



*Notes*

**27**

## **ISSUE OF SHARES**

In the preceding lesson you have studied about the company, its meaning, characteristics and its various types. You are also familiar with share capital, and its various kinds. Share capital is one of the main sources of finance for a company. In this lesson we shall study the procedure of issuing shares for raising capital and its accounting treatment in the books of the company.



### **OBJECTIVES**

*After going through this lesson you will be able to*

- explain the procedure of issuing shares;
- explain that the share money may be called in lump sum or in two or more instalments;
- state that shares may be issued at par, at premium, or at discount;
- make journal entries to record the issue of shares and
- explain the terms calls in arrears and calls in advance.

### **27.1 PROCEDURE OF ISSUE OF SHARES**

Face value of a share is the par value of the share. It is also known as the Nominal value or denomination of a share. To issue shares a company follows a definite procedure which is controlled and regulated by the Companies Act and Securities Exchange Board of India (SEBI). There are different ways of issue of shares which may be:



*Notes*

- (A) For consideration other than cash
- (B) For cash

**(A) ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH**

Sometimes shares are issued to the promoters of the company in lieu of the services provided by them during the incorporation of the company. The issue price of these shares is normally debited to ‘Goodwill A/c’ and journal entry is made as follows:

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

In case a company does not have sufficient funds for the purchase of fixed assets or for payment to creditors it may offer and allot its shares to vendors/ creditors in lieu of cash. Any allotment of shares against which cash is not to be received is called ‘issue of shares for consideration other than cash’. For example building is purchased and payment is made by issuing shares.

In case of purchase of assets like building, machinery, stock of materials, etc. the following journal entry is made :

1. Assets A/c Dr.  
     To Vendors/Creditors A/c  
 (Assets purchased)
2. Vendors/Creditors A/c Dr.  
     To Share Capital A/c  
 (Issue of shares of ₹.....each fully paid up)

**(B) ISSUE OF SHARES FOR CASH**

In general, shares are issued for cash. The company may call the share money either in one instalment or in two or more instalments. But company always collects this money through its bankers.

**(i) Receipt of Share Money in One Instalment :** The company may receive the share money in one instalment along with application. In this case the following journal entries are made in the books of the company

1. On Receipt of Application Money  
     Bank A/c Dr.  
         To Share Application A/c  
 (Application money received on ....shares of ₹...each)

## 2. On transferring the Application Money

Share Application A/c	Dr.
To Share Capital A/c	
(Application money transferred to share capital A/c)	

- (ii) **Share Money Received in Two or More Instalments :** Instead of receiving payment in one instalment i.e. at the time of application the company collects it in two or more instalments. The first, instalment which the applicants have to pay along with the applications for shares is known as application money. On the allotment of shares the allottees are required to pay the second instalment which is termed as allotment money. If the company decides to call the share money in more than two instalments the other instalment is/are termed as call money (i.e. first-call, second call or final call).

In the above case the transactions are recorded in journal as given below :

**(a) On Receipt of Application Money**

Bank A/c	Dr.
To Share Application A/c	
(Receipt of share application money for .... Shares @ ₹.. per share)	

- (b) On Allotment of Shares :** After receiving the application for shares within the prescribed time, the Board of Directors of the company proceed to allot shares. On allotment of shares the application money is transferred to Share Capital A/c. For this the following journal entry is made :

Share Application A/c	Dr.
To Share Capital A/c	
(Share application for .... Shares @ ₹... per share transferred to share capital A/c)	

**Allotment Money Becoming Due and Received**

On the allotment of shares the amount receivable on the next instalment i.e. on allotment becomes due. The following entry is made for recording the amount due:

**(i) Allotment money becoming due**

Share Allotment A/c	Dr.
To Share Capital A/c	
(Share allotment money due on .... shares @ ₹ ... per share)	



Notes



**Notes**

**(ii) Receipt of allotment money**

On the receipt of share allotment money the following journal entry is made:

Bank A/c	Dr.
To Share Allotment A/c	
(Receipt of the amount due on allotment of ... shares)	

**Calls on Shares**

After the receipt of application and allotment money the money that remains unpaid can be called up by the company as and when required. Thus a call is a demand made by the company asking the shareholders to remit the called up amount on shares allotted to them.

The company may demand the remaining money in more than two instalments. The amount called after the allotment is known as call money. There may be one or more calls, depending on the fund requirements of the company. When only **one** call is made and Call Money is Due :

Share First and Final Call A/c	Dr.
To Share Capital A/c.	
(Call money due on .... share @ ₹ ... per share).	

**Receipt of Call Money**

The following journal entry is made for receipt of call money:

Bank A/c	Dr.
To Share First & Final call A/c	
(call money due on ... shares @ ₹ ... per share received)	

**Note :** If the company makes more than one call the same accounting treatment is followed for recording the second call or third call money due and their receipt. The last call made is termed as final call.

**Illustration 1**

Fashion Fabrics Ltd. issued 100000 shares of ₹ 10 each on 1<sup>st</sup> April, 2014. The amount payable on these shares was as under:

- ₹ 2 per share on application.
- ₹ 3 per share on allotment.
- ₹ 5 per share on call.

Make journal entries and prepare relevant accounts in the books of company.

