a fresh issue of shares made by the company for the purposes of the redemption.
- Where a premium is payable on the redemption of any redeemable preference shares, there shall be provided for a separate fund out of the profits of the company or out of the company's shares premium account, for the purposes of redemption of such shares.

ISSUE OF SHARES FOR CASH

When company issues shares to the public for collection of money it is known as issue of shares in cash. Company needs cash in terms of capital for establishment of business and for day to day business operation. For establishment of business, company needs long-term capital for purchasing land, building, machines, equipments, furniture and other assets. Similarly, company needs short-term capital for operating business such as for purchasing raw materials, payment of salary and wages to employees and to pay overhead expenses. The company can issue shares in lump-sum or in installment as it is specified in articles of associations and prospectus.

ISSUE OF SHARES AND ACCOUNTING FOR SHARES ISSUE

A public limited company publishes a document called the prospectus inviting application from public to subscribe the shares of the company. According to section 27(1) of company act 2074, the face value of shares of private company shall be as prescribed in its articles of association. According to section 27(2), the face value of shares of public company shall be fifty rupees per share or shall be equivalent to such amount exceeding fifty rupees as is divisible by the figure ten as provided in the memorandum and articles of association. According to section 27(3), in inviting an application by a public company for the subscription of its shares, no amount exceeding fifty percent of the face value of each share shall be demanded with the application. Provide, however, that in raising capital by a company which has been in operation since at least three years ago, by publishing its audited fiscal statements for its last three years, at the time of publication of its prospectus, this provision shall not be applicable.

REALITY BITES

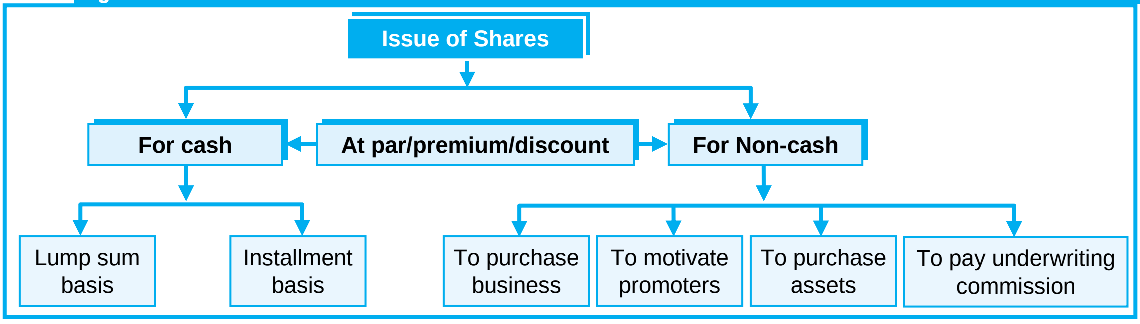
In Nepal, at the initial state it was practiced that a public limited company invited application at 50% of the face value of a share (i.e. 50% of Rs.100) and balance would be called up as allotment or as final call. But at the present time, many limited company invited application for 100% of the face value at a time if they have presented three years audited statement to the concerned departments of the government.

In normal course, shares are issued on cash in installment or full value at a time. However, in some exceptional situation, shares may be issued other than cash like for purchase of non-cash assets or business. Similarly, shares may also be issued in lump sum, specially, for issue of shares to vendors or at the time of reissue of forfeited shares.

METHODS OF ISSUE OF SHARES AND ACCOUNTING TREATMENT

The company issues equity share to the public when company has limit money. So it wants to raise capital ordinary share is not sufficient, the company takes issue of preference share. Here, issue of share collecting through the full par value of share at the times of issue in lump sum basis. In such a way, the companies are collecting money in the different way like, application, allotment and first and final call etc.

Figure: Methods of Issue of Shares

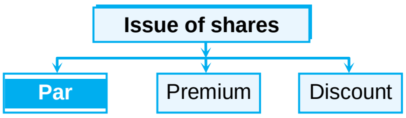


Issue of Shares in Lump Sum Basis

When book value of shares is called up in one installment, it is known as issue of shares in lump-sum. For example, the book value of a share is Rs. 100 and if it is called up as Rs. 100 per share in one installment. At present, in the context of Nepal, almost companies are issued shares in lump-sum.

Issue of Shares at Par

The issue of share at its face, book or nominal value is known as issue of share at par value. For instance, the face value of a share of the company is Rs. 100 and if it is issued to public at Rs. 100, it is known as issue of share at par. According to section 27(2) of the company act 2074, the face value of the share of a public limited company shall be of fifty rupees per share or rupees divisible by ten as provided in the memorandum and articles of association. The accounting treatment of shares issued at par is explained in the following:



Journal entries in the books of ………

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When the application money is received:**			
	Bank A/c (No. of share applied × rate of application) ....Dr.		xxx	
	To Share application A/c			xxx
	(Being share application money received on…..shares @ Rs. …. each)			
ii.	**When money is transferred to Share capital account:**			
	Share application A/c (No. of share applied × rate of application) ....Dr.		xxx	
	To Share capital A/c			xxx
	(Being share applications money transferred to share capital)			

Illustration 2. A Ltd. issued 10,000 shares of Rs. 100 each at par in lump-sum. All called up money was received and allotted.

Required: Journal entries

Solution:

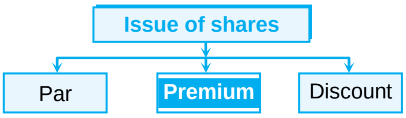
Journal entries in the books of A. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When the application money is received:**			
	Bank A/c (10,000 × Rs. 100)......Dr.		10,00,000	
	To Share application A/c			10,00,000
	(Being share application money received on 10,000 shares @ Rs. 100 each)			
ii.	**When money is transferred to Share capital account:**			
	Share application A/c......Dr.		10,00,000	
	To Share capital A/c			10,00,000
	(Being share applications money transferred to share capital)			

Issue of Shares at Premium

The issue of shares above the face value of share is known as issue of shares at premium. Therefore, issue of shares at a premium would denote the issue of shares to the public at a price, which is more than the book value of a share. For instance, the face value of a share is Rs. 100 and if it is issued at Rs. 110 then Rs.10 will be share premium. Since, share premium is capital gain for the company; therefore, it is credited in the books of account. The company act 2074 has provision to issue of share at premium by giving information in prospectus. However, company act does not mention with regard to the amount of premium that a company can charge and the utilization of such premium.

For accounting treatment the amount of premium can be adjusted with the amount charged with share application, share allotment or share calls. Generally, share premium amount is adjusted at the time of amount due on allotment. The following illustration will explain the accounting treatment of issue of share at premium:



Journal entries in the books of ………

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When application money is received:**			
	Bank A/c (No. of shares applied × rate of application with premium)......Dr.		xxx	
	To Share application A/c			xxx
	(Being share application money received on.....shares @ Rs. ....each at ....% premium)			
ii.	**When money is transferred to Share capital account:**			
	Share application A/c (No. of shares applied × rate of application with premium)...Dr.		xxx	
	To Share capital A/c (No. of shares issued × rate of application without premium)			xxx
	To Share premium A/c (No. of shares issued × rate of premium)			xxx
	(Being share applications money transferred to share capital and share premium)			

Illustration 3. B Ltd. issued 10,000 shares of Rs. 100 each at 10% premium in lump-sum. All called up money was received and allotted.

Required: Journal entries

Solution:

Journal entries in the book of B. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When the application money is received:**			
	Bank A/c (10,000 × Rs. 110)......Dr.		11,00,000	
	To Share application A/c			11,00,000
	(Being share application money received on 10,000 shares @ Rs. 100 each at 10% premium)			

ii.	**Money is transferred to Share capital account:**			
	Share application A/c (10,000 × Rs. 110) ....Dr.		11,00,000	
	To Share capital A/c (10,000 × Rs. 100)			10,00,000
	To Share premium A/c (10,000 × Rs. 10)			1,00,000
	(Being share applications money transferred to share capital and share premium)			

Issue of Share at Discount

The issue of a share less than its face or book value is known as issue of share at a discount. For instance, the face value of a share is Rs.100 and if it is issued at Rs. 90 then Rs, 10 is discount on issue of share. The discount on share is capital loss for the company so it is debited in the book of account. The following illustration will clarify the accounting treatment of issue of share at discount:

Issue of shares

Par | Premium | **Discount**

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When the application money is received:**			
	Bank A/c (No. of share applied × rate of application) ....Dr.		xxx	
	To Share application A/c			xxx
	(Being share application money received….. shares of Rs. …. each at …. % discount)			
ii.	**When application money is transferred to share capital account:**			
	Share application A/c (No. of share applied × rate of application) ....Dr.		xxx	
	Discount on issue of shares A/c (No. of shares issued × discount share)..........Dr.		xxx	
	To Share capital A/c (No. of share issued × par value of share)			xxx
	(Being share applications money transferred to share capital)			

Illustration 4. C Ltd. issued 10,000 shares of Rs. 100 each at 10% discount in lump-sum. All called up money was received and allotted.

Required: Journal entries

Solution:

Journal entries in the books of C. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When the application money is received:**			
	Bank A/c (10,000 × Rs. 90)..........Dr.		9,00,000	
	To Share application A/c			9,00,000
	(Being share application money received 10,000 shares of Rs. 100 each at 10 % discount)			
ii.	**When application money is transferred to share capital account:**			
	Share application A/c (10,000 × Rs. 90) ....Dr.		9,00,000	
	Discount on issue of shares A/c (10,000 × Rs. 10)..........Dr.		1,00,000	
	To Share capital A/c (10,000 × Rs. 100)			10,00,000
	(Being share applications money transferred to share capital)			

Illustration 5. A Ltd. issued 10,000 shares of Rs. 100 each in lump-sum with share application. All called up amount of shares is received in due time.

Required: Journal entries for issue of shares at:

a. Par b. Premium 10% c. Discount 10%

Solution:

Journal entries in the books of A company Ltd.

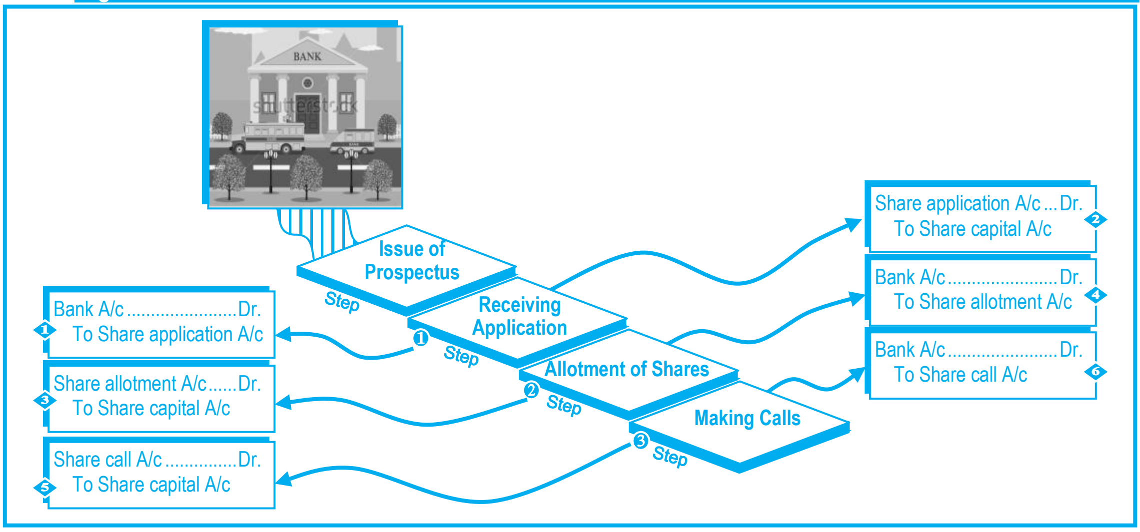
Date	Particulars	LF	Debit Rs.	Credit Rs.
a.i.	**For issue of shares at par:**			
	Bank A/c (10,000 × Rs. 100)..........Dr.		10,00,000	

	To Share Application A/c (Being share application money received on 10,000 shares @ Rs100 each)			10,00,000
ii.	Share application A/c (10,000 × Rs. 100) ....Dr. To Share capital A/c (Being share application money transferred to share capital)		10,00,000	10,00,000
b. i.	**For issue of shares at 10% premium:** Bank A/c (10,000 × Rs. 110) ....Dr. To Share application A/c (Being share application money received on 10,000 shares @ Rs. 100 at Rs.10 premium each)		11,00,000	11,00,000
ii.	Share application A/c (10,000 × Rs. 110) ....Dr. To Share capital A/c (10,000 × Rs. 100) To Share premium A/c (10,000 × Rs. 10) (Being share application money transferred to share capital and share premium)		11,00,000	10,00,000 1,00,000
c. i.	**For issuer of shares at discount:** Bank A/c (10,000 × Rs. 90) ....Dr. To Share application A/c (Being share application money received on 10,000 shares @ Rs. 100at Rs10 discount each)		9,00,000	9,00,000
ii.	Share application A/c (10,000 × Rs. 90) ....Dr. Discount of shares A/c (10,000 × Rs. 10) ....Dr. To Share Capital A/c (Being share application money and discount on share transferred to share capital)		9,00,000 1,00,000	10,00,000

Issue of Shares in Installment Basis

Some joint stock companies issue shares on installment basis as it is specified in articles of association and prospectus. They issue shares on the basis of scope of business. For example, Book value of a share is Rs. 100, in installment issue the Rs. 100 is not called up at a time. It is issued in installments such as Rs. 25 on application, Rs. 25 on allotment and Rs. 50 on first and final call.

Figure: Process to be Considered for Issue of Shares in Installment



1. **Issue of Prospects:** Joint stock companies issue prospectus at the time of issue of shares. Prospectus involves detail information of past performance, present situation and future prospects of the company. It also involves detail information for issue of shares to the public. Such information involves terms of issue of shares (lump-sum or installment), underwriter, time of allotment and others. People decided to purchase (subscribe) shares

on the basis of information in prospectus.

2. **Receiving Applications:** This is the money subscribed by the people for getting share capital of the company. In receiving share application, there is the possibility of three options consisting of full subscription, under subscription and over subscription.

3. **Allotment of Shares:** It is concerned with providing shares to the applicants. Depending upon the amount of subscription, company provides shares to the applicants.
   a. **Full subscription:** Full subscription is concerned with receiving application money which is equal to issue and called up number and value of shares. In case of full subscription, company provides shares to all the applicants.
   b. **Under subscription:** Under subscription is concerned with receiving application money which is less than issue and called up number and value of shares. In case of under subscription, company provides shares to all the applicants.
   c. **Over subscription:** Over subscription is concerned with receiving application money which is more than issue and called up number and value of shares. In case of over subscription, company provides shares on the basis of terms specified in prospectus.

4. **Making calls:** It is concerned with providing information to the share holders for payment of remaining installment to the company. Company makes call on the basis of requirement of capital for expansion of business.

Issue of Shares at Par

1. **Accounting for share application:** At the time of inviting share application from public, a public limited company publishes a document called prospectus which includes all the information regarding process of collection of share capital. It invites application from public through a prescribed application form. It means any person who desires to purchase the shares of the company shall have to make an application in the format as prescribed. The application money should be deposited in bank account of the company through underwriter. Applied shares of the public will be allotted within a maximum time of three months of the date of invitation made by the company, if not money should be refunded. When share are allotted, a share certificate in the prescribed format shall be issued to every shareholder in respect of each share purchased by him. For accounting treatment following:

Journal entries in the books of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	When application money received: Bank A/c (No. of shares applied × rate of application) ....Dr. To Share application A/c (Being share application money received on.... shares @ Rs. .... each)		×××	×××
ii.	When application money transfer to share capital account: Share application A/c (No. of shares applied × rate of application) ....Dr. To Share capital A/c (Being share application money transferred to share capital)		×××	×××

Illustration 6. A Ltd. issued 10,000 shares of Rs. 100 each payable as:

Rs. 20 on application Rs. 30 on allotment and Rs. 50 on first and final call

Required: Journal entries for share application

Solution:

Journal entries in the books of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For application money received:**			
	Bank A/c (10,000 × Rs. 20) .... Dr.		2,00,000	
	To Share application A/c			2,00,000
	(Being share application money received on 10,000 shares @Rs. 20 each)			
ii.	**For transfer of application money to share capital:**			
	Share application A/c (10,000 × Rs. 20) .... Dr.		2,00.000	
	To Share capital A/c			2,00,000
	(Being share application money transferred to share capital)			

2. **Accounting for share allotment**: Share allotment is the second installment of the collection of share capital amount from shareholders. In accordance of terms mentioned in articles and prospectus, the company should send a notice in writing to each shareholder in the prescribed format mentioning the time limit of at least 30 days and share allotment amount payable by him, the place and time for payment. Besides, such notice should also be published in national level newspaper for at least two times. The notice of allotment provides the information about the number of shares allotted to the shareholders and the amount of allotment payable by them. For accounting treatment, as well as notice of allotment is sent to shareholders, an entry for share allotment money in respect of the same is to be made due. Similarly, when share allotment money is received another entry for amount received to be made.

Journal entries in the books of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When allotment money due:**			
	Share allotment A/c (No. of shares allotted ×rate of allotment) .... Dr.		×××	
	To Share capital A/c			×××
	(Being share application money due on …… shares @ Rs. ….. each)			
ii.	**When allotment money is received:**			
	Bank A/c (No. of shares allotted × rate of allotment) .... Dr.		×××	
	To Share allotment A/c			×××
	(Being share application money received on …… shares @ Rs. ….. each)			

The following solution of **illustration 6** will clarify the matter:

Solution:

Journal entries in the books of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For due for share allotment:**			
	Share allotment A/c (10,000 × Rs. 30) .... Dr.		3,00,000	
	To Share capital A/c			3,00,000
	(Being share allotment money due on 10,000 shares @Rs. 30 each)			
ii.	**For share allotment money received:**			
	Bank A/c (10,000 × Rs. 30) .... Dr.		3,00.000	
	To Share allotment A/c			3,00,000
	(Being share allotment money received on 10,000 shares @ Rs. 30 each)			

3. **Accounting for share calls money:** It is the third or final installment of collecting capital amount from shareholders. The whole amount payable for shares cannot be demanded on application. According to section 27(3) of company act 2074, a public limited company shall not demand an amount exceeding fifty percent of the face value of each share along with application. Therefore, remaining amount of shares has to be demanded on allotment and calls. The amount demanded for payment after allotment is known as calls. Again, calls may be demanded in installments like share first call, share second call

and finally share final call. For accounting treatment in the books of account with respect to calls is the same as it is done in share allotment.

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When share...... call money is made due:** Share..... call A/c (No. of shares allocated × rate of call) ....Dr. To Share capital A/c (Being share ....calls money due on ..... shares @ Rs. .... each)		×××	×××
ii.	**When share ...... call money is received:** Bank A/c (No. of shares allocated × rate of call) ....Dr. To Share ...... call A/c (Being share .... calls money received on ..... shares @ Rs. .... each)		×××	×××

The following solution of **illustration 6** will clarify the matter:

Solution:

Journal entries in the book of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For due for share calls:** Share first and final call A/c (10,000 × Rs. 50)..Dr. To Share capital A/c (Being share first and final call money due on 10,000 shares @Rs. 50 each)		5,00,000	5,00,000
ii.	**For share calls money received:** Bank A/c (10,000 × Rs. 50) ....Dr. To Share first and final call A/c (Being share first and final call money received on 10,000 shares @ Rs. 50 each)		5,00.000	5,00,000

THINGS TO REMEMBER

i. According to section 28(1) of company act 2074, share shall be allotted within a maximum period of three (3) months of the date of invitation made by a public company to the general public. Provided that the allotment of share shall not be made if at least fifty percent (50%) of the issued shares cannot be sold.

ii. According section 28(2) of company act 2074, if the company submit an application explaining the reason for non-allotment of shares within seven days after the expiry of 3 months time, the Office shall extend the time limit up to further 3 months for the allotment of shares.

iii. According section 28(3) of company act 2074, if the allotment of shares cannot be made even within the time limit set forth in subsection 28(2), the amount received shall be refunded along with interest to the concerned applicants.

REALITY BITES

The company shall send a notice of allotment and call in writing only to those applicants to whom shares are allotted and share certificate are issued.

Issue of Shares at Premium

1. **Premium along with application money:** The following two journal entries are made, when amount of premium is received along with application money.

Journal entries in the book of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (No. of shares applied × rate of application with premium)......................Dr To Share application A/c (Being share application money received on ..... shares @ Rs. ... each at ....% premium)		×××	×××
	Share application A/c (No. of shares applied × rate of application with premium)...Dr. To Share capital A/c (No. of shares issued × rate of application without premium) To Share premium A/c (No. of shares issued × rate of premium) (Being share application money transferred to share capital account and share premium account)		×××	××× ×××

2. **Premium along with allotment money:** When amount of premium is collected along with allotment money the following journal entries are made.

Journal entries in the book of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share allotment A/c (No. of shares allotted × rate of allotment including premium)... Dr		×××	
	To Share capital A/c (No. of shares allotted × rate of allotment without premium)			×××
	To Share premium A/c (No. of shares allotted × rate of premium)			×××
	(Being share allotment money due on ….. shares @ Rs. …. each at …..% premium)			
	Bank A/c (No. of shares allotted × rate of allotment including premium)..............Dr.		×××	
	To Share allotment A/c			×××
	(Being share allotment money received on ... shares @ Rs. …. each at ...% premium)			

3. **Premium along with calls money:** When amount of premium is collected along with calls money i.e. first or second or final call money, gain the following journal entries.

Journal entries in the book of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share …. call A/c (No. of shares allotted × rate of call including premium).............Dr		×××	
	To Share capital A/c (No. of shares allotted × rate of call without premium)			×××
	To Share premium A/c (No. of shares × rate of premium)			×××
	(Being share calls money due on ….. shares @ Rs. …. each at …..% premium)			
	Bank A/c (No. of shares allotted × rate of call including premium are made)..........Dr.		×××	
	To Share….. call A/c			×××
	(Being share calls money received on ….. shares @ Rs. …. each at …..% premium)			

Treatment of Issue of Share in Cash Book and Balance Sheet

The issue of shares have effect on bank column of the cash book and finally on balance sheet. The amount received by issue of shares is recorded on debit side of cash book and assets side of balance sheet. Similarly, shares capital account is recorded on liabilities side of the balance sheet. The following illustration will clarify the matter:

Illustration 7. Butwal Power Company Ltd. registered with an authorized capital of Rs. 5,00,00,000 divided into 5,00,000 shares of Rs.100 each. The company issued 1,00,000 share at 10% premium, payable as:

Rs. 30 on application Rs. 40 on allotment (including premium) Rs. 40 on first and final call

Applications for all the shares have been received and allotted. All amounts due have been received in due time.

Required: a. Necessary journal entries b. Cash Book (Bank Column) c. Opening Balance Sheet.

Solution:

a. **Journal entries in the books of Butwal Power Company Ltd.**

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (1,00,00 × Rs. 30)....................................Dr.		30,00,000	
	To Share application A/c			30,00,000
	(Being share application money received on 1,00,000 shares @Rs. 30 each)			
ii.	Share application A/c ....Dr.		30,00,000	
	To Share capital A/c			30,00,000
	(Being share application money transferred to share capital)			
iii.	Share allotment A/c (1,00,00 × Rs. 40)....................................Dr.		40,00,000	
	To Share capital A/c (1,00,00 × Rs. 30)			30,00,000
	To share premium A/c (1,00,00 × Rs. 10)			10,00,000
	(Being share allotment money due on 1,00,000 shares @Rs. 30 at a premium of Rs.10 each)			
iv.	Bank A/c (1,00,00 × Rs. 40)....................................Dr.		40,00,000	
	To Share allotment A/c			40,00,000
	(Being share allotment money received on 1,00,000 shares @ Rs. 30 at a premium of Rs.10 each)			
v.	Share first and final call A/c (1,00,00 × Rs. 40)....................................Dr.		40,00,000	
	To Share capital A/c			40,00,000

	(Being share first and final call money due on 1,00,000 shares @Rs. 40 each)			
vi.	Bank A/c (1,00,00 × Rs. 40)........................Dr. To Share first and final call A/c (Being share first and final call money received on 1,00,000 shares @ Rs. 40 each)		40,00,000	40,00,000

After above transaction, the cash book will be appear as below:

b. Dr. Cash Book (Bank Column) Cr.

Date	Particulars	JF	Rs.	Date	Particulars	JF	Rs.
i.	To Share application		30,00,000		By Balance c/d........................		1,10,00,000
iv.	To Share allotment........................		40,00,000				
vi.	To Share first & final call		40,00,000				
			1,10,00,000				**1,10,00,000**
	To Balance b/d		1,10,00,000				

c. Opening Balance Sheet
As on ……………

Capital + liabilities	Rs.	Assets	Rs.
Share Capital		Cash at bank	1,10,00,000
Authorized Capital			
5,00,000 shares of Rs. 100 each......................	5,00,00,000		
Issued and paid up capital			
1,00,000 shares of Rs. 100 each......................	1,00,00,000		
Share Premium	10,00,000		
	1,10,00,000		**1,10,00,000**

Issue of Share at Discount

1. **Application money:** The following two entries are made when amount of discount is received along with application money, the following entries are made.

Journal entries in the books of......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (No. of shares applied × rate of application) ....Dr To Share application A/c (Being share application money received on ….. shares @ Rs. … each.)		×××	×××
	Share application A/c (No. of shares applied × rate of application) ....Dr. To Share capital A/c (No. of shares issued × par value) (Being share application money transferred to share capital account)		×××	×××

2. **Discount with allotment money:** When amount of discount is collected along with allotment money, the following entries are made.

Journal entries in the books of .....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share allotment A/c (No. of shares allotted × rate of call) ....Dr.		×××	
	Discount on issue of shares A/c (No. of shares allotted × rate of discount) ....Dr.		×××	
	To Share capital A/c			×××
	(Being share allotment money due on ….. shares @ Rs. …. each at …..% discount)			
	Bank A/c (No. of shares allotted × rate of call)..............................Dr.		×××	
	To Share allotment A/c			×××
	(Being share allotment money received on ….. shares @ Rs. …. each)			

3. **Discount with calls money:** When the amount of discount is collected along with call money i.e. first or second or final call money, the following entries are made.

Journal entries in the books of.....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share …. call A/c (No. of shares allotted × rate of call)..............................Dr.		×××	
	Discount issue of shares A/c (No. of shares allotted × rate of discount)................Dr.		×××	
	To Share capital A/c			×××
	(Being share calls money due on ….. shares @ Rs. …. each at …..% discount)			
	Bank A/c (No. of shares allotted × rate of call)..............................Dr.		×××	

	To Share….. call A/c (Being share calls money received on ….. shares @ Rs. …. each)			×××

Illustration 8. Nava Durga Finance Ltd. registered with an authorized capital of Rs. 3,00,00,000 divided into 3,00,000 shares of Rs.100 each. The company issued 75,000 shares at a discount of 5%, payable as:

Rs. 30 on application — Rs. 20 on allotment

Rs. 25 on first call — Rs. 20 on final call

Application money has been received in all the shares and amount is allotted. All due money on allotment and calls has been received in prescribed time.

Required: Journal entries for:

a. Share application — b. Share allotment

c. Share first call — d. Share final call

Solution,

a. **Journal entries in the books of Nava Durga Finance Ltd.**

Date	Particulars	LF	Debit Rs.	Credit Rs.
1	Bank A/c (75,000 × Rs. 30) ....Dr. To Share application A/c (Being share application money received on 75,000 shares @Rs. 30 each)		22,50,000	22,50,000
2.	Share application A/c (75,000 × Rs. 30) ....Dr. To Share capital A/c (Being share application money transferred to share capital.)		22,50,000	22,50,000
3.	Share allotment A/c (75,000 × Rs. 20) ....Dr. Discount on shares A/c (75,000 × Rs. 5) ....Dr. To Share capital A/c (Being share allotment money due on 75,000 shares @Rs. 20 each at a discount of Rs.5)		15,00,000 3,75,000	18,75,000
4.	Bank A/c (75,000 × Rs. 20) ....Dr. To Share allotment A/c (Being share allotment money received on 75,000 shares @Rs. 20 each at a discount of Rs.5)		15,00,000	15,00,000
5.	Share first call A/c (75,000 × Rs. 25) ....Dr. To Share capital A/c (Being share first call money due on 75,000 shares @Rs. 25 each)		18,75,000	18,75,000
6.	Bank A/c (75,000 × 25) ....Dr. To Share first call A/c (Being share first call money received on 75,000 shares @Rs. 25 each)		18,75,000	18,75,000
7.	Share final call A/c (75,000 × Rs. 20) ....Dr. To Share capital A/c (Being share final call money due on 75,000 shares @Rs. 20 each)		15,00,000	15,00,000
8.	Bank A/c (75,000 × Rs. 20) ....Dr. To Share final call A/c (Being share final call money received on 75,000 shares @ Rs. 20 each)		15,00,000	15,00,000

CALLS IN ADVANCE

Concept Review
Advance received of uncalled up money is known as calls in advance.

The money received by the company in excess of what has been called-up is known as calls in advance. The company may receive calls in advance from its shareholders if it is authorised in articles of association. The calls in advance also occur when the company retains excess amount received on application in this account. In the book of account such advance-received amount is credited to a separate account known as 'calls in advance account'. The call in advance is a liability for the company so it may pay a nominal rate of interest to the shareholders, till the date of adjustment of such amount with capital.

1. **Advance received with allotment money:** When the calls in advance are received with allotment, the following two entries are passed.

Journal entries in the books of ...

