

**CHAPTER – 10****COMPANY ACCOUNTS****Unit – 1 Introduction to Company Accounts**

<b>Meaning of Company</b>	The word 'company' is derived from the Latin word 'com' i.e. with or together and 'panies' i.e. bread. According to Justice Marshal, "A corporation is an artificial being, invisible, intangible and existing only.
<b>Features of A company</b>	
<b>Incorporated Association:</b>	A company comes into existence through the operation of law
<b>Separate Legal Entity:</b>	A company has a separate legal entity and is not affected by changes in its membership
<b>Perpetual Existence:</b>	Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members
<b>Common Seal:</b>	Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person would do
<b>Limited Liability:</b>	The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him
<b>Distinction between Ownership and</b>	Since the number of shareholders is very large and may be distributed at different geographical locations

**Management:**

## TYPES OF COMPANIES

<b>Government Company</b>	Government company” means any company in which not less than fifty-one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the
<b>Foreign Company</b>	Foreign company” means any company or body corporate incorporated outside India.
<b>Private Company</b>	Private company’ as a company which by its articles, Restrict the right to transfer its shares; Except in case of One Person Company limits the number of its members to two hundred:
<b>Public Company</b>	Defines Public Company as a company which— (a) is not a private company; provided that a company which is a subsidiary of a company, not being a private company,
<b>One Person Company</b>	“One Person Company” as a company which has only one person as a member.
<b>Small Company</b>	defines “Small company” means a company, other than a public company
<b>Listed Company</b>	'Listed company” means a company which has any of its securities listed on any recognised stock exchange.

<b>Unlimited Company</b>	Unlimited company” means a company not having any limit on the liability of its members.
<b>Subsidiary Company</b>	“Company limited by shares” means a company having the liability of its members limited by the called up value
<b>Company limited by Guarantee</b>	“Company limited by guarantee” means a company having the liability of its members limited by the memorandum
<b>Holding Company</b>	“Holding company”, in relation to one or more other companies, means a company of which such companies are subsidiary companies
<b>Subsidiary Company</b>	“Subsidiary company” as a company in which the holding company is substantially interested
<b>MAINTENANCE OF BOOKS OF ACCOUNT</b>	Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year
<b>PREPARATION OF FINANCIAL STATEMENT</b>	The financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the notified accounting standard A profit and loss account, A balance sheet as at the end of the financial year cash flow statement for the financial year; A statement of changes in equity, if applicable; an Any explanatory note annexed to, or forming part of, any document.

## Question 1

### Define Company

#### Answer:

The word 'company' is derived from the Latin word 'com' i.e. with or together and 'panies' i.e. bread. Originally the word referred to an association of persons or merchant men discussing matters and taking food together. However, in law 'company' is termed as company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws. As per this definition of law, there must be group of persons who agree to form a company under the law and once so formed; it becomes a separate legal entity having perpetual succession with a distinct name of its own and a common seal. Its existence is not affected by the change of members.

## Question 2

### Explain the silent features of Company.

#### Answer:

**Incorporated Association:** A company comes into existence through the operation of law. Therefore, incorporation of company under the Companies Act is must. Without such registration, no company can come into existence. Being created by law, it is regarded as an artificial legal person.

**Separate Legal Entity:** A company has a separate legal entity and is not affected by changes in its membership. Therefore, being a separate business entity, a company can contract, sue and be sued in its incorporated name and capacity.

**Perpetual Existence:** Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. **Common Seal:** Company is not a natural person; therefore, it cannot sign the documents in the manner as a natural person

would do. In order to enable the company to sign its documents, it is provided with a legal tool called

**‘Common Seal’.** The common seal is affixed on all documents by the person authorised to do so who in turn puts his signature for and on behalf of the company. Companies Act, 2013 required common seal to be affixed on certain documents (such as bill of exchange, share certificates, etc.)

**Limited Liability:** The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability

**Distinction between Ownership and Management:** Since the number of shareholders is very large and may be distributed at different geographical locations, it becomes difficult for them to carry on the operational management of the company on a day-to-day basis. This gives rise to the need of separation of the management and ownership.

**Not a citizen:** A company is not a citizen in the same sense as a natural person is, though it is created by the process of law. It has a legal existence but does not enjoy the citizenship rights and duties as are enjoyed by the natural citizens.

**Transferability of Shares:** The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.

**Maintenance of Books:** A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.

**Periodic Audit:** A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors.

**Right of Access to Information:** The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.

### **Question 3**

**Gives the name of different types of companies.**

**Answer:**

- Government
- Company Foreign
- Company Private
- Company Public
- Company One Person
- Company Small Company Listed
- Company Unlimited
- Company limited by Shares
- Company limited by Guarantee Holding
- Company Subsidiary Company

### **Question 4**

**Differentiate public company and Private company.**

	<b>Public Company</b>	<b>Private Company</b>
Minimum Capital	Public ltd. Co. must have paid up capital Rs 5,00,000	Private ltd. Co. Must have paid a minimum paid up capital of Rs. 1,00,0000
Minimum number	In case of Public ltd. Co. Minimum number of person required is 7.	In case of Private ltd. Co. Minimum number of persons required Is 17.

Maximum number	In case of public ltd. Co. there is no restriction of maximum number of persons	In case of private ltd. Co. maximum number cannot exceed 50.
Number of directors	In case of public ltd. Co. must have At least 3 directors	In Case of Private Ltd. Co. must have at least 2 directors

### **Question 5**

**Explain company limited by shares and company limited by guarantee. Company limited by Shares**

#### **Answer:**

As per Section 2(22) of the Companies Act, 2013, “**Company limited by shares**” means a company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.