**Solution :**

**Fashion Fabrics Ltd.**  
**Journal Entries**

S.No.	Particulars	L.F	Dr. ₹	Cr. ₹
1.	Bank A/c Dr. To Share Application A/c (Application money received @ ₹ 2 per share)		2,00,000	2,00,000
2.	Share Application A/c Dr. To Share Capital A/c (Share application money for 100000 shares transferred to share capital A/c)		2,00,000	2,00,000
3.	Share Allotment A/c Dr. To Share Capital A/c. (Allotment money made due on 100000 shares @ ₹ 3/- per share)		3,00,000	3,00,000
4.	Bank A/c Dr. To Share Allotment A/c. (Allotment money received on 100000 shares @ ₹ 3 per share.)		3,00,000	3,00,000
5.	Share First & Final call A/c. Dr. To Share Capital A/c (Call money on 1,00,000 share @ ₹ 5 per share made due)		5,00,000	5,00,000
6.	Bank A/c Dr To Share First & Final call A/c. (Call money received on 1,00,000 shares @ ₹ 5 per share)		5,00,000	5,00,000



*Notes*

**Note :** Although shares may be equity shares or preference shares but if the term shares is used it means equity shares)

## MODULE - 5

### Company Accounts



Notes

## Issue of Shares

### Relevant Accounts

#### Bank A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Share Application A/c		2,00,000		Balance c/d		10,00,000
	Share Allotment A/c		3,00,000				
	Share First and Final Call A/c		5,00,000				
			10,00,000				10,00,000
	Balance b/d		10,00,000				

#### Share Application A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Share Capital A/c		2,00,000		Bank A/c		2,00,000
			2,00,000				2,00,000

#### Share Capital A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Balance cld		10,00,000		Share Application A/c		2,00,000
					Share Allotment A/c		3,00,000
					Share First and Final call A/c		5,00,000
			10,00,000				10,00,000
					Balance b/d		10,00,000

#### Share Allotment A/c

Dr.				Cr.			
Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Share Capital A/c		3,00,000		Bank A/c		3,00,000
			3,00,000				3,00,000

**Share First and Final Call A/c**

Dr.

Cr.

Date	Particulars	J.F.	Amount ₹	Date	Particulars	J.F.	Amount ₹
	Share Capital A/c		5,00,000		Bank A/c		5,00,000
			5,00,000				5,00,000



Notes



**INTEXT QUESTIONS 27.1**

Fill in the blanks with appropriate word/words :

- (i) Face value of share is ..... value of the share.
- (ii) Shares in consideration other than cash are issued to .....
- (iii) Share money on issued shares can be demanded by the company in lump sum or in .....
- (iv) Share application money is received by the company from share .....

**27.2 FULL, UNDER AND OVER SUBSCRIPTION**

A company decides to issue number of shares to raise capital. It invites public to buy these shares. Now there may be three situations :

**I. Full Subscription :** Company may receive applications equal to the number of shares company has offered to people. It is called full subscription. In case of full subscription the journal entries will be made as follows :

- (a) On receipt of application money  
Bank A/c Dr  
    To Share Application A/c  
(Application money received for ..... shares)
- (b) On allotment of shares  
Share Application A/c Dr  
    To Share Capital A/c  
(Application money of shares transferred to capital A/c on their allotment)

**II.** The company does not receive applications equal to the number of shares offered for subscription, there may be two situations : (i) under subscription;  
(ii) over subscription



*Notes*

(i) **Under Subscription** : The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be allotted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

(ii) **Over Subscription** : When company receives applications for more number of shares than the number of shares offered to the public for subscription it is a case of over subscription. A company cannot allot more shares than what it has offered. In case of over subscription, company has the following options :

**Option I**

(i) **Rejection of Excess Applications and Money Returned** : The company may reject the applications for shares in excess of the shares offered for issue and a letter of rejection is sent to such applicants. In this case the application money received from these applicants is refunded to them in full. The journal entry made is as follows:

Share Application A/c	Dr.
To Bank A/c	
(Application money on ... shares refunded to the applicants)	

(ii) **Excess application money adjusted towards sums due on allotment.**  
**Journal entry made is :**

Shares Application A/c	Dr.
To Share Allotment A/c	
(Excess application money adjusted towards sums due on allotment)	

If the application money received on partially accepted applications is more than the amount required for adjustment towards allotment money, the excess money is refunded. However, if the Articles of the company so authorise, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due later on and the following entry is made :

Share Application A/c	Dr.
To Call-in-advance A/c	
(The adjustment of excess share application money retained as call-in-advance in respect of ... shares)	

## Option II

**Partial Acceptance of Applications**

In some cases the company accepts the applications for subscription partially. It means that the company does not allot the full number of shares applied for. For example if an applicant has applied for 5000 shares and is allotted only 2000 shares, then the applications is said to have been partially accepted. The company may evolve some formula of accepting applications partially or making proportionate allotment/ the Prorata allotment which means that the applicants are allotted shares proportionately. In such a case the company adjusts the excess share money received on application towards share allotment money due on partially accepted applications. The journal entry recording the adjustment of application money towards share allotment money, is as under :

Share Application A/c	Dr.
To Share Allotment A/c	
(Share application money transferred to Share Allotment Account in respect of ... shares)	

*Notes***Illustration 2**

The Full Health Care Ltd has offered to public for subscription 20000 shares of ₹ 100 each payable as ₹ 30 per share on application, ₹ 30 per share on allotment and the balance on call. Applications were received for 30000 shares. Applications for 5000 shares were rejected all together and application money was returned. Remaining applicants were allotted the offered shares. Their excess application money was adjusted towards some due on allotment. Calls were made and duly received. Make journal entries in the books of the company.