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share allotment A/c (No. of shares allotted × Rate of allotment) ....Dr.		×××	
	To Share capital A/c			×××
	(Being share allotment money on due)			
	Bank A/c (No. of shares allotted × Rate of allotment + No. of shares paying in advance × Advance per shares)...Dr.		×××	
	To Share allotment A/c (No. of shares allotted × Rate of allotment)			×××
	To Calls in advance A/c (No. of shares paying advance × Rate of advance)			×××
	(Being share allotment money received with calls in advance)			

2. **Advance received before final call:** When the calls in advance are received before final call, the following two entries are passed.

Journal entries in the books of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share .... call A/c (No. of shares allotted × Rate of call) ....Dr.		×××	
	To Share capital A/c			×××
	(Being share... call money on due)			
	Bank A/c (No. of shares allotted × Rate of call + No. of shares paying in advance × Advance per shares)..Dr.		×××	
	To Share calls A/c (No. of shares allotted × Rate of call)			×××
	To Calls in advance A/c (No. of shares paying in advance × Rate of advance)			×××
	(Being share calls money received with calls in advance)			

Illustration 9. Prabhu Bank issued 10,000 ordinary shares of Rs. 100 each payable as below:

On Application Rs. 20   On Allotment 30   On First and final call Rs. 50

The company did not make the first and final call. However a holder of 2,000 shares paid the first and final call money at the time of allotment.

Required: Journal entries for: a. Share application   b. Share allotment

Solution:

Journal entries in the books of Prabhu Bank

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (10,000 × Rs. 20)..Dr.		2,00,000	
	To Share application			2,00,000
	(Being share application money received on 10,000 shares @ Rs. 20)			
ii.	Share application A/c (10,000 × Rs. 20)..Dr.		2,00,000	
	To Share capital			2,00,000
	(Being share application money transferred to share capital)			
iii.	Share allotment A/c (10,000 × Rs. 30)...Dr.		3,00,000	
	To Share capital			3,00,000
	(Being share allotment money made due on 10,000 shares @ Rs. 30)			
iv.	Bank A/c ....Dr.		4,00,000	
	To Share allotment A/c (10,000 × Rs. 30)			3,00,000
	To Calls in advance (2,000 × Rs. 50)			1,00,000
	(Being share allotment received with calls in advance)			

THINGS TO REMEMBER

- Company shall pay a fixed rate of interest on calls in advance as it is specified in articles of association & prospectus.
- In the book of account, at the beginning stage, calls in advance is credited and when called up money is received it is debited.
- No dividend is paid to shareholders in calls in advance.

Illustration 10. A. Ltd. issued 10,000 shares of Rs. 100 each to the public payable as under:

Rs. 30 on share Application   Rs. 20 on share allotment

Rs. 30 on share first call   Rs. 20 on share final call.

All the shares were subscribe and allotted. Mr. X to whom 100 shares were allotted paid the whole amount due at the payment of allotment and directors decided to accept the payment. The entire amount due was received.

Required: Necessary journal entries

Solution:

Journal entries in the books of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (10,000 × Rs. 30) ....Dr.		3,00,000	
	To Share application A/c			3,00,000
	(Being share application money received on 10,000 shares @ Rs. 30 each)			
ii.	Share application A/c (10,000 × Rs. 30) ....Dr.		3,00,000	
	To Share capital A/c			3,00,000
	(Being share application money transferred to share capital.)			
iii.	Share allotment A/c (10,000 × Rs. 20) ....Dr.		2,00,000	
	To Share capital A/c			2,00,000
	(Being share allotment money due on 10,000 shares @Rs. 20 each.)			
iv.	Bank A/c ....Dr.		2,05,000	
	To Share allotment A/c (10,000 × Rs. 20)			2,00,000
	To Call in advance A/c (100 × Rs. 50)			5,000
	(Being share allotment money received on 10,000 shares @Rs. 20 each and calls in advance is received on 100 shares @Rs.50 each)			
v.	Share first call A/c (10,000 × Rs. 30) ....Dr.		3,00,000	
	To Share capital A/c			3,00,000
	(Being share first call money due on 10,000 shares @Rs. 30 each)			
vi.	Bank A/c (9,900 × Rs. 30) ....Dr.		2,97,000	
	Call in advance A/c (100 × Rs. 30) ....Dr.		3,000	
	To Share first call A/c			3,00,000
	(Being share first call money received on 9,900 shares @Rs. 30 each after adjusting calls in advance on 100 shares.)			
vii.	Share final call A/c (10,000 × Rs. 20) ....Dr.		2,00,000	
	To Share capital A/c			2,00,000
	(Being share final call money due on 10,000 shares @Rs. 20 each)			
viii.	Bank A/c (9,900 × Rs. 20) ....Dr.		1,98.000	
	Calls in advance A/c (100 × Rs. 20) ....Dr.		2,000	
	To Share final call A/c			2,00,000
	(Being share final call money received on 9,900 shares @ Rs. 20 each after adjusting calls in advance on 100 shares.)			

CALLS IN ARREARS

A shareholder may fail to pay the amount due on share allotment or share calls, such unpaid amount is known as 'calls in arrear'. In some exceptional situation, some shareholders may fail to pay the amount due to them on share allotment or share calls, like due to in abroad, lack of information and so on. There are two methods suggested to maintain call in arrear in books of account. These methods consist of:

> **Concept Review**
> The unpaid called-up amount is known as calls in arrears.

Accounting Treatment of Calls in Arrears

There are two alternative methods for the accounting treatment of calls in arrears.

Method I: without Opening Calls in Arrear Account

In this method, no call in arrear account is opened to show the outstanding amount of share allotment and calls. Here, the differences amount of outstanding and actually received on share allotment and call automatically represents to calls in arrear amount. The company can charge interest at the prescribed rate from those shareholders who fail to pay the amount due on share allotment and call.

Journal entries in the books of ...

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share allotment/call A/c (No. of shares allotted × Rate of allotment or Call) ....Dr.		×××	
	To Share capital A/c			×××

	(Being share allotment or call money made due)			
	Bank A/c (No. of shares allotted × Rate of shares allotment or call – No. of default shares × Rate of arrear)........Dr.		×××	
	To Share allotment or call A/c			×××
	(Being …. money received)			

Illustration 11. XYZ Company called up final call money Rs. 4 per share on 20,000 shares and received that called final call money only 18,000 shares.

Required: Journal entries (call in arrears without opening a separate account)

Solution:

Journal entries in the books of XYZ company

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share final call A/c (20,000 × Rs. 4)........Dr.		80,000	
	To Share capital A/c			80,000
	(Being final call money made due)			
	Bank A/c (18,000 × 4)........Dr.		72,000	
	To Final call A/c			72,000
	(Being due final call money received)			

Here, a separate call in arrear account is not opened, but the debit balance of share final call account for Rs. 8000 represent the amount of call in arrears. On subsequent date, when amount of such calls in arrear is received, the following entry is made:

Journal entries in the books of XYZ Company

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (2,000 × 4)........Dr.		8,000	
	To Final call A/c			8,000
	(Being arrear of final call money received)			

Method II: With Opening Calls in Arrears Account

In this method, outstanding (due) amount of share allotment and calls have been debited to 'calls in arrear account'. In other words, difference amount due on share allotment and call and actual money received is treated as calls in arrear account.

Journal entries in the books of ...

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share allotment or Calls A/c (No. of shares allotted × Rate of allotment /call) ....Dr.		×××	
	To Shares capital A/c			×××
	(Being share allotment or call money made due)			
	Bank A/c (No. of paid shares × Allotment or Call per shares)........Dr.		×××	
	Calls in arrears A/c (No. of default share × Rate of allotment or call) ....Dr.		×××	
	To Share allotment or Calls A/c			×××
	(Being share allotment or calls money received adjusting calls in arrears)			

THINGS TO REMEMBER

- According to section 53(2) of company act 2074 if any shareholder fails to pay the amount due on the share within the time limit at least of 30 days, a notice shall be sent to him and shall also be published in the national level newspaper at least three times, extending the time limit by three months of the expiry of first time limit.
- In our solution we have used the first method for adjusting calls in arrear amount i. e. by opening calls in arrear account.
- In balance sheet of the company calls in arrear is deducted from issued and called up capital to find out paid up capital.
- Since, a call in arrear is a temporary account so it is credited (cancelled) at the time of forfeiture of shares.

Illustration 12. A Ltd. issued 10,000 equity sharers 100 each payable as Rs. 30 on application, Rs. 20 on allotment and Rs. 50 on first and final calls. All the amount was received except from Mr. Ramesh, who held 100 equity shares failed to pay the amount due on allotment and call and Mr. Bikash who held 50 shares failed to pay calls money.

Required: Journal entries for

a. Share application b. Share allotment c. Share first and final call

Solution,

a. **Journal entries in the books of A Ltd.**

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (10,000 × Rs. 30)........Dr. To Equity share application A/c (Being equity share application money received on 10,000 shares @Rs. 30 each)		3,00,000	 3,00,000
ii.	Equity share application A/c (10,000 × Rs. 30)........Dr. To Equity share capital A/c (Being equity share application money transferred to equity share capital)		3,00,000	 3,00,000
iii.	Equity share allotment A/c (10,000 × Rs. 20)........Dr. To Equity share capital A/c (Being equity share allotment money due on 10,000 shares @Rs. 20 each)		2,00,000	 2,00,000
iv.	Bank A/c (9,900 × Rs. 20)........Dr. Calls in arrear A/c (100 × Rs. 20)........Dr. To Equity share allotment A/c (10,000 × Rs. 20) (Being share allotment money received on 9,900 shares @Rs. 20 each after adjusting calls in arrear in 100 shares of Mr. Ramesh.)		1,98,000 2,000	 2,00,000
v.	Equity share first and final calls A/c (10,000 × Rs. 50)........Dr. To Equity share capital A/c (Being equity share first and final call money due on 10,000 shares @Rs. 50 each)		5,00,000	 5,00,000
vi.	Bank A/c (9,850 × Rs. 50)........Dr. Calls in arrear A/c (150 × Rs 50).........Dr. To Equity share first and calls A/c (10,000 × Rs. 50) (Being equity share first and final calls money received on 9,850 shares @Rs. 50 each after adjusting calls in arrear in 100 and 50 shares of Mr. Ramesh and Mr. Bikash respectively.)		4,92,500 7,500	 5,00,000

Illustration 13. Bhirkuti Paper Ltd. was registered with an authorized capital of Rs. 20,00,000 divided into 20,000 shares of Rs. 100 each. It issued 10,000 such shares to the public payable as follows:

Rs. 20 on application Rs. 30 on allotment
Rs. 25 on first call Rs. 25 on final call

Applications were received in all the shares. All the shares were called up and the amount received in respect of these shares was follows:

On 8,000 shares ....full amount On 1000 shares .... Rs. 75
On 600 shares .... Rs. 50 On 400 shares .... Rs. 20

Required: Necessary journal entries

Solution:

Journal entries in the books of Bhirkuti Paper Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (10,000 × Rs. 20)........Dr. To Share application A/c (Being share application money received on 10,000 shares @Rs. 20 each .)		2,00,000	 2,00,000
ii.	Share application A/c (10,000 × Rs. 20)........Dr. To Share capital A/c (Being share application money transferred to share capital.)		2,00,000	 2,00,000
iii.	Share allotment A/c (10,000 × Rs. 30)........Dr. To Share capital A/c (Being share allotment money due on 10,000 shares @Rs. 30 each.)		3,00,000	 3,00,000
iv.	Bank A/c (9,600 × Rs. 30)........Dr. Calls in arrear A/c (400 × Rs. 30)........Dr. To Share allotment A/c (10,000 × Rs. 30) Being share allotment money received on 9,600 shares @Rs. 30 each after adjusting calls in arrear in 400 shares.)		2,88,000 12,000	 3,00,000

v.	Share first call A/c (10,000 × Rs. 25)....Dr. To Share capital A/c (Being share first call money due on 10,000 shares @Rs. 25 each)		2,50,000	 2,50,000
vi.	Bank A/c (9,000 × Rs. 25)....Dr. Call in arrear A/c (1,000 × Rs. 25)....Dr. To Share first call A/c (Being share first call money received on 9,000 shares @Rs. 25 each after adjusting calls in arrear on 1,000 shares.)		2,25,000 25,000	 2,50,000
vii.	Share final call A/c(10,000 × Rs. 25)....Dr. To Share capital A/c (Being share final call money due on 10,000 shares @Rs. 25 each)		2,50,000	 2,50,000
viii.	Bank A/c (8,000 × Rs. 25)....Dr. Calls in arrear A/c (2,000 × Rs. 25)....Dr. To Share final call A/c (Being share final call money received on 8,000 shares @ Rs. 25 each after adjusting calls in arrear on 2,000 shares.)		2,00.000 50,000	 2,50,000

Illustration 14. Everest Ltd. issued 25,000 equity sharers 100 each payable as Rs. 30 on application, Rs. 20 on allotment and Rs. 50 on first and final calls. The entire amount was received except from Mr. Ramesh, who held 500 equity shares failed to pay the amount due on allotment but he paid calls in arrear in allotment at the payment of share first and final call along with interest @12% p.a.

The allotment money was received on 1st January 2016 whereas first and final call money was received on 30th June 2016.

Required: Journal entries

Solution:

Journal entries in the books of Everest Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (25,000 × Rs. 30)....Dr. To Equity share application A/c (Being equity share application money received on 25,000 shares @Rs. 30 each .)		7,50,000	 7,50,000
ii.	Equity share application A/c (25,000 × Rs. 30)....Dr. To Equity share capital A/c (Being equity share application money transferred to equity share capital.)		7,50,000	 7,50,000
iii.	Equity share allotment A/c (25,000 × Rs. 20)....Dr. To Equity share capital A/c (Being equity share allotment money due on 25,000 shares @Rs. 20 each)		5,00,000	 5,00,000
iv. 1st Jan. 2016	Bank A/c (24,500 × Rs. 20)....Dr. Calls in arrear A/c (500 × 20)....Dr. To Equity share allotment A/c (Being share allotment money received on 24,500 shares @Rs. 20 each after adjusting calls in arrear in 500 shares of Mr. Ramesh.)		4,90,000 10,000	 5,00,000
v.	Equity share first and final calls A/c (25,000 × Rs. 50)....Dr. To Equity share capital A/c (Being equity share first and final call money due on 25,000 shares @Rs. 50 each)		12,50,000	 12,50,000
vi. 30th Jun. 2016	Bank A/c....Dr. To Equity share first and calls A/c (25,000 × Rs. 50) To Calls in arrear A/c To Interest on calls in arrear A/c [(Rs. 10,000 × 0.12) × 6/12] (Being equity share first and final calls money received on 25,000 shares @Rs. 50 each and calls in arrears on allotment of Mr. Ramesh for Rs.10,000 was also received along with interest @12% p.a. for six months)		12,60,600	 12,50,000 10,000 600

Combination of Calls in Arrear and Calls in Advance

Illustration 15. Sony Electronic Ltd. issued 15,000 shares of Rs.100 each payable as Rs. 25 on application, Rs. 20 on allotment and Rs. 25 on first and Rs.30 on final call. All the amount due was received except from Mr. Santosh, who held 200 shares failed to pay allotment and calls money, however Mr. Umesh who held 300 shares paid entire money along with allotment and board of directors decided to accept the payment.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Solution:

a. **Journal entries in the books of Sony Electronic Ltd.**

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (15,000 × Rs. 25) ... Dr. To Share application A/c (Being share application money received on 15,000 shares @Rs. 25 each.)		3,75,000	 3,75,000
ii	Share application A/c (15,000 × Rs. 25) ... Dr. To Share capital A/c (Being share application money transferred to share capital.)		3,75,000	 3,75,000
iii.	Share allotment A/c (15,000 × Rs. 20) ... Dr. To Share capital A/c (Being share allotment money due on 15,000 shares @Rs. 20 each.)		3,00,000	 3,00,000
iv.	Bank A/c (14,800 × Rs. 20 + 300 × Rs. 55) ... Dr. Calls in arrear A/c (200 × Rs. 20) ... Dr. To Share allotment A/c (15,000 × Rs. 20) To Call in advance A/c (300 × Rs. 55) (Being share allotment money received on 14,800 shares @Rs. 20 each and calls in advance is received on 300 shares @Rs.55 each)		3,12,500 4,000	 3,00,000 16,500
v.	Share first call A/c (15,000 × Rs. 25) ... Dr. To Share capital A/c (Being share first call money due on 15,000 shares @Rs. 25 each)		3,75,000	 3,75,000
vi.	Bank A/c (14,500 × 25) ... Dr. Call in advance A/c (300 × Rs. 25) ... Dr. Calls in arrear A/c (200 × Rs. 25) ... Dr. To Share first call A/c (15,000 × Rs. 25) (Being share first call money received on 14,500 shares @Rs. 25 each after adjusting calls in advance on 300 shares.)		3,62,500 7,500 5,000	 3,75,000
vii..	Share final call A/c (15,000 × Rs. 30) ... Dr. To Share capital A/c (Being share final call money due on 15,000 shares @Rs. 30 each)		4,50,000	 4,50,000
viii.	Bank A/c (14,500 × Rs. 30) ... Dr. Calls in advance A/c (300 × Rs. 30) ... Dr. Calls in arrear A/c (200 × Rs. 30) ... Dr. To Share final call A/c (15,000 × Rs. 30) (Being share final call money received on 14,500 shares @ Rs. 30 each after adjusting calls in advance on 300 shares.)		4,35,000 9,000 6,000	 4,50,000

Illustration 16. Nepal Expo Limited issued 20,000 shares of Rs. 100 each at a premium of 10% to the public for subscription. The shares are payable as follows:

Rs. 20 on application	Rs. 40 on allotment (including premium)
Rs. 25 on first call	Rs. 25 on final call

Applications were received for only 25,000 shares. The company decided to reject excess applications for 5,000 shares and money is refunded. A shareholder holding 500 shares paid entire money along with allotment and Board of Directors decided to accept the paid money. All other due money is received in due time.

Required: Necessary journal entries

Solution:

Journal entries in the books of Nepal Expo Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (25,000 × Rs. 20) ... Dr. To Share application A/c (Being share application money received on 25,000 shares @Rs. 20 each.)		5,00,000	5,00,000
ii.	Share application A/c (25,000 × Rs. 20) ... Dr. To Share capital A/c (20,000 × Rs. 20) To Bank A/c (5,000 × Rs. 20) (Being share application money transferred to share capital and excess money received on 5,000 shares is refunded.)		5,00,000	4,00,000 1,00,000

iii.	Share allotment A/c (20,000 × Rs. 40)....Dr. To Share capital A/c (20,000 × Rs. 30) To Share premium A/c (20,000 × Rs. 10) (Being share allotment money due on 20,000 shares @Rs. 30 each at a premium of Rs.10.)		8,00,000	6,00,000 2,00,000
iv.	Bank A/c (20,000 × Rs. 40 + 500 × Rs. 50) ....Dr. To Share allotment A/c (20,000 × Rs. 40) To Call in advance A/c (500 × Rs. 50) (Being share allotment money received on 20,000 shares @Rs. 40 each including premium and calls in advance is received on 500 shares @Rs.50 each)		8,25,000	8,00,000 25,000
v.	Share first call A/c (20,000 × Rs. 25)....Dr. To Share capital A/c (Being share first call money due on 20,000 shares @Rs. 25 each)		5,00,000	5,00,000
vi.	Bank A/c (19,500 × Rs. 25)....Dr. Call in advance A/c (500 × Rs. 25)....Dr. To Share first call A/c (20,000 × Rs. 25) (Being share first call money received on 19,500 shares @Rs. 25 each after adjusting calls in advance on 500 shares.)		4,87,500 12,500	5,00,000
vii.	Share final call A/c (20,000 × Rs. 25) ....Dr. To Share capital A/c (Being share final call money due on 20,000 shares @Rs. 25 each)		5,00,000	5,00,000
viii.	Bank A/c (19,500 × Rs. 25)....Dr. Calls in advance A/c (500 × Rs. 25) ....Dr. To Share final call A/c (20,000 × Rs. 25) (Being share final call money received on 19,500 shares @ Rs. 25 each after adjusting calls in advance on 500 shares.)		4,87,500 12,500	5,00,000

MINIMUM SUBSCRIPTION OF SHARES

When amount of subscribed shares is less than fifty percent of issued and called up capital it is known as minimum subscription. It is also a part of under subscription of shares. Generally, the condition of minimum subscription is raised when people believe that the future scope of business of the company would not be prosperous. The companies act 2074 provided that the allotment of shares shall not be made if at least fifty percent (50%) of the issued shares cannot be sold. In such situation, all the application money will be refunded to the concerned applicants within the prescribed time. Generally, minimum subscribed capital should fulfill the following requirements:

- For purchasing fixed assets to establish business
- For payment of day to day operating expenses of the company.
- For payment of pre-operating expenses, if any.
- For payment of loan, if any taken from bank or other sources.
- For payment of other expenses.

UNDER SUBSCRIPTION OF SHARES

When the applications for shares received are less than the number of shares offered, the situation of under-subscription is raised. For instance, a company offered 20,000 shares to the public for subscription but if it received share applications only for 15,000 shares then it is under- subscribed by 5,000 shares. Generally, in under subscription, allotment is made to all the applicants for shares. However, if the company fails to receive the minimum subscription as specified in companies' act 2074, shares cannot be allotted. And in such situation, all the application money will be refunded to the concerned applicants within the prescribed time. In normal case, the situation of

Concept Review
It is the situation when subscribed capital received is less than issued capital.

under-subscription is raised when people believe that the future scope of business of the company would not be so prosperous.

Illustration 17. Nepal Herbal Limited issued 20,000 shares of Rs. 100 each to the public for subscription. The shares are payable as follows:

Rs. 20 on application Rs. 30 on allotment Rs. 50 on first and final call

Applications were received for only 18,000 shares. The company decided to allot shares to all the applicants. All other due money is received in due time.

Required: Journal entries for:

a. Share application b. Share allotment c. Share first and final call

Solution:

Journal entries in the books of Nepal Herbal Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (18,000 × Rs. 20) ....Dr. To Share application A/c (Being share application money received on 18,000 shares @Rs. 20 each.)		3,60,000	 3,60,000
ii.	Share application A/c (18,000 × Rs. 20) ....Dr. To Share capital A/c (Being share application money transferred to share capital.)		3,60,000	 3,60,000
iii.	Share allotment A/c (18,000 × Rs. 30) ....Dr. To Share capital A/c (Being share allotment money due on 18,000 shares @Rs. 30 each.)		5,40,000	 5,40,000
iv.	Bank A/c (18,000 × Rs. 30) ....Dr. To Share allotment A/c (Being share allotment money received on 18,000 shares @Rs. 30)		5,40,000	 5,40,000
v.	Share first and final calls A/c (18,000 × Rs. 50) ....Dr. To Share capital A/c (Being share first and final calls money due on 18,000 shares @Rs. 50 each)		9,00,000	 9,00,000
vi	Bank A/c (18,000 × Rs. 50) ....Dr. To Share first and final calls A/c (Being share first and final calls money received on 18,000 shares @Rs. 50)		9,00,000	 9,00,000

OVER SUBSCRIPTION OF SHARES

This is the situation when the number of share applications received from public is more than the number of shares offered. For instance, a company offered 10,000 shares to public for subscription, but if applications are received for 15,000 shares then it is known as oversubscribed by 5,000 shares. At present, such over subscription case is quite common as the interest of the public is shifting from depositing money into bank for interest to investing in shares to gain more risky high rate of dividend. In over subscription, the company cannot allot shares to all the applicants but it can allot only as many shares it offered to the public for subscription. In above instance, company offered 10,000 shares and it can allot only 10,000 shares and excess applications either will be transferred to subsequent calls or will be refunded to the applicants. For allotment of over subscription, company can exercise any of the three options available as it is mentioned is articles and prospectus. They are:

Concept Review
It is the situation when subscribed capital received is more than issued capital. .

- Full rejection of excess applications
- Making pro-rata allotment to all the applicants
- Combination of full allotment, pro-rata allotment and rejection

Rejection of Excess Application (Full Rejection of Excess Applications)

In this option, the amount of excess applications received than the shares offered will be refunded to applicants along with a letter of regret. For instance, company offered 10,000 shares but if it received applications for 12,000 shares, in such case, company may reject the applications for 2,000 shares and money will also be refunded within prescribed time.

Journal entries in the Books of ……..

Date	Particulars	LF	Debit Rs.	Credit Rs.
i	**On Application Money Received**			
	Bank A/c (No. of share applied × rate of application) ....Dr.		×××	
	To Share application A/c			×××
	(Being share application money Received on …… shares @ Rs. … each)			
ii.	**Rejection of excess applications on share allotment**			
	Share application A/c (No. of share applied × rate of application) ....Dr.		×××	
	To Share capital A/c (No. of share issued × rate of application)			×××
	To Bank A/c (No. of excess application × rate of application)			×××
	(Being application money transferred to share capital account and excess money refunded)			

Illustration 18. Kriti Publication Pvt. Ltd. issued 20,000 ordinary shared of Rs. 100 each payable as below:

On Application Rs. 20 On Allotment Rs. 30 On Final Call Rs. 50

Applications were received for 30,000 shares and the company rejected the application for 10,000 shares. The did not make the final call.

Solution:

Working Note:

20,000 share @ Rs. 100

On application Rs. 20 On allotment Rs. 30 Final call Rs. 50

Application Received 30,000

Group	Share Application Applied	Share Amount Allotted	Refunded
A	30,000 × 20 = 6,00,000	20,000 × 20 = 4,00,000	10,000 × 20 = 200,000

Journal entries in the Books of Kriti Publication Pvt. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (30,000 × Rs. 20)..........Dr.		6,00,000	
	To Share Application A/c			6,00,000
	(Being share application money Received on 30,000 shares @ Rs. 20 each)			
ii.	Share application A/c (30,000 × Rs. 20)..........Dr.		6,00,000	
	To Share capital A/c (20,000 × Rs. 20)			4,00,000
	To Bank A/c (10,000 × Rs. 20)			2,00,000
	(Being share application money transferred to share capital and balance refund)			
iii.	Share Allotment A/c (20,000 × Rs. 30)..........Dr.		6,00,000	
	To Share capital A/c			6,00,000
	(Being share allotment money due on 20,000 shares @ Rs. 30 each)			
iv.	Bank A/c (20,000 × Rs. 30)..........Dr.		6,00,000	
	To Share allotment A/c			6,00,000
	(Being share allotment money received on 20,000 shares @ Rs. 30 each)			
v.	Share final call A/c (20,000 × Rs. 50)..........Dr.		10,00,000	
	To Share capital A/c			10,00,000
	(Being share final call money due on 20,000 shares @ Rs. 50 each)			
vi.	Bank A/c (20,000 × Rs. 50)..........Dr.		10,00,000	
	To Share final call A/c			10,00,000
	(Being share final call money received on 20,000 shares @ Rs. 50 each)			

Illustration 19. Nepal Expo Limited issued 20,000 shares of Rs. 100 each at a premium of 10% to the public for subscription. The shares are payable as follows:

Rs. 20 on application Rs. 40 (including premium) on allotment

Rs. 25 on first call Rs. 25 on final call

Applications were received for only 25,000 shares. The company decided to reject excess applications for 5,000 shares and money is refunded. A shareholder holding 500 shares paid entire money along with allotment and Board of Directors decided to accept the paid money. All other due money is received in due time.

Required: Necessary journal entries

Solution:

Journal entries in the books of Nepal Expo Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (25,000 × Rs. 20)....Dr. To Share application A/c (Being share application money received on 25,000 shares @Rs. 20 each.)		5,00,000	 5,00,000
ii.	Share application A/c (25,000 × Rs. 20)....Dr. To Share capital A/c (20,000 × Rs. 20) To Bank A/c (5,000 × Rs. 20) (Being share application money transferred to share capital and excess money received on 5,000 shares is refunded.)		5,00,000	 4,00,000 1,00,000
iii.	Share allotment A/c (20,000 × Rs. 40)....Dr. To Share capital A/c (20,000 × Rs. 30) To Share premium A/c (20,000 × Rs. 10) (Being share allotment money due on 20,000 shares @Rs. 30 each at a premium of Rs.10.)		8,00,000	 6,00,000 2,00,000
iv.	Bank A/c (20,000 × Rs. 40 + 500 × Rs. 50)....Dr. To Share allotment A/c (20,000 × Rs. 40) To Call in advance A/c (500 × Rs. 50) (Being share allotment money received on 20,000 shares @Rs. 40 each including premium and calls in advance is received on 500 shares @Rs.50 each)		8,25,000	 8,00,000 25,000
v.	Share first call A/c (20,000 × Rs. 25)....Dr. To Share capital A/c (Being share first call money due on 20,000 shares @Rs. 25 each)		5,00,000	 5,00,000
vi.	Bank A/c (19,500 × Rs. 25)....Dr. Call in advance A/c (500 × Rs. 25)....Dr. To Share first call A/c (20,000 × Rs. 25) (Being share first call money received on 19,500 shares @Rs. 25 each after adjusting calls in advance on 500 shares.)		4,87,500 12,500	 5,00,000
vii.	Share final call A/c (20,000 × Rs. 25)....Dr. To Share capital A/c (Being share final call money due on 20,000 shares @Rs. 25 each)		5,00,000	 5,00,000
viii.	Bank A/c (19,500 × Rs. 25)....Dr. Calls in advance A/c (500 × Rs. 25)....Dr. To Share final call A/c (20,000 × Rs. 25) (Being share final call money received on 19,500 shares @ Rs. 25 each after adjusting calls in advance on 500 shares.)		4,87,500 12,500	 5,00,000

Pro-rata Allotment (Making Pro-rata Allotment to All the Applicants)

In this option, the amount of excess applications received than the share offered will not be refunded but allotted on proportionately to all the applicants. Here, the company has policy that no application is refused to allot shares and at the same time no application has given the demanded shares. Each applicant is allotted shares on a pro-rata basis i.e. proportionate of total share offered to total shares applied for. For instance, a company offered 10,000 shares to public but applications are received for 15,000 shares. In such case, shares are allotted on pro-rata basis in the ratio of 3:2. It means, a shareholder who has applied for 3(three) shares is allotted 2(two) shares and excess amount of 1(one) share is transferred to allotment. In this option, the excess money received on applications may be used against the money due on allotment and subsequent call, beyond the adjustment may be refunded to the shareholders.