**Company limited by Guarantee** As per Section 2(21) of the Companies Act, 2013, “company limited by guarantee” means a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up

### **Question 6**

**Give the definition of Private Company**

#### **Answer:**

Section 2(68) of the Companies Act, 2013 defines ‘Private company’ as a company which by its articles,

- i. Restrict the right to transfer its shares;
- ii. Except in case of One Person Company limits the number of its members to two hundred: Provided that where two or more persons hold one or



more shares in a company jointly they shall, for the purposes of this sub-clause, be treated as a single member.

Provided further that—

(A) Persons who are in the employment of the company; and Persons who, having been formerly in the employment of the company, were members of the Company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and

(iii) Prohibits any invitation to the public to subscribe for any securities of the company. Shares of a Private Company are not listed on Stock Exchange.

### **Question 7**

**What are the Statements including in the financial statements of Companies?**

**Answer:**

- Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include
- A balance sheet as at the end of the financial year;
- A profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;
- Cash flow statement for the financial year;
- A statement of changes in equity, if applicable;
- (any explanatory not annexed to, or forming part of, any document referred to in sub- clause (i) to sub- clause (iv):
- Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement

### **Question 8**



## **Explain the term Share Capital**

### **Answer:**

For each class of share capital following points is to be kept in mind:

- i. The number and amount of shares authorised.
- ii. The number of shares which are issued, subscribed and fully paid and which are issued, subscribed but not fully paid.
- iii. The par value per share.
- iv. Shares outstanding at the beginning and at the end of the reporting period should be reconciled.
- v. Calls unpaid.
- vi. Forfeited shares.

### **Question 9**

## **Give the Classification of Inventory As per Companies Act**

### **Answer:**

Inventories

Inventories can be classified as:

- i. Raw materials
- ii. Work-in-progress
- iii. Stores and spares
- iv. Finished goods
- v. Loose tools
- vi. Stock in trade
- vii. Goods in transit

viii. Others (specify the nature)

### **Question 10**

**Give a Short note on Small Company**

**Answer:**

Section 2(85) of the Companies Act, 2013 defines “Small company” means a company, other than a public company.

(i) paid-up share capital of which does not exceed fifty lakh rupees or such higher amount as may be prescribed which shall not be more than five crore rupees; or

(ii) turnover of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than twenty crore rupees.

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**Since company has existence independent of its members, it continues to be in existence despite the death, insolvency or change of members. [2 marks]**

**Answer:**

**True:** A company, being independent from its members, continues to be in existence despite the death, insolvency, or change of members

UNIT 2ISSUE, FORFEITURE AND RE-ISSUE OF SHARES**Share capital**

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. Share capital of a company is divided into following categories:

Authorised Share Capital or Nominal Capital:

Issued Share Capital:

Subscribed Share

Capital: Called-up Share

Capital: Paid-up Share

Capital: Reserve Share Capital

1. Authorised Capital = Issued Capital + Unissued Capital.

2. Subscribed Capital can be equal to or greater than or less than Issued Capital resulting in 3 situations respectively: Fully Subscribed; Over Subscribed and Under Subscribed

3. Called up Capital = Paid up Capital

**TYPES OF SHARES**

- Preference Shares
- Equity Share

**- A company can issue shares either for cash or for consideration other than cash.**

<p><b>SUBSCRIPTION OF SHARES</b></p>	<p><b>Full Subscription</b></p> <p>Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same. To start discussion on accounting treatment for issue of shares, let us assume that the issue is fully subscribed. Under Subscription It means the number of shares offered for subscription is more than the number of shares subscribed by the public. In this case, the journal entries as discussed above are passed but with one change i.e., calculation of application, allotment and for that matter, the call money is based on number of shares actually applied and allotted.</p>
<p><b>Issue of Share</b></p>	<p>Shares issued at discount shares issued at premium.</p>
<p><b>OVER SUBSCRIPTION AND PRO- RATA ALLOTMENT</b></p>	<p>Over subscription is the application money received for more than the number of shares offered to the public by a company. The company may reject some applicants in full, i.e., no shares are allotted to some applicants and application money is refunded. Allotment may be given to the rest of the applicants in full, i.e., for the number of shares they have applied for. A third alternative is that a company may allot shares to the applicants on pro-rata basis. 'Prorata allotment' means allotment in proportion of shares applied for.</p>
<p><b>Calls-in-Arrears</b></p>	<p>Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls.</p>

<b>Calls-in-Advance</b>	Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls- in-advance. According to Table F, interest at a rate not exceeding 12 per cent p.a.
<b>FORFEITURE OF SHARES</b>	The term 'forfeit' actually means taking away of property on breach of a condition. It is very common that one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares.
<b>Reissue of shares.</b>	A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale.

**Question 1****Discuss the concept of share capital and its different category****Answer:**

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. The fixed value of a share, printed on the share certificate, is called nominal/par/face value of a share. However, a company can issue shares at a price different from the face value of a share. The liability of holder of shares (called shareholders) is limited to the issue price of shares acquired by them.