**Solution :**

**Full Health Care Ltd.**  
**Journal Entries**

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c To Share Application A/c (Application money received for 30000 shares @ ₹ 30 per share)	Dr.	9,00,000	9,00,000



**27.3 ISSUE OF SHARES AT PREMIUM**

A company can issue its shares at their face value. When company issues its shares at their face value, the shares are said to have been issued at par. Company can also issue its shares at more than or less than its face value i.e, at 'Premium' or at 'Discount' respectively. When shares are issued at premium or at discount an accounting treatment different from shares issued at par is required. Let us discuss issue of shares at premium.

**Issue of Shares at Premium**

If a company issues its shares at a price more than its face value, the shares are said to have been issued at Premium. The difference between the issue price and face value or nominal value is called 'Premium'. If a share of ₹ 10 is issued at ₹ 12, it is said to have been issued at a premium of ₹ 2 per share. The money received as premium is transferred to Securities Premium A/c. A company issues its shares at premium only when its financial position is very sound. It is a capital gain to the company. The Premium money may be demanded by the company with application, allotment or with calls.

The Companies Act has laid down certain restrictions on the utilisation of the amount of premium.

According to Section 78 of this Act, the amount of premium can be utilised for :

- (i) Issuing fully-paid bonus shares;
- (ii) Writing off preliminary expenses, discount on issue of shares and debentures, underwriting commission or expenses on issue;
- (iii) Paying premium on redemption of Preference shares or Debentures;
- (iv) By Back of Shares.

Further, the company may demand the total amount of premium in more than one instalment. In case the company doesn't specify the particular call with which Securities Premium is to be paid it is supposed to be called at the time of Allotment.

**Accounting Treatment of Premium on Issue of Shares**

Following is the accounting treatment of Premium on issue of shares :

*Notes*



Notes

(a) **Securities Premium Collected with Share Application Money :** If the Securities premium is collected on application and the company has taken decision about the allotment of shares, the following journal entry is made :

Share Application A/c	Dr.
To Securities Premium A/c	
(The amount of Securities premium received on application of the allotted shares is transferred to Securities Premium A/c)	

(b) **Premium Collected with Allotment Money or Calls :** If the company decides to demand the premium with share Allotment or/and share call money, the journal entry made is :

Share Allotment A/c	Dr.
Or/and	
Share Call A/c	Dr.
To Securities Premium A/c	
(Adjustment of share premium due on.....shares @ ₹.....per share.)	

**Illustration 3**

Luxury Cars Ltd. issued 100000 shares of ₹ 10 each at a premium of ₹ 5 per share, payable as:

On application	₹ 4 (including ₹ 2 premium) per share
On allotment	₹ 8 (including ₹ 3 premium) per share
On call	₹ 3 per share

Applications were received for 100000 shares and allotment was made to all. Make journal entries.

**Solution :**

**Books of Luxury Cars Ltd.**

**Journal Entries**

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c <span style="float: right;">Dr.</span> To Share Application A/c (Amount received for 1,00,000 shares)		4,00,000	4,00,000

## Issue of Shares

2.	Share Application A/c To Share Capital A/c To Securities Premium A/c (Share application money transferred to share capital A/c and securities Premium A/c)	Dr.	4,00,000	2,00,000 2,00,000
3.	Share Allotment A/c To Share Capital A/c To Securities Premium A/c (Share allotment money made Due)	Dr.	8,00,000	5,00,000 3,00,000
4.	Bank A/c To Share Allotment A/c (Share allotment money is received on 1,00,000 shares @ ₹ 8 per share)	Dr.	8,00,000	8,00,000
5.	Share First and Final Call A/c To Share Capital A/c (Share call money made due on 1,00,000 shares @ ₹ 3 per share.)	Dr.	3,00,000	3,00,000
6.	Bank A/c To Share First and Final Call A/c (Share call money received on 1,00,000 shares @ ₹ 3 per share.)	Dr.	3,00,000	3,00,000

## MODULE - 5

### Company Accounts



Notes



### INTEXT QUESTIONS 27.3

Fill in the blanks with suitable word/words and figure/figures :

- (i) Securities premium is a ..... to the company.
- (ii) If allotment money demanded is ₹ 5 per share including ₹ 2 for premium. the share capital account will be credited by ₹ .....
- (iii) A company issues its shares of ₹ 50 each at ₹ 60 per share. The excess money of ₹ 10 each is .....
- (iv) If the premium per share is ₹ 20 on a share of ₹ 100 each, the share capital A/c will be credited with ..... per share.



*Notes*

**Illustration 4**

Sunita Ltd. was registered with an authorised capital of ₹ 50,00,000 divided in 50,000 shares of ₹ 100 each. Company issued 20,000 shares at a premium of ₹ 20 per share. Amount receivables as ₹ 40 on application, ₹ 40 on allotment (including premium) ₹ 20 on first call & ₹ 20 on second & final call. All shares were subscribed & all money was duly received. Share issue expenses amounted to ₹ 20,000 which were fully written off against securities premium reserve A/c. Pass necessary Journal entries & Prepare Bank A/c, Security Premium A/c and Balance Sheet.