1. **When excess application money is adjusted on allotment and subsequent call:** Generally, the excess application money is adjusted on allotment and subsequent calls and following entries are passed.

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (No. of share applied × rate of application) ....Dr.		×××	
	To Share application A/c			×××
	(Being application money received)			
ii.	Share application A/c (No. of share applied × rate of application) ....Dr.		×××	
	To Share capital A/c (No. of share allotted × rate of application)			×××
	To Share allotment A/c (Excess money adjusted)			×××
	To Share … call A/c (Excess money adjusted, if any)			×××
	To Bank A/c (Excess money refunded, if any)			×××
	(Being application money transferred to share capital, share allotment and … call account and balance refunded)			

2. **When excess application money is adjusted on allotment and rest refunded:** When excess application money is adjusted on allotment and rest refunded. Generally, the excess application money which is more than the money due on allotment is not adjusted on subsequent calls. In absence of any information regarding the use of such money, the amount which is over the allotment is refunded. In this case, the following entries are passed.

Journal entries in the book of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (No. of share applied × rate of applications) ....Dr.		×××	
	To Share application A/c			×××
	(Being share application money received on …. shares @ Rs. … each)			
ii.	Share application A/c (No. of share applied × rate of application) ....Dr.		×××	
	To Share capital A/c (No. of share allotted × rate of application)			×××
	To Share allotment A/c (No. of share allotted × rate of allotment)			×××
	To Bank A/c (Balance)			×××
	(Being share application money transferred to share capital, share allotment and balance refunded)			

The application money is adjusted as below:

Adjustment of Application Money

Group	Application money received	Share amount allotted	Transferred to allotment	Transferred to first call	Transferred to final call	Refunded
i.						
ii.						
iii.						
iv.						
v.						
vi.						
Total						

Illustration 20. National Panasonic Limited issued 25,000 shares of Rs. 100 each at a discount of 5% to the public for subscription. The shares are payable as follows:

Rs. 20 on application — Rs. 25 on allotment

Rs. 20 on first call — Rs. 30 on final call

Applications were received for only 40,000 shares. The company decided to allot all the shares applied on pro-rata basis. Mr. Y holding 500 shares paid entire money along with first call and Board of Directors decided to accept the paid money. Mr. X holding 400 shares failed to pay allotment and calls money. All other due money is received in time.

Required: Journal entries for:

a. Share application — b. Share allotment

c. Share first call — d. Share final call

Solution:

Journal entries in the books of National Panasonic Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c ...Dr.		8,00,000	
	To Share application A/c (40,000 × Rs. 20)			8,00,000
	(Being share application money received on 40,000 shares @Rs. 20 each.)			
ii.	Share application A/c (40,000 × Rs. 20) ...Dr.		8,00,000	
	To Share capital A/c (25,000 × Rs. 20)			5,00,000
	To Share allotment A/c (15,000 × Rs. 20)			3,00,000
	(Being share application money transferred to share capital and share allotment.)			
iii.	Share allotment A/c (25,000 × Rs. 25) ...Dr.		6,25,000	
	Discount on shares A/c (25,000 × Rs. 5) ...Dr.		1,25,000	
	To Share capital A/c (25,000 × 30)			7,50,000
	(Being share allotment money due on 25,000 shares @Rs. 25 each at a discount of Rs.5.)			
iv.	Bank A/c (Rs. 3,25,000 – Rs. 5,200) ...Dr.		3,19,800	
	Call in arrear A/c ...Dr.		5,200**	
	To Share allotment A/c (Rs. 6,25,000 – Rs. 300,000)			3,25,000
	(Being share allotment money received after adjusting excess money transferred from share application)			
v.	Share first call A/c (25,000 × Rs. 20) ...Dr.		5,00,000	
	To Share capital A/c			5,00,000
	(Being share first call money due on 25,000 shares @Rs. 20 each)			
vi.	Bank A/c (24,600 × Rs. 20) ...Dr.		5,07,000	
	Calls in arrear A/c (400 × Rs. 20) ...Dr.		8,000	
	To Share first call A/c (25,000 × Rs. 20)			5,00,000
	To Call in advance A/c (500 × Rs. 30)			15,000
	(Being share first call money received on 24,600 shares @Rs. 20 each and calls in advance received on 500 shares @Rs. 30 each .)			
vii.	Share final call A/c (25,000 × Rs. 30) ...Dr.		7,50,000	
	To Share capital A/c			7,50,000
	(Being share final call money due on 25,000 shares @Rs. 30 each)			
viii.	Bank A/c (24,100 × Rs. 30) ...Dr.		7,23,000	
	Calls in advance A/c (500 × Rs. 30) ...Dr.		15,000	
	Calls in arrear A/c (400 × Rs. 30) ...Dr.		12,000	
	To Share final call A/c (25,000 × Rs. 30)			7,50,000
	(Being share final call money received on 24,100 shares @ Rs. 30 each after adjusting calls in advance on 500 shares.)			

Working Note

a. Ratio of share allotment (40,000:25,000) = 8:5
b. Allotted shares to Mr. X = 400
c. He applied for shares (400x 8/5) = 640
d. He paid share application money (640x20) = Rs. 12,800
e. He had allotted share capital money (400x20) = Rs. 8,000
f. His excess payment in share application (12,800- 8,000) = Rs. 4,800
g. His due on share allotment (400x25) = Rs. 10,000
h. His calls in arrears on share allotment (10,000 – 4,800) = **Rs. 5,200****

THINGS TO REMEMBER

- Since Mr. X paid excess amount on share application and that is transferred to share allotment however he failed to pay the due money on allotment. Therefore, to find out the due money (calls in arrear) of Mr. X on allotment it is essential to prepare a working note.
- However, his excess paid money on application is not transferred to share first and final calls so it is not necessary to prepare a working note because call-up money would be the calls in arrears.

Mix Allotment
(Combination of Full Allotment, Pro-rata Allotment and Rejection)

This is the flux method of allotment. In this option, share applications are divided into three groups' i.e. full allotment, pro-rata allotment, and rejection. The applicants of full allotment group have allotted all the shares they have applied for. The applicants of pro-rata allotment group have allotted shares on the ratio of their numbers of applications and numbers of shares allotted to them; and the share application amount of rejection group to be refunded to applicants within prescribed time along with a letter of regret.

Illustration 21. A company issued 5,000 shares of Rs. 100 each payable as under:

On application Rs. 30 On allotment Rs. 40 On first and final call Rs. 30

Applications were received for 7,000 shares. The allotments were made as follows:

To the applicants for 2,000 shares .... 2,000 shares
To the applicants of 4,000 shares .... 3,000 shares
To the applicants of 1,000 shares .... Nil

It is resolved that the excess amount paid on application is to be adjusted against amount due on allotment. All monies were duly received except a shareholder holding 200 shares, failed to pay the call money.

Required: Entries for

a. Application b. Allotment c. First and Final call

Solution:

Working Notes:

Group	Share application money received	Share amount allotted	Transferred to allotment	Amount refunded
A.	2,000 x 30 = 60,000	2,000 x 30 = 60,000	----	----
B.	4,000 x 30 = 1,20,000	3,000 x 30 = 90,000	1,000 x 30 = 30,000	----
C.	1,000 x 30 = 30,000	----	----	1,000 x 30 = 30,000
Total	**7,000 x 30 = 2,10,000**	**5,000 x 30 = 1,50,000**	**30,000**	**30,000**

Journal entries in the book of ...

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**On Application:**			
	Bank A/c (7,000 × Rs. 30)........Dr.		2,10,000	
	To Share application A/c			2,10,000
	(Being share application money received on 7,000 shares @ of Rs. 30 each)			
	Share application A/c (7,000 × Rs. 30)........Dr.		2,10,000	
	To Share capital A/c (5,000 × Rs. 30)			1,50,000
	To Share allotment A/c (1,000 × Rs. 30)			30,000
	To Bank A/c (1,000 × Rs. 30)			30,000
	(Being share application money transferred to share capital account, share allotment account and balance application money was refunded.)			
ii.	**On allotment:**			
	Share allotment A/c (5,000 × Rs. 40) ....Dr.		2,00,000	
	To Share capital A/c			2,00,000
	(Being share allotment money made due on 5,000 shares @ Rs. 40 each)			
	Bank A/c (Rs. 2,00,000 – Rs. 30,000) ....Dr.		1,70,000	
	To Share allotment A/c			1,70,000
	(Being shares allotment money received after adjusting excess money transferred from share application)			
iii.	**On first and final call**			
	Share first and final call A/c (5,000 × Rs. 30)........Dr.		1,50,000	
	To Share capital A/c			1,50,000
	(Being shares first and final call money made due on 5,000 shares @ Rs. 30 each)			
	Bank A/c (4,800 × Rs. 30) ....Dr.		1,44,000	
	Calls in arrears A/c (200 × Rs. 30) ....Dr.		6,000	
	To Share first and final call A/c			1,50,000
	(Being share first and final call money received on 4,800 shares @ Rs. 30 each)			

Illustration 22. Dabur Nepal Limited issued 50,000 shares of Rs. 100 each at a premium of 10% to the public for subscription. The shares are payable as follows:

Rs. 25 on application Rs. 35 on allotment (including premium)

Rs. 20 on first call Rs. 30 on final call

Applications were received for 1,00,000 shares. The company decided to allot all the shares on the following way:

Group	shares applied	share allotted
1	25,000	full
2	50,000	Pro-rata
3	25,000	Nil

The company made all the calls and due money received from all the applicants in time. However, Mr. Hari who had allotted 250 shares from group 2 failed to pay the amount due on allotment and calls whereas Mr. Saroj who had allotted 400 shares from group 1 paid all the due money at the payment of allotment.

Required: Necessary journal entries

Solution:

Working note

Group	Share application money received	Share amount allotted	Amount transferred to allotment	Amount refunded
1	25,000 x 25 = Rs.6,25,000	25,000 x 25 = Rs.6,25,000	--	--
2	50,000 x 25 = Rs.12,50,000	25,000 x 25 = Rs.6,25,000	25,000 x 25 = Rs.6,25,000	--
3	25,000 x 25 = Rs.6,25,000	--	--	6,25,000
Total	**1,00,000 x 25 = Rs.25,00,000**	**50,000 x 25 = Rs.12,50,000**	**25,000 x 25 = Rs.6,25,000**	**6,25,000**

Journal entries in the book of Dabur Nepal Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (1,00,000 × Rs. 25) ....Dr.		25,00,000	
	To Share application A/c			25,00,000
	(Being share application money received on 1,00,000 shares @Rs. 25 each)			
ii.	Share application A/c (1,00,000 × Rs. 25) ....Dr.		25,00,000	
	To Share capital A/c (50,000 × Rs. 25)			12,50,000
	To Share allotment A/c (25,000 × Rs. 25)			6,25,000
	To Bank A/c (25,000 × Rs. 25)			6,25,000
	(Being share application money transferred to share capital, share allotment and balance amount is refunded to applicants.)			
iii.	Share allotment A/c (50,000 × Rs. 35) ....Dr.		17,50,000	
	To Share capital A/c (50,000 × Rs. 25)			12,50,000
	To Share premium A/c (50,000 × Rs. 10)			5,00,000
	(Being share allotment money due on 50,000 shares @Rs. 25 each at a premium of Rs.10.)			
iv.	Bank A/c (Rs. 11,45,000 – Rs. 2,500) ....Dr.		11,42,500	
	Call in arrear A/c ....Dr.		**2,500****	
	To Share allotment A/c (Rs. 17,50,000 – 6,25,000)			11,25,000
	To Call in advance A/c (400 × Rs. 50)			20,000
	(Being share allotment money received after adjusting excess money transferred from share application and calls in advance is received on 400 shares @Rs.50 each)			
v.	Share first call A/c (50,000 × Rs. 20) ....Dr.		10,00,000	
	To Share capital A/c			10,00,000
	(Being share first call money due on 50,000 shares @Rs. 20 each)			
vi.	Bank A/c(49,350 × Rs. 20) ....Dr.		9,87,000	
	Call in advance A/c (400 × Rs. 20) ....Dr.		8,000	
	Calls in arrear A/c (250 × Rs. 20) ....Dr.		5,000	
	To Share first call A/c (50,000 × Rs. 20)			10,00,000
	(Being share first call money received on 49,350 shares @Rs. 20 each after adjusting calls in advance on 400 shares.)			
vii.	Share final call A/c (50,000 × Rs. 30) ....Dr.		15,00,000	
	To Share capital A/c			15,00,000
	(Being share final call money due on 50,000 shares @Rs. 30 each)			
viii.	Bank A/c (50,000 × Rs. 30) ....Dr.		14,80,500	
	Calls in advance A/c (400 × Rs. 30) ....Dr.		12,000	
	Calls in arrear A/c (250 × Rs. 30) ....Dr.		7,500	
	To Share final call A/c (50,000 × Rs. 30)			15,00,000
	(Being share final call money received on 49,350 shares @ Rs. 30 each after			

adjusting calls in arrear and calls in advance.)			

Working Note

a. Ratio of share allotment (50,000:25,000) = 2:1
b. Allotted shares to Mr. Hari = 250
c. He applied for shares (250x 2/1) = 500
d. He paid share application money (500x25) = Rs. 12,500
e. He had allotted share capital money (250x25) = Rs. 6,250
f. His excess payment in share application (12,500- 6,250) = Rs. 6,250
g. His due on share allotment (250x35) = Rs. 8,750
h. His calls in arrears on share allotment (8,750 – 6,250) = **Rs. 2,500****

Calls in Arrears on Shares Issued on Pro-rata Basis

The amount of calls in the arrears on the shares, which were allocated on pro-rata basis computed as below:

Method I: Calculation of calls in arrear in pro-rata allotment

Installments	Due per share (i)	Excess application money per share (ii)	Net due per share (iii) = (i) – (ii)	Calls in arrear (iv) = (iii) × Default shares
Allotment	xxx	xxx	xxx	xxx
First call	xxx	xxx	xxx	xxx
Final call	xxx	xxx	xxx	xxx

Method II: Calculation of calls in arrear in pro-rata allotment

	Items	Amount
a.	Number of shares applied = $\frac{\text{Total pro-rata shares applied}}{\text{Total shares allotted}}$ × Number of Default Shares...................................	×××
b.	Application money received (From defaulter) = Shares applied × application per share	×××
c.	Application money required = Shares allotted × application per share	×××
d.	Excess application money (b – c) $\left(\text{Per share} = \frac{\text{Excess money}}{\text{Shares allotted}} = \text{Rs. ...}\right)$	×××
e.	Application money transferred to allotment or call (share allotted × Rs. ...)	×××
f.	Money due on allotment or call (Shares allotted × Rs...)	×××
g.	Calls-in-arrears (f – e)	×××

Alternatively,

Call-in arrear on allotment = No. of default shares × (Amount due per share – Excess application money per share)

Call in arrears on first call = No. of default share × (Amount due per share - excess application money per share)

Method III: Calculation of Calls in Arrear in Pro-rata allotment

Calls-in-arrear = No. of default shares × (Amount due per share – Excess application money per share)

Illustration 23. Nepal life company Ltd. issued 20,000 shares of Rs. 10 each at a premium of 20% payable as follows:

On application	Rs. 2 per shares
On allotment (including premium)	Rs. 5 per share
On first and final call	Rs. 5 per share

Applications were received from 30,000 shares, Allotment were made on the following basis

To application for 10,000 shares	Full
To application for 20,000 shares	10,000 shares

It was decided to utilize excess application money in part payment of allotment. All the calls were made and the call money was duly received except a holder, holding 400 shares from pro-rate group, failed to pay on allotment and call money.

Required: Journal entries for share allotment and share first and final account

Solution,

Adjustment of Application Money

Group	Full Allotment	Pro-rate Allotment	Total
Share application (1)...	10,000	20,000	30,000
Share allotment (2)	10,000	10,000	20,000
Application received (1) × Rs. 2...	20,000	30,000	50,000

Less: Application money required (2×Rs. 2)	20,000	20,000	40,000
Excess amount balance (… share = 20,000÷50,000) Rs. 2	0	10,000	10,000
Less: Adjusted on allotment (rate = (20,000÷10,000) Rs. 2	0	10,000	10,000
Balance	**0**	**0**	**0**

Journal entries in the books of Nepal Life Insurance Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Share allotment A/c (20,000 × Rs. 5)...Dr.		1,00,000	
	To Share capital A/c (20,000× Rs. 3)			60,000
	To Shares premium A/c (20,000× Rs. 2)			40,000
	(Being share allotment due)			
ii.	Bank A/c (1,00,000 – 16,000× Rs. 2 – 400 × Rs. 3)...Dr.		78,800	
	Calls in arrear A/c (400× Rs. 3)...Dr.		1,200	
	To Share allotment A/c (1,00,000–20,000)			80,000
	(Being share allotment money received)			
iii.	Share first and final call the (20,000× Rs. 5)...Dr.		1,00,000	
	To Share capital A/c			1,00,000
	(Being share first and final call money due)			
iv	Bank A/c (20,000× Rs. 5–400× Rs. 5)...Dr.		98,000	
	Calls in arrears A/c (400× Rs. 5)...Dr.		2,000	
	To Share first and final call			1,00,000
	(Being share first and final call money received after adjusting calls in arrear)			

Working Note:

Calculation of calls-in-arrear on default shares

Installments	Due per share (1)	Excess application money per share (2)	Net due per share (3) = 1–2	Call in arrear (4) = 3×default shares
Allotment	5	2	3	Rs. 3 × 400 = 1,200
First calls	5	0	5	Rs. 5 × 400 = 2,000

Alternatively

a. No. of share applied = $\frac{\text{Total shares applied}}{\text{Total shares alloted}}$ × No. of default shares = $\frac{20,000}{10,000}$ × 400	800
b. Application money received (From defaulter) = 800 × Rs. 2	1,600
c. Application money received = 400 × Rs. 2	800
d. Excess application money (b – c)	800
e. Application money transferred to allotment (400×Rs. 2)	800
f. Money due on allotment (400×5)	2,000
g. Call in arrears on allotment (f–e)	1,200

Alternatively,

Call-in arrear on allotment = No. of default shares × (Amount due per share – Excess application money per share)
= 400 × (Rs. 5 – 2) = Rs. 1,200

Call in arrears on first call = No. of default share × (Amount due per share - excess application money per share)
= 400 × (5–0) = 400 × 5 = Rs. 2,000

INTEREST ON CALLS IN ADVANCE AND CALLS IN ARREARS

Interest on Calls in Advance

A Company has to pay interest on amount of calls-in-advance in accordance of specified to its articles of association. If the article is silent, so it should be taken that the company has to pay interest up to 8 percent per annum that the interest is payable even if there is no profit. In this situation, the following entries are made:

Journal Entries in the books of …….

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	When interest amount is due:			
	Interest on calls in advance A/c...Dr.		×××	
	To Shareholders A/c			×××
	(Being interest on calls in advance due)			
ii.	When interest is actually paid in cash:			
	Shareholders A/c...Dr.		×××	

	To Bank A/c (Being interest on calls in advance paid)			×××
iii.	Transfer to profit & loss account: Profit & loss A/c ....Dr. To Interest on calls in advance A/c (Being interest on calls in advance transferred to profit & loss A/c)		××× 	 ×××

THINGS TO REMEMBER

Outstanding interest on calls in advance, if any, is recorded on the liability side of balance sheet, generally, under the heading of current liability.

Interest on Calls in Arrear

The company may provide information in its articles for charging interest from the defaulting shareholders at an applicable rate, e.g. 5% p.a. For interest on calls in arrear, generally, the following journal entries are applicable:

Journal Entries in the book of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**When interest due on calls in arrear:** Sundry shareholders A/c..........Dr. To Interest on calls in arrear A/c (Being interest due on calls in arrear)		 ××× 	 ×××
ii.	**When interest received on calls in arrear:** Bank A/c..........Dr. To Sundry shareholders A/c (Being received interest on calls in arrear received)		 ××× 	 ×××
	Alternative entry: Bank A/c ....Dr. To Interest on calls in arrear A/c (Being received interest on calls in arrear received)		 ××× 	 ×××
iii.	**With the total interest credited to profit/loss account** Interest on calls in arrear A/c ....Dr. To Profit & loss A/c (Being interest on calls in arrear transferred to profit and loss account)		 ××× 	 ×××

Illustration 24. On Baishakh 2073, Butwal National Bank Ltd. issued 20,000 shares of Rs. 100 each of the following terms:

On Application	Rs. 20 (Receive on Baishakh 1)
On Allotment	Rs. 30 (Made on 1 Ashadh)
On First and Final cash	Rs. 50 (Made on 31st Chaitra)

All shares were applied for and allotted. All money was received except in the case of Mrs. Bijay holding 2,000 shares who failed to pay allotment money and Mr. Bishnu who has allotted 1000 shares paid first and final call money at the payment of allotment money. Mr. Bijay paid the calls in arrear amount at the payment of first and final call. The Management of company decided to pay and charge interest on calls in arrear and calls in advance @ 10% on Chaitra.

Required: Journal Entries

Solution:

Journal entries in the books of Butwal National Bank

Date	Particulars	LF	Debit Rs.	Credit Rs.
1 Bai.	**With total amount of interest due:** Bank A/c (20,000 × Rs. 20)..........Dr. To Share Application A/c (Being share application money received on 20,000 shares @ Rs. 20 each)		 400,000 	 400,000
	Share Application A/c (20,000 × Rs. 20).......... Dr. To Share capital A/c (Being Application money transferred to share capital)		400,000 	 400,000
1. Ash	Share Allotment A/c (20,000 × Rs. 30) ....Dr.		600,000	

Date	Particular	LF	Debit Rs.	Credit Rs.
	To Share capital A/c (Being the allotment money due on 20,000 shares @ Rs. 30 each)			600,000
	Bank A/c (18,000 x Rs. 30 + 1000 x 50) ...Dr. Calls in arrear A/c (2000 × 30) To Share Allotment A/c (20,000 × Rs. 20) To Calls in Advance A/c (1000 × Rs. 50) (Being share allotment money received on 18,000 shares @ Rs. 30 each and calls in advance received on 1,000 shares @ Rs. 50 each)		5,90,000 60,000	 600,000 50,000
1.Chai	Share First & Final call A/c (20,000 × Rs. 50) ...Dr. To Share capital A/c (Being share first & final call money due on 20,000 shares @ Rs. 50 each)		10,00,000	 10,00,000
	Bank A/c (20000 × 50 – 1000 × 50 + 2000 × 30) ...Dr. Calls in advance A/c (1000 × 50) ...Dr. To Share first & final call A/c (20000 × 50) To Calls in arrear A/c (2000 × Rs. 30) (Being share first & final call money received after adjusting calls in advance and calls in arrear)		10,10,000 50,000	 10,00,000 60,000
31 Ch.	Bank A/c ...Dr. To Interest A/c (Being received interest on calls in arrear of Rs. 60,000 at 10% for 10 month)		5,000*	 5,000
	Interest A/c ...Dr. To Bank A/c (Being interest paid on calls in advance of Rs. 50,000 @ 10% for 10 months)		4167**	 4167

Working Note:

i. Calculation of interest on calls in arrear = $60{,}000 \times \frac{10}{12} \times \frac{10}{100} = 5{,}000^*$

ii. Calculation of Interest on call in Advance = $1000 \times 50 \times \frac{10}{12} \times \frac{10}{100} = 4167^{**}$

Issue of Shares to the Promoters

Promoters are those persons or group of persons or companies who conceive an idea to start the business. In other words, they are trusted for the establishment of company. Promoters are rewarded for the services rendered by them regarding the formation of company. For this reward they are paid by issuing the shares of the company. For this issue debit is given to the goodwill account or incorporation account and credit is given to share capital account. The following journal entries are passed to record such an issue to the promoters:

Journal Entries

Date	Particular	LF	Debit Rs.	Credit Rs.
	Goodwill/Incorporation a/c ...Dr Discount on issue a/c ...Dr To Share premium a/c To Share capital a/c (Being ...... shares at the rate of ...... each issued to promoters)		××× ×××	 ××× ×××

Illustration 25. **(Issue of shares to the promoters)** Jai Maa Ltd Issued 10,000 equity shares of Rs. 100 each to the promoters for their services in the Company.

Required: Journal entry

Solution:

Journal Entries in the books of Jai Maa Ltd

Date	Particular	LF	Debit Rs.	Credit Rs.
	Goodwill/Incorporation a/c ...Dr. To Share capital a/c (Being 10,000 shares are issued @Rs. 100 each to the promoters)		1,000,000	 1,000,000

Issue of Shares to the Underwriters

Underwriters are the agent whose business is related with trading of shares. Underwriter may be a person or a financial institution registered under '*securities transactions act 2040*'. Underwriter insures the Company that in case shares offered to the public are not subscribed by the public to the extent the balance of shares will be taken up by the underwriter. Public limited company cannot offer its shares to the general public by its self. As per the company act 2063, a company must appoint registered underwriter or issue manager for issuing the shares. Underwriter charges certain commission for issuing shares to the public on behalf of the company. Such commission is known as 'underwriting commission'. The percentage of underwriting commission is charged on issue price of the shares. If the company issues its shares to the underwriters as their commission, such an issue of shares is considered as 'issue of shares for underwriting commission'. The following journal entries are passed for issuing shares for underwriting commission:

Journal Entries in the book of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Underwriting commission a/c ....Dr.		×××	
	To underwriter's a/c			×××
	(Being underwriting commission due to underwriters)			
	Underwriter's a/c ....Dr.		×××	
	Discount on issue of share a/c ....Dr.		×××	
	To Share capital a/c			×××
	To Share premium a/c			×××
	(Being underwriting commission paid by issuing ….shares @Rs…. each)			

Illustration 26. **(Issue of share to underwriters)** ABC Ltd. issued 10,000 equity shares of Rs. 100 each through 10% underwriting commission. For that the company issued 1,000 shares of Rs. 100 each to the underwriters against their commission.

Required: Journal entries

Solution:

Journal entries in the books of ABC Ltd

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Underwriting commission a/c[1,000 shares × Rs. 100] ....Dr		100,000	
	To Underwriter's a/c			100,000
	(Being underwriting commission due to underwriters)			
	Underwriter's a/c[1,000 shares ×Rs. 100] ....Dr		100,000	
	To Share capital a/c			100,000
	(Being due amount of underwriting commission paid by issuing 1,000 shares @Rs. 100 each)			

ISSUE OF PREFERENCE SHARES

Along with equity shares, on the basis of requirement, a company issues preference shares to public. Since preference shares have given some specific preferential right, therefore, when these shares are issued a separate record should be maintained. In balance sheet, preference shares are disclosed separately apart from equity shares. For accounting treatment, there is no any difference with equity shares but the term 'preference' is prefixed to the respective accounts like preference share application, preference share capital and so on. In other words, preference shares can be issued either on lump sum basis or on installment basis.

Concept Review

The shares, which have given some preferential right in payment of dividend and repayment of investment, are preference shares.

Issue of Preference Share in Lump Sum

For issue preference shares in lump-sum basis the following entries are taken into account:

Journal entries in the books of …………

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (No. of preference share applied × rate of application)...........................Dr.		×××	
	To Preference share application A/c			×××
	(Being pref. share app. money received on …… shares @ Rs. …. each)			
ii.	Preference share application A/c..Dr.		×××	
	To Preference share capital A/c			×××
	(Being preference share application money transferred to preference share capital account)			

Illustration 27. Anjana company issued 15000, 5% preference shares of Rs. 100 each payable on lump sum. All the money due was received. You are prepared journal entries to record this transaction.

Solution:

Journal entries in the books of Anjana Company

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (15,000 × Rs. 100)...Dr.		15,00,000	
	To 5% preference share application A/c			15,00,000
	(Being pref. share application money received on 15,000 shares @ Rs. 100 each)			
ii.	5% Preference share application A/c (15,000 × Rs. 100).....................................Dr.		15,00,000	
	To 5% preference share capital A/c			15,00,000
	(Being preference share application money transferred to preference share capital account)			

Issue of Preference Shares on Installments

For issue preference shares in installment basis the following entries are taken into account:

Journal entries in the books of …………

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For application money received**			
	Bank A/c ....Dr.		×××	
	To Preference share application A/c			×××
	(Being pref. share app. money received on …shares @ Rs. …. each)			
ii.	**For application money transferred**			
	Preference share application A/c ....Dr.		×××	
	To Preference share capital A/c			×××
	(Being preference share application money transferred to share capital)			
iii.	**For allotment money due from**			
	Preference share allotment A/c ....Dr.		×××	
	To preference share capital A/c			×××
	(Being preference share allotment money due on ….. shares @ Rs.. each)			
iv.	**For allotment money received**			
	Bank A/c ....Dr.		×××	
	To Preference share allotment A/c			×××
	(Being preference share allotment money received on …. shares @ Rs.. each)			
v.	**For call money due from**			
	Preference share ….. call A/c ....Dr.		×××	
	To Preference share capital A/c			×××
	(Being preference share….. call money due on….. shares @ Rs.… each)			
vi.	**For call money received**			
	Bank A/c...Dr.		×××	
	To Preference shares ….. call A/c			×××
	(Being preference share…… call money received on …. shares @ Rs. …. each)			

Illustration 28. Illam Tea Estate Ltd. invited application for 10,000 5% preference shares of Rs. 100 each at par, payable as:

Rs. 30 on application Rs. 30 on allotment Rs. 40 on first and final call

Applications for all the shares have been received and allotted. All amounts due have been received in due time.