The total capital of the company is divided into shares, the capital of the company is called 'Share Capital'. Share capital of a company is divided into following categories:

**Authorised Share Capital or Nominal Capital:** A company estimates its maximum capital requirements. This amount of capital is mentioned in

‘Capital Clause’ of the ‘Memorandum of Association’ registered with the Registrar of Companies. It puts a limit on the amount of capital, which a company is authorised to raise during its lifetime and is called ‘Authorised Capital’. It is shown in the balance sheet at face value.

**Issued Share Capital:** A company need not issue total authorised capital. Whatever portion of the share capital is issued by the company, it is called ‘Issued Capital’. Issued capital means and includes the nominal value of shares issued by the company for:

Cash, and Consideration other than cash to: Promoters of a company; and Others.

It is also shown in the balance sheet at nominal value. The remaining portion of the authorised capital which is not issued either in cash or consideration may be termed as ‘Un-issued Capital’. It is not shown in the balance sheet.

**Subscribed Share Capital:** It is that part of the issued share capital, which is subscribed by the public i.e., applied by the public and allotted by the company. It also includes the face value of shares issued by the company for consideration other than cash.

**Called-up Share Capital:** Companies generally receive the issue price of shares in instalments. The portion of the issue price of shares which a company has demanded or called from shareholders is known as ‘Called-up Capital’ and the balance, which the company has decided to demand in future may be referred to as Uncalled Capital.

**Paid-up Share Capital:** It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the

shareholder(s) fails to pay the amount fully or partially; it is known as ‘unpaid calls’ or ‘instalments (or Calls) in Arrears’. Thus, instalments in arrears mean the amount not paid although it has been demanded by the company as payment towards the issue price of shares. To calculate paid-

up capital, the amount of instalments in arrears is deducted from called up capital.

**Reserve Share Capital:** As per Section 65 of the Companies Act, 2013, a Company may decide by passing a resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

### Question 2

**Differentiate Reserve Capital and Capital reserve.**

**Answer:**

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend. Thus, reserve capital which is portion of the uncalled capital to be called up in the event of winding up of the company is entirely different in nature from capital reserve which is created out of capital profits only.

### Question 3

**Discuss different Types of Preference shares.**

**Answer:**

Types of Preference Shares Preference shares can be of various types, which are as follows:

- **Cumulative Preference Shares:** A cumulative preference share is one that carries the right to a fixed amount of dividend or dividend at a fixed rate. Such a dividend is payable even out of future profit if



current year's profits are insufficient for the purpose. This means that dividend on these shares accumulates unless it is paid in full and, therefore; the shares are called Cumulative Preference Shares.

- **Non-cumulative Preference Shares:** A non-cumulative preference share carries with it the right to a fixed amount of dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires. It implies that holder of such a share is not entitled to arrears of dividend in future.
- **Participating Preference Shares:** Notwithstanding the right to a fixed dividend, this category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate. Similarly, in the event of winding up of the company, this type of share carries the right to receive a pre-determined proportion of surplus as well once the equity shareholders have been paid off.
- **Non-participating Preference Shares:** A share on which only a fixed rate of dividend is paid every year, without any accompanying additional rights in profits and in the surplus on winding-up, is called 'Non- participating Preference Shares.' Unless otherwise specified, the preference shares are generally non- participating.
- **Redeemable Preference Shares:** These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. The repayment on these shares is called redemption and is governed by Section 55 of the Companies Act, 2013.
- **Non-redeemable Preference Shares:** The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-Redeemable Preference Shares. According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.

However, a Company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.

- **Convertible Preference Shares:** These shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.
- **Non-convertible Preference Shares:** When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non- Convertible Preference Shares. Preference shares are non-convertible unless otherwise stated.

#### **Question 4**

**Differentiate Equity and preference shares.**

<b>Bases of differences</b>	<b>Preferences Shares</b>	<b>Equity Shares</b>
Rate of dividend	Preference shareholders are paid dividend at a fixed rate	The rate of dividend on equity shares may vary from year to year and depending upon the available of profit.
Arrears of dividend	Holders of cumulative preference shares can get the arrears of past dividend.	Equity shareholders cannot get the arrears of past dividends
Redeem ability	Preference Shareholders do not have the right to participate in the management of the company.	Equity shareholder enjoy voting rights.
Voting right	Preference Shareholders do not have right to participate in the management of the	Equity shareholder enjoy voting rights

	company.	
Payment dividend	of These shares have a preferential right to redrive dividend before any dividend is paid to equity share	Payment of dividend to equity shares is made only after paying to preference shares.
Convertibility	These shares are Convertible	These shares are not convertible

### **Question 5**

**Explain the concept of calls in arrear and calls in advance.**

**Answer:**

**Calls-In-Arrears:** Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as Calls-in-Arrears or Unpaid Calls. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.

For recording 'Calls-in-Arrears', the following journal entry is recorded:  
 Calls-in-Arrears A/c Dr. [Amount of Unpaid Calls] To Share Allotment A/c  
 To Share Calls A/c

**Calls-In-Advance:** Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. According to Table F, interest at a rate not exceeding 12 per cent p.a. is to be paid on such advance call money. This amount is credited in Calls-in-Advance Account. The following entry is recorded: Bank A/c Dr. To Call-in-Advance A/c.

**Question 6****Explain the term Forfeiture of shares.****Answer:**

The term 'forfeit' actually means taking away of property on breach of a condition. It is very common that one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares. Forfeiture of shares is the action taken by a company to cancel the shares. The directors are usually empowered by the Articles of Association to forfeit those shares by serving proper notice to the defaulting shareholder(s). When shares are forfeited, the title of such shareholder is extinguished but the amount paid to date is not refunded to him. The shareholder then has no further claim on the company. The power of forfeiture must be exercised strictly having regard to the rules and regulations provided in the Articles of Association and it should be bonafide in the interests of the company.