**Solution :**

**Journal**

	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
	Bank A/c Dr. To Share Application A/c (Being application money received for 20000 shares @ ₹ 40 per share)		8,00,000	8,00,000
	Share Application A/c Dr. To Share Capital A/c (Being application money transferred to Share Capital A/c)		8,00,000	8,00,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being allotment money due with premium)		8,00,000	4,00,000 4,00,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received with premium)		8,00,000	8,00,000
	Share First Call A/c Dr. To Share Capital A/c (Being First Call due @ ₹ 20 per share)		4,00,000	4,00,000

## Issue of Shares

Bank A/c To Share First Call A/c (Being First call money received)	Dr.	4,00,000	4,00,000
Share Second & Final Call A/c To Share Capital A/c (Being Second Call due @ ₹ 20 per share)	Dr.	4,00,000	4,00,000
Bank A/c To Share Second & Final Call A/c (Being Second call money received)	Dr.	4,00,000	4,00,000
Share Issue Expenses/Preliminary Expenses A/c To Bank A/c (Being expenses incurred on issue of shares)	Dr.	20,000	20,000
Securities Premium Reserve A/c To Share issue Expenses A/c (Being share issue expenses written off against securities premium account)	Dr.	20,000	20,000

## MODULE - 5

Company Accounts



Notes

### Bank Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Application A/c	8,00,000	By Share Issue Exp. A/c	20,000
To Share Allotment A/c	8,00,000	By Balance c/d	23,80,000
To Share First Call A/c	4,00,000		
To Share Second Call A/c	4,00,000		
	24,00,000		24,00,000

### Securities Premium Reserve Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Issue Exp. A/c	20,000	By Share Allotment A/c	4,00,000
To Balance c/d	3,80,000		
	4,00,000		4,00,000



Notes

**Balance Sheet of Sunita Ltd.**

as at .....

Particulars	Note	₹
<b>I. Equity &amp; Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	20,00,000
(b) Reserve and Surplus	2	3,80,000

**Note 1**

**Share Capital**

**Authorised Capital**

50000 shares of ₹ 100 each 50,00,000

**Issued Capital**

20000 shares of ₹ 100 each 20,00,000

**Subscribed**

**Subscribed & Fully Paid up**

20000 shares of ₹ 100 each 20,00,000

**Note 2**

Reserves & Surplus : Securities Premium Reserve 3,80,000

**Disclosure of Share Capital in Company's Balance Sheet (Vertical form)**

According to schedule V1, Part I of the companies Act 1956, the Share Capital of a company is shown in the Balance Sheet as given below.

**Balance Sheet of a Company (an extract)**

as at .....

Particulars	Note	₹
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholders Funds</b>		
(a) Share Capital		
(b) Reserves and Surplus		
(c) Money received against share accounts		
<b>(2) Share Application Money Pending Allotment</b>		

**Note :** On the face of the Balance Sheet only so much information should be disclosed as is required and the remaining should be disclosed in the Notes to Accounts.

## I. Equity and Liabilities

There are broadly two headings shown on the Equity and Liabilities side. First, being the equity, *i.e.*, liability of the company towards shareholders. It is termed as Shareholders' Funds. It includes Share Capital, Reserves and Surplus and Money received against share warrants. Second, being liability of the company towards the outsiders. It is termed as Liabilities.

### 1. Shareholders' Funds

(a) **Share Capital :** It is the first item under shareholders' funds. Details required to be shown are :

- i. ● **Authorised Share Capital :** Authorised Share Capital is stated in the Memorandum of Association and is divided into different categories such as **equity share capital and preference share capital**. It is the amount of share capital that a company is authorised to issue under each category. It is shown by way of information in the notes attached to the Balance Sheet. The above information is shown for information only, *i.e.*, it is not added to liability.
- **Issued Share Capital :** It is that part of the authorised share capital which the company has issued for subscription up to the authorised share capital which the company has issued for subscription up to the date of Balance Sheet. It includes a number and classes (Equity or Preference) of shares and their face value, etc.
- **Subscribed Share Capital :** It is that part of issued share capital which has been subscribed by the applicants.
- **Called-up Share Capital:** It is that part of the issued share capital that has been called-up to be paid by the company.
- **Paid-up Share Capital :** It refers to that part of subscribed share capital which has been paid-up by the subscriber towards share capital.



*Notes*



**Notes**

- (ii) If a company has issued different types of Equity and Preference shares, detail of each type of shares is given.
- (iii) Amount of Calls-in-Arrear is shown as deduction from called-up capital or ‘subscribed capital’ to ascertain the paid-up capital of the company and shown as liability in the Balance Sheet.  
Calls-in Arrear from Directors and Officers of the company have to be disclosed.
- (iv) Forfeited shares amount, *i.e.*, amount originally paid up is shown by adding it to subscribed capital. But in case of profit on reissue of forfeited shares, it is transferred to Capital Reserves.

It is to be noted that details regarding share capital or in fact, any item of Balance Sheet and Statement of Profit and Loss is to be given in the notes.