Required: Necessary journal entries

Solution:

Journal entries in the books of Illam Tea Estate Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
1.	Bank A/c (10,000 × Rs. 30)..........Dr. To Preference share application A/c (Being preference share application money received on 10,000 shares @Rs. 30 each)		3,00,000	 3,00,000
2.	Preference share application A/c (10,000 × Rs. 30)..........Dr. To 5%Preference share capital A/c (Being preference share application money transferred to preference share capital)		3,00,000	 3,00,000
3.	Preference share allotment A/c (10,000 × Rs. 30)..........Dr. To 5%Preference share capital A/c (Being preference share allotment money due on 10,000 shares @ Rs. 30 each)		3,00,000	 3,00,000
4.	Bank A/c (10,000 × Rs. 30)..........Dr. To Preference share allotment A/c (Being preference share allotment money received on 10,000 shares @ Rs. 30 each)		3,00,000	 3,00,000
5.	Preference share first and final call A/c (10,000 × Rs. 40)..........Dr. To 5% Preference share capital A/c (Being preference share first and final call money due on 10,000 shares @Rs. 40 each)		4,00,000	 4,00,000
6.	Bank A/c (10,000 × Rs. 40)..........Dr. To Preference share first and final call A/c (Being preference share first and final call money received on 10,000 shares @ Rs. 40 each)		4,00,000	 4,00,000

Issue of Both Equity and Preference Share

The capital structure of a company may consist of only equity shares or combination of both equity and preference shares. The combination of all is considered as an appropriate capital structure in normal business situation. The holders of equity shares have voting rights in the election of board of directors and the rate of dividend also fluctuates on the basis of profitability position of the company. On the other hand, holders of preference shares have no voting rights in the company and the amount of dividend payable is also fixed. Therefore, the company can issue both equity and preference shares on the basis of scope of business. The following are the entries for issues of both equity and preference shares at a time:

Journal entries in the books of …………

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For application money received** Bank A/c ....Dr. To Equity share application A/c To Preference share application A/c (Being equity share application money received on …………… Shares @ Rs.….each and preference share application received on ……….shares @ Rs.…….. each)		 ×××	 ××× ×××
ii.	**For application money transferred** Equity share application A/c ....Dr. Preference share application A/c..........Dr. To Equity share capital A/c To Preference share capital A/c (Being share application money transferred to respective share capital accounts)		 ××× ×××	 ××× ×××
iii.	**For allotment money due from** Equity share allotment A/c ....Dr. Preference share allotment A/c..........Dr. To Equity share capital A/c To Preference share capital A/c (Being equity share allotment money due on …….. shares @ Rs. … each and		 ××× ×××	 ××× ×××

	preference share allotment money due on ……shares @ Rs….. each)			
iv.	**For allotment money received**			
	Bank A/c ....Dr.		×××	
	To Equity share allotment A/c			×××
	To Preference share allotment A/c			×××
	(Being equity share allotment money received on …….. shares @ Rs. … each and preference share allotment money received on ……shares @ Rs….. each)			
v.	**For call money due from**			
	Equity share …calls A/c ....Dr.		×××	
	Preference share …calls A/c ....Dr.		×××	
	To Equity share capital A/c			×××
	To Preference share capital A/c			×××
	(Being equity share …calls money due on …….. shares @ Rs. … each and preference share …calls money due on ……shares @ Rs….. each)			
vi.	**For call money received**			
	Bank A/c ....Dr.		×××	
	To Equity share … calls A/c			×××
	To Preference share ….. calls A/c			×××
	(Being equity share …calls money received on …….. shares @ Rs. … each and preference share …calls money received on ……shares @ Rs….. each)			

Illustration 29. Tulsa Company Ltd. issued 5,000 equity share of Rs. 100 and 2,000, 5% preference share of Rs. 100 each at par. The amount payable was as follows:

Types of shares	On Application	On Allotment
Equity shares	Rs. 30	Rs. 30
5% Preference shares	Rs. 10	Rs. 50

All the money was received.

Required: Journal entries for share application and share allotment

Solution:

Journal entries in the books of Tulsa Co. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c ....Dr.		1,70,000	
	To Equity share application A/c (5,000 × Rs. 30)			1,50,000
	To 5% Preference share application A/c (2,000 × Rs. 10)			20,000
	(Being share application money received on 5,000 shares of Rs. 30 each and preference share application money received on 2,000 shares @ Rs. 10)			
ii	Equity share application A/c (5,000 × Rs. 30) ....Dr.		1,50,000	
	5% Preference share capital A/c (2,000 × Rs. 10) ....Dr.		20,000	
	To Equity share capital A/c			1,50,000
	To 5% Preference share capital A/c			20,000
	(Being share application money transferred to respective share capital accounts)			
iii.	Equity share allotment A/c (5000 × 30) ....Dr.		1,50,000	
	5% Preference share allotment A/c (2000 × 50) ....Dr.		1,00,000	
	To Equity share capital A/c			1,50,000
	To 5% Preference share capital A/c			1,00,000
	(Being equity share allotment money due on 5,000 shares of Rs. 30 each and preference share allotment money due of 2,000 shares @ Rs. 50 each)			
iv.	Bank A/c ....Dr.		2,50,000	
	To Equity share allotment A/c (5,000 × Rs. 30)			1,50,000
	To 5% Preference share allotment A/c (2,000 × Rs. 50)			1,00,000
	(Being equity share allotment money received on 5,000 shares of Rs. 30 each and preference share allotment money received of 2,000 shares @ Rs. 50 each)			

REDEMPTION OF PREFERENCE SHARE

Redemption is the process of repaying an obligation at predetermined amount. The redeemable preference shares are issued on the terms that shareholders will be repaid at the end of the maturity period. For redemption of preference shares the following journal entries are prepared:

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For amount payable to preference shareholders**			
	Preference share capital A/c (No. of shares issued × redemption rate) ....Dr.		×××	
	To Preference shareholders A/c			×××
	(Being......preference share capital of Rs......each due for redemption to preference shareholders.)			
ii.	**For amount paid to preference shareholders**			
	Preference shareholders A/c (No. of share issued × redemption rate) ....Dr.		×××	
	To Bank A/c			×××
	(Being amount paid to preference shareholders)			

Illustration 30. Eva Company Ltd. issued 3000, 5% preference share of Rs. 100 each and these shares will be repaid after 10 years at par. You are required to pass journal entries at the time of redemption of preference share.

Solution:

Journal entries in the book of Eva company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	5% Preference share capital A/c ....Dr.		3,00,000	
	To Preference shareholders A/c			3,00,000
	(Being 3,000 preference share capital of Rs. 100 each due for redemption to preference shareholders)			
ii.	Preference shareholders A/c..Dr.		3,00,000	
	To Bank A/c			3,00,000
	(Being amount paid to preference shareholders)			

ILLUSTRATIVE PROBLEMS

Illustration 31. A company Ltd. issued 50,000 shares of Rs. 100 each at a premium of 10 percent payable as follows:

On application Rs. 20 per share   On allotment Rs. 50 (including premium)
On first and final call Rs. 40

Required: Journal entries for

a. Share application   b. Share allotment

Solution:

Journal entries in the book of A company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**On application:**			
	Bank A/c (50,000 × Rs. 20)..Dr.		10,00,000	
	To Share application A/c			10,00,000
	(Being share application money received on 50,000 shares @ Rs. 20 each)			
	Share application A/c (50,000 × Rs. 20)...Dr.		10,00,000	
	To Share capital A/c			10,00,000
	(Being share application money transferred to share capital account)			
ii.	**On allotment:**			
	Share allotment A/c (50,000 × Rs. 50) ....Dr.		25,00,000	
	To Share capital A/c (50,000 × Rs. 40)			20,00,000
	To Share premium A/c (50,000 × Rs. 10)			5,00,000
	(Being share allotment money due on 50,000 shares @ Rs. 50 each including premium of Rs. 10 each)			
	Bank A/c (50,000 × Rs. 50)..Dr.		25,00,000	
	To Share allotment A/c			25,00,000
	(Being share allotment money received on 50,000 shares @ Rs. 50 each including premium of Rs. 10 each)			

Illustration 32. Nepal Liver Limited issued 50,000 shares of Rs. 100 each at a premium of 10% to the public for subscription in lump-sum.

Applications were received for 1,00,000 shares. The company decided to allot all the shares on the following way:

Group	Shares applied	share allotted
1	25,000	full
2	50,000	Pro-rata
3	25,000	Nil

Required: Necessary journal entries

Solution:

Working note

Group	Share application money received	Share capital amount accepted	Amount refunded
1	25,000 x 110 = Rs.27,50,000	25,000 x 110 = Rs. 27,50,000	--
2	50,000 x 110 = Rs.55,00,000	25,000 x 110 = Rs.27,50,000	25,000 x 110 = Rs.27,50,000
3	25,000 x 110 = Rs.27,50,000	--	25,000 x 110 = Rs.27,50,000
Total	**1,00,000 x 110 = Rs.1,10,00,000**	**50,000 x 110 = Rs.55,00,000**	**55,00,000**

Journal entries in the book of Nepal Liver Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (1,00,000 × Rs. 110) ....Dr.		1,10,00,000	
	To Share application A/c			1,10,00,000
	(Being share application money received on 1,00,000 shares @Rs. 110 each including premium)			
ii.	Share application A/c (1,10,00,000 × Rs. 110) ....Dr.		1,10,00,000	
	To Share capital A/c (50,000 × Rs. 100)			50,00,000
	To Share premium A/c (50,000 × Rs. 10)			5,00,000
	To Bank A/c (50,000 × Rs. 110)			55,00,000
	(Being share application money transferred to share capital, share premium and balance amount is refunded to applicants.)			

Illustration 33. Himal Steel Ltd. registered with a nominal capital of 50,000 shares of Rs.100 each. It issued 20,000 shares at a premium of 10% to the public. The shares are payable as follows:

Rs. 30 on application — Rs. 40 on allotment (including premium)

Rs. 30 on first call — Rs. 10 on final call

Applications were received for 50,000 shares. The company decided to allot all the shares to the applicants of 10,000 shares, 10,000 shares were rejected and money refunded and shares of remaining applicants were allotted on pro-rata basis. The company made all the calls and due money received from all the applicants in time.

Required: Journal entries for:

a. Share application — b. Share allotment

c. Share first call — d. Share final call

Solution:

Working note

Group	Share applied	Shares allotted
A	10,000	10,000 (full)
B	10,000	0 (nil)
C	30,000 (remaining)	10,000 (pro-rata)
Total	**50,000**	**20,000**

Group	Share application money received (Rs.)	Share capital amount Accepted (Rs.)	Amount transferred to allotment (Rs.)	Amount transferred to first call (Rs.)	Am. refunded (Rs.)
a.	10,000 x 30 = 3,00,000	10,000 x 30 = 3,00,000	--	--	--
b.	10,000 x 30 = 3,00,000	--	--	--	3,00,000
c.	30,000 x 30 = 9,00,000	10,000 x 30 = 3,00,000	10,000 x 40 = 4,00,000	2,00,000	--
Total	**50,000 x 30 = 5,00,000**	**20,000 x 30 = ,00,000**	**10,000 x 40 = ,00,000**	**2,00,000**	**3,00,000**

Journal entries in the books of Himal Steel Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (50,000 × Rs. 30) ....Dr.		15,00,000	

Date	Particulars	LF	Debit Rs.	Credit Rs.
	To share application A/c (Being share application money received on 50,000 shares @Rs. 30 each.)			15,00,000
ii.	Share application A/c (50,000 × 30) .... Dr. To Share capital A/c (20,000 × Rs. 30) To Share allotment A/c To Share first call A/c To Bank A/c (Being share application money transferred to share capital, share allotment, share first call and balance amount is refunded to applicants.)		15,00,000	 6,00,000 4,00,000 2,00,000 3,00,000
iii.	Share allotment A/c (20,000 × Rs. 40)............ Dr. To Share capital A/c (20,000 × Rs. 30) To Share premium A/c (20,000 × Rs. 10) (Being share allotment money due on 20,000 shares @Rs. 30 each at a premium of Rs.10.)		8,00,000	 6,00,000 2,00,000
iv.	Bank A/c (Rs. 8,00,000 – Rs. 4,00,000) .... Dr. To Share allotment A/c (Being share allotment money received after adjusting excess money transferred from share application)		4,00,000	 4,00,000
v.	Share first call A/c (20,000 × Rs. 30)............ Dr. To Share capital A/c (Being share first call money due on 20,000 shares @Rs. 30 each)		6,00,000	 6,00,000
vi.	Bank A/c (Rs. 6,00,000 – Rs. 2,00,000) .... Dr. To Share first call A/c (Being share first call money received after adjusting excess money transferred from share application.)		4,00,000	 4,00,000
vii.	Share final call A/c (20,000 × Rs. 10) .... Dr. To Share capital A/c (Being share final call money due on 20,000 shares @Rs. 10 each)		2,00,000	 2,00,000
viii.	Bank A/c (20,000 × Rs. 10)............ Dr. To Share final call A/c (Being share final call money received on 20,000 shares @ Rs. 10 each.)		2,00,000	 2,00,000

Illustration 34. A Company Ltd. was registered with a share capital of Rs. 20,00,000 divided into 50,000 shares of Rs. 40 each. 30,000 shares were offered to public at Rs. 50 per share. The calls were made as follows:

On application Rs. 10 per share

On allotment Rs. 20 per share (including premium)

On first and final call Rs.20 per share

Applications were received for 40,000 shares. No allotment was made to 4,000 shares. Rests were allotted on pro-rata basis. Directors have the right to utilize the excess money received into subsequent calls. All the calls were made and the call money was received. However, shareholders holding 500 shares failed to pay the last call on due date.

Required: Journal entries for

a. Share Application b. Share Allotment c. Share First and final call

Solution:

Working note

Group	Share applied	shares allotted
1	4,000	0(nil)
2	36,000	30,000 (pro-rata
Total	**40,000**	**30,000**

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amt. Refunded (Rs.)
i.	4,000 x 10 = 40,000	--	--	40,000
ii.	36,000 x 10 = 3,60,000	30,000 x 10 = 3,00,000	6,000 x 10 = 60,000	--
Total	**40,000 x 10 = 4,00,000**	**30,000 x 10 = 3,00,000**	**6000 x 10 = 60,000**	**40,000**

Journal entries in the book of A Company Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (40,000 × Rs. 10) .... Dr. To Share capital A/c (Being share application money received on 40,000 shares @ Rs. 10 each.)		4,00,000	 4,00,000
ii.	Share application A/c (40,000 × Rs. 10)............ Dr.		4,00,000	

Date	Particulars	LF	Debit Rs.	Credit Rs.
	To Share capital A/c (30,000 × Rs. 10) To Share allotment A/c (6,000 × Rs. 10) To Bank A/c (4,000 × Rs. 10) (Being share application money transferred to share capital, share allotment and balance refunded.)			3,00,000 60,000 40,000
iii.	Share allotment A/c (30,000 × Rs. 20)....Dr. To Share capital A/c (30,000 × Rs. 10) To Share premium A/c (30,000 × Rs. 10) (Being share allotment money due on 30,000 shares @Rs. 10 each at a premium of Rs.10.)		6,00,000	 3,00,000 3,00,000
iv.	Bank A/c (Rs. 6,00,000 – Rs. 60,000) ....Dr. To Share allotment A/c (Being share allotment money received after adjusting excess money transferred from share application)		5,40,000	 5,40,000
v.	Share first and final call A/c (30,000 × Rs. 20)....Dr. To Share capital A/c (Being share first and final call money due on 30,000 shares @Rs. 20 each)		6,00,000	 6,00,000
vi.	Bank A/c (29,500 × Rs. 20)....Dr. Calls in arrear A/c (500 × 20) ....Dr. To Share first call A/c (30,000 × Rs. 20) (Being share first and final call money received on 29,500 shares @ Rs. 20 after adjusting calls in arrears on 500 shares.)		5,90,000 10,000	 6,00,000

Illustration 35. ABC Limited Company issued 10,000 equity shares of Rs. 100 each. Amounts were payable as follows:

On application Rs. 20 On allotment Rs. 40

On first call Rs. 30 On final call Rs. 10

Applications were received for 25,000 shares. The directors decided to make pro-rata allotment for 20,000 applications and remaining application were rejected. Excess money was utilized towards sum due on allotment.

Required: Journal entries for:

a. Application b. Allotment

c. First call d. Final call

Solution:

Working note

Group	Share applied	shares allotted
1	20,000	10,000(pro-rata)
2	5,000	Nil
Total	**25,000**	**10,000**

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amount Refunded (Rs.)
1.	20,000 x 20 = 4,00,000	10,000 x 20 = 2,00,000	2,00,000	---
2.	5,000 x 20 = 1,00,000	--	---	1,00,000
Total	**25,000 x 20 = 5,00,000**	**10,000 x 20 = 2,00,000**	**2,00,000**	**1,00,000**

Journal entries in the books of ABC Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (25,000 × Rs. 20)....Dr. To Share application A/c (Being share application money received on 25,000 shares @ Rs. 20 each)		5,00,000	 5,00,000
	Share application A/c (25,000 × Rs. 20)....Dr. To Share capital A/c (10,000 × Rs. 20) To Share allotment A/c (10,000 × Rs. 20) To Bank A/c (5,000 × Rs. 20) (Being shares application money transferred to share capital account, share allotment account and balance refunded)		5,00,000	 2,00,000 2,00,000 1,00,000
ii.	Share allotment A/c) (10,000 × Rs. 40) ....Dr. To Share capital A/c (Being share allotment money due on 10,000 shares @ Rs. 40 each)		4,00,000	 4,00,000

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (Rs. 4,00,000 – Rs. 2,00,000) ....Dr. To Share allotment A/c (Being share allotment money received)		2,00,000	 2,00,000
iii.	Share first call A/c (10,000 × Rs. 30)....................Dr. To Share capital A/c (Being share first call money due on 10,000 shares @ Rs. 30 each)		3,00,000	 3,00,000
	Bank A/c (10,000 × Rs. 30)....................Dr. To Share first call A/c (Being share first call money received on 10,000 shares @ Rs. 30 each)		3,00,000	 3,00,000
iv.	Share final call A/c (10,000 × Rs. 10) ....Dr. To Share capital A/c (Being share final call money due on 10,000 shares @ Rs. 10 each)		1,00,000	 1,00,000
	Bank A/c (10,000 × Rs. 10)....................Dr. To Share final call A/c (Being share final call money received on 10,000 shares @ Rs. 10 each)		1,00,000	 1,00,000

Illustration 36. A company issued 5,000 shares of Rs. 100 each payable as under:

On application Rs. 30 On allotment Rs. 40 On first and final call Rs. 30

Applications were received for 7,000 shares. The allotments were made as follows:

To the applicants for 2,000 shares ....2,000 shares

To the applicants of 4,000 shares ....3,000 shares

To the applicants of 1,000 shares .... Nil

It is resolved that the excess amount paid on application is to be adjusted against amount due on allotment. All monies were duly received except a shareholder holding 200 shares, failed to pay the call money.

Required: Entries for

a. Application b. Allotment c. First and Final call.

Solution:

Working Notes:

Group	Share application money received	Share amount allotted	Transferred to allotment	Amount refunded
A.	2,000 x 30 = 60,000	2,000 x 30 = 60,000	----	----
B.	4,000 x 30 = 1,20,000	3,000 x 30 = 90,000	1,000 x 30 = 30,000	----
C.	1,000 x 30 = 30,000	----	----	1,000 x 30 = 30,000
Total	**7,000 x 30 = 2,10,000**	**5,000 x 30 = 1,50,000**	**30,000**	**30,000**

Journal Entries in the books of A Company

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**On Application** Bank A/c (7,000 × Rs. 30)....................Dr. To Share application A/c (Being share application money received on 7,000 shares @ of Rs. 30 each)		 2,10,000	 2,10,000
	Share application A/c (7,000 × Rs. 30)....................Dr. To Share capital A/c (5,000 × Rs. 30) To Share allotment A/c (1,000 × Rs. 30) To Bank A/c (1,000 × Rs. 30) (Being share application money transferred to share capital account, share allotment account and balance application money was refunded.)		2,10,000	 1,50,000 30,000 30,000
ii.	**On allotment** Share allotment A/c (5,000 × Rs. 40) ....Dr. To Share capital A/c (Being share allotment money made due on 5,000 shares @ Rs. 40 each)		 2,00,000	 2,00,000
	Bank A/c (Rs. 2,00,000 – Rs. 30,000) ....Dr. To Share allotment A/c (Being shares allotment money received after adjusting excess money transferred from share application)		1,70,000	 1,70,000
iii.	**On first and final call** Share first and final call A/c (5,000 × Rs. 30)....................Dr. To Share capital A/c (Being shares first and final call money made due on 5,000 shares @ Rs. 30 each)		 1,50,000	 1,50,000

	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (4,800 × Rs. 30) .... Dr.		1,44,000	
	Calls in arrears A/c (200 × Rs. 30) .... Dr.		6,000	
	To Share first and final call A/c			1,50,000
	(Being share first and final call money received on 4,800 shares @ Rs. 30 each)			

Illustration 37. A Company limited issued 10,000 shares of Rs. 100 each at a premium of Rs. 10 per share payable as follows:

On application Rs. 50 On allocation Rs. 60

Applications were received for 20,000 shares. The allotments were made as follows:

To the applicants of 4,000 shares ....4,000 shares

To the applicants of 10,000 shares ....6,000 shares

To the applicants of 6,000 shares .... Nil shares

Resolved that the excess amount received on applications would be adjusted against the due amount on allotment. All the called money was duly received.

Required: Entries for: a. Application b. Allotment

Solution:

Working Notes:

Group	Share application money received	Share amount allotted	Transferred to allotment	Amount refunded
A.	4,000 x 50 = 2,00,000	4,000 x 50 = 2,00,000	----	----
B.	10,000 x 50 =5,00,000	6,000 x 50 = 3,00,000	4,000 x 50 = 2,00,000	---
C	6,000 x 50 =3,00,000			6,000 x 50 = 3 ,00,000
Total	**20,000 x 50 = 10,00,000**	**10,000 x 50 = 5,00,000**	**2,00,000**	**3,00,000**

Journal Entries in book of A. Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**On Application:**			
	Bank A/c (20,000 × Rs. 50) .... Dr.		10,00,000	
	To Share application A/c			10,00,000
	(Being share application money received on 20,000 shares @ Rs. 50 each.)			
	Shares application A/c (20,000 × Rs. 50) .... Dr.		10,00,000	
	To Share capital A/c (10,000 × Rs. 50)			5,00,000
	To Share allotment A/c (4,000 × Rs. 50)			2,00,000
	To Bank A/c (6,000 × Rs. 50)			3,00,000
	(Being application money transferred to share capital account, share allotment account and balance application money refunded)			
b.	**On Share Allotment**			
	Share allotment A/c (10,000 × Rs. 60) .... Dr.		6,00,000	
	To Share capital A/c (10,000 × 50)			5,00,000
	To Share premium A/c (10,000 × 10)			1,00,000
	(Being share allotment money due on 10,000 shares @ Rs. 60 each at premium of Rs. 10 per share)			
	Bank A/c (Rs. 6,00,000 – Rs. 2,00,000) .... Dr.		4,00,000	
	To Share allotment A/c			4,00,000
	(Being share allotment money received after adjusting excess amount transferred from share application.)			

Illustration 38. A limited company offered 5000 shares of Rs. 100 each for public subscription, payable Rs. 30 on application, Rs. 20 on allotment and Rs. 50 on first and final call. Applications were received for 6,000 shares and allotted them in the following manner:

A	4000	4000
B	2000	1000

The board resolved that the excess amount received on application is to be utilized on allotments and call money. All the money were duly received.

Required: Journal entries for: Share allotment, Share first and final call

Solution:

Working note

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amount transferred to calls (Rs.)
a.	4,000 x 30 = 1,20,000	4,000 x 30 = 1,20,000	--	---
b.	2,000 x 30 = 60,000	1,000 x 30 = 30,000	1,000x20= 20,000	1,000x10=10,000
Total	**6,000 x 30 = 1,80,000**	**5,000 x 30 = 1,50,000**	**1,000x20= 20,000**	**1,000x10=10,000**

Journal entries in the book of ……………..

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	Share Allotment A/c (5000 x Rs.20) ....Dr.		1,00,000	
	To Share capital A/c (5000x Rs.20)			1,00,000
	(Being share allotment money due on 5,000 shares @ Rs. 20 each)			
b.	Bank A/c (100,000 – 1000x20)......................Dr.		80,000	
	To Share allotment A/c			80,000
	(Being share allotment money received after adjusting excess money transferred from share application.)			
c.	Share first and final call A/c (Rs. 5000x50)......................Dr.		250,000	
	To Capital reserve A/c			250,000
	(Being share first and final call money due on 5,000 shares @ Rs. 50 each)			
d.	Bank A/c (5,000x 50 – 1000x10)......................Dr.		240,000	
	To Share first and final call A/c			240,000
	(Being share first and final call money received after adjusting excess money transferred from share application)			

Illustration 39. A company Ltd. invited application for 10,000 shares of Rs. 100 each. The calls are made as follows:

On application Rs. 30

On allotment Rs. 40

On first and final all Rs. 30

Applications were received for 14000 shares. No allotment was made to 1000 applications. Rest were allotted on the pro-rate basis. All money was duly received except a holder holding 100 shares, failed to pay on first and final call money.

Required: Entries for

a. Application b. Allotment c. First and final call

Solution:

Journal entries in the book of A Company Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	Bank A/c (14,000 × Rs. 30)......................Dr.		4,20,000	
	To share application A/c			4,20,000
	(Being share application money received on 14,000 shares @Rs. 30 each)			
	Share application A/c......................Dr.		4,20,000	
	To share capital A/c (10,000 × Rs. 30)			3,00,000
	To share allotment A/c (3,000 × Rs. 30)			90,000
	To Bank A/c (1,000 × Rs. 30)			30,000
	(Being share application money transferred to share capital, share allotment and balance amount is refunded to applicants.)			
b.	Share allotment A/c (10,000 × Rs. 40) ....Dr.		4,00,000	
	To Share capital A/c			4,00,000
	(Being share allotment money due on 10,000 shares @Rs. 40 each.)			
	Bank A/c......................Dr.		3,10,000	
	Call in advance A/c......................Dr.		90,000	
	To Share allotment A/c			4,00,000
	(Being share allotment money received after adjusting excess money transferred from share application and calls in advance is received on 400 shares @Rs.50 each)			
c.	Share first and final call A/c (10,000 × Rs. 30)......................Dr.		3,00,000	
	To Share capital A/c			3,00,000
	(Being share first final call money due on 10,000 shares @Rs. 30 each)			
	Bank A/c ....Dr.		2,97,000	

	Calls in arrear A/c (100 × Rs. 30) .... Dr. To Share first final call A/c (10,000 × Rs. 30) (Being share first final call money received on 49,350 shares @Rs. 20 each after adjusting calls in advance on 400 shares.)		3,000	3,00,000

Illustration 40. A company issued 10,000 shares of Rs. 100 each at a discount of 10%

On application:..Rs. 30 per share
On allotment: ....Rs. 30 per share
On first and final call: ....Rs. 30 per share
Applications were received for 14,000 shares and allotments were made as under:
4,000 applicants: .... 4,000 shares
8,000 applicants: .... 6,000 shares
2,000 applicants: ....Nil

It is resolved that the excess amount paid on application is to be adjusted against amount due on allotment. All money were duly received except a shareholder holding 400 shares, failed to pay calls money.

Required: Entries for application, allotment and final call.

Solution:

a. **Journal Entries in the book of A Company**

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c .... Dr. To Share application A/c (14000 × 30) (Being application money received)		420,000	 420,000
ii.	Share application A/c .... Dr. To Share capital A/c To Share allotment A/c To Bank A/c (Being application money transferred)		420,000	 300,000 60,000 60,000
iii.	Share allotment A/c (10,000×30) .... Dr. Discount on issue of share A/c .... Dr. To Share capital A/c (Being allotment money due)		300,000 100,000	 400,000
iv.	Bank A/c .... Dr. Calls in advance A/c .... Dr. To Share allotment A/c (Being allotment money received)		240,000 60,000	 300,000
v.	Share first all final call A/c .... Dr. To Share capital A/c (10,000 × 30) (Being calls money due)		300,000	 300,000
vi.	Bank A/c .... Dr. Cells in arrear A/c .... Dr. To Share first and final call A/c (Being first and final call money received)		288,000 12,000	 300,000

REVIEW OF TERMS USED IN THE CHAPTER

Share: unit of capital of the company
Shareholders: investors in shares and owner of the company
Dividend: a part of profit that is divided to share holders
Authorized capital: maximum amount of capital that is registered in the Office of Company Registrar
Issued capital: part of authorised capital offered to public for subscription
Subscribed capital: amount applied by the public for company shares
Called up capital: part of issued capital that is called from public
Paid up capital: amount that is actually received as capital
Equity share: other than preference shares are equity shares
Preference share: shares which get preference in payment of dividend, repayment of investment etc.
Liquidation: dissolution or winding up of a joint stock company
Board of directors: representatives of shareholders
Collateral security: to keep as mortgage or security while taking loan
Share application: first installment of share amount collection
Share allotment: second installment of share amount collection
Issue of share at par: issue of share in equal to its book or face value
Issue of share at premium: issue of share more than its book or face value
Issue of share at discount: issue of share less than its book or face value
Defaulting shareholders: shareholder who failed to pay called-up money of company
Calls in arrear: unpaid called up money of shareholders
Calls in advance: advance paid uncalled-up money by shareholders
Pro-rate allotment: allotment of shares on the basis of proportion
Refunded: return back of paid money

Promoters: primary shareholders of the company
Lump-sum payment: to pay entire amount a time
Over subscription: to receive more share applications from public than issued and called up
Under subscription: to less share applications from public than issued and called up

THEORETICAL PROBABLE QUESTION ANSWERS

VERY SHORT QUESTION ANSWER

1. What is share?

The total capital of a company is divided into different units of small denomination and divided into definite value and numbers and a part of which is known as a share.