**Question 7****Distinguish Between Interest on calls in arrear and calls in Advance.****Answer:**

<b>Interest on Calls in Arrears</b>	<b>Interest on Calls in Advance</b>
It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
As per Table F maximum prescribed rate is 10%. Period considered:	As per Table F maximum prescribed rate is 12%. Period considered:
From the date call money was due to the date money is finally received.	From the date money was received to the day call was finally made due.
Directors have a right to waive off such interest in individual cases at	Shareholders are not entitled for any dividend on calls in advance. It is a

their own discretion.

nominal account in nature with

## PRACTICAL CONTENT

### Question 8

**Pioneer Equipment Limited received on October 1, 2014 applications for 25,000 Equity Shares of 100 each to be issued at a premium of 25 per cent payable at thus:**

**On Application `25**

**On Allotment `75 (including premium)**

**Balance Amount on Shares As and when required the shares were allotted by the Company on October 20, 2014 and the allotment money was duly received on October 31, 201**

**Solution:**

### Pioneer Equipment Limited Journal

Date	Particulars	L.F	Debit Amount	Credit Amount
Oct. 1	Bank A/c Dr. To Equity Share Application A/c (on applications for 25,000 shares @ ` 25 per share)		6,25,000	6,25,000
Oct. 20	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		6,25,000	6,25,000

Oct. 20	Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c  (Amount due on allotment of 25,000 shares @ `75 per share including premium)	Dr.	18,75,000	12,50,000 6,25,000
Oct. 31	Bank A/c To Equity Share Allotment A/c  (Money received including premium consequent upon allotment)		18,75,000	18,75,000

### Question 9

**JHP Limited is a company with an authorised share capital of 10,00,000 in equity shares of ` 10 each, of which 6,00,000 shares had been issued and fully paid on 30th June, 2013. The company proposed to make a further issue of 1,00,000 of these ` 10 shares at a price of `14 each, the arrangements for payment being: `**

**2 per share payable on application, to be received by 1st July, 2013; Allotment to be made on 10th July, 2013 and a further ` 5 per share (including the premium) to be payable; The final call for the balance to be made, and the money received by 30th April, 2014.**

**Applications were received for 3,55,000 shares and were dealt with as follows:**

**Applicants for 5,000 shares received allotment in full;**

**Applicants for 30,000 shares received an allotment of one share for every two applied for;**



no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment; Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and the money due on final call was received on the due date. You are required to record these transactions (including cash items) in the Journal of JHP Limited.

**Solution:**

Date 2013	Particulars	Dr.	Cr
July 1	Bank A/c (Note 1 – Column 3) To Equity Share Application A/c (Being application money received on 3,55,000 shares @ `2 per share)	7,10,000	7,10,000
July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment (Note 1 Column 5) To Bank A/c (Note 1 – Column 6) (Being application money on 1,00,000 shares transferred to Equity Share Capital Account; on 2,15,000 shares adjusted with allotment and on 40,000 shares refunded as per Board's Resolution No.....dated...)	7,10,000	2,00,000 4,30,000 80,000
	Equity Share Allotment A/c To Equity Share Capital A/c	5,00,000	1,00,000



	To Securities Premium a/c (Being allotment money due on 1,00,000 shares @ ` 5 each including premium as per Board's Resolution No.... dated....)			4,00,000
	Bank A/c (Note 1 – Column 8) To Equity Share Allotment A/c (Being balance allotment money received)		70,000	70,000
2014	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,00,000 shares @ ` 7 per share as per Board's)		7,00,000	7,00,000

### Working Notes: Calculation for Adjustment and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application (3)	Amount Required on Application (4)	Amount adjusted on Allotment (5)	Refund [3 - 4 + 5] (6)	Amount due on Allotment (7)	Amount received on Allotment
(i)	5,000	5,000	10,000	10,000	-	Nil	25,000	25,000
(ii)	30,000	15,000	60,000	30,000	30,000	Nil	75,000	45,000
(iii)	3,20,000	80,000	6,40,000	1,60,000	4,00,000	80,000	4,00,000	-
Total	3,55,000	1,00,000	7,10,000	2,00,000	4,30,000	80,000	5,00,000	70,000

### Question 10

Rashmi Limited issued at par 10,000 Equity shares of ` 10 each payable ` 2.50 on application; ` 3 on allotment; and balance on the

**final call. All the shares were fully subscribed and paid except a shareholder having 100 shares could not pay the final call. Give journal entries to record these transactions.**

Date	Particulars		Dr.	Cr
	Bank A/c To Equity Share Application A/c (Money received on applications for 10,000 shares @ ` 2.50 per share)	Dr.	25,000	25,000
	Equity Share Application A/c To Equity Share Capital A/c (Transfer of application money on 10,000 shares to share capital)	Dr.	25,000	25,000
	Equity Share Allotment A/c To Equity Share Capital A/c (Amount due on the allotment of 10,000 shares @ `3 per share)	Dr.	30,000	30,000
	Bank A/c To Equity Share Allotment A/c (Allotment money received)	Dr.	30,000	30,000
	Share Final Call A/c To Equity Share Capital A/c (Final call money due)	Dr.	45,000	45,000
	Bank A/c Calls-in-Arrears A/c	Dr. Dr.	44,550 450	

To Share Final Call A/c			
(Final call money received and arrears on 100 shares)			45,000

### **Question 11**

A company had an authorised capital of `10,00,000 divided into 1,00,000 equity shares of `10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Up to 31-3-2017, it has demanded or called `9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only `7 per share. Prepare a balance sheet assuming there are no other details.