**(b) Reserve and Surplus :** Reserve and Surplus include following items and are shown separately :

- (i) Capital Reserves
- (ii) Capital Redemption Reserve
- (iii) Securities Premium Reserve
- (iv) Debentures Redemption Reserve
- (v) Revaluation Reserves
- (vi) Share Options Outstanding Account
- (vii) Other Reserves (to specify the nature and purpose of each reserve)
- (viii) Balance in the statement of Profit and Loss after appropriations towards proposed dividend and transfer to reserves. In case, Reserves and Surplus has a balance under the head, profit (surplus) or loss (deficit) for the year is added to it. Thereafter, appropriation is made by transfer to reserves or for provision for dividend.

If the balance after transfer of profit to the existing balance results in negative figure, it is shown under Reserves and Surplus as a negative amount. It means it is deducted to arrive at the total reserves.

The balance of the reserve and surplus, whether positive or negative, is shown under shareholders funds.

**Illustration 5**

ABC Ltd invited applications for issuing 80,000 equity shares of ₹ 10 each. Money is payable as follows :

₹ 3 on Application, ₹ 3 on Allotment, ₹ 2 on First Call and ₹ 2 on Second & Final call.

All the shares were applied and all sums due on allotment and calls have been received. Share issue expenses amounted to ₹ 8,000. You are required to prepare Journal, Ledger Accounts and the Balance Sheet of ABC Ltd.

*Notes***Solution :****Journal**

	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
	Bank A/c Dr. To Share Application A/c (Being application money received for 80000 shares @ ₹ 3 per share)		2,40,000	2,40,000
	Share Application A/c Dr. To Share Capital A/c (Being application money transferred to Share capital A/c)		2,40,000	2,40,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due on 80,000 shares @ ₹ 3 per share)		2,40,000	2,40,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment money received)		2,40,000	2,40,000
	Share First Call A/c Dr. To Share Capital A/c (Being First Call due on 80,000 shares @ ₹ 2 per share)		1,60,000	1,60,000

## MODULE - 5

### Company Accounts



Notes

### Issue of Shares

Bank A/c	Dr.	1,60,000	1,60,000
To Share First Call A/c			
(Being amount received on first call)			
Share Second & Final Call A/c	Dr.	1,60,000	1,60,000
To Share Capital A/c			
(Being amount received on final call)			
Share Issue Expenses A/c	Dr.	8,000	8,000
To Bank A/c			
(Being expenses incurred on issue of shares)			

### LEDGER

#### Bank Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Application A/c	2,40,000	By Share Issue Exp. A/c	8,000
To Share Allotment A/c	2,40,000	By Balance c/d	7,92,000
To Share First Call A/c	1,60,000		
To Share Final Call A/c	1,60,000		
	8,00,000		8,00,000

#### Share Application Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Capital A/c	2,40,000	By Bank A/c	2,40,000
	2,40,000		2,40,000

#### Share Allotment Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Capital A/c	2,40,000	By Bank A/c	2,40,000
	2,40,000		2,40,000

#### Share First Call Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Capital A/c	1,60,000	By Bank A/c	1,60,000
	1,60,000		1,60,000

## Issue of Shares

## MODULE - 5

Company Accounts



### Share Final Call Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Share Capital A/c	1,60,000	By Bank A/c	1,60,000
	1,60,000		1,60,000

### Share Capital Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Balance c/d	8,00,000	By Share Application A/c	2,40,000
		By Share Allotment A/c	2,40,000
		By Share First Call A/c	1,60,000
		By Share Final Call A/c	1,60,000
	8,00,000		8,00,000

### Share Issue Expense Account

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Bank A/c	8,000	By Balance c/d	8,000
	8,000		8,000

### Balance Sheet of ABC Ltd (An Extract)

as at

Particulars	Note	₹
<b>I. Equity and Liabilities</b>		
<b>(1) Shareholder's Funds</b>		
(a) Share Capital	1	8,00,000
<b>II. Assets</b>		
<b>(1) Non Current Assets</b>		
(a) Other non current assets	2	8,000

#### Note 1

#### Share Capital

##### Authorised Capital

.....Shares of ₹ 10 each

.....



*Notes*

**Issued Capital**

80000 shares of ₹ 10 each 8,00,000

**Subscribed**

**Subscribed & Fully Paid up**

80000 shares of ₹ 10 each 8,00,000

**Note 2**

Share Issue Expenses 8,000

**27.4 ISSUE OF SHARES AT DISCOUNT**

When the issue price of share is less than the face value, shares are said to have been issued at discount. For example if a company issues its shares of ₹ 100 each at ₹ 90 each, the shares are said to be issued at discount. The amount of discount is ₹ 10 per share (i.e. ₹ 100 – ₹ 90). Discount on issue of shares is a loss to the company.

Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows :

- (i) At least one year must have elapsed from the date of commencement of business;
- (ii) Such shares are of the same class which has had already been issued;
- (iii) The company has sanctioned such issue by passing a resolution in its General meeting and the approval of the court is obtained.
- (iv) Discount should not be more than 10% of the face value of the share and if the company wants to give discount more than 10%, it will have to obtain the sanction of the Central Government.

**Accounting Treatment of Shares Issued at Discount**

The amount of discount is generally adjusted towards share allotment money and the following journal entry is made:

Share Allotment A/c	Dr.
Discount on issue of shares A/c	Dr.
To Share Capital A/c	
(Allotment money due on....shares @ ₹ .....per share after allowing discount @ ₹ .....per share)	

**Illustration 6**

Sri Krishna Agro Chemical Ltd. was registered with a capital of ₹ 5000000 divided into 50,000 shares of ₹ 100 each. It issued 10000 shares at a discount of ₹ 10 per share, payable as :

- ₹ 40 per share on application
- ₹ 30 per share on allotment
- ₹ 20 per share on call.

Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.

**Solution :**

**Sri Krishna Agro Chemicals Ltd**  
**Journal Entries**

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1	Bank A/c <span style="float: right;">Dr.</span> To Share Application A/c (Application money received for 15000 shares @ ₹ 40 per Share)		6,00,000	6,00,000
2.	Share Application A/c <span style="float: right;">Dr.</span> To Share Capital A/c (Application money for 10000 shares transferred to share Capital A/c on their allotment)		4,00,000	4,00,000
3.	Share Application A/c <span style="float: right;">Dr.</span> To Share Allotment A/c To Bank A/c (Application money of 3000 shares returned and for 2000 shares adjusted towards sum due on allotment)		2,00,000	80,000 1,20,000



*Notes*

## MODULE - 5

### Company Accounts



Notes

		Issue of Shares	
4.	Share Allotment A/c Discount on Issued of Shares A/c To Share Capital A/c. (Allotment money due)	Dr. Dr.	3,00,000 1,00,000 4,00,000
5.	Bank A/c To Share Allotment A/c (Allotment money received)	Dr.	2,20,000 2,20,000
6.	Share First & Final Call A/c To Share Capital A/c (Amount due on call)	Dr.	2,00,000 2,00,000
7.	Bank A/c To Share First & Final Call A/c (Call money received)	Dr.	2,00,000 2,00,000



### INTEXT QUESTIONS 27.4

Fill in the blanks with suitable word/words :

- Discount on issue of shares is a ..... to the company.
- A company issues its shares of ₹ 100 each at a discount of 10%, money receivable on each share is .....
- If discount per share is ₹ 5 on shares of ₹ 100 each, the share capital A/c will be credited with ₹ .....

### 27.5 CALLS IN ADVANCE AND CALLS IN ARREARS

If a shareholder pays any amount to company before it is demanded, it is called Call-in-Advance. This amount is put in a separate account known as Calls-in-Advance A/c. This amount is not shown as capital of the company, till such time the company makes a demand from all the shareholders. Call-in-Advance A/c is shown on the liabilities side of the Balance Sheet. For example if a company issued shares of ₹ 10 on which it has already called ₹ 5. Against the uncalled portion of ₹ 5 per share the company makes a call ₹ 3 per share, the entry for call money due will be made only for ₹ 3 per share. Now suppose a shareholder pays ₹ 5 per share including the uncalled amount of ₹ 2 per share along with the call money, it means he has paid ₹ 2 per share in advance, which will be credited to calls in Advance A/c. The company is required to pay interest on this amount @ 6% till the date of its appropriation.

**Accounting Treatment**

Following journal entry is made for calls-in-advance.

Bank A/c Dr.  
 To Calls-in-Advance A/c  
 (Calls in advance received on.....shares @ ₹ .....per share)

Appropriation of calls-in-Advance A/c say in the final call

Journal entry will be :

Calls-in-Advance A/c Dr.  
 To Share Final call A/c  
 (Calls in advance amount adjusted)

For interest given on Calls-in-Advance

Journal entry will be :

Interest on calls-in-Advance A/c Dr.  
 To Bank A/c  
 (Interest paid on the amount of Call-in-Advance)

**Illustration 7**

India Software Ltd. offered 50000 shares of ₹ 10 each to the public payable as:  
 ₹ 2 on application  
 ₹ 3 on allotment  
 ₹ 2 on First call and the balance as and when required.

All the shares were applied for and duly allotted but Mukesh a shareholder holding 200 shares paid the entire balance on allotment.

Make necessary journal entries.

**Solution :**

**India Software Ltd.**  
**Journal Entries**

Date	Particulars	L.F.	Dr. ₹	Cr. ₹
	Bank A/c <span style="float: right;">Dr.</span> To Share Application A/c (Share application money received for 50000 shares @ ₹ 2 per share)		1,00,000	1,00,000



*Notes*

## MODULE - 5

### Company Accounts



#### Notes

		Issue of Shares	
Share Application A/c	Dr.	1,00,000	
To Share Capital A/c			1,00,000
(Share application money transferred to share capital A/c on allotment)			
Share Allotment A/c	Dr.	1,50,000	
To Share Capital A/c			1,50,000
(Share allotment money made due on 50000 shares @ ₹ 3 per share.)			
Bank A/c.	Dr.	1,51,000	
To Share Allotment A/c			1,50,000
To Call-in-Advance A/c			1,000
(Amount received on allotment @ ₹ 3 per share and advance for 200 shares @ ₹ 5 per share)			
Share First Call A/c	Dr.	1,00,000	
To Share Capital A/c			1,00,000
(Share first call money due on 50000 shares @ ₹ 2 per share.)			
Bank A/c	Dr.	99,600	
Call-in-Advance A/c	Dr.	400	
To Share First call A/c			1,00,000
(First call money received on 49800 shares and on 200 shares call in advance is adjusted.)			