2. What is share capital?

Share capital denotes the amount of capital raised by the issue of shares, by a company. It is collected through the issue of shares and remains with the company until its liquidation.

3. What is authorized capital?

The maximum amount of share capital a company is allowed to raise is called its authorized capital.

4. What is paid in capital?

It is part of called up capital that the members of company or shareholders have paid.it is the capital paid in by investors during common or preferred stock issuances.

5. What is preference share?

The share in which there will be the priority to pay dividend as well as refund of capital before equity share is called preference share.

6. What do you mean by Issue of share at premium?

If the shares are issued at more than the face value of per share, it is known as issue of shares at premium.

7. What is equity share?

The ordinary shares which are not preferential right as preference share are called equity shares and do not get preference over dividend and refund of capital.

8. What do you mean by calls in arrear?

Calls in arrears is the situation when the shareholder fails to pay the called money in the allocated time by the company. When one or more shareholders fail to pay the amount due from them towards allotment and/or calls.

9. What is calls in advance?

Excess Money received by the company which has been called up is known as calls in advance. A shareholder can pay the whole or part of the amount remaining unpaid on his shares even before the call is made.

10. Define oversubscription?

If the no. of shares applied for is more than the no. of shares offered to the public then that is called as over Subscription.

11. Define under subscription of share.

If the no. of shares applied for is less then the no. of shares offered to the public then it is called as Under Subscription.

12. What is issued capital?

This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.

13. What is Issue of Shares?

The issue of shares is the procedure in which enterprises allocate new shares to the shareholders. Shareholders can be either corporates or individuals.

14. What is Called Up Capital?

It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

15. What do you mean by pro rata allotment of share?

Pro-rata allotment refers to the allotment of shares in proportion of the shares applied for. When a company makes pro-rata allotment, it adjusts the excess money received at the time of application firstly, towards the allotment and then towards calls.

16. What do you mean by issue of share at par?

A company may issue shares at their face value or at a price other than the face value. When shares are issued at a price equal to their face value it is termed as shares issued at par.

SHORT QUESTION ANSWER

1. Give the clear meaning of preference share with example.

Preference shares are those shares, which carry a preferential right getting annual dividend and also for getting return of capital investment in the case of liquidation of company. These shares carry a preferential right of dividend at a fixed rate before any dividend paid to equity shareholders. However, preference shareholders have no voting right in the election of Board of Directors. Therefore, they cannot participate in the management of the company.

2. Mention any two differences between equity share and preference share.

The two common differences between equity shares and preference shares are:

Basis	Equity shares	Preference shares
i. Participation in management	The holders of equity shares have voting right in the election of board members.	Preference shareholders have no voting right in the election of members of board of directors.
ii. Payment of dividend	Equity shareholders will get annual dividend on the profit of the company only after distribution to preference shareholders.	Preference shareholders have preferential right to get annual dividend before distribution to equity shareholders.

3. Write the meaning of calls in arrears and calls in advance.

The meaning of calls in arrear and calls in advance are as follows:

Calls in arrear: A shareholder may fail to pay the amount due on share allotment or share calls, such unpaid amount is known as 'calls in arrear'. In some exceptional situation, some shareholders may fail to pay the amount due to them on share allotment or share calls. The reasons of fail to pay such money may be due to in abroad, lack of source of money, lack of information and so on.

Call in advance: The money received by the company in excess of what has been called-up is known as calls in advance. The company may receive calls in advance from its shareholders if it is authorized in articles of association.

4. Differentiate between issued and subscribed capital.

Issued Capital: It is the part of authorized capital that is offiered to the public for subscribtion. At the intial stage of operation, on the basis of scope of business, company issues 25%, 40%, 50% or any part of authorized capital as it is publised in prospecturs. For instance, A Ltd. isssued 50,000 shares of Rs. 100 each.

Subscribed Capital: It is that part of issued capital which are applied by the public for getting shares of the company. In subscribed capital there is three possibilities i.e. equal subscription, over subscription and under subscription. For example, public subscribed for 1,00,000 shares @ Rs. 50 each on application.

5. Give the meaning of share capital.

Share capital is known as own capital and it is the primary source of collecting amount for the company. According to company act 2074, "share" is the divided units of share capital of the company. The person or institution holding some units of shares is called shareholder. A shareholder is the part of owner and responsible to take risk of the company. Shareholders get return on their investment in terms of dividend from the company.

6. What is meant by pro-rata allotment of shares?

In pro-rata allotment, the amount of excess applications received than the share offered will not be refunded but allotted on proportionately to all the applicants. Each applicant is allotted shares on proportionate of total share offered to total shares applied for. For instance, a company offered 10,000 shares to public but applications are received for 15,000 shares. In such case, shares are allotted on pro-rata basis in the ratio of 3:2. It means, a shareholder who has applied for 3(three) shares is allotted 2(two) shares and excess amount of 1(one) share is transferred to allotment.

7. Show any two different between shares and debentures.

The two common differences between shares and debentures are:

Basis of difference	Shares	Debentures
i. Introduction	Shares is known as owners' capital	Debenture is known as loan or borrowed capital.
iii. Return	Shares holders get dividend as return on their investment.	Debentures holders get interest as return on their investment.

8. Define equity share and preference share.

Equity share: In general, shares which are not preference shares, are equity shares. Equity shareholders will get annual dividend only after payment of dividend to preference shareholders. However, there is no limitation to the payment of dividend to equity shareholders. They have voting right in the election of the members of Board of Directors

Preference share: Preference shares are those shares, which carry a preferential right firstly as to payment of annual dividend and secondly as to the return of capital when the company is wound up. These shares carry a preferential right of dividend at a fixed rate before any dividend paid to equity shareholders. However, preference shareholders have no voting right in the election of Board of Directors.

QUESTIONS TO TEST THEORETICAL KNOWLEDGE

■ VERY SHORT ANSWER QUESTIONS

1. What do you mean by share and share capital?
2. Define ordinary/equity shares.
3. Define preference shares.
4. Define authorized capital.
5. What is issued capital?
6. What do you mean by calls in arrear?
7. What do you mean by calls in advance?
8. What is meant by pro-rata allotment of share?

■ SHORT ANSWER QUESTIONS

1. Describe the different types of preference shares on the basis of conversion.
2. Explain the different types of preference shares on the basis of redemption
3. Write some points of different between equity and preference shares.
4. What do mean by issue of shares for cash. Is share is only issued in cash.
5. What is share application? Mention the procedures to apply for share application.
6. What do you mean by share allotment? Mention the procedures of share allotment.
7. Define the term issue of share at par. Is company act 2063 recommended for issue of shares at par?
8. What do you mean by issue of share at premium? Mention of condition of issue of shares at premium.
9. Define the term issue of share at discount. In Nepal, is it possible to issue shares at discount?
10. What do you mean by calls in arrear? Mention the procedures of its accounting treatment.
11. What do you mean by call in advance? Mention the procedures of its accounting treatment.
12. Define the term pro-rata allotment. In what situation the term pro-rata come into account.

■ LONG ANSWER QUESTIONS

1. What do you mean by equity share? Write the importance of issuing equity shares.
2. Define the term share capital. Mention the process of issue of shares.
3. Introduce authorized capital. Mention the procedures to be completed to increase authorized capital.
4. Define subscribed capital. Mention the condition of over & under subscription of shares of a joint stock company.
5. Introduce preference shares. Explain the different types of preference share.

MULTIPLE CHOICE QUESTIONS

1. _____________ share capital has priority both in repayment of dividend as well as capital.
   a. Equity   b. non preference
   c. Preference   d. all of the above
2. Equity shares cannot be issued for the purpose of:
   a. Cash Receipts
   b. Purchase of assets
   c. Redemption of debentures
   d. Distribution of dividend
3. A company cannot issue :
   a. Redeemable Equity Shares
   b. Redeemable Preference Shares
   c. Redeemable Debentures
   d. Fully Convertible Debentures
4. To whom dividend is given at a fixed rate in a company?
   a. To equity shareholders
   b. To preference shareholders
   c. To debenture holders
   d. To promoters
5. Preference shareholders have
   a. Preferential right as to dividend only
   b. Preferential right in the management
   c. Preferential right as to repayment of capital at the time of liquidation of the company
   d. Preferential right as to dividend and repayment of capital at the time of liquidation of the Company
6. The shares on which there is no any pre-fixed rate of dividend is decided, but the rate of dividend is fluctuating every year according to the availability of profits, such share are called:
   a. Equity Share
   b. Non-cumulative preference share
   c. Non-convertible preference share
   d. Non-guaranteed preference share
7. Which shareholders are returned their capital after some specified time :
   a. Redeemable Preference Shares
   b. Irredeemable Preference Shares
   c. Cumulative Preference Shares
   d. Participating Preference Shares
8. A Company issued 50,000 shares of Rs, 20 each at 5% premium. Rs.10 were payable on application and balance on allotment. What will be the allotment amount?
   a. Rs.5,00,000   b. Rs.4,75,000
   c. Rs.5,50,000   d. Rs.5,25,000
9. Amount of Calls in advance is
   a. Added to Share Capital
   b. Deducted from Share Capital
   c. Shown on the Assets side
   d. Shown on the Equity & Liabilities side
10. Following amounts were payable on issue of shares by a Company : Rs.3 on application, Rs.3 on allotment. Rs.2 on first call and Rs.2 on final call. X holding 500 shares paid only application and allotment money whereas Y holding 400 shares did not pay final call. Amount of calls in arrear will be :
    a. Rs.3,800   b. Rs. 2,800
    c. Rs.1,800   d. Rs. 6,200
11. A Company invited applications for 1,00,000 shares and it received applications for 1,50,000 shares.

Applications for 30,000 shares were rejected and the remaining were allotted shares on pro-rata basis. How many shares an applicant for 3,000 shares will be allotted :

a. 2,500 Shares b. 3,600 Shares
c. 4,500 Shares d. 2,000 Shares

12. If applicants for 80,000 shares were allotted 60,000 shares on pro-rata basis, the shareholder who was allotted 1,200 shares must have applied for :

a. 900 Shares b. 3,600 Shares
c. 1,600 Shares d. 4,800 Shares

13. A Company purchased a Building for Rs.12,00,000 out of which Rs.2,00,000 were paid in cash. Balance amount was paid by issue of equity shares of Rs.10 each at 25% premium. How many shares will be issued by the Company :

a. 1,00,000 Shares b. 80,000 Shares
c. 1,20,000 Shares d. 96,000 Shares

Answers

1.c	2.d	3.a	4.b	5.d	6.a	7.a	8.c	9.d	10.b
11.a	12.c	13.b							

NUMERICAL QUESTIONS

VERY SHORT ANSWER QUESTIONS

Lump Sum Method

VQ- 1. ____(Issue of shares at par), Zonal Ltd. issued 10,000 equity shares of Rs. 100 each at par payable in lump-sum basis. Applications for all the shares were received and allotted to all the shareholders.

Required: Journal entries for share application and transfer.

VQ-2._____(Issue of shares at premium), Yak Ltd. issued 10,000 equity shares of Rs. 100 each at 10% premium payable in lump-sum basis. Applications for all the shares were received and allotted to all the shareholders.

Required: Journal entries for share application and transfer.

VQ-3._____(Issue of shares at discount), Zone Ltd. issued 10,000 equity shares of Rs. 100 each at 10% discount payable in lump-sum basis. Applications for all the shares were received and allotted to all the shareholders.

Required: Journal entries for share application and transfer

SHORT ANSWER QUESTIONS

Installment Method

Issue of Shares at Par

SQ- 1. ____Development Bank Ltd. was registered with an authorized capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each, payable as Rs. 20 per share on application, Rs. 30 on allotment, Rs. 25 on first call and Rs. 25 on final call. It invited applications for 5,000 shares. All the shares were subscribed and fully paid for by the public.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Issue of Shares at Premium

SQ-2._____Himalayan Company Ltd. issued, 50,000 equity shares of Rs. 100 each at a premium of Rs. 20, payable as Rs. 20 on application, Rs. 50 on allotment (including premium) and Rs. 50 on first and final call. All the shares were subscribed and fully paid up.

Required: Journal entries:

a. Share application b. Share allotment c. Share first and final calls

Ans: Share premium Rs. 10,00,000

SQ- 3. ____ Narayani Co. Ltd. issued to public for subscription 10,000 shares of Rs.100 each at a premium of 20 % and payable as follows:

On application ..... Rs. 40 (including premium Rs. 20) On allotment .... Rs. 40
On first call .... Rs. 20 On final call .... Rs. 20
All the shares were subscribed, called was made and amount due was received in due time.

Required: Journal entries for:

a. Share application, b. Share allotment
c. Share first call d. Share final call

Ans.: Share premium Rs.2,00,000

Issue of Shares at Discount

SQ- 4. ____ Manakamana Co. Ltd. invited application for 20,000 shares of Rs. 100 each at a discount of 10% payable as follows:

On application .... Rs. 20 On allotment .... Rs. 30 (adjusted discount)
On first call .... Rs. 20 On final call .... Rs. 20
All the shares were subscribed and money due was received.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Ans.: Discount on share Rs.2,00,000

SQ-5. _____ Sagarmatha Ltd. issued 10,000 equity shares of Rs. 100 each at 5% discount payable as follows:

On application .... Rs. 25 On allotment .... Rs. 20(After discount)
On first call .... Rs. 20 on final call .... Rs. 30
Application amount was received on all shares and also received all due money.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Ans.: Discount on shares Rs. 50,000

Issue of Equity and Preference Shares

SQ-6. _____ Pragya Ltd. issued 15,000 equity shares of Rs. 100 each at 10 % discount and 10,000 preference shares of Rs. 100 each at 10 % premium , payable as follows.

	Equity Shares	Preference Share
On Application	30	20
On Allotment	20	40
On first call	25	25
On final Call	15	25

All the shares were subscribed and called was made and money due was received in due time.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Calls in Arrear

SQ-7. _____ X Ltd. issued 50,000 sharers 10 each payable as Rs. 3 on application, Rs. 2 on allotment and Rs. 5 on first and final call. All the amounts were received except from Mr. Prakash, who holds 100 shares failed to pay allotment and call money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first and final call

Ans.: Calls in arrear Rs. 200 and Rs. 500

SQ- 8. ____ Gorkha Handicraft Ltd. issued 10,000 shares of Rs. 100 each to the public payable as Rs. 30 on application, Rs. 20 on allotment, Rs. 30 on first call and Rs. 20 on final call.

All the shares were subscribed and allotted. All due money was received except first call money on 500 shares and final call money on 1,000 shares.

Required: Journal entries for:

a. Share application,
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrear Rs. 15,000 and Rs. 20,000

SQ-9. Kumari Bank Ltd. issued 1,000 shares @ 100 at 10% premium, payable as follows.

On application Rs. 30
On allotment Rs. 40 (including premium)
On first call Rs. 25
On final call Rs. 15

All the amounts were received. But Mr. Share holder who holds 200 shares failed to pay in allotment and calls money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrears Rs. 8,000, Rs. 5,000, 3,000

SQ-10. ABC Co. Ltd issued 50,000 equity shares of Rs. 100 each at 10% discount, payable as follows:

on application Rs. 30
on allotment Rs. 30 (adjusted discount)
on first and final calls Rs. 30
All money were duly received.

Except: i. Mr. A who holds 1,000 shares failed to pay allotment and calls money
ii. Mr. B who holds 2,000 shares failed to pay calls money.

Required: Entries for application, allotment and calls

Ans: CIA = allotment Rs. 30,000; first and final call Rs. 90,000

SQ- 11. Sidhartha Paper Ltd. was registered with an authorized capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each. It issued 5,000 such shares to the public payable as follows:

Rs. 20 on application
Rs. 25 on allotment
Rs. 30 on first call
Rs. 25 on final call

Applications were received in all the shares. All the shares were called up and the amount received in respect of these shares was follows:

On 4,000 shares............ full amount
On 500 shares .... Rs. 75
On 300 shares............ Rs. 45
On 200 shares .... Rs. 20

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrear 1st Rs. 5,000, 2nd Rs.15,000, 3rd Rs. 25,000

SQ-12. X Co. Ltd. issued 5,000 shares @ Rs. 100 each, payable Rs. 20 on application Rs. 30 on allotment, Rs. 40 on first call and Rs. 10 on final call. All the money was duly received but Kishor who hold 300 share failed to pay the due money on first call but later he paid calls in arrears amount with final call.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrear Rs. 12,000

■ Calls in Advance

SQ-13. Hydro company Ltd. issued 2,00,000 shares of 100 each to public payable as under:
Rs. 30 on Application Rs. 40 on allotment Rs. 20 on 1st Call & Rs. 10 on final call. All the shares were subscribed & allotted. Sangit to whom 50 shares were allotted paid the entire amount with first call.

Required: Journal entries for

a. Share application,
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in advance Rs. 500

SQ- 14.____ Y Ltd. Company issued 1,00,000 shares of Rs. 10 each at 20% premium to the public payable as under:

Rs. 3 on Application | Rs. 4 on Allotment

Rs. 3 on First call and | Rs. 2 on Final call.

All the shares were subscribe and allotted. Mr. X to whom 100 shares were allotted paid the whole amount due at the payment of allotment and directors decided to accept the payment. The entire amount due was received.

Required: Journal entries for:

a. Share application,
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in advance Rs. 500

SQ-15. ____ ABC Co. Ltd. issued 50,000 shares of Rs. 100 each 10% discount to the public the amount is payable as follows:

on application Rs. 40
on allotment Rs. 30 (after discount)
on first and final call Rs. 20

Allotment was made to the applicants in full. A shareholder holding 1000 shares paid entire amount along with allotment money.

Required: Journal entries.

Ans: Bank in advance Rs. 20,000

SQ-16. ____Himal Co. Ltd. issued 40,000 equity shares of Rs. 100 each at 20% premium to the public. The amount is payable as follows:

on application Rs. 30 | on allotment Rs. 50 (including premium)
on first call Rs. 30 | on final call Rs. 10

The money was collected as below.

i. The holder of 1000 share paid the first and final call money at the time of paying allotment money.
ii. Another shareholder who holds 500 shares paid the final call money at the time of paying first call money.

Required: Journal entries for application, allotment, first call and final call.

Ans: calls in advance Rs. 40,000, on first call Rs. 5000

SQ-17.____ Sunrise Co. Ltd. issued 10,000, 10% preference share of Rs. 50 each at 10% premium, payable as follows:

on application Rs. 15 (Including premium) | on allotment Rs. 20
on first call Rs. 10 | and balance on final call

All money were dully received but a shareholder holding 600 share paid whole money with the first call.

Required: Journal entries.

Ans: Calls in advance on first call Rs. 6000

■ LONG ANSWER QUESTIONS

■ Calls in arrear and calls in advance

LQ-1.______Z Ltd. issued 10,000 shares of Rs.100 each payable as Rs. 30 on application, Rs. 20 on allotment and Rs. 25 on first and Rs.25 on final call. All the amount due was received except from Mr. Santosh, who held 100 shares failed to pay allotment and calls money, however Mr. Umesh who held 150 shares paid entire money along with allotment and board of directors decided to accept the payment.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrear Rs.2,000, Rs.2,500 Rs.2,500 calls in advance Rs. 7,500

LQ-2.______Kathmandu Tile Ltd. issued 50,000 shares. 10 each at 10% discount payable as to on Rs. 3 on application, Rs. 2 on allotment and Rs. 4 on first and final call. The entire amount was received except from Shrestha who held 100 shares failed to pay allotment and calls money and Rajesh who held 150 shares paid entire amount of shares along with allotment.

Required: Journal entries for:

a. Share application
b. Share allotment

c. Share first and final call

Ans.: Calls in arrear Rs. 200 and Rs. Rs.400, calls in advance Rs. 600

LQ-3._____Eastern Ltd. issued 10,000 equity shares of Rs. 100 each at 10% premium payable as follows:

On application .... Rs. 25 On allotment .... Rs. 35 (including premium)
On first call .... Rs. 20 On final call .... Rs. 30

All money due was received except in case of Mr. X holding 250 shares failed to pay allotment and first call money but he paid calls arrear money along with final call in accordance of consent of board of directors. Mr. Y is another shareholder holding 200 shares paid entire money along with allotment. All other due money was received in due time.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Ans.: Calls in advance Rs. 10,000, calls in arrear Rs.8,750 and Rs. 5,000

LQ-4._____Beta Co. Ltd. issued 30,000 shares of Rs. 10 each at a discount of Rs. 1 per share, payable as follows:

Rs. 4 on application Rs. 3 on allotment Rs. 2 on first and final call

All money was dully received except allotment and calls money from shareholder to whom 1000 share were allotted failed to pay allotment and calls money and another shareholder who holds 800 share paid entire money due along with allotment money.

Required: Journal entries

Ans: Calls in arrear: allotment Rs. 3,000, on first and final call Rs. 2,000; calls in advance Rs. 1,600

LQ-5._____ Premium Insurance Co. Ltd. issued 100,000 equity share of Rs. 100 each at Rs. 20 premium per share payable as follows:

Rs. 30 on application Rs. 40 on allotment (Including premium)
Rs. 30 on first call Rs. 20 on final call

All the share were applied and allotted. All calls were duly made and received except.

i. Mr. Hari a shareholder who holds 2000 shares paid entire money along with allotment.
ii. Mr. Rajan a shareholder holding 1000 shares did not paid allotment and first call money.
iii. Mr. Gopal a shareholder holding 500 shares failed to pay first and final call money.

Required: Journal entries

Ans: calls in arrear: on allotment Rs. 40,000; on first call Rs. 45,000; on final calls Rs. 30,000; calls in advance Rs. 100,000

■ Under Subscription

LQ-6._____ Sungava Company Ltd. issued 20,000 shares of Rs. 10 each to the public for subscription. The shares were payable as Rs. 3 on application, Rs. 3 on allotment Rs. 2 on first call and balance on final call. Applications were received for 18,000 shares and were allotted in full. All the money due was received except a shareholder holding 500 share failed to pay allotment money.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first call d. Share final call

Ans: Calls in arrears on allotment Rs. 1,500 and first and final call Rs. 1,000 each

LQ-7._____ Gurash Company Ltd. was registered with an authorized capital of 50,000 shares of Rs. 100 each at Rs. 10 premium. Company offered 10,000 such shares to public for subscription, payable as follows:

Rs. 25 on application, Rs. 35 on allotment
Rs. 50 on first and final call

Applications were received for 9,000 shares and all the shares were allotted. All due money was received except Mr. Ram a shareholder holding 200 share did not paid first and final call money.

Required: Journal entries for:

a. Share application b. Share allotment
c. Share first and final calls

Ans: Calls in arrears Rs. 10,000

LQ-8._____ TATA Co. Ltd. issued 40,000 equity share of 100 each at 5% premium, payable on follows:

on application Rs. 25 on allotment Rs. 30 (including premium)

and balance on first and final call money

However, applications were received for 30,000 shares only. All money were dully received. A shareholder holding 500 share paid entire money along with allotment money.

Required: Journal entries

Ans: Calls in advance Rs. 25,000

Over Subscription and Pro-Rata Allotment

LQ-9. ____Nepal smart co. issued 7000 shares @ 100 at 5% discount to the public payable as under Rs. 30 on application Rs. 35 on allotment & 30 on 1st & final call. Application received for 10,000 shares. Excess number of shares was rejected.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first and final call

Ans: Bank (refund) Rs. 90,000

LQ-10. ____ Annapurna Ltd. was registered with an authorized capital of 1,00,000 shares of Rs. 10 each. It issued 20,000 such shares to public at 10% premium payable as follows:

Rs. 3 on Application
Rs. 4 on Allotment (including premium)
Rs. 2 on First call
Rs. 2 on Final call

Applications were received 30,000 shares. Allotment was made to all applicants on pro-rata basis and retained excess paid money on allotment and call.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Transferred to allotment Rs. 30,000

LQ-11. ____ Butwal Spinning Ltd. was registered with an authorized capital of 50,000 shares of Rs. 100 each. It invited applications for 10,000 shares payable as follows:

Rs. 25 on application
Rs. 30 on allotment
Rs. 45 on first and final call

Applications were received on 15,000 shares. The company accepted 10,000 shares in full and remaining 5,000 shares were rejected and money was refunded in due time. All money due on allotment and call were received on time.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first and final call

Ans: Bank refund Rs. 1,25,000

LQ-12. ____ A. Ltd. registered with nominal capital of 25,000 shares of Rs. 100 each. It issued 20,000 such shares at 10% premium payable as follows:

Rs. 30 on application
Rs. 50 on allotment (including premium)
Rs. 30 on first and final call

Applications were received 35,000 shares. Allotment was made to the applicants of 30,000 shares on pro-rata basis and remaining share were rejected and refunded and excess money paid on applications was transferred to allotment. All money due on allotment and call was received except from Mr. Ram who had allotted 400 shares failed to pay allotment and call money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first and final call

Ans.: Transferred to allotment Rs. 3,00,000, Calls in arrear Rs. 14,000 & Rs. 12,000

LQ- 13.____ Dairy product Ltd. invited applications for 15,000 shares of Rs. 100 each at 20 % premium payable as follows:

Rs. 25 on application	Rs. 50 on allotment (including premium)
Rs. 20 on first call	Rs. 25 on final call

Applications were received for 25,000 shares. Applications for 5,000 shares were accepted in full, 5000 shares were refunded and remaining shares were allotted on pro-rata basis. Mr. X who had allotted 500 shares under pro-rata basis failed to pay allotment and call money and Mr. Y who had allotted 300 shares under the same group failed to pay calls money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Call in arrear 1st Rs. 18,750, 2nd Rs.16,000, 3rd Rs. 20,000

LQ- 14.____ Harisiddhi Tail Ltd. offered 50,000 shares of 100 each, payable as to Rs. 25 on application, Rs. 25 on allotment, Rs. 20 on first call and Rs. 30 on final call.

Applications were received for 1,00,000 shares and were allotted in the following manner:

Groups	Share Applied	Share Allotted
A	25,000	Full
B	50,000	25,000
C	25,000	Nil

All sums due on allotment and calls have been received in due time.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Transferred to allotment Rs. 625,000

LQ- 15.____ Kumari Bank Ltd. registered with an authorized capital of 100,000 shares of Rs. 100 each. It offered 40,000 such shares to public at 10% premium payable as follows:

Rs. 20 on application	Rs. 30 on allotment (excluding premium)
Rs. 20 on first call	Rs. 30 on final call

Applications were received for 75,000 shares and allotted on the following way:

Groups	Share Applied	Share Allotted
A	10,000	10,000
B	50,000	pro-rata
C	15,000	Nil

Article of association of the company authorized to transfer excess money on application to allotment and subsequent calls. Allotment and calls were made and all due money was received. However, Mr. Bashu who had allotted 500 shares under group B failed to pay calls money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Call in arrear Rs. 10,000, Rs.15,000

LQ-16. ____ A Ltd. Company issued 70,000 shares of Rs. 100 each at 10% discount payable as follows:

on application Rs. 30 on allotment Rs. 40(without discount), on first and final calls Rs. 30

Application were received for 1,00,000 share. Allotment was made as under

To applicant applying for 50,000 share – Full

To applicants applying for 50,000 share – pro-rata

The excess money on application were utilized towards the sum due on allotment. A shareholder to whom 1000 share were allotted from pro-rata basis failed to pay the first and final call money

Required: Journal entries for

a. Application
b. Allotment
c. first and final call

Ans: Transferred to allotment Rs. 600,000, Transferred to first call Rs. 3,00,000; calls in arrear: allotment–Nil, first & final Rs. 15000

LQ-17. ___ Civil Co. Ltd. was registered with 15,000 share of subscription at the premium of Rs. 5 per share. The money was payable as follows:

on application Rs. 30	on allotment Rs. 40
on first call Rs. 20	on final call balance

Application were received for 25,000 shares. No allotment was made to the applicants for 5000 share. Rest was allotted on pro-rata basis. All calls were dully made and received except.

i. A shareholder holding 1000 share paid the full value of share on allotment.

ii. A shareholder who applied for 2000 share failed to pay allotment and calls money.

Required: Journal entries for application, allotment and calls.

Ans: Transfer to allotment Rs. 1,50,000; calls in arrear: allotment 45000; first call Rs. 30,000; final call Rs. 22500

LQ-18. ___ Everest Co. Ltd. issued 10,000 equity shares of Rs. 10 each, payable as under

on application Rs. 4	on allotment Rs. 3	on first and final calls Rs. 3

Application were received for 18000 share and allotment were made as the following basis.

To applicants applying for 6000 shares — full
To applicants applying for 8,000 shares — 50%
To applicants applying for 4,000 shares — rejected

All excess amount paid on application is to be adjusted amount due on allotment and subsequent call. The share were fully called and paid up except on shareholder who applied 500 share failed to pay allotment and calls from full allotment group.

Required: Journal entries for share application, allotment and share first and final calls.