### **Solution:**

#### **Balance Sheet as at 31st March, 2017**

Particulars	Notes No.	
Equity and liabilities		
Shareholders' funds		5,30,000
Share capital	1	
Total		5,30,000
Assets	2	
Current assets		5,30,000
Cash and cash equivalents		5,30,000
Total		

1.	Share Capital			
	Equity share capital Authorised share capital 1,00,000 Equity shares of ` 10 each		10,00,000	
	Issued share capital 60,000 Equity shares of ` 10 each		6,00,000	
	Subscribed share capital 60,000 Equity shares of ` 10 each Called up and paid up share capital		6,00,000	
				22,00,000
2.	60,000 Equity shares of ` 10 each ` 9 called up Less: Calls unpaid on 5,000 shares @ ` 2 per share Cash and cash equivalents Balances with banks		5,40,000 (10,000)	5,30,000
				5,30,000

### Question 12

**The Delhi Art ware Ltd. issued 50,000 equity shares of ` 100 each and 1,00,000 preference shares of ` 100 each. The Share Capital was to be collected as under:**

	Equity Shares	Preference
<b>On Application</b>	25	20
<b>On Allotment</b>	20	30
<b>First Call</b>	30	20
<b>Final Call</b>	25	30

**All these shares were subscribed. Final call was received on 42,000 equity shares and 88,000 preference shares. Prepare the cash book**

**Solution:****Delhi Art ware. Ltd Cash book**

To Equity Shares Applications Account (application money on 50,000 shares at ` 25)	12,50,000	By Balance c/d	14,440,000
To Preference Share Application A/c (application money on 1,00,000 shares at ` 20)	20,00,000		
To Equity Share Allotment A/c (allotment money on 50,000 shares at ` 20)	10,00,000		
To Preference Share Allotment A/c (allotment money on 1,00,000 shares at ` 30)	30,00,000		
To Equity Shares First Call A/c (` 30 on 50,000 shares)	15,00,000		
To Preference Share First Call A/c (` 20 on 1,00,000 shares)	20,00,000		
To Equity Shares Final Call A/c (` 25 on 42,000 shares)	10,50,000		
To Preference Share Final	26,40,000		
	14,44,000		14,440,000

**Question 13**

**Shreyas Ltd. did not receive the first call on 10,000 equity shares @ ` 3 per share which was due on 1.7.2016. This amount was received on**

**1.4. 2017. Open Calls in arrears account and journalise the entries in the books of the company on 1.7.2016 and 1.4.2017. Also show an extract of Balance Sheet on 31.3.2017.**

**Solution:**

**Shreyas Ltd**

Date	Particulars	L.F.	Amount Dr	Amount Cr
1.7.2016	Calls in Arrears A/c Dr.  To Equity Share First Call A/c  (Being amount due on first call on 10,000 shares at `3 per share transferred to calls in arrears account)		30,000	30,000
1.4.2017	Bank A/c  To Calls in Arrears A/c  (Being calls in arrears received)		30,000	30,000

**Question 14**

**A Ltd forfeited 300 equity shares of `10 fully called-up, held by Mr. X for non-payment of final call @ `4 each. However, he paid application money @ `2 per share and allotment money @ `4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.**

**Solution:**

**Journal Entries**

Date	Particulars		Dr	Cr.
------	-------------	--	----	-----

Equity Share Capital A/c (300 x `10)	Dr.	3,000	
To Equity Share Final Call A/c (300 x `4)			1,200
To Forfeited Shares A/c (300 x `6)			1,800
(Being the forfeiture of 300 equity shares of `10 each fully called-up for non-payment of final call money @ `4 each as per Board's Resolution No....			

**Question 15**

**X Ltd. forfeited 500 equity shares of `10 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application `2; on allotment `5 (including premium) on First and Final call `5. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture. Solution In the books of X Ltd.**

**Solution:****Journal Entries**

Date	Particulars	Dr.	Cr.
	Equity Share Capital A/c (500 x `10)	5,000	
	Securities Premium A/c (See Note)	1,000	
	To Equity Share Allotment A/c (500 x `5)		2,500
	To Equity Share First and Final Call A/c (500 x `5)		2,500
	To Forfeited Shares A/c (500 x `2)		1,000
	(Being the forfeiture of 500 equity shares of `10 each fully called-up, issued at a premium of 20%, for non-payment of allotment and call money as per Board's		



Resolution No.... dated....)		
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### Question 16

Mr. Shami has applied for 1,000 shares of Company XYZ Ltd. paying application money @ ` 2 per share but has been allotted only 600 shares. The shares have a face value of `10 and a premium of ` 2 per share, which are payable as: on Allotment- ` 5 (including premium) and on final call ` 5. Now in case Mr. Shami doesn't pay allotment money and final call and his shares are forfeited, then following entry will be passed on forfeiture:

### **Solution:**

Share Capital A/c (600 x ` 10)	Dr.	6,000	
Securities Premium A/c (600 x ` 2)	Dr.	1,200	
To Share Forfeiture			2,000
To Share Allotment A/c			2,200
To Share Final Call A/c (600 x 5)			3,000

### Question 17

X Co. Ltd. Invited applications for 20,000 of its Equity shares of Rs. 10 each at a premium of Rs. 2 per share, payable Rs. 3 on application. Rs. 7 on allotment including premium and the balance first and final call.