#### Calls in Arrears

When the company sends notice to the shareholders to pay allotment and /or call money, it has to be paid by them within the specified time period. If it is not paid by any one or more of the shareholders, the unpaid amount becomes arrears due from them. Such arrears are transferred to an account termed as Calls-in-Arrears A/c. The company is authorised to charge interest on calls-in-Arrears @ 5% p.a. for the intervening period. (The period between date of non-receipt of the due amount and the date of actual receipt of the due amount).





*Notes*

**Illustration 9**

ABC Ltd issued 20000 shares of ₹ 10 each payable as ₹ 2 per share on application, ₹ 5 (including premium of ₹ 2 per share) on allotment, ₹ 3 per share on first call and the balance on Final Call.

All the money was received except the first call money on 400 shares; which was received later on with final call.

Make necessary journal entries.

**Solution :**

**Journal Entries**

<i>S.No.</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
1	Bank A/c <span style="float:right">Dr.</span> To Share Application A/c (Application money received for 20000 shares @ ₹ 2 per Share)		40,000	40,000
2.	Share Application A/c <span style="float:right">Dr.</span> To Share Capital A/c (Application money of 20000 shares transferred to share Capital A/c on allotment)		40,000	40,000
3.	Share Allotment A/c <span style="float:right">Dr.</span> To Share Capital A/c To Securities Premium A/c (Allotment money due with premium @ ₹ 5 (3+2) per share on 20000 shares)		1,00,000	60,000 40,000
4.	Bank A/c <span style="float:right">Dr.</span> To Share Allotment A/c (Share allotment money received)		1,00,000	1,00,000
5.	Shares First Call A/c <span style="float:right">Dr.</span> To Share Capital A/c (Share first call money due on 2000 shares @ ₹ 3 per share)		60,000	60,000

## Issue of Shares

6	Bank A/c Calls-in-Arrears A/c To Share First Call A/c (First call money received on 19600 shares @ ₹ 3 per share.)	Dr. Dr.	58,800 1,200	60,000
7.	Share Final Call A/c To Share Capital A/c (Final Call money due on 20000 shares @ ₹ 2 per share.)	Dr.	40,000	40,000
8.	Bank A/c To Share Final Call A/c To Calls-in-Arrears A/c (Final Call money received on 20000 shares @ ₹ 2 per share along with arrears of first call on 400 shares)	Dr.	41,200	40,000 1,200

## MODULE - 5

Company Accounts



Notes

### Illustration 10

The Progressive Industries Limited was registered with a capital of ₹ 50,00,000. It issued 20000 equity shares of ₹ 100 each payable as ₹ 25 on application, ₹ 25 on allotment and balance on 1st and final call and 10000, 9% preference shares of ₹ 100 each payable as ₹ 50 on application and allotment and the balance on two calls of ₹ 25 each. All the shares were applied for and allotted. All money was duly received. Make necessary journal entries in the books of the company :

### Solution :

#### Progressive Industries Ltd Journal Entries

S.No.	Particulars	L.F.	Dr. ₹	Cr. ₹
1.	Bank A/c To Equity Share Application A/c To 9% Preference Share Application and Allotment A/c (Application money received for 20000 equity shares @ ₹ 25 per Share and 10000 9% preference shares @ ₹ 50 per share)	Dr.	10,00,000	5,00,000 5,00,000

## MODULE - 5

### Company Accounts



Notes

		Issue of Shares	
2.	Equity Share Application A/c	Dr.	5,00,000
	9% Preference Share Application & Allotment A/c	Dr.	5,00,000
	To Equity Share Capital A/c		5,00,000
	To 9% Preference Share Capital A/c		5,00,000
	(Application money transferred to capital accounts)		
3.	Equity Share Allotment A/c	Dr.	5,00,000
	To Equity share Capital A/c		5,00,000
	(Allotment money due on 20000 equity shares at ₹ 25 per share)		
4.	9% Preference share 1st call A/c	Dr.	2,50,000
	To 9% Preference Share Capital A/c		2,50,000
	(1st call money due on 10000 9% preference shares at ₹ 25 per share)		
5.	Bank A/c	Dr.	7,50,000
	To Equity Share Allotment A/c		5,00,000
	To 9% Preference Share 1st call A/c		2,50,000
	(Equity share allotment money and 9% preference share 1st call money received)		
6.	Equity Share First & Final Call A/c	Dr.	10,00,000
	9% Preference Share Final Call A/c	Dr.	2,50,000
	To Equity Share Capital A/c		10,00,000
	To 9% Preference Share Capital A/c		2,50,000
	(First & Final call on equity shares and Final call on 9% preference shares due)		
7.	Bank A/c	Dr.	1,25,000
	To Equity Share First & Final Call A/c		10,00,000
	To 9% Preference Share Final Call A/c		2,50,000
	(Equity share 1st and final call and 9% Preference share final call money received)		

**INTEXT QUESTIONS 27.5**

*Fill in the blanks with suitable word/words and figure/figures:*

- (i) The call money demanded by the company if not paid by a shareholder, will be debited to .....A/c.
- (ii) A shareholder pays ₹ 6 per share on allotment which includes ₹ 2 per share for the next call, extra amount paid is .....
- (iii) Interest charged by the company on the amount of calls-in-arrears will be credited to .....
- (iv) Interest allowed on the call paid in advance will be debited to .....