Ans: calls in arrear: allotment Rs. 1500; first and final call Rs. 1500; Transferred to allotment Rs. 12,000; first and Transferred to first and final call Rs. 4,000

LQ-19. ___ Public Co. Ltd. was registered with 40,000 share of subscription at the premium of Rs. 5 per share. The money was payable as follows:

on application Rs. 30	on allotment Rs. 40
on first call Rs. 20	on final call balance

Application were received for 50,000 shares. No allotment was made to the applicants for 5,000 share. Rest was allotted on pro-rata basis. All calls were dully made and received except.

i. A shareholder holding 500 share paid the full value of share on allotment.

ii. A shareholder who applied for 1000 share failed to pay allotment and calls money.

Required: Journal entries for application, allotment and calls

Ans: Transfer to allotment Rs. 1,50,000; calls in arrear: allotment Rs. 32,222; first call Rs. 17,777; final call Rs. 13,333

LQ- 20.___ Lumbini Bank Ltd. registered with an authorized capital of 1,00,000 shares of Rs. 100 each. It offered 25,000 such shares to public at 10% premium payable as follows:

Rs. 20 on application	Rs. 40 on allotment (including premium)
Rs. 20 on first call	Rs. 30 on final call

Applications were received for 75,000 shares and allotted on the following way:

Groups	Share Applied	Share Allotted
A	10,000	10,000
B	40,000	10,000
C	12,000	5,000
D	13,000	Nil

Article of association of the company authorized to transfer excess money on application to allotment and subsequent calls. Allotment and calls were made and all due money was received. However, Mr.Bibek a shareholder who applied 4000 share under Group B did not paid allotment and calls money and Mr. Joshi who had allotted 500 shares under group C failed to pay calls money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Call in arrear 1st Rs 10,000, 2nd Rs.15,000

ASSIGNMENT QUESTIONS FOR INTERNAL EVALUATION

1. XYZ Co. Ltd issued 25,000 equity shares of Rs. 100 each at 10% discount, payable as follows:

   on application Rs. 30 | on allotment Rs. 40 (without discount)
   on first and final calls Rs. 30 | All money were duly received.

   Except: i. Mr. X who holds 500 shares failed to pay allotment and calls money
   ii. Mr. Y who holds 400 shares failed to pay calls money.

   Required: Entries for application, allotment and calls.

   Ans: CIA = allotment Rs. 15,000; first and final call Rs. 27,000

2 Rajesh Co. Ltd. issued 20,000 equity shares of Rs. 100 each at 10% premium to the public. The amount is payable as follows:

   on application Rs. 30 | on allotment Rs. 50 (including premium)
   on first call Rs. 30 | on final call Rs. 10

   The money was collected as below.

   i. The holder of 2000 share paid the first and final call money at the time of paying allotment money.
   ii. Another shareholder who holds 1000 shares paid the final call money at the time of paying first call money.

   Required: Journal entries for application, allotment, first call and final call.

   Ans: calls in advance on allotment Rs. 80,000; first call Rs. 10,000

3. Western Ltd. issued 20,000 equity shares of Rs. 100 each at 10% premium payable as follows:

   On application .... Rs. 25 | On allotment .... Rs. 35 (including premium)
   On first call .... Rs. 20 | On final call .... Rs. 30

   All money due was received except in case of Mr. Y holding 500 shares failed to pay allotment and first call money but he paid calls arrear money along with final call in accordance of consent of board of directors. Mr. Z is another shareholder holding 400 shares paid entire money along with allotment. All other due money was received in due time.

   Required: Journal entries for:

   a. Share application | b. Share allotment
   c. Share first call | d. Share final call

   Ans.: Calls in advance Rs. 20,000; calls in arrears on allotment Rs. 17,500 and first call Rs. 10,000

4. Mechi Tile Ltd. was registered with an authorized capital of 2,00,000 shares of Rs. 10 each. It issued 50,000 such shares to public at 10% premium payable as follows:

   Rs. 2 on Application | Rs. 4 on Allotment (including premium)
   Rs. 3 on First call | Rs. 2 on Final call

   Applications were received 75,000 shares. Allotment was made to all applicants on pro-rata basis and retained excess paid money on allotment and calls.

   Required: Journal entries for:

   a. Share application | b. Share allotment
   c. Share first call | d. Share final call

   Ans.: Transferred to allotment Rs. 50,000, share premium Rs. 50,000

5. X. Ltd. registered with nominal capital of 50,000 shares of Rs. 100 each. It issued 5,000 such shares at 10% premium payable as follows:

   Rs. 20 on Application
   Rs. 50 on Allotment (including premium)
   Rs. 40 on first and final call

   Applications were received 10,000 shares. Allotment was made to all applicants on pro-rata basis and excess money paid on applications was transferred to allotment. All money due on allotment and call was received except from Mr. Rai who had allotted 500 shares failed to pay allotment and call money.

   Required: Journal entries for:

   a. Share application | b. Share allotment
   c. Share first and final call

Ans.: Calls in arrear Rs.15,000, Rs. 20,000

6. Vegetable product Ltd. invited applications for 20,000 shares of Rs. 100 each at 20% premium payable as follows:

Rs. 20 on Application Rs. 40 on Allotment (including premium)
Rs. 30 on first call Rs. 30 on final call

Applications were received for 40,000 shares. Applications for 10,000 shares were accepted in full, 10,000 shares were refunded and remaining shares were allotted on pro-rata basis. Mr. P who had allotted 750 shares under pro-rata basis failed to pay allotment and call money and Mr. S who had allotted 500 shares under the same group failed to pay call money.

Required: Journal entries for:

a. Share application
b. Share allotment
c. Share first call
d. Share final call

Ans.: Calls in arrear Rs. 15,000, Rs. 37,500

7. B Ltd. Company issued 80,000 shares of Rs. 100 each at 10% discount payable as follows:

on application Rs. 30 on allotment Rs. 30 on first and final calls Rs. 30

Application were received for 1,10,000 share. Allotment was made as under

To applicant applying for 50,000 share – Full
To applicants applying for 60,000 share – pro-rata

The excess money on application were utilized towards the sum due on allotment. A shareholder to whom 500 share were allotted from pro-rata basis failed to pay the first and final call money

Required: Journal entries for

a. Application
b. Allotment
c. first and final call

Ans: Transferred to allotment Rs. 9,00,000; Transferred to first call Rs. Nil; calls in arrear: allotment–Nil, first & final Rs. 15,000

8. Himalayan Co. Ltd. issued 15,000 equity shares of Rs. 10 each, payable as under

on application Rs. 4 on allotment Rs. 3 on first and final calls Rs. 3

Application were received for 30,000 share and allotment were made as the following basis.

To applicants applying for 5,000 shares — full
To applicants applying for 20,000 shares — 50%
To applicants applying for 5,000 shares — rejected

All excess amount paid on application is to be adjusted amount due on allotment and subsequent call. The share were fully called and paid up except on shareholder holding 1000 shares failed to pay allotment and calls from full allotment group.

Required: Journal entries for share application, allotment and share first and final calls.

Ans: Calls in arrear: allotment Rs. 3,000; first and final call Rs. 3,000; Transferred to allotment Rs. 30,000; Transferred to first and final call Rs. 10,000

9. Siddhartha Bank Ltd. registered with an authorized capital of 1,00,000 shares of Rs. 100 each. It offered 20,000 such shares to public at 10% premium payable as follows:

Rs. 30 on application Rs. 40 on allotment (including premium)
Rs. 20 on first call Rs. 20 on final call

Applications were received for 65,000 shares and allotted on the following way:

Groups	Share Applied	Share Allotted
A	5,000	5,000
B	30,000	5,000
C	20,000	10,000
D	10,000	Nil

Article of association of the company authorized to transfer excess money on application to allotment and subsequent calls. Allotment and calls were made and all due money was received. However, Mr. Joshi who had allotted 500 shares under group C failed to pay call money.

Required: a. Journal entries b. Opening balance sheet

Ans.: Calls in arrear Rs. 5,000, Rs. 10,000, Rs. 10,000, Balance sheet Rs. 21,75,000

3 Chapter

Forfeiture and Re-issue of Shares

Learning Objective

After comprehensive studying of this chapter, you will be able to understand:

- introduction and meaning of forfeiture of share.
- accounting for forfeitures of shares.
- forfeiture for shares issued on pro-rata basis.
- re-issue of forfeitures shares.

INTRODUCTION

A company management makes call for the payment of installments of shares in accordance of specification in article of association of the company. According to the Company Act 2074, every shareholder should be sent a written notice in the prescribed format mentioning the calls to be paid within at least 30 days. If a shareholder fails to pay the calls within the period, the company shall send notice him/her giving an additional period of 3 months. If he/she doesn't make payment even within the period, his/her shares will be forfeited. In the case of public company, such notice shall be published in a daily newspaper within national circulation for at least three times. When shares are forfeited, the name of such defaulting shareholder is removed from the register of members. Then the amount already paid by such shareholder is forfeited i.e. not refunded to such shareholder.

MEANING OF FORFEITURE OF SHARES

Concept Review
Share forfeiture is the process of cancellation of share certificates due to non - payment of called up money.

Share forfeiture is the process of cancellation of share certificates and dispossession of the money already paid by the defaulting shareholders. It is very common in the situation when one or more shareholders failed to pay their calls on the due date.

A public limited company can process for forfeiture of shares if shareholders failed to pay the amount due on share allotment and share calls within the specified time. The management of a limited company has to complete some official procedures, as specified in of companies' act 2074, before forfeiting the share of any shareholder. Even after completion of necessary documentation, if shareholders failed to pay the due amount, the company Board of Directors should pass a resolution as specified in articles to forfeit the shares of defaulting shareholders. However, the company can retain the defaulting shares as fully paid up to the extent of the amount actually paid up if Board of Directors deem appropriate.

ACCOUNTING FOR FORFEITURE OF SHARES

Generally, share are forfeited an entry called forfeiture entry is made in the book of the company to record the forfeitures of shares in the following different circumstances.

Circumstances

Share capital A/c	→	Dr. → with called up value of share
Share premium A/c	→	Dr. → If premium is not received
Discount on issue of shares A/c	→	Cr. → If there is discount on issue of shares
Calls in arrears A/c	→	Cr. → Unpaid amount
Share forfeitures A/c	→	Cr. → Paid amount

Broadly, there are three options to maintain accounting record of the forfeiture of shares, they are as follows:

forfeiture of shares issued initially at par

forfeiture of shares issued initially at discount

forfeiture of shares issued initially at premium

Forfeiture of Shares Issued Initially at Par

The accounting treatment of forfeiture of shares issued initially at par consists of debiting the share capital account with the face value, to the extent of called up, of shares being forfeited. In the similar way, share forfeiture account (for paid amount of defaulting shareholders) and calls in arrear account (for unpaid amount of defaulting shareholders) are being credited. The following journal entries would clear the matter:

Journal entries in the book of..........

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**Showing calls in arrears**			
	Share capital A/c ....Dr.		×××	
	To Share forfeiture A/c			×××
	To Calls in arrear A/c			×××
	(Being … shares of Rs. … each issued at par is forfeited due to non-payment of first and final call of Rs.… per share)			
ii.	**Without Showing Calls in Arrears**			
	Share capital A/c ....Dr.		×××	
	To Share allotment a/c } Or Calls in arrear a/c			×××
	To Share …. call a/c }			×××
	To Share forfeiture a/c			×××
	(Being forfeiture of …. shares of Rs… for non-payment of Rs… on ….)			

Illustration 1. A Limited forfeited 500 shares of Rs.100 each issued at par of Mr. Arun due to non-payment of share first and final calls of Rs.60 per share.

Solution:

Journal entries in the book of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital A/c (500 × Rs. 100) ....Dr.		50,000	
	To Share forfeiture A/c (500 × Rs. 40)			20,000
	To Calls in arrear A/c (500 × Rs. 60)			30,000
	(Being 500 shares of Rs. 100 each issued at par is forfeited due to nonpayment of first and final call of Rs.60 per share)			

Forfeiture of Shares Issued Initially at Discount

The forfeiture of shares issued initially at discount consists of debiting the share capital account with the face value, to the extent of called up, of the shares being forfeited. And share forfeiture account (for paid amount of defaulting shareholders), calls in arrear account (for unpaid amount of defaulting shareholders) and discount on share account (for discount value of forfeited shares) are being credited. The following journal entries would clear the matter:

Journal entries in the books of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital A/c ....Dr.		×××	
	To Share forfeiture A/c			×××
	To Discount on shares A/c			×××
	To Calls in arrear A/c			×××
	(Being … shares of Rs. … each issued at …% discount is forfeited due to nonpayment of share allotment and share first and final call)			

Illustration 2. B Limited forfeited 400 shares of Rs.100 each issued at a discount of 10% of Mr. Arbin due to non-payment of share allotment Rs.20 and share first and final calls of Rs.40 per share.

Solution:

Journal entries in the books of B Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital A/c (400 × Rs. 100) ....Dr.		40,000	
	To Share forfeiture A/c (400 × 30)			12,000
	To Discount on shares A/c (400 × Rs. 10)			4,000
	To Calls in arrear A/c (400 × Rs. 60)			24,000
	(Being 400 shares of Rs. 100 each issued at 10% discount is forfeited due to non-payment of share allotment and share first and final call)			

Forfeiture of Shares Issued Initially at Premium

The accounting record of forfeiture of share initially issued at premium is the same as it is mentioned above except that an additional entry to debit to share premium account. However, it should be noted that share premium account would be debited only of premium amount is not received by the company. If the company receives premium amount, share premium account would not be debited but it is remain intact and seen in company balance sheet. The following journal entries would clear the matter:

Journal entries in the books of.....

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**When the company receives premium amount:**			
	Share capital A/c ....Dr.		×××	
	To Share forfeiture A/c			×××
	To Calls in arrears A/c			×××
	(Being … shares of Rs. … each issued at par is forfeited due to nonpayment of first and final call of Rs.… per share)			
b.	**When the company does not receive premium amount :**			
	Share capital A/c ....Dr.		×××	

	Share premium A/c ....Dr. To Share forfeiture A/c To Calls in arrear A/c (Being … shares of Rs. … each issued at par is forfeited due to nonpayment of first and final call of Rs.… per share)		×××	 ××× ×××

a. When the Company Received Premium Amount

Illustration 3. D Limited forfeited 300 shares of Rs.100 each issued at a premium of 10% of Mr. Shyam, due to non-payment of share first and final calls of Rs.60 per share.

Solution:

Journal entries in the books of D Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital A/c (300 × Rs. 100) ....Dr. To Share forfeiture A/c (300 × Rs. 40) To Calls in arrear A/c (300 × Rs. 60) (Being 300 shares of Rs. 100 each issued at 10% premium is forfeited due to non-payment of share first and final call)		30,000	 12,000 18,000

b. When the Company did not Receive Premium

Illustration 4. C. Limited forfeited 200 shares of Rs.100 each issued at a premium of 10% of Mr. Dinesh due to non-payment of share allotment Rs.30 (including premium) and share first and final calls of Rs.50 per share.

Solution:

Journal entries in the books of C Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital A/c (200 × Rs. 100) ....Dr. Share premium A/c (200 × Rs. 10)....................Dr. To Share forfeiture A/c (200 × Rs. 30) To Calls in arrear A/c (200 × Rs. 80) (Being 200 shares of Rs. 100 each issued at 10%premium is forfeited due to non-payment of share allotment and share first and final call)		20,000 2,000	 6,000 16,000

FORFEITURE OF SHARES ISSUED ON PRO-RATA BASIS

In pro-rata allotment, the amount of shares allotted to shareholders is less than their application money. In such situation, their excess paid amount is transferred to allotment and call. Therefore, when company called allotment or call money from such shareholders their payable money would be less than due amount. In such case, when shareholders failed to pay called up money of allotment or calls then company management forfeited paid money of such shareholders on the basis of rules specified in prospectus and articles of association. For determination of paid money of defaulter shareholders and calls in arrears, the following specimen can be used:

Calculation of paid amount and calls in arrear in pro-rata allotment	
a. Ratio of share allotment	$\frac{\text{No. of share allotted}}{\text{No. of share applied}}$
b. Allotted shares to defaulters	It is given in exercise
c. Applied shares of defaulters	$\frac{\text{No. of share applied}}{\text{No. of share allotted}} \times$ No. of share allotted to defaulter
d. Share application money received from defaulters	Applied shares of defaulters × Application value per shares
e. Allotted share capital money of defaulters	Allotted shares of defaulters × Application value per share
f. Excess money paid in share application by defaulters	Share application money received from defaulters – Allotted share capital money of defaulters (d – e)
g. Share allotment due to defaulters	Allotted shares to defaulters × Allotment value per share
h. Calls in arrear on share allotment of defaulters	Share allotment due to defaulters – Excess money paid in share application by defaulters (g – f)

Alternatively,

Calls in arrear = Number of default shares × (Amount due per share – Excess application money adjusted per share

Note: If the absence of any information regarding the group of default shares, it is assumed that they are from the group of pro-rata allotment.

Illustration 5. National Panasonic Limited issued 25,000 shares of Rs. 100 each at a discount of 5% to the public for subscription. The shares are payable as follows:

Rs. 20 on application — Rs. 25 on allotment

Rs. 20 on first call — Rs. 30 on final call

Applications were received for only 40,000 shares. The company decided to allot all the shares applied on pro-rata basis. Mr. X holding 400 shares failed to pay allotment and calls money. His shares were forfeited and later on reissued at Rs. 90 as fully paid up. All other due money is received in time.

Required: Necessary journal entries

Solution:

Journal entries in the books of National Panasonic Limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (40,000 × Rs. 20) ....Dr. To Share application A/c (Being share application money received on 40,000 shares @Rs. 20 each.)		8,00,000	 8,00,000
ii.	Share application A/c (40,000 × Rs. 20) ....Dr. To Share capital A/c (25,000 × Rs. 20) To Share allotment A/c (15,000 × Rs. 20) (Being share application money transferred to share capital and share allotment.)		8,00,000	 5,00,000 3,00,000
iii.	Share allotment A/c (25,000 × Rs. 25)....Dr. Discount on shares A/c (25,000 × Rs. 5) ....Dr. To Share capital A/c (25,000 × Rs. 30) (Being share allotment money due on 25,000 shares @Rs. 25 each at a discount of Rs.5.)		6,25,000 1,25,000	 7,50,000
iv.	Bank A/c (Rs. 3,25,000 – Rs. 5,200) ....Dr. Call in arrear A/c....Dr. To Share allotment A/c (Rs. 6,25,000 – Rs. 3,00,000) (Being share allotment money received after adjusting excess money transferred from share application)		3,19,800 **5,200****	 3,25,000
v.	Share first call A/c (25,000 × Rs. 20)....Dr. To Share capital A/c (Being share first call money due on 25,000 shares @Rs. 20 each)		5,00,000	 5,00,000
vi.	Bank A/c (24,600 × Rs. 20)....Dr. Calls in arrear A/c (400 × Rs. 20)....Dr. To Share first call A/c (25,000 × Rs. 20) (Being share first call money received on 24,600 shares @Rs. 20 each)		4,92,000 8,000	 5,00,000
vii.	Share final call A/c (25,000 × Rs. 30) ....Dr. To Share capital A/c (Being share final call money due on 25,000 shares @Rs. 30 each)		7,50,000	 7,50,000
viii.	Bank A/c (24,600 × Rs. 30)....Dr. Calls in arrear A/c (400 × Rs. 30) ....Dr. To Share final call A/c (25,000 × Rs. 30) (Being share final call money received on 24,600 shares @ Rs. 30 each after adjusting calls in arrears on 400 shares.)		7,38,000 12,000	 7,50,000
ix.	Share capital A/c (400 × Rs. 100) ....Dr. To Share forfeiture A/c (b/f.) To Discount on shares A/c (400 × Rs.5) To Calls arrear A/c (Rs. 5,200 + Rs, 8,000 + Rs. 12000) (Being 400 shares of Rs. 100 each issues at 5% discount of Mr. X were forfeited due to not payment of allotment and calls money)		40,000	 12,800 2,000 25,200
x.	Bank A/c (400 x Rs. 90) .... Dr. Discount on shares A/c (400 x Rs. 5) ....Dr. Share forfeiture A/c (400 x Rs. 5)....Dr. To Share capital A/c (400x100) (Being 400 forfeited shares of Rs. 100 each were reissued at Rs. 90 as fully paid up)		36,000 2,000 2,000	 40,000
xi.	Share forfeiture A/c (Rs. 12,800 – Rs. 2,000)....Dr. To Capital reserve A/c		10,800	 10,800

	(Being surplus amount of forfeited shares transferred to capital reserve)			

Working note:

Calculation of paid amount and calls in arrear in pro-rata allotment

a. Ratio of share allotment	$\frac{\text{No. of share allotted}}{\text{No. of share applied}} = \frac{40,000}{25,000} = 8:5$
b. Allotted shares to Mr. X	400
c. He applied for shares	$\frac{\text{No. of share applied}}{\text{No. of share allotted}} \times$ No. of share allotted $= \frac{8}{5} \times 400 = 640$
d. Share application money received from Mr.X.....	Applied shares of Mr. X × Application value per shares= 640x20 = Rs. 12,800
e. Allotted share capital money of Mr.X	Allotted shares of Mr. X × Application value per share= 400x20= Rs. 8,000
f. Excess money paid in share application by Mr.X	Share application money received from Mr. X – Allotted share capital money of Mr. X= 12,800-8,000 = Rs. 4,800
g. Share allotment due to Mr.X.........................	Allotted shares to defaulters × Allotment value per share= 400 x25= Rs. 10,000
h. Calls in arrears on share allotment of Mr.X....	Share allotment due to Mr. X – Excess money paid in share application by Mr.X (10,000 – 4,800) = Rs. **5,200****

Re-issue of Forfeited Shares

The process of selling the forfeited shares of the company is known as reissue of forfeited shares. A limited company has right to reissue forfeited shares in accordance as specified in articles. Companies' Act 2074 had given authority to the Board of Directors of the company to reissue of forfeited shares by passing a resolution. The reissue of forfeited share could be done at par, at discount or at a premium. However, it is practical that forfeited shares are reissued in lump sum payment.

The following are illustrations of the various options for reissue of forfeited shares:

a. Reissue of Forfeited Shares at Par

When forfeited shares are reissued at price equal to their book value it is known as reissue of shares at par. In such situation whole forfeited amount is considered as surplus amount. The following is the specimen of reissue of forfeited shares at par:

Journal entries in the book of .....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c...Dr. To share capital A/c (Being .... forfeited shares of Rs. .... each of Mr. Jeevan is reissued to ..... at par)		×××	 ×××

Illustration 6. E. Limited reissued 300 forfeited shares of Mr. Jeevan of Rs.100 each at par i.e. in Rs.100 to Mr. Subin.

Solution:

Journal entries in the books of E. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c...Dr. To Share capital A/c (Being 300 forfeited shares of Rs. 100 each of Mr. Jeevan is reissued to Mr. Subin at par)		30,000	 30,000

Capital Reserve

The surplus made on forfeiture of share amount after adjusting the loss suffered on reissue, if any, is to be transferred to capital reserve account. It is the net gain to the company that is earned in the process of forfeiture and reissue of forfeited shares. Since capital reserve account is a specific account, it is seen separately in company balance sheet. However, it should be noted that the net gain only on number of forfeited shares reissued is transferred to capital reserve account.

Profit = No. of re-issued share × (Amount forfeited per share – Discount/loss per share on re-issue)

or, $= \text{Number of re-issued shares}\left(\dfrac{\text{Credit of forfeitures A/c}}{\text{Number of forfeiture shares}} - \dfrac{\text{Debit of forfeiture A/c}}{\text{Number of re-issued shares}}\right)$

When all forfeited shares are not re-issued, the whole of the share-forfeited account (profit) cannot be transferred to capital reserve account. Thus, only profit on re-issue of shares in transferred to capital reserve account. The forfeited share of amount relating to that part of adjustment, which has not yet been re-issued, is shown on the liabilities side of the balance sheet.

Journal entries in the books of ……..

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**For forfeiture of shares:**			
	Share capital A/c ....Dr.		×××	
	Share premium A/c ....Dr.		×××	
	To Share forfeiture A/c			×××
	To Discount on shares A/c			×××
	To Calls in arrear A/c			×××
	(Being …. shares of Rs. …. each, originally issued at ….% discount/premium, is forfeited due to non- payment of share allotment Rs…. and share first and final call of Rs…. per share)			
b.	**For reissue of shares:**			
	Bank A/c....................Dr.		×××	
	Discount on shares A/c....................Dr.		×××	
	Share forfeiture A/c....................Dr.		×××	
	To Share capital A/c			×××
	To Share premium A/c			×××
	(Being … forfeited shares of Rs. …. each is reissued at Rs......)			
c.	**For transfer to capital reserve:**			
	Share forfeiture A/c....................Dr.		×××	
	To Capital reserve A/c			×××
	(Being surplus amount of forfeited shares transferred to capital reserve)			

Illustration 7. Coca-cola Company Ltd. forfeited 300 share of Rs. 10 each issued to Mr. Ghimire for non-payment of Rs. 2 per share. So, 260 shares were re-issued to Mr. khanal as fully paid for Rs. 10 per share.

Required: Journalize the above transactions.

Solution:

Journal entries in the books of Coca-cola Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Share capital A/c c (300 × 10)....................Dr.		3,000	
	To Call in arrears A/c (300 × 2)			600
	To Share forfeiture a/c (300 × 8)			2,400
	(Being forfeiture of 300 shares of Rs. 10 each for non-payment of Rs. 2 per share)			
ii.	Bank A/c (260 × 10)....................Dr.		2,600	
	To Share capital A/c(260 × 10)			2,600
	(Being 260 share forfeiture shares of Rs. 10 each re-issued at par)			
iii.	Share Forfeiture A/c (260 × 8)....................Dr.		2,080	
	To Capital reserve A/c			2,080
	(Being surplus amount of forfeited shares are transferred to capital reserve account)			

Working Note:

Capital reserve $= \dfrac{\text{Number of shares re-issued}}{\text{Number of shares forfeited}}$ x Amount of forfeited shares) – Forfeited amount adjusted

$= \left(\dfrac{260}{300} \times 2{,}400\right) - 0 =$ Rs. **2,080****

Alternatively,

Capital reserve = No. of reissued shares × Amount for forfeited per share – Discount per share on re-issue
= 260 × (8 – 0) = 2,080

Illustration 8. Bijaya Co. Ltd forfeitred 400 shares of Rs. 10 each issued to Mr. Bibek for non-payment of Rs. 2 per share. Out of these, 320 shares were reissued to Mr. Kalu as fully paid for Rs. 10 per share.

Required: Journalize the above transactions.

Solution:

Journal entries in the books of Bijaya Co. Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Share capital a/c (400× Rs. 10)..........Dr.		4,000	
	To Calls in arrears a/c (400 × Rs. 2)			800
	To Share forfeiture a/c (400 × Rs. 8)			3,200
	(Being forfeiture of 400 shares for non-payment of Rs. 2 per share)			
	Bank a/c (320 × Rs. 10) ....Dr.		3,200	
	To Share capital a/c (320 Rs. 10)			3,200
	(Being 320 forfeited shares of Rs. 10 each re-issued at par)			
	Share forfeiture a/c (320 × Rs. 8) ....Dr.		2,560	
	To Capital reserve a/c			2,560
	(Being gain on reissue of shares transferred to capital reserve account)			

Working Note:

Gain on forfeiture and reissue of shares = No. of reissued shares × (Amount forfeited per share – Discount per share on re-issue)
= 320 shares × Rs.(8 – 0) = Rs. 2,560

b. Reissue of Forfeited Shares at Discount

When forfeited shares are reissued at price less than their book value it is known as reissue of shares at discount. In such situation discount amount of reissued shares should be adjusted with forfeited amount and if any excess amount of forfeited shares is remained it is considered as surplus amount. The following is the specimen of reissue of forfeited shares at discount:

Journal entries in the books of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c..........Dr.		×××	
	Share forfeiture A/.c..........Dr.		×××	
	To Share capital A/c			×××
	(Being ..... forfeited shares of Rs. .... each of .... is reissued to .... at Rs.....)			

Illustration 9. A Ltd. reissued 500 forfeited shares of Mr. X of Rs.100 each at Rs.80 to Mr. Y

Solution:

Journal entries in the books of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (500 × 80)..........Dr.		40,000	
	Share forfeiture A/c (500 × 20)..........Dr.		10,000	
	To share capital A/c (500 × 100)			50,000
	(Being 500 forfeited shares of Rs. 100 each of Mr. X is reissued to Mr. Y at Rs.80.)			

c. Reissue of Forfeited Shares at Premium

When forfeiture shares are reissued at price more than their book value it is known as reissue of shares at premium. In such situation whole forfeited amount is considered as surplus amount. The following is the specimen of reissue of forfeited shares premium:

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c..........Dr.		×××	
	To share capital A/c			×××
	To share premium A/c			×××
	(Being … forfeited shares of Rs… each of … is reissued to … at Rs.....)			

Illustration 10. X Ltd. reissued 400 forfeited shares of Mr. A of Rs.100 each at Rs.110 to Mr. B

Solution:

Journal entries in the books of X Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (400 × 110) ....Dr.		44,000	
	To Share capital A/c (400 × 100)			40,000
	To Share premium A/c (400 × 10)			4,000
	(Being 400 forfeited shares of Rs. 100 each of Mr. A is reissued to Mr. B at Rs.110.)			

d. Reissue of Forfeited Shares Issued Originally at a Discount

When forfeited shares are reissued less than to their book value it is known as reissue of shares at discount. At the time of reissue of forfeited shares issued originally at a discount, it is general practice that original discount amount should be adjusted before adjusted of forfeited share amount. The following is the specimen of reissue of forfeited shares issued originally at a discount:

Journal entries in the books of ......