1. Application for 25,000 shares were received, it was decided:
2. To refuse allotment to the applicants of 1,000 shares



4.	Share Capital A/c Security Premium A/c To Share Allotment A/c To Share First Call A/c To Share Forfeiture A/c (Forfeiture of 200 shares of X and 100 shares of Y)	Dr. Dr.		3,000 250	1,250 600 1,400
5.	Share Forfeiture A/c To Share Capital A/c (Reissue of 600 shares @ Rs. 9 per share as full paid up)	Dr.		200	200
6.	Share Forfeiture A/c To Capital Reserve A/c (Gain on reissue of forfeited shares transferred to Capital Reserve)	Dr.		600	600

Notes:

**1. Amounts not received on allotment from X**

Shares applied by X (20000/16000) X 200	= -250 shares
Application money received from X (250 X 3)	= Rs. 750
Amount adjusted towards Share Capital (200 X 3)	= Rs. 600
Amount transferred to Share Allotment A/c (100 X 3)	= Rs. 150
Amount due Allotment (200 X 7)	= Rs. 1400
Amount not received from A on allotment (Rs. 1400 - 150)	= Rs. 1250

**2. Total amount received on allotment**

Total amount due on allotment	= Rs. 1,40,000
Less amount transferred from Share Application A/c (4000 X 3)	= Rs. 12,000
Less Amount not recd. From X	= Rs. 1250
Amount received on Allotment (Rs. 140,000 - Rs. 12000 - Rs. 1250)	= Rs. 1,26,750

**3. Amount forfeited from X**

Amount received from Antasari (250 X 3)	= Rs. 750
Out of this amount (200 X 3) transferred to Share Capital A/c	= Rs. 600

Amount transferred towards Share Allotment A/c Rs. 150  
 Total of Rs. Above, is appropriated Security Premium A/c.  
 Amount forfeited from X = Rs. 600

#### 4. Amount forfeited from Y

Shares held by Y = 100 Shares  
 Amount Paid towards share capital (100 X 8) and forfeited = Rs. 800  
 (Amount Paid Application 3 + Allotment 5)

This does not include the amount paid towards Security Premium because this amount is not transferred to Share Forfeited Account.

#### 5. Amount Transferred to Capital Reserve.

Less forfeited amount on 160 shares of X (160 X 3) = Rs. 480  
 Less forfeited amount on 40 shares of Y (40 X 8) = Rs. 320  
 Transfer to Capital Reserve (Rs. 800 – Rs. 200) = Rs. 600

### Abstract of Cash Book of X Co. Ltd.

Receipts	Rupees	Payments	Rupees
To Share Application A/c (25000 X 3)	75,000	By Share Application A/c (1000 X 3)	3,000
To Share Allotment A/c	1,26,750	By Balance c/f	2,39,900
To Share First Call A/c (19700 X 2)	39,400		
To Share Capital A/c (200 X 9)	1,800		
	2,42,950		2,42,900

### Question 18

**Ali Ahmed & Company is Public Limited Company listed in Karachi Stock Exchange. Company formed in 2006, under Authorized Shares 100,000 of worth 100 each. Company has decided to raise equity finance by issuing 20,000 equity shares at a Premium of Rs. 20 per share payable as follows:**

**on Application Rs. 30; on Allotment Rs. 50 (including Premium); on First Call Rs. 20 and on Final Call Rs. 20.**

**Applications were received for 24,000 of equity shares. 4,000 Applications were refunded and were transfer the ownership to all other applicants. Mr. Khan, the holder of 1,000 shares, failed to pay First Call Money. On his subsequent failure to pay the Final Call Money, the shares were forfeited.**

**After forfeiture, 500 shares reissued at 90 each. Show the Journal entries; Bank Book and Balance Sheet.**

**Requirement: Show the Journal entries; Bank account, Share Capital Account and Balance Sheet for the year ended 30th March, 2018.**

**Solution:**

Date	Account Title and Explanations	Ref.	Dr.	Cr
March 2018	Bank (24,000 X 30) To Share Applications (Application money received)		7,20,000	7,20,000
	Share Application (4,000 X 30) To Bank (Excess money refined)		1,20,000	
	Share Application (20,000 X 30) To Share Capital (Share Allotment due)		6,00,000	6,00,000
	Bank (20,000 X 50) To Share Allotment (20,000 X 30) To Share Premium (20,000 X 20) (Share Allotment and Premium money received)		10,00,000	6,00,000 4,00,000
	Share First Call (20,000 X 20) To Share Capital		4,00,000	4,00,000

	(Share First Call due)			
	Bank (19,000 X 20) First Call in Arrear (1,000 X 20) To Share first Call (Share Final call Received and arrear)		3,80,000 20,000	4,00,000
	Share Capital (1,000 X 100) To First Call in Arrear To Final Call in Arrear To Share Forfeiture (Share forfeited and Close Arrear Accounts)		1,00,000	20,000 20,000 60,000
	Bank (500 X 90) To Share Capital (Re - issue of shares)		45,000	45,000
	Total		4,785,000	4,785,000