*Notes***WHAT YOU HAVE LEARNT**

- Face value of a share is its par value. Shares can be issued for considerations other than cash i.e., for purchase of assets or payment to creditors or promoters.
- Share money can be collected in lump sum or in instalment.
- The first instalment is termed as Share Application money and second instalment is known as Share Allotment money.
- In case share money is collected in more than two instalments this is call money.
- Applications for shares may be received equal to the number of shares offered, (full subscription) less than number of shares offered (under subscription) or for more than the number of shares offered (over subscription)
- When shares are issued at more than their face value these are said to be issued at premium. The premium amount can be utilised only for purposes as specified under section 78 of Companies Act.
- When issue price of a share is less than its nominal value, it is said to be issued at discount. Section 79 of Companies Act has laid down certain conditions to be fulfilled while issuing shares at discount.
- If a shareholder fails to pay Share Allotment money or share call money when demanded by the company, the unpaid amount is called calls in Arrears. If a shareholder pays the amount for calls not made, the amount paid is known as Call-in-Advance.



### TERMINAL EXERCISE



Notes

1. What is meant by over subscription of shares? What accounting treatment is given to the amount over subscribed?
2. What is meant by 'Shares Issued at Premium'? State the purposes for which Premium amount can be utilised.
3. What is meant by issue of shares at discount? State the conditions to be fulfilled for the issue of shares at discount under the Companies Act.
4. Explain in brief the terms:
  - (i) Calls-in Arrears.
  - (ii) Calls-in Advance
5. Make journal entries:
  - (a) XY Limited whose share capital is divided into 20,000 equity shares of ₹ 10 each, issued 6,000 shares to the public. The entire money is payable along with the application. All the shares were subscribed and application money was received.
  - (b) A Limited issued 10,000 equity shares of ₹ 100 each, payable ₹ 25 per share on application, ₹ 25 per share on allotment, and ₹ 25 on each of the two subsequent calls. All the money was duly received.
  - (c) X Ltd., issued 10,000 shares of ₹ 10 each at ₹ 15 payable ₹ 3 on application, Rs. 8 on allotment (including the premium of ₹ 5) and ₹ 4 on call. All the shares are subscribed, allotted and paid for at due dates.
  - (d) A limited issued 10,000 shares of ₹ 20 each at a discount of 10%. The shares were payable as ₹ 4 per share on application, ₹ 8 per share on allotment and the balance on first call. All the money was duly received.
6. (a) Akshay Ltd. made an issue of 20,000 shares of ₹ 10 each payable as follows :
 

₹ 2 on application, ₹ 2 on allotment, ₹ 3 on first call and the balance on second call. The first call is made and all members pay, including a member holding 800 shares, who pays for the balance due in full. Later the final call is made and is fully met.

Give journal entries.



Notes

- (b) Nirmal Ltd. with an authorised capital of ₹ 10,00,000, in shares of ₹10 each, issued 50,000 of such shares, payable ₹ 2 per share on application, ₹ 3 on allotment, ₹ 2.50 per share three months later, and duly received. But when the call of ₹ 2.50 was made a shareholder holding 200 share failed to pay the call money while another shareholder holding 400 shares paid the entire Balance. Give journal entries.
7. Goodluck Ltd. issued 50,000 shares of ₹ 10 each at a Premium of ₹4 per share payable as :
- On Application ₹ 2 per share  
 On Allotment ₹ 6 per Share (including Premium ₹ 3)  
 On first and final Call ₹ 6 per share (including Premium ₹ 1)
- Over payment on applications were to be applied towards sums due on allotment only. Applications were received for 75,000 shares. Applicants for 15,000 shares were sent letters of regret and money returned to them in full. Applicants for 15,000 shares were allotted only 5,000 shares. All money due on Allotment and call was duly received.
- Make journal entries
8. Super India Petro Chemicals Ltd. was registered with a capital of ₹ 1 crore divided into equity shares of ₹ 100 each. Company purchased plant of ₹ 2500000 and paid the amount by issuing shares at a premium of ₹ 25 per share. Company also issued shares of ₹ 5000000 to the general public at a premium of ₹ 25 per share. The amount payable was:
- ₹ 65 on application and allotment  
 ₹ 30 on first call and the balance on final call.
- Company received applicaitons for 75000 shares Allotment was made as follows:
- Applicants for
- |              |       |
|--------------|-------|
| 10000 shares | nil   |
| 40000 shares | Full  |
| 25000 shares | 10000 |
- Allotment money was received in full but when calls were made all shareholders paid the amount in full except a shareholder holding 400 shares belonging to the



Notes



**ANSWERS TO INTEXT QUESTIONS**

category who were allotted full shares. A shareholder holding hundred shares failed to pay the 1st call money which he paid along with the amount of final call Company allows interest on call in advance @6% per annum and charges interest on call-in-arrears @ 12% p.a. After the allotment the calls are made at a interval of 2 months. Make necessary journal entries in the books of the company.

- 27.1 (i) Denominated (ii) Vendors  
(iii) Instalments (iv) Applicants
- 27.2 (i) Over subscription (ii) Share 1st call  
(iii) Called up (iv) Cannot
- 27.3 (i) gain (ii) ₹ 3  
(iii) Securities premium (iv) ₹ 100 per share
- 27.4 (i) loss (ii) ₹ 90 (iii) ₹ 100 per shares
- 27.5 (i) Calls in arrears (ii) Calls in advance  
(iii) Interest on calls in arrears A/c  
(iv) Interest on call in advance A/c