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c ....Dr.		×××	
	Discount on shares A/c ....Dr.		×××	
	Share forfeiture A/c ....Dr.		×××	
	To Share capital A/c			×××
	(Being … forfeited shares of Rs. … each, earlier issued at … discount, of Mr. .. is reissued to … at Rs...)			

Illustration 11. X Ltd. reissued 200 forfeited shares of Mr. P of Rs.100 each, earlier issued at 10% discount, at Rs.80 to Mr. Q

Solution:

Journal entries in the books of X Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (200 × Rs. 80) ....Dr.		16,000	
	Discount on shares A/c (200x Rs 10) ....Dr.		2,000	
	Share forfeiture A/c (200x Rs.10) ....Dr.		2,000	
	To Share capital A/c (200x Rs.100)			20,000
	(Being 200 forfeited shares of Rs. 100 each, earlier issued at 10% discount, of Mr. P is reissued to Mr. Q at Rs.80.)			

e. Reissue of Forfeited Shares Issued Originally at a Premium

When forfeited shares are reissued more than to their book value it is known as reissue of shares at premium. At the time of reissue of forfeited shares issued originally at a premium, it is general practice that original share premium amount should be realized in book of account. If any deficiency is found in share amount it should be adjusted from share forfeiture amount. The following is the specimen of reissue of forfeited shares issued originally at a premium:

Journal entries in the books of ...

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c ....Dr.		×××	
	Share forfeiture A/c ....Dr.		×××	
	To Share capital A/c			×××
	To Share premium A/c			×××
	(Being … forfeited shares of Rs. … each, earlier issued at … premium, of … is reissued to … at Rs.....)			

Illustration 12. H Ltd. reissued 500 forfeited shares of Mr. A of Rs.100 each, earlier issued at 10% premium, at Rs. 90 to Mr. B including premium.

Solution:

Journal entries in the books of H Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
	Bank A/c (500 x Rs. 90) ....Dr.		45,000	
	Share forfeiture A/c (500 x Rs.20) ....Dr.		10,000	
	To Share capital A/c (500x Rs.100)			50,000
	To Share premium A/c (500x Rs.10)			5,000
	(Being 500 forfeited shares of Rs. 100 each, earlier issued at 10% premium, of Mr. A is reissued to Mr. B at Rs.90.)			

THINGS TO REMEMBER

At the time of reissue of forfeited shares:

- Share forfeiture account should be debited with the discount allowed at the time of reissue.
- Discount on shares account needs to be debited with the amount allowed as discount at the time of reissue, if they were issued at a discount originally.
- The premium amount if remains unpaid, it should be recovered at the time of reissue by debiting to share forfeiture account.

Illustration 13. A Limited forfeited 500 shares of Rs.100 each issued at par of Mr. Arun due to non-payment of share first and final calls of Rs.60 per share. Later on forfeited shares were reissued at Rs.80 to Mr. Amir.

Required: Journal entries for share forfeiture, share reissue, transfer entry

Solution:

Journal entries in the books of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For forfeiture of shares:**			
	Share capital A/c (500 x Rs.100)..........Dr.		50,000	
	To Share forfeiture A/c 500x Rs.40)			20,000
	To Calls in arrear A/c (500x Rs.60)			30,000
	(Being 500 shares of Rs. 100 each issued at par is forfeited due to non- payment of first and final call of Rs.60 per share)			
ii.	**For reissue of shares:**			
	Bank A/c (500 x Rs.80)..........Dr.		40,000	
	Share forfeiture A/c (500 x Rs.20)..........Dr.		10,000	
	To Share capital A/c 500 x Rs.100)			50,000
	(Being 500 forfeited shares of Rs. 100 each of Mr. Arun is reissued to Mr. Amir at Rs.80.)			
iii.	**For transfer to capital reserve:**			
	Share forfeiture A/c (Rs. 20,000 – Rs.10, 000)..........Dr.		10,000	
	To Capital reserve A/c			10,000
	(Being surplus amount of forfeited shares transferred to capital reserve)			

Illustration 14. X Ltd. forfeited 200 shares of Rs.100 each, originally issued at 10% discount, due to non-payment of share allotment Rs.20 and share first and final calls Rs.50. Later on forfeited shares were reissued at Rs. 85 per share as fully paid up.

Required: journal entries for share forfeiture, share reissue, and transfer entry

Solution:

Journal entries in the book of X Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For forfeiture of shares:**			
	Share capital A/c (200 x Rs.100)..........Dr.		20,000	
	To Share forfeiture A/c (200 x Rs.20)			4,000
	To Discount on shares A/c (200 x Rs.10)			2,000
	To Calls in arrear A/c (200 x Rs.70)			14,000
	(Being 200 shares of Rs. 100 each, originally issued at 10% discount, is forfeited due to non- payment of share allotment Rs.20 and share first and final call of Rs.50 per share)			
ii.	**For reissue of shares:**			

	Bank A/c (200 x Rs.85) ....Dr. Discount on shares A/c (200 x Rs.10) ....Dr. Share forfeiture A/c (200 x Rs.5) ....Dr. To Share capital A/c (200 x Rs.100) (Being 200 forfeited shares of Rs. 100 each is reissued at Rs.85.)		17,000 2,000 1,000	 20,000
iii.	**For transfer to capital reserve:** Share forfeiture A/c (4,000 – 1,000) ....Dr. To Capital reserve A/c (Being surplus amount of forfeited shares transferred to capital reserve)		 3,000	 3,000

Illustration 15. A Ltd. forfeited 400 shares of Rs.100 each issued at 10% premium, due to non-payment of share allotment Rs.30 (including premium) and share first and final calls Rs.40. Later on forfeited shares were reissued at Rs.90 per share including premium as fully paid up.

Required: Journal entries for share forfeiture, share reissue, and transfer entry

Solution:

Journal entries in the book of A Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**For forfeiture of shares:** Share capital A/c (400x Rs.100) ....Dr. Share premium A/c (400x Rs.10) ....Dr. To Share forfeiture A/c (400x Rs.40) To Calls in arrear A/c (400x Rs.70) (Being 400 shares of Rs. 100 each, originally issued at 10% premium, is forfeited due to non-payment of share allotment Rs.30 and share first and final call of Rs.40 per share)		 40,000 4,000	 16,000 28,000
ii.	**For reissue of shares:** Bank A/c (400x Rs.90) ....Dr. Share forfeiture A/c (400 x Rs.20) ....Dr. To Share capital A/c 400 x Rs.100) To Share premium A/c 400 x Rs.10) (Being 400 forfeited shares of Rs. 100 each is reissued at Rs.90 per share including premium.)		 36,000 8,000	 40,000 4,000
iii.	**For transfer to capital reserve:** Share forfeiture A/c (Rs.16,000 – Rs.8,000) ....Dr. To Capital reserve A/c (Being surplus amount of forfeited shares transferred to capital reserve)		 8,000	 8,000

ILLUSTRATIVE PROBLEMS

Illustration 16. Bhaktapur Craft Ltd. issued 20,000 equity shares of Rs. 100 each at Rs. 90 payable as follows:

Rs. 20 on application Rs. 30 on allotment (Adjusted discount) Rs. 40 on first and final call

Applications were received on 40,000 shares. Board of Directors decided to accept the applications for 10,000 shares in full, 10,000 shares were rejected, and remaining 20,000 shares were allotted on pro-rata basis. All payments were duly received except first and final call on 500 shares allotted on pro-rata basis. These shares were forfeited and later on reissued at Rs.75 as fully paid.

Required: Journal entries

Solution:

Working note

Group	Share applied	Shares allotted
A	10,000	10,000(full)
B	10,000	0 (rejected)
C	20,000(remaining)	10,000(pro-rata)
Total	**40,000**	**20,000**

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amount refunded (Rs.)
a	10,000 x 20 = 2,00,000	10,000 x 20 = 2,00,000	--	--
b	10,000 x 20 = 2,00,000	--	--	2,00,000
c	20,000 x 20 = 4,00,000	10,000 x 20 = 2,00,000	10,000 x 20 = 2,00,000	--
Total	**40,000 x 20 = 8,00,000**	**20,000 x 20 = 4,00,000**	**10,000 x 20 = 2,00,000**	**2,00,000**

Journal entries in the book of Bhaktapur Craft Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (40,000 x Rs. 20) ....Dr.		8,00,000	
	To Equity share application A/c			8,00,000
	(Being equity share application money received on 40,000 shares @Rs. 20 each.)			
ii.	Equity share application A/c (40,000 x Rs. 20) ....Dr.		8,00,000	
	To Equity share capital A/c (20,000 x Rs. 20)			4,00,000
	To Equity share allotment A/c (10,000 x Rs. 20)			2,00,000
	To Bank A/c (10,000 x Rs. 20)			2,00,000
	(Being equity share application money transferred to equity share capital, equity share allotment and balance is refunded.)			
iii.	Equity share allotment A/c (20,000 x Rs. 30)....Dr.		6,00,000	
	Discount on share A/c (20,000 x Rs. 10) ....Dr.		2,00,000	
	To Equity share capital A/c (20,000 x Rs. 40)			8,00,000
	(Being equity share allotment money due on 20,000 shares @Rs. 30 each at a discount of Rs.10.)			
iv.	Bank A/c....Dr.		4,00,000	
	To Equity share allotment A/c			4,00,000
	(Being equity share allotment money received after adjusting excess money transferred from share application.)			
v.	Equity share first and final call A/c....Dr.		8,00,000	
	To Equity share capital A/c			8,00,000
	(Being equity share first and final call money due on 20,000 shares @Rs. 40 each)			
vi.	Bank A/c (19,500 × 40) ....Dr.		7,80,000	
	Calls in arrear A/c (500 × 40) ....Dr.		20,000	
	To Equity share first and final call A/c			8,00,000
	(Being equity share first and final calls money received on 19,500 shares @Rs. 40 each after adjusting calls in arrears.)			
vii.	Equity share capital A/c (500x100)....Dr.		50,000	
	To Share forfeiture A/c (500x50)			25,000
	To Discount on shares A/c (500x10)			5,000
	To Calls in arrear A/c (500 x 40)			20,000
	(Being forfeiture of 500 equity shares of Rs.100 each, initially issued at 10% discount, due to non-payment of first and final calls money.)			
viii.	Bank A/c (500 x 75) ....Dr.		37,500	
	Discount on shares A/c (500 x 10) ....Dr.		5,000	
	Share forfeiture A/c (500 x15) ....Dr.		7,500	
	To Equity share capital A/c (500x100)			50,000
	(Being reissue of 500 forfeited shares of Rs.100 each, initially issued at 10% discount, at Rs.75 as fully paid up)			
ix.	Share forfeiture A/c (Rs. 25,000 – Rs. 7,500)....Dr.		17,500	
	To Capital reserve A/c			17,500
	(Being surplus amount of forfeited shares transferred to capital reserve)			

Illustration 17. Bhirkuti Paper Ltd. registered with an authorized capital of 1, 00,000 equity shares of Rs.100 each. It invited applications for 25,000 equity shares of Rs. 100 each payable as under:

On application Rs.20
On allotment Rs. 40
On first and final call Rs. 40

Applications were received for 50,000 shares. The allotment was made as follows:

To the applicants of 10,000 shares .... Nil
To the applicants of 10,000 shares .... Full
To the applicant of remaining shares 50%

It was decided to utilize excess application money in part payment of allotment. All money was duly received except a holder who applied for 500 shares and was given 250 shares failed to pay the allotment and call money. The Board of Directors decided to forfeit these shares. Later on forfeited shares were reissued at Rs.90 as fully paid.

Required: Necessary journal entries

Solution:

Working note

Group	Share applied	Shares allotted
A	10,000	0(nil)
B	10,000	10,000 (full)
C	30,000 (remaining)	15,000(50%)
Total	**50,000**	**25,000**

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amt. refunded (Rs.)
A	10,000 x 20 = 2,00,000	--	--	2,00,000
B	10,000 x 20 = 2,00,000	10,000 x 20 = 2,00,000	--	--
C	30,000 x 20 = 6,00,000	15,000 x 20 = 3,00,000	15,000 x 20 = 3,00,000	--
Total	**50,000 x 20 = 10,00,000**	**25,000 x 20 = 5,00,000**	**15,000 x 20 = 3,00,000**	**2,00,000**

Journal entries in the book of Bhirkuti Paper Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (50,000 × Rs. 20)........Dr. To Equity share application A/c (Being equity share application money received on 50,000 shares @Rs. 20 each.)		10,00,000	 10,00,000
ii.	Equity share application A/c (50,000 × Rs. 20)........Dr. To Equity share capital A/c (25,000 × Rs. 20) To Equity share allotment A/c (15,000 × Rs. 20) To Bank A/c (10,000 × Rs. 20) (Being equity share application money transferred to equity share capital, equity shares allotment and balance is refunded.)		10,00,000	 5,00,000 3,00,000 2,00,000
iii.	Equity share allotment A/c (25,000 × Rs. 40) ....Dr. To Equity share capital A/c (Being equity share allotment money due on 25,000 shares @Rs. 40 each)		10,00,000	 10,00,000
iv.	Bank A/c (Rs. 7,00,000 – Rs. 5,000)........Dr. Calls in arrear A/c ....Dr. To Equity share allotment A/c (Rs. 10,00,000 – Rs. 3,00,000) (Being equity share allotment money received after adjusting excess money transferred from share application and calls in arrears.)		6,95,000 **5,000***	 7,00,000
v.	Equity share first and final call A/c (25,000 × Rs. 40)........Dr. To Equity share capital A/c (Being equity share first and final call money due on 25,000 shares @Rs. 40 each)		10,00,000	 10,00,000
vi.	Bank A/c (24,750 × Rs. 40)........Dr. Calls in arrear A/c (250 × Rs. 40)........Dr. To Equity share first and final call A/c (25,000 × Rs. 40) (Being equity share first and final calls money received on 24,750 shares @Rs. 40 each after adjusting calls in arrears.)		9,90,000 10,000	 10,00,000
vii.	Equity share capital A/c (250 x 100)........Dr. To Share forfeiture A/c (b/f.) To Calls in arrear A/c (Rs. 5,000 + Rs. 10,000) (Being forfeiture of 250 equity shares of Rs.100 each due to non-payment of share allotment and share first and final calls money.)		25,000	 10,000 15,000
viii.	Bank A/c (250 x 90) ....Dr. Share forfeiture A/c (250 x 10) ....Dr. To Equity share capital A/c (250 x 100) (Being reissue of 250 forfeited shares of Rs.100 each at Rs.90 as fully paid up)		22,500 2,500	 25,000
ix.	Share forfeiture A/c (Rs. 10,000 – Rs. 2,500)........Dr. To Capital reserve A/c (Being surplus amount of forfeited shares transferred to capital reserve)		7,500	 7,500

Working note:

Calculation of paid amount and calls in arrear in pro-rata allotment

a. Ratio of share allotment	$\frac{\text{No. of share allotted}}{\text{No. of share applied}} = \frac{30,000}{15,000} = 2:1$
b. Allotted shares to Shareholder	250 shares

c. He applied for shares	$\frac{\text{No. of share applied}}{\text{No. of share allotted}} \times$ No. of share allotted = $\frac{2}{1} \times 250 = 500$
Share application money received from shareholder	Applied shares × Application value per shares = 500 x 20 = Rs. 10,000
Allotted share capital money of shareholder	Allotted shares × Application value per share= 250 x 20 = Rs. 5,000
Excess money paid in share application by shareholder....	Share application money received from shareholder Allotted share capital money of shareholder = 10,000 - 5,000= Rs. 5,000
Share allotment due to shareholder	Allotted shares to defaulters × Allotment value per share = 250 x 40 = Rs. 10,000
Calls in arrears on share allotment of shareholder........	Share allotment due to shareholder – Excess money paid in share application by shareholder (10,000 – 5,000)= Rs. **5,000***

Illustration 18. Appolo Steel Ltd. registered with a nominal capital of 50,000 shares of Rs.100. It invited application on 20,000 shares at 10% premium payable as follows:

On Application Rs 30 On allotment Rs. 50 (including premium) On first and final call Rs. 30

Applications were received for 72,000 shares. The directors decided the following pattern of allotment:

Applicant groups	Share Applied	Shares Allotted
A	4,000	4,000
B	12,000	6,000
C	26,000	NIL(0)
D	30,000	Pro-rata(10,000)

The company can utilize the excess application money on allotment and calls. All amount due on allotment and call was received. But Mr. Shrestha who had allotted 400 shares of group B failed to pay allotment; his shares were forfeited before the first and final call was made. Mr. Poudyal who had allotted 300 shares under group A failed to pay first and final call, his shares were also forfeited. Later on Company reissued 500 forfeited shares on Rs. 90 as fully paid which included all shares of M. Shrestha.

Required: a. Necessary journal entries b. Opening Balance Sheet

Solution:

Working note

Group	Share application money received (Rs.)	Share capital amount accepted (Rs.)	Amount transferred to allotment (Rs.)	Amount transferred to calls (Rs.)	Amount refunded (Rs.)
A	4,000 x 30 = 1,20,000	4,000 x 30 = 1,20,000	--	--	--
B	12,000 x 30 = 3,60,000	6,000 x 30 = 1,80,000	6,000 x 30 = 1,80,000	--	--
C	26,000 x 30 = 7,80,000	--	--	--	7,80,000
D	30,000 x 30 = 9,00,000	10,000 x 30 = 3,00,000	10,000 x 50 = 5,00,000	1,00,000	--
Total	**72,000 x 30 = 21,60,000**	**20,000 x 30 = 6,00,000**	**6,80,000**	**1,00,000**	**7,80,000**

a. Journal entries in the books of Appolo Steel Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Bank A/c (72,000 × Rs. 30)............................Dr.		21,60,000	
	To Share application A/c			21,60,000
	(Being share application money received on 72,000 shares @Rs. 30 each.)			
ii.	Share application A/c (72,000 × Rs. 30).............Dr.		21,60,000	
	To Share capital A/c (20,000 × Rs. 30)			6,00,000
	To Share allotment A/c			6,80,000
	To Shares first and final call A/c			1,00,000
	To Bank A/c			7,80,000
	(Being share application money transferred to share capital, shares allotment, share first and final call and balance is refunded.)			
iii.	Share allotment A/c (20,000 × Rs. 50)..............Dr.		10,00,000	
	To Share capital A/c (20,000 × Rs. 40)			8,00,000
	To Share premium A/c (20,000 × Rs. 10)			2,00,000
	(Being share allotment money due on 20,000 shares @Rs. 40 each at a premium of Rs.10)			
iv.	Bank A/c...Dr.		3,12,000	
	Calls in arrear A/c ....Dr.		**8,000****	
	To Share allotment A/c (Rs. 10,00,000 – Rs. 6,80,000)			3,20,000
	(Being share allotment money received after adjusting excess money transferred			

	from share application.)			
v.	Share capital A/c (400 x 70)....Dr. Share premium A/c (400 x10) ....Dr. To Share forfeiture A/c To Call in arrear A/c (Being forfeiture of 400 shares of Rs. 100 each of Mr. Shrestha, Rs.70 called-up, due to non-payment of allotment including premium.)		28,000 4,000	 24,000 8,000
vi.	Share first and final call A/c (19,600 × Rs. 30)....Dr. To Share capital A/c (Being share first and final call money due on 19,600 shares @Rs. 30 each)		5,88,000	 5,88,000
vii.	Bank A/c (Rs. 4,88,000 – Rs. 9,000) ....Dr. Calls in arrear A/c (300 × Rs. 30) ....Dr. To Share first and final call A/c (Rs. 5,88,000 – Rs. 1,00,000) (Being share first and final calls money received after adjusting excess money transferred from share application and calls in arrears.)		4,79,000 9,000	 4,88,000
viii.	Share capital A/c (300 x 100)....Dr. To Share forfeiture A/c (300 x 70) To Calls in arrear A/c (300 x 30) (Being forfeiture of 250 equity shares of Rs.100 each due to non-payment of share allotment and share first and final calls money.)		30,000	 21,000 9,000
ix.	Bank A/c (500 x 90) ....Dr. Share forfeiture A/c....Dr. To Share capital A/c (500 x 100).... To Share premium A/c (400 x 10) .... (Being reissue of 500 forfeited shares of Rs.100 each at Rs.90 as fully paid up including share premium of 400 shares)		45,000 9,000	 50,000 4,000
x.	Share forfeiture A/c....Dr. To Capital reserve A/c (Being surplus amount of forfeited shares transferred to capital reserve)		**22,000***	 22,000

b.

Opening Balance Sheet
As on …………………

Capital + liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital		Cash at bank	22,16,000
Authorized Capital			
50,000 Shares of Rs. 100 each....	50,00,000		
Issued and paid up capital			
19,800 Shares of Rs. 100 each	19,80,000		
Share premium	2,00,000		
Capital reserve	22,000		
Shares forfeiture	14,000		
	22,16,000		**22,16,000**

Working Note

1. Calculation of calls in arrear amount in allotment
   a. Ratio of share allotment of group B (12,000:6,000) = 2:1
   b. Allotted shares to Mr. Shrestha = 400
   c. He applied for shares (400 x 2/1) = 800
   d. He paid share application money (800x30) = Rs. 24,000
   e. He had allotted share capital money (400x30) = Rs. 12,000
   f. His excess payment in share application (24,000- 12,000) = Rs. 12,000
   g. His due on share allotment (400x50) = Rs. 20,000
   h. His calls in arrears on share allotment (20,000 – 12,000) = **Rs. 8,000****
2. Calculation of amount transferred to capital reserve

Forfeited amount of Mr. Shrestha on 400 shares	Rs 24,000
Forfeited amount of Mr. Poudyal on 100 shares (21000x100/300)	Rs.7,000
	Rs. 31,000
Less: Forfeiture amount adjusted	Rs.9,000
	Rs. 22,000*

3. **Unadjusted shares forfeiture amount**: (Rs.21, 000 – Rs. 7,000) = Rs 14,000

Illustration 19. A Company Ltd. was registered with 1,00,000 ordinary shares of Rs.100 each. The company offered 50% of such shares to the public at 5% premium. The money payable was: Rs.40 on the application, Rs.35 (including premium) on allotment, Rs.20 on first call and Rs.10 on the second and the final call.

Applications were received for 1,00,000 shares. The BOD of the company allotted the shares using the following procedure:

Applicants for 25,000 shares	in full
Applicants for 50,000 shares	on pro-rata
Applicants for 25,000 shares	being refused

All the calls were made and money was duly received except calls money on 500 shares which were issued to Ram on pro-rata basis. The board of directors decided to forfeit his shares. The forfeited shares were reissued to Hari at Rs.70 each as fully paid up.

Required: Entries for:

a. share application, b. share allotment, c. share first call,
d. share second and final call e. share forfeiture, f. share reissue and
g. transfer of gain.

Solution:

Journal entry of a company limited

Date	Particulars	LF	Debit Rs.	Credit Rs.
a	Bank A/c (1,00,000×40) ....Dr.		40,00,000	
	To share application A/c			40,00,000
	(Being share application money received on applications for 1,00,000 equity shares @ Rs.40 per share)			
b	Share application A/c ....Dr.		40,00,000	
	To equity share capital A/c (50,000×40)			20,00,000
	To share allotment A/c (25,000×35)			8,75,000
	To share first call A/c (25,000×5)			1,25,000
	To bank A/c (25,000×40)			10,00,000
	(Being share application money transferred to equity share capital account and excess money retained for share allotment and call)			
c	Share allotment A/c (50,000×35) ....Dr.		17,50,000	
	To equity share capital A/c (50,000×30)			15,00,000
	To share premium A/c (50,000×5)			2,50,000
	(Being share allotment money made due on 50,000 equity shares @ Rs.35 per share including premium of Rs.5)			
d	Bank A/c (17,50,000 – 8,75,000) ....Dr.		8,75,000	
	To share allotment A/c (17,50,000 – 8,75,000)			8,75,000
	(Being remaining share allotment money received)			
e	Share first call A/c (50,000×20) ....Dr.		10,00,000	
	To equity share capital A/c			10,00,000
	(Being share first call money made due on 50,000 equity shares @ Rs.20 per share)			
f	Bank A/c (10,00,000 – 1,25,000 - 500×15) ....Dr.		8,67,500	
	Calls in arrear A/c (500×15) ....Dr.		7,500	
	To share first call A/c (10,00,000 – 1,25,000)			8,75,000
	(Being share first call money received on 49,500 equity shares being arrears on 500 shares)			
g	Share final call A/c (50,000×10) ....Dr.		5,00,000	
	To equity share capital A/c			5,00,000
	(Being share first call money made due on 50,000 equity shares @ Rs.10 per share)			
h	Bank A/c (49,500×10) ....Dr.		4,95,000	
	Calls in arrear A/c (500×10) ....Dr.		5,000	
	To share final call A/c			5,00,000
	(Being share final call money received on 49,500 equity shares being arrears on 500 shares)			
i	Equity share capital A/c (500×100) ....Dr.		50,000	
	To share forfeiture A/c (40,000 - 500×5) or [(40+30+5)×500]			37,500
	To calls in arrear A/c (7,500+5,000)			12,500
	(Being 500 shares of Rs.100 each forfeited for non-payment of call money)			
j	Bank A/c (500×70) ....Dr.		35,000	
	Share forfeiture A/c (500×30) ....Dr.		15,000	
	To equity share capital A/c (500×100)			50,000
	(Being forfeited 500 shares reissued at Rs.70 each as fully paid up)			
k	Share forfeiture A/c (37,500 – 15,000) ....Dr.		22,500	
	To capital reserve A/c			22,500
	(Being gain on forfeiture and reissue of 500 shares transferred to capital reserve			

	account)			

Working notes:

Group of applicants	No of shares applied	No of shares allotted
A	25,000	25,000
B	50,000	25,000
C	25,000	Nil
Total	**1,00,000**	**50,000**

i. Application money paid by pro-rata applicants = 50,000×40 = Rs.20,00,000
ii. Application money utilised on application time = 25,000×40 = Rs.10,00,000
iii. Excess application money transferred to allotment = 25,000×35 = Rs.8,75,000
iv. Excess application money transferred to call = 20,00,000–10,00,000–8,75,000 = Rs.1,25,000
v. Number of shares applied by the defaulter Ram = 500×50,000/25,000 = 1,000 shares
vi. Application money received from Ram = 1,000×40 = Rs.40,000
vii. Application money utilised on application time = 500×40 = Rs.20,000
viii. Excess application money transferred to allotment = 500×35 = Rs.17,500
ix. Excess application money transferred to first call = 40,000–20,000–17,500 = Rs.2,500
x. Calls in arrear on first call time = 500×20–2,500 = Rs.7,500

Hints: No calls in arrear on allotment time.

Illustration 20. Himalayan company limited issued 75,000 shares of Rs. 100 each at 10% discount payable as follows:

On application Rs. 30 per share   On allocation Rs. 30 per share   On first and final call Rs. 30 per shares

Applications were receive on 90,000 shares and allotment was made as under:

To applicants of 60,000 shares ....full

To applicants of 30,000 shares-..50%

The access money on applications was utilized towards the sum due don allotment shareholder to whom 1,000 shares were allotted from pro-rata basis failed to pay the first and final call money. His shares were forfeited.

Required: Journal entries for:

a. Allotment   b. First and final call   c. Forfeiture

Solution:

Journal entries in the book of Himalayan company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**On allotment:**			
	Share allotment A/c (75,000 × Rs. 30) ....Dr.		22,50,000	
	Discount on share A/c (75,000 × Rs. 10)....................Dr.		7,50,000	
	To Share capital A/c			30,00,000
	(Being share allotment money due on 75,000 shares @ Rs. 30 each at Rs. 10 discount per share)			
	Bank A/c (22,50,000 – 4,50,000)....................Dr.		18,00,000	
	To Share allotment A/c			18,00,000
	(Being share allotment money received after adjusting excess money transferred from share application)			
b.	**On first and final call:**			
	Share first and final call A/c (75,000 × Rs. 30)....................Dr.		22,50,000	
	To Share capital A/c			22,50,000
	(Being share first and first and final call money due on 75,000 shares @ Rs. 30 each)			
	Bank A/c (Rs. 22,50,000 – Rs. 30,000) ....Dr.		22,20,000	
	Calls in arrear A/c (1,000 × 30) ....Dr.		30,000	
	To Share first and final call A/c (75,000 × Rs. 30)			22,50,000
	(Being share first and final call money received on 74,000 shares @ Rs. 30 each)			
c.	**Forfeiture of 1,000 shares:**			
	Share capital A/c (1,000 × 100)....................Dr.		1,00,000	
	To Share forfeiture A/c (1,000 × 60)			60,000
	To Calls in arrear A/c (1,000 × 30)			30,000
	To Discount on shares A/c (1,000 × 10)			10,000
	(Being forfeiture of 1,000 shares of non-payment of first and final call money)			

Illustration 21. Madi Seti Company Limited forfeited 50 shares of Rs. 100 each for non-payment final call money of Rs. 20 per share. These shares were re-issued @ Rs. 70 per share as fully paid up.