### Bank Account

Date	Description	Ref.	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
	S. App		7,20,000		S. App		1,20,000
	S. Allot		6,00,000				
	S. Pre		4,00,000				
	S. First Call		3,80,000				
	S. Final Call		3,80,000				
	S. Capital		45,000				
					Balance c/f to B/s		2,405,000

	Total		2,225,000		Total		2,225,000
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Date	Description	Ref.	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
	First Call Arrear		20,000		S. Application		600,000
	First Call arrear		20,000		S. Allotment		600,000
	S. Forfeited		60,000		S. First Call		400,000
					S. Final Call		400,000
					Bank		45,000
	Balance c/f to B/s		1,945,000				
	Total		2,045,000		Total		2,045,000

### **Question 19**

**Noor Khan Limited Company was established with Authorized Capital of 100,000 shares and invited applications for 10,000 shares of 10 each at premium of Rs. 5 per share payable as:**

**On application Rs. 3 per share, on allotment Rs. 6 per share including premium and balance in two calls in equal amount.**

**Applications were received for 18,000 shares. 8,000 share applications were refunded and were allotted to all the other applicants. Mr. Nadeem fail to pay the allotment money for 200 shares issued to him; so these shares were forfeited when he will fail to pay the 1st and 2nd call money. Thereafter, 100 shares were reissued at**



**stated rate of 9 per share. All other monies were received by the Abbottabad Ltd. as on December 31st, 2017.**

**Solution:**

Date	Account Title and Explanations	Ref.	Dr.	Cr
2017 Dec. 31	Bank (18,000 X 3) To Share Application		54,000	54,000
	Share Application (8,000 X 3) To Bank		24,000	24,000
	Share Application (10,000 X 3) To Share Capital		10,000	10,000
	Bank (9,800 X 6) Allotment in arrear (200 X 1) To Share Allotment To Share Premium (9,800 X 5)		58,800 200	10,000 49,000
	Share First Call (10,000 X 3) To Share Capital		30,000	30,000
	Bank (9,800 X 3) First Call in Arrear (200 X 3) To Share First Call		29,400 600	30,000
	Share Capital (200 X 10) To Allotment in Arrear To First Call in Arrear To Second Call in Arrear To Share Forfeited		2,000	200 600 600 600
	Bank (100 X 9) To Share Capital		900	900

Total		2,99,900	2,99,900
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### Bank Account

Date	Description	Ref.	Amount (Rs.)	Date	Description	Ref	Amount (Rs.)
	Share Application		54,000		Share Application		24,000
	Share Capital		9,800				
	Share Premium		49,000				
	Share First Call		29,400				
	Share Second Call		29,400				
	Share Capital		900		Balance C/f to B/s		1,48,500
	Total		1,72,500		Total		1,72,500

### New Khan Limited Company

#### Balance Sheet

As on December 31<sup>st</sup>, 2017

Assets	Amount	Equities	Rupees
Bank	1,48,500		
		Share Capital:	
		Authorised Capital	
		100,000 @ 10	1,00,000
		Issued Shares	
		10,000 @ 10 Subscribe Shares	100,000

		18,000 @ 10	180,000
		Called and Paid up Shares	
		9,800 @ 10	98,000
		100 @ 9	900
		Share Premium	49,000
		Share Forfeited	600
Total	148,500	Total	148,500

### Question 20

Beautiful Co. Ltd issued 3,000 equity shares of Rs10 each Payable as Rs. 3 per share on Application, Rs. 5 Per Share (including Rs. 2 as premium) on allotment and Rs. 4 Per Share on Call. All the shares were subscribed. Money due on all shares was fully received excepting Ram, holding 50 shares, failed to pay the allotment and call money and Shyam, holding 100 shares, failed to pay the Call Money. All those 150 Shares were forfeited. Of the shares forfeited 125 shares (including whole of Ramrs Shares) Were subsequently re-issued to jadu as fully paid up at a discount of Rs. 2 per Share.

Pass the necessary entries in the journal of the Company to record the forfeiture and re-issue of the there. Also prepare the Balance Sheet of the Company

### **Solution:**

#### In the books of beautiful co. Ltd. Journal

Date	Particulars		Dr.	Cr
	Equity Share Capital A/c (150 X Rs. 10)	Dr.	1,500	
	Securities Premium A/c (50 X Rs. 2)	Dr.	100	

To Equity Share Allotment A/c (50 X Rs. 5) To Equity Share Call A/c (150 X Rs. 4) To Forfeited Shares A/c  (Being forfeiture of 150 equity shares for nonpayment of allotment and Call money on 50 Shares and for non-Payment of Call money on 100 shares as per Board's Resolution No... dated...)			250 600 750
Bank A/c Forfeited Shares A/c To Equity Share Capital A/c (Being re-issue of 125 shares @ Rs. 8 each as per Board's Resolution No... Dated...)	Dr. Dr.	1,000 250	1,250
Forfeited Shares A/c To Capital Reserve A/c (Being Profit on re-issue transferred to Capital Reserve)	Dr.	350	350

**Balance Sheet of Beautiful Limited as at.**

Particulars	Notes No.	Rs.
Equity and Liabilities		
Shareholders' funds		
Share Capital	1	29,900
Reserve and Surplus	2	6,250
Total		36,150
Assets		
Current assets		
Cash and cash equivalents (bank)		36,150
Total		36,150

**Notes to accounts**

		Rs.	Rs.
1.	Share Capital		
	Equity share capital		
	Issued share capital	30,000	
	3,000 Equity shares of Rs. 10 each		
	Subscribed, called up and paid up share capital	29,750	
	2,975 Equity shares of Rs. 10 each		
	Add: Forfeited shares	150	
2.	Reserves and Surplus	5,900	
	Securities Premium	350	
	Capital Reserve		6,250

**Question 21**

**Glamour Limited invited applications for 15,000 shares of Rs. 10 each issued at Rs. 11.50 payable as follows:**

**On application 1st July Rs. 7.50 per share on allotment on 31st July Rs. 2.00 per share**

**On First and Final Call on 31st Aug. Rs. 2.00 per share Applications were received for 18,000 shares and it was decided to deal the same as follows in arrangement with Stock Exchange authorities:**

- (a) To refuse allotment to applicants for 800 shares**
- (b) To give full allotment to applicants for 2,200 shares**
- (c) To allot the remaining shares pro-rata among other applicants**
- (d) To utilise the surplus received on application in part payment of amounts due on allotment.**

**An applicant to whom 40 shares were allotted, failed to pay the amount due on the First and final Call and his shares were forfeited on 31st Oct. These shares were reissued on 5th Nov. as fully paid at**

**Rs. 9 per share. Give journal entries including those relating to cash to record the above transactions.**

**Solution:**

### Journal Entries

July 1	Bank Account (18,000 X Rs. 7.50) Dr. To Share Application Account (Being application money received @Rs. 7.50 per share on 18,000 shares)	1,35,000	1,35,000
July 1	Share Application Account Dr. To Share Capital Account (15,000 X Rs.7.50) To Share Allotment Account (transfer) To Bank Account (refund) (Being allotment of 15,000 shares; surplus on allotment shares transferred to Allotment Account and refund of money on 800 shares)	1,35,000	1,12,500 16,500 6,000
July 31	Share Allotment Account (15,000 X Rs. 2) Dr. To Share Capital Account (15,000X Re. 0.50) To Securities Premium Account (15,000XRs.1.50) (Being allotment money due @ Rs. 2 per share on 15,000 shares)	30,000	7,500 22,500
July 31	Bank Account To Share Allotment Account (Being allotment money received @ Rs. 2 per share less money adjusted from application amount)	13,500	13,500
Aug 31	Share First and Final Call Account (15,000 X Rs. 2) Dr. To share Capital Account (Being share first and final call money @ Rs. 2 per share on 15,000 shares)	30,000	30,000
Aug 31	Bank Account Dr. Calls-in-Arrears Account Dr.	29,920 80	

	To First and Final Call Account (Being money received @ Rs. 2 per share on 14,960 shares)			30,000
Oct 31	Share Capital (40 X Rs. 10) Dr. To Call – in - Arrears Account To Forfeited Shares Account (Being 40 shares forfeited for non-payment of final call money)		400	80 320
Nov 5	Bank Account (40 X Rs. 9) Dr. Forfeited Shares Account Dr. To Share Capital Account (Being reissue of 40 forfeited shares of Rs. 10 each, as fully paid, for Rs. 9 each)		360 40	400
Nov 5	Forfeited Shares Account Dr. To Capital Reserve Account (Being the balance of Forfeited Shares Account transferred to Capital Reserve Account)		280	280
	Bank Account (8 X Rs. 6) Dr. Discount on Issue of Shares Account (8 X Re 1) Dr. Forfeited Shares Account (8 X Re. 1) Dr. To Share Capital Account (8 X Rs. 8) (Being reissue of 8 shares out of forfeited shares of Rs. 10 each, as Rs. 8 called up for Rs. 6 per share)		48 8 8	64
	Forfeited Shares Account Dr. To Capital Reserve Account (Being balance in forfeited shares Account in respect of only 8 shares transferred to Capital Reserve Account)		8	8

**Question 22**



**Ram Co. Ltd. issued 1, 00,000 shares of Rs. 20 each on which the amount payable is as follows: Rs. 5 on Application, Rs. 4 on allotment, Rs. 3 on First Call, Rs. 5 on Second Call Rs. 3 on Third and Final Call From the following particulars, journalise the transactions for third call, forfeiture and reissue of shares:**

Name	Shares held	Amount paid on
John	200	Up to Allotment
George	400	Up to First Call
Bell	600	Up to Second Call

**The Company made the third call in August. Call money was received in full, except from the above persons. The Directors then forfeited these shares and reissued 1,000 shares, as fully paid, for Rs. 22 per share. These 1,000 shares included the shares of John and George.**

### Solution:

#### Journal Entries

Share Third Call A/c	Dr.	3,00,000	
To Share Capital A/c			3,00,000
(Being third Call Money due on 1,00,000 @ Rs. 3 per Share)			
Bank A/c (98,800 X Rs. 3)	Dr.	2,96,400	
To Share Third Call A/c			2,96,400
(Being amount received against third call except 1,200 shares)			
Share Capital A/c (1,200 X Rs. 20)	Dr.	24,000	
To First Call (200 X Rs. 3)			600
To Second Call (600 X Rs. 5)			3,000
To Third Call (1,200 X Rs. 3)			3,600
To Forfeited Shares A/c (1)			16,800
(Being Forfeiture of 1,200 shares for non-payment)			

of call amount)			
Bank A/c (1,000 X Rs. 22) To Share Capital (1,000 X Rs. 20) To Securities Premium