Required: Journal entries for:

a. Forfeiture b. Re-issue c. Transfer

Solution:

Journal entries in the books of Madi Seti Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**Forfeiture of shares:**			
	Share capital A/c (50 × 100)..........Dr.		5,000	
	To Share forfeiture A/c (50 × 80)			4,000
	To Calls in arrears A/c (50 × 20)			1,000
	(Being forfeiture of 50 shares for non-payment of final call money)			
b.	**Re-issue of shares:**			
	Bank A/c (50 × 70) ....Dr.		3,500	
	Share forfeiture A/c (50 × 30)		1,500	
	To Share capital A/c (50 × 100)			5,000
	(Being re-issue of 50 shares of Rs. 100 each at Rs. 70 per share)			
c.	**Transfer to capital reserve:**			
	Share forfeiture A/c [4,000-1,500] ....Dr.		2,500	
	To Capital reserve A/c			25,000
	(Being surplus amount of forfeited shares transferred to capital reserve account)			

Illustration 22. A Limited Company issued 5000 shares of Rs. 100 each at 10 percent premium payable as follows:`

On application Rs. 30 per share
On allotment Rs. 40 per share (with premium)
On first and final call Rs. 40 per share

Applications received for 6,000 shares. These shares were allotted on pro-rata basis to the applicants for 5,500 shares and applications for 500 shares were rejected. Money over paid on applications was utilized towards sum due on allotment. A shareholder holding 60 shares failed to pay first & final calls money. Hence, his shares were forfeited.

Required: Entries for

a. Allotment b. First and final call c. Forfeiture

Solution:

Working Notes:

Group	Share application money received	Share amount allotted	Transferred to allotment	Amount refunded
A.	5,500 x 30 = 1,65,000	5,000 x 30 = 1,50,000	500 x 30 = 15,000	–
B.	500 x 30 =15,000	–	–	500 x 30 =15,000
Total	**6,000 x 30 = 1,80,000**	**5,000 x 30 = 1,50,000**	**15,000**	**15,000**

Journal entries in the books of A Limited Company

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**On Share Allotment:**			
	Share allotment A/c (5,000 × Rs. 40) ....Dr.		2,00,000	
	To Share capital A/c (5,000 × Rs. 30)			1,50,000
	To Share premium A/c (5,000 × Rs.10)			50,000
	(Being share allotment money due on 5,000 shares @ Rs. 40 each including premium of Rs. 10 per share)			
	Bank A/c (2,00,000 – 15,000)..........Dr.		1,85,000	
	To Share allotment A/c			1,85,000
	(Being share first and final call money received after adjusting excess money transferred from share application)			
ii.	**On Share first and final call:**			
	Share first and final call A/c (5,000 × Rs. 40)..........Dr.		2,00,000	
	To Share capital A/c			2,00,000
	(Being share first and final call money due on 5,000 shares @ Rs. 40 each)			
	Bank A/c (Rs. 2,00,000 – Rs. 2,400) ....Dr.		1,97,600	
	Calls in arrear A/c (60 × 40) ....Dr.		2,400	
	To Share first and final call A/c			2,00,000
	(Being share first and final call money received on 4,940 shares @ Rs. 40 each)			
iii.	**Forfeiture of 60 shares:**			
	Share capital A/c (60 × 100) ....Dr.		6,000	
	To Share forfeiture A/c (60 × 60)			3,600
	To Calls in arrear A/c (60 × 40)			2,400

	(Being forfeiture of 60 shares for non-payment of first and final call money)			

Illustration 23. A company Ltd. issued 20,000 shares of Rs. 100 each at a premium of 10%, payable as follows.
On application Rs. 20 On Allotment, inclusive premium Rs. 40 On First and final calls Rs. 50
Applications were received for all the shares, accordingly all installments were received.
Required: a. Entries for application b. Entries for allotment

Solution:

Journal entries in the book of A Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	**On Share Application:**			
	Bank A/c (20,000 × Rs. 20)....Dr.		400,000	
	To Share application A/c			400,000
	(Being share application money received on 20,000 shares @ Rs. 20 each)			
	Share application A/c (20,000 × Rs. 20)....Dr.		400,000	
	To Share capital A/c			400,000
	(Being share application money transfer to share capital account)			
ii.	**On Share Allotment:**			
	Share allotment A/c (20,000 × Rs. 40)....Dr.		800,000	
	To Share capital A/c (20,000 × Rs. 30)			600,000
	To Share premium A/c (20,000 × Rs. 10)			200,000
	(Being share allotment money due on 20,000 shares @ Rs. 30 each at Rs. 10 premium per share)			
	Bank A/c (20,000 × Rs. 40)....Dr.		800,000	
	To Share allotment A/c			800,000
	(Being share allotment money received on 20,000 shares @ Rs. 30 each at Rs. 10 premium per share)			

Illustration 24. A company forfeited 200 shares of Rs. 100 each for non-payment of final call Rs. 30 per share. These shares were re-issued at Rs. 80 per share.
Required: Journal entries for:
a. Forfeiture b. Reissue c. Transfer

Solution:

Journal entries in the book of Company

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**For forfeiture of shares:**			
	Share capital A/c (200 x Rs.100)....Dr.		20,000	
	To Share forfeiture A/c (200x Rs.70)			14,000
	To Calls in arrear A/c (200x Rs.30)			6,000
	(Being 200 shares of Rs. 100 each issued at par is forfeited due to non- payment of final call of Rs.30 per share)			
b.	**For reissue of shares:**			
	Bank A/c (200 x Rs.80)....Dr.		16,000	
	Share forfeiture A/c (200 x Rs.20)....Dr.		4,000	
	To Share capital A/c 200 x Rs.100)			20,000
	(Being 200 forfeited shares of Rs. 100 each is reissued at Rs.80.)			
c.	**For transfer to capital reserve:**			
	Share forfeiture A/c (Rs. 14,000 – Rs.4,000)....Dr.		10,000	
	To Capital reserve A/c			10,000
	(Being surplus amount of forfeited shares transferred to capital reserve)			

Illustration 25. A company forfeited 200 shares of Rs. 10 each for non-payment of final call money of Rs. 3 per share. These share were re-issued @ Rs. 6 per share as fully paid up.
Required: Journal entries for
a. Forfeiture b. Re-issued c. Transfer

Solution:

Journal entries in the books of A Company Ltd.

Date	Particulars	LF	Debit Rs.	Credit Rs.
a.	**Forfeiture of shares:**			

	Share capital A/c (200 × 10)........Dr. To Share forfeiture A/c (200 × 7) To Calls in arrears A/c (200 × 3) (Being forfeiture of 200 shares for non-payment of final call money)		2,000	 1,400 6,00
b.	**Re-issue of shares:** Bank A/c (200 × 6) ....Dr. Share forfeiture A/c (200 × 4) To Share capital A/c (200 × 10) (Being re-issue of 200 shares of Rs. 10 each at Rs. 6 per share)		 1,200 800	 2,000
c.	**Transfer to capital reserve:** Share forfeiture A/c ....Dr. To Capital reserve A/c (Being surplus amount of forfeited shares transferred to capital reserve account)		 600	 600

Illustration 26. A company forfeited 100 shares of Rs. 100 each for non-payment of final call of Rs. 20 per share. These shares were issued at Rs. 50 per share.

Required: Journal entries for forfeiture, re-issue and transfer

Solution:

Journal Entries in the book of ....

Date	Particulars	LF	Debit Rs.	Credit Rs.
i.	Share capital A/c (100×100)........Dr. To calls in arrear A/c (100×20) To Share forfeiture A/c (100×80) (Being forfeiture of 100 share due to non-payment of calls money)		10,000	 2,000 8,000
ii.	Bank A/c (100×50)........Dr. Share forfeiture A/c (100×50)........Dr. To Share capital A/c (100 × 100) (Being reissue of forfeited chare at Rs. 50 each)		5,000 5,000	 10,000
iii.	Share forfeiture A/c........Dr. To Capital reserve A/c (Being gain on forfeiture transfer to capital reserve)		3,000	 3,000

REVIEW OF TERMS USED IN THE CHAPTER

Forfeiture of shares: to detain share amount of defaulter shareholders

Reissue of shares: it is concerned resale of forfeited shares to new shareholders

Capital reserve: it is the surplus amount of forfeited shares

Defaulters: shareholders who unable to pay called-up amount

Deem: it is believed

Share premium: issues of share more than its book value

Pro-rata allotment: The process of accepting shares on the basis of proportionate

Share allotted: it is concerned with accepting share application and other calls

THEORETICAL PROBABLE QUESTION ANSWERS

VERY SHORT QUESTION ANSWER

1. What is share forfeiture.

Forfeiture of shares is referred to as the situation when the allotted shares are cancelled by the issuing company due to non-payment of the subscription amount as requested by the issuing company from the shareholder.

2. What is reissue of share?

The process of selling the forfeited shares of the company to the third party is known as reissue of forfeited shares. A limited company has right to reissue forfeited shares in accordance as specified in articles.

3. What do you mean by Reissue of Forfeited Shares at Par ?

When forfeited shares are reissued at price equal to their book value it is known as reissue of shares at par.

4. What is capital reserve?

The surplus made on forfeiture of share amount after adjusting the loss suffered on reissue, if any, is to be transferred to capital reserve account. It is the net gain to the company that is earned in the process of forfeiture and reissue of forfeited shares.

5. What do you mean by Reissue of Forfeited Shares at Discount ?

When forfeited shares are reissued at price less than their book value it is known as reissue of shares at discount.

6. What do you mean by Reissue of Forfeited Shares at Premium ?

When forfeiture shares are reissued at price more than their book value it is known as reissue of shares at premium.

SHORT QUESTION ANSWER

1. What do you mean by forfeiture of shares?

Share forfeiture is the process of cancellation of share certificates and dispossession of the money already paid by the defaulting shareholders. It is very common in the situation when one or more shareholders failed to pay their calls on the due date.

2. When and how the shares of a company are forfeited?

A public limited company can process for forfeiture of shares if shareholders failed to pay the amount due on share allotment and share calls within the specified time. The management of a limited company has to complete some official procedures, as specified in Companies' Act 2074, before forfeiting the share of any shareholder. Even after completion of necessary documentation, if shareholders failed to pay the due amount, the company Board of Directors should pass a resolution as specified in articles to forfeit the shares of defaulting shareholders.

QUESTIONS TO TEST THEORETICAL KNOWLEDGE

VERY SHORT ANSWER QUESTIONS

1. What do you mean by forfeiture of shares?
2. What do you mean by reissue of share?
3. What is capital reserve?

SHORT ANSWER QUESTIONS

1. Define share forfeiture. Mention the procedures of its accounting treatment.
2. When and how the shares of the company are forfeited?
3. What is the maximum permissible discount at which forfeited shares can be reissued?
4. How is the profit on re-issue share calculated?

MULTIPLE CHOICE QUESTIONS

1. __________ is transferred to Capital Reserve.
   a. Profit from sale of fixed assets
   b. Premium on issue of shares
   c. Profit on forfeiture of shares
   d. All of the Above
2. At the time of forfeiture of shares the share capital account is debited with
   a. Face value b. Called up value
   c. Paid up value d. Issued value
3. Balance of share forfeiture account is shown in the balance sheet under the head ....
   a. Share Capital Account
   b. Reserve and Surplus
   c. Current Liabilities and Provisions
   d. Unsecured Loans
4. On an equity share of Rs.10 the company has called up Rs.8 but ₹6 have been received by the company is forfeited; the capital account should be debited by:
   a. Rs.10 b. Rs.8
   c. Rs.6 d. Rs.2
5. Discount allowed on re-issue of forfeited shares is debited to :
   a. Share Capital A/c
   b. Share forfeiture A/c
   c. Statement of Profit & Loss
   d. General Reserve A/c
6. The balance of the forfeited shares account after re-issue of forfeited shares is transferred to :
   a. Statement of Profit & Loss
   b. Share Capital A/c
   c. Capital Reserve A/c
   d. General Reserve A/c
7. ___________ is transferred to Capital Reserve.
   a. Profit from sale of fixed assets
   b. Premium on issue of shares
   c. Profit on forfeiture of share
   d. All of the above
8. Forfeiture of shares results in the reduction of:
   a. Subscribed Capital b. Authorised Capital
   c. Reserve Capital d. Fixed Assets
9. If the premium on the forfeited share has already been

received then share premium account should be
a. Credited b. Debited
c. No treatment d. None of the above

10. A company forfeited 1,000 shares of Rs. 10 each fully called, on which Rs. 6,000 has been paid. Out of these 800 shares were reissued upon payment of Rs. 6,600. What is the amount to be transferred to Capital Reserve?
a. Rs. 4800 b. Rs. 6000
c. Rs. 4600 d. Rs. 3400

Answers

1.D	2.B	3.A	4.B	5.B	6.C	7.D	8.A	9.C

NUMERICAL QUESTIONS

VERY SHORT ANSWER QUESTIONS

VQ-1._____ A Ltd. Company forfeited 200 shares of Rs. 10 each for non-payment of final call money of Rs. 3 per share.
Required: Journal entries for Forfeiture of share.

Ans: Share forfeiture Rs1400

VQ-2._____ P. Ltd. forfeited 1,500 shares of Rs. 10 each issued at 10% premium due to non-payment of Rs. 2 per share on first call and Rs. 3 per share on final call.
Required: Journal entries for Shares forfeiture

Ans.: Forfeiture Rs.7,500

VQ-3._____ Z. Ltd. forfeited 1,000 shares of Rs. 10 each issued at 10% discount due to nonpayment of Rs. 2 per share on first call and Rs. 3 per share on final call.
Required: Journal entries for Shares forfeiture

Ans.: Forfeiture Rs.4,000,

VQ-4. ____ B. Company Ltd. forfeited 100 shares of Rs. 100 each for non-payment of final call money of Rs. 30 each by a shareholder. Subsequently these shares were re-issued at Rs. 80 per share as fully paid up.
Required: Journal entries for Re-issue of share.

Ans.: Loss on forfeiture Rs.2000

VQ-5.____ E. company Ltd. forfeited 100 shares of Rs. 100 each for non-payment of allotment money @ Rs. 50 and first and final call @ Rs. 30 per share. These shares were reissued @ Rs. 90 per share as fully paid.
Required: Journal entry for transfer.

Ans.: Capital reserve Rs. 1,000

SHORT ANSWER QUESTIONS

Forfeiture and Re-issue of Shares Initially Issued at Par

SQ-1._____ A Ltd. issued 10,000 shares of Rs. 10 each, payable Rs. 4 on application, Rs. 2 allotment and Rs. 4 on first and final call. All shares were subscribed and allotted all money was duly received except the call money on 500 shares. These shares were subsequently forfeited and were reissued as fully paid @ Rs. 8 each.
Required: Journal entries for a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs. 3,000, reissue Rs. 4,000, transfer Rs. 2,000

SQ- 2. ____ A Ltd. issued 10,000 shares of Rs. 10 each, payable Rs. 4 on application, Rs. 2 allotment and Rs. 4 on first and final call. All shares were subscribed and allotted and all call money was duly received except the call money on 500 shares. These shares were subsequently forfeited and were reissued as fully paid for Rs. 4800.
Required: Journal entries for a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs. 3,000, reissue, Rs. 4,800, transfer Rs. 2,800

SQ-3._____ Himalayan Dairy Ltd. has authorized Capital Rs. 50,00,000 divided into 50,000 shares of Rs. 100 each. It invited application for 30,000 shares, payable as Rs. 20 on application, Rs. 30 on allotment, Rs. 20 on first call and balance when required.

All application money was received except from a shareholder who had allotted 100 shares failed to pay the allotment and first call money. His shares were forfeited and re-issued at Rs. 60 per shares, credited as Rs. 70 paid up.
Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs. 2,000, reissue, Rs. 6,000, transfer Rs. 1,000

SQ -4. _____ X Ltd. forfeited 200 shares of Rs. 100 each issued at par due to non-payment of Rs 30 per share on first call. The final call of Rs.20 per share was not yet called up. Out of 200 forfeited shares 100 shares were re-issued at Rs.50 per share the paid up value of which was Rs.80.

Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.10,000, reissue, Rs.5,000, transfer Rs. 2,000

■ Forfeiture and Re-issue of Shares Initially Issued at Premium

SQ - 5. _____ Himal Engineering Ltd. issued 10,000 shares of Rs. 100 each at a premium of Rs. 20 per share, payable as Rs. 50 (including premium) on application, Rs. 30 on allotment and balance on first and final call. All money was called up and due money was received except from Mr. Suresh to whom 250 shares were allotted failed to pay the allotment and call money and his share were forfeited on the decision of Board. The forfeited shares were subsequently re-issued as fully paid for Rs. 18,000.

Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.7,500, reissue, Rs. 18,000, transfer Rs. 500

SQ - 6. _____ Lumbini Sugar Mill Ltd. issued 20,000 shares of 100 each at a premium of Rs. 20, payable as Rs. 30 on application, Rs. 50 (including premium) on allotment and the balance on final call, which was duly made. All money was duly received except from a shareholder to whom 200 shares were allotted failed to pay the money due on allotment and call. And his shares were forfeited and forfeited shares were re-issued at Rs. 95 per share as fully paid including premium.

Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.6,000, reissue, Rs. 19,000, transfer Rs. 1,000

SQ-7. _____ X. Ltd. forfeited 250 shares of 10 each issued at a premium of Rs. 5 per share held by Mr. Ram for non-payment of allotment money of Rs. 7 per share (including Rs. 5 per share premium). The first call of Rs. 2, and final call of Rs. 3 per share. Out of forfeited shares 100 shares were re-issued to Mr. Bhagwan at Rs. 13 per share including premium.

Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.750, reissue, Rs.1,300, transfer Rs. 100

SQ -8. _____ Y. Ltd. forfeited 500 shares of Rs. 100 each issued at 10% premium due to non-payment of Rs 40 per share (including premium) on allotment and Rs. 20 per share on first call. The final call of Rs.20 per share was not yet called up. Out of forfeited shares 250 shares were re-issued at Rs.75 per share including premium the paid up value of which was Rs.80.

Required: Journal entries for:

a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.15,000, reissue, Rs.18,750, transfer Rs. 3,750

SQ -9. _____ B. Ltd. forfeited 600 shares of Rs. 10 each issued at 10% premium under the pro-rata using the ratio of 2:1 for non-payment of allotment of Rs. 5 (including premium) and call money of Rs. 2 per share. Out of forfeited shares 400 shares were re-issued at Rs.9 per share including premium as fully paid up.

Required: Journal entries of above transactions for

a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.4,800, reissue, Rs.3,600, transfer Rs.2,400

■ Forfeiture and Re-issue of Shares Initially Issued at Discount

SQ - 10. ___ S. Ltd. issued 10,000 equity share of Rs. 100 each at discount of 10% payable as follows: on application Rs. 25, on allotment Rs. 20, on first call Rs. 20 and on final call Rs. 25.

A shareholder holding 500 shares did not pay the calls money. His shares were forfeited and forfeited shares were reissued at Rs. 70 per share as fully paid.

Required: Journal entries for

a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.22,500, reissue, Rs. 35,000, transfer Rs. 12,500

SQ-11. ____ A. Ltd. issued 50,000 equity shares of Rs. 10 each at discount of 10% payable as follows:

Rs. 3 on application Rs. 2 on allotment Rs. 4 on first and final call

A shareholder who held 500 shares failed to pay call money and his shares were forfeited. Half of the forfeited shares were reissue at Rs. 8 per share as fully paid.

Required: Journal entries for a. Shares forfeiture b. Shares re-issue c. Transfer entry

Ans.: Forfeiture Rs.2,500, reissue, Rs.2,000, transfer Rs. 1,000

SQ-12. ____ A Co. Ltd. forfeited 1000 shares of Rs. 100 each at 10% discount (called up Rs. 80), due to non-payment of first calls Rs. 20 out of these only 800 share were reissued at Rs. 80 per share as fully paid.

Required: Journal entries for forfeiture, Reissue and transfer.

Ans: Share forfeiture Rs. 50,000; Capital reserve Rs. 32,000

SQ-13. ____X. Co. Ltd. forfeited 500 shares of Rs. 100 each issued at 10% discount, due to non-payment of allotment Rs. 40 and calls Rs. 20. Out of these forfeited shares, only 300 shares were reissued at Rs. 70 per share without discount.

Required: Journal entries for forfeited, Reissued and transfer.

Ans: Share forfeiture Rs. 15,000; Capital reserve Nil

LONG ANSWER QUESTIONS

LQ-1. ____ A Company limited issued 25,000 equity shares of Rs.100 each at a premium of 10% payable as follows:

On application Rs.25

On allotment Rs.60 (including premium)

On first and final calls Rs.25

Applications were received for 41,000 shares. These shares were allotted on pro-rata basis to the applicants for 30,000 and applications for 11,000 shares were rejected and refunded. Money excess paid on applications were utilized towards the sum due on allotment. Sujit to whom 100 shares were allotted, failed to pay allotment and first and final calls money and his shares were forfeited. Later on forfeited shares were reissued at Rs. 90 each.

Required: Journal entries for: application, allotment, calls and forfeiture.

Ans.: Calls in arrear Rs. 5,500 and Rs. 2,500; Share forfeiture Rs. 3,000, Capital Reserve Rs. 2,000 or Rs. 1,000

LQ- 2. ____A Co. Ltd. issued 4,000 equity shares of Rs. 100 each at a premium of Rs.10 per share payable as follows:

On application Rs.20 per share

On allotment Rs.50 per share (including premium)

On first and final call Rs.40 per share

Applications were received for 6,000 shares. These shares were allotted on pro-rata basis to the applicants of 4,800 shares and applications for 1,200 shares were rejected. Money overpaid on applications were utilized towards sum due on allotment. Rajesh to whom 200 shares were allotted failed to pay allotment and first and final call money, hence his shares were forfeited.

Required: Journal entries for a. Allotment b. First and final call, c. Forfeiture

Ans.: Calls in arrear Rs. 9,200 and Rs. 8,000; Share forfeiture Rs. 4,800

LQ- 3. ____P Ltd. issued 25,000 equity shares of Rs. 100 each at Rs. 90 payable as follows:

Rs. 20 on application Rs. 30 on allotment (Adjusted discount) Rs. 40 on first and final call

Applications were received on 50,000 shares. Board of Directors decided to accept the applications for 15,000 shares in full, 10,000 shares were rejected, and remaining 25,000 shares were allotted on pro-rata basis. All payments were duly received except first and final call on 500 shares allotted on pro-rata basis. These shares were forfeited and later on reissued at Rs.75 as fully paid.

Required: Journal entries for: application, allotment, calls and forfeiture.

Ans.: Calls in arrear Rs. 20,000; Share forfeiture Rs. 25,000, Capital Reserve Rs. 17,500

LQ – 4. ____B. Ltd. registered with an authorized capital of 1,00,000 equity shares of Rs.100 each. It invited applications for 50,000 equity shares of Rs. 100 each payable as under:

On application Rs.20 On allotment Rs. 40 On first and final call Rs. 40

Applications were received for 100,000 shares. The allotment was made as follows:

To the applicants of 20,000 shares...Nil
To the applicants of 20,000 shares...Full
To the applicant of remaining shares...50%

It was decided to utilize excess application money in part payment of allotment. All money was duly received except a holder who applied for 1000 shares and was given 500 shares failed to pay the allotment and call money. The Board of Directors decided to forfeit these shares. Later on forfeited shares were reissued at Rs.90 as fully paid.

Required: Journal entries for: application, allotment, calls and forfeiture.

Ans.: Calls in arrear Rs. 10,000 and Rs. 20,000; Share forfeiture Rs. 20,000, Capital Reserve Rs. 15,000

LQ- 5. ____A company limited issued 10,000 shares of Rs. 100 each payable as under:

On application Rs. 40
On allotment Rs. 30
On first and final calls Rs. 30

Applications were received for 16,000 shares and allotment was made on the following basis:

To applicants for 6,000 shares ....full
To applicants for 8,000 shares ....4,000 shares
To applicants for 2,000 shares ....Nil

All excess amount paid on application is to be adjusted against amount due on allotment and subsequent calls. The shares were fully called and paid up except one shareholder to whom 200 shares were allotted failed to pay first and final calls and his shares were forfeited.

Required: Journal entries for: a. Allotment b. First and final calls c. Forfeiture

Ans.: Calls in arrear Rs. 4,000, share forfeiture Rs. 16,000

LQ-6._____ A Ltd. company issued 100,000 equity shares of Rs. 100 each payable as follows:

On application Rs. 30
On allotment Rs. 30
On first and final call Rs. 40

Applications were received for 160,000 shares. Allotment was made as follows:

To Applicants for 80,000 shares:..Full
To Applicants for 40,000 shares : .... Refunded
To Applicants for 40,000 shares : .... pro-rata

The excess money received on application was utilized toward the sum due on allotment. All the calls money were duly received, except a shareholder to whom 1000 shares were allotted from pro-rata basis failed to pay first and final call money, therefore, his share were forfeited. Later on his forfeited shares were reissued at Rs.90 each.

Required: Journal entries for: application, allotment, calls and forfeiture.

Ans.: Transferred to allotment Rs. 6,00,000, Share forfeiture Rs. 60,000, Capital reserve Rs.50,000

LQ-7._____Himal Ltd. registered with an authorized capital of 100,000 shares of Rs.100. It invited application on 40,000 shares at 10% premium payable as follows:

On Application Rs 30
On allotment Rs. 50 (including premium)
On first and final call Rs. 30

Applications were received for 80,000 shares. The directors decided the following pattern of allotment:

Applicant groups	Share Applied	Shares Allotted
A	10,000	10,000
B	20,000	10,000
C	20,000	Nil
D	30,000	Pro-rata

The company can utilize the excess application money on allotment and calls. All amount due on allotment and call was received. But Mr. Shrestha who had allotted 500 shares of group B failed to pay allotment and calls money.

Required: Journal entries for: application, allotment, calls and forfeiture.

Ans.: Calls in arrear Rs. 10,000 and Rs. 15,000; Share forfeiture Rs. 30,000, Capital Reserve Rs. 20,000

■ ASSIGNMENT QUESTIONS FOR INTERNAL EVALUATION

1. Butwal Sugar Mill Ltd. issued 40,000 shares of 100 each at a premium of Rs. 20, payable as Rs. 30 on application, Rs. 50 (including premium) on allotment and the balance on final call, which was duly made. All money was duly received except from a shareholder to whom 400 shares were allotted failed to pay the money due on allotment and call. And his shares were forfeited and forfeited shares were re-issued at Rs. 95 per share as fully paid including premium.

   Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

   Ans.: Forfeiture Rs.12,000, transfer Rs. 2,000

2. Z. Ltd. forfeited 500 shares of 10 each issued at a premium of Rs. 5 per share held by Mr. Ram for non-payment of allotment money of Rs. 7 per share (including Rs. 5 per share premium). The first call of Rs. 2, and final call of Rs. 3 per share. Out of forfeited shares 300 shares were re-issued to Mr. Rajesh at Rs. 13 per share including premium.

   Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

   Ans.: Forfeiture Rs. 1,500; transfer Rs. 300

3. H. Ltd. forfeited 1000 shares of Rs. 100 each issued at 10% premium due to non-payment of Rs 40 per share (including premium) on allotment and Rs. 20 per share on first call. The final call of Rs.20 per share was not yet called up. Out of forfeited shares 500 shares were re-issued at Rs.75 per share including premium the paid up value of which was Rs.80.

   Required: Journal entries for: a. Shares forfeiture b. Shares re-issue c. Transfer entry

   Ans.: Forfeiture Rs. 30,000; transfer Rs. 7,500

4. C. Ltd. company issued 20,000 shares of Rs. 100 each at a discount of Rs. 5 per share at allotment call payable as follows.

   On application Rs. 30 On allotment Rs. 35 On first and final call Rs. 30

   Applications were receive for 10,000 shares and allotment were also completed. All the due money was collected with the exception of on 800 shares due on first and final call. Subsequently these 800 shares were forfeited. Out of forfeited share only 500 shares were re-issued at Rs. 80 per share as fully paid without discount.

   Required: Entries for: a. Forfeiture b. Re-issue c. Transfer

   Ans.: Share forfeiture Rs. 52,000

5. A Company limited issued 1,00,000 equity shares of Rs.100 each at a premium of 10% payable as follows:

   On application Rs.25
   On allotment Rs.60 (including premium)
   On first and final calls Rs.25

   Applications were received for 1,50,000 shares. These shares were allotted on pro-rata basis to the applicants for 1,20,000 and applications for 30,000 shares were rejected and refunded. Money excess paid on applications were utilized towards the sum due on allotment. Suman to whom 1000 shares were allotted, failed to pay allotment and first and final calls money and his shares were forfeited.

   Required: Journal entries for: a. allotment b. first and final calls c. forfeiture

   Ans: Calls in arrear Rs. 55,000, 25,000; Share forfeiture Rs. 30,000

6. A company Ltd. issued 20,000 shares of Rs. 100 each payable as under:

   On application Rs. 20 On allotment Rs. 30 On Firsts and final call Rs. 50

   Applications were received for 40,000 shares. Allotment was made on the following basis.

   To applicants for 10,000 shares .... full
   To applicants for 20,000 shares .... 10,000 shares
   To applicants for 10,000 shares .... Nil

   Excess money received on applications were utilized towards the sum due on allotment. Shares wired fully called and paid up, except one shareholder to whom 500 shares were allotted on pro-rata basis, filed to pay on first and final call and his shares were forfeited.

   Required: Journal entries for:

   a. Allotment b. First and final call c. Forfeiture

Ans.: Share forfeiture Rs. 25,000

7. X. Ltd. registered with nominal capital of 50,000 shares of Rs. 100 each. It issued 5,000 such shares at 10% premium payable as follows:

Rs. 20 on Application Rs. 50 on Allotment (including premium) Rs. 40 on first and final call

Applications were received 10,000 shares. Allotment was made to all applicants on pro-rata basis and excess money paid on applications was transferred to allotment. All money due on allotment and call was received except from Mr. Rai who had allotted 500 shares failed to pay allotment and call money. His shares were forfeited and reissued at Rs. 95 per share as fully paid up including premium.

Required: a. Journal entries b. Opening balance sheet

Ans.: Calls in arrear Rs. 15,000, Rs 20,000, Share forfeiture Rs. 20,000 Capital reserve Rs. 12,500, B/S Rs. 5,62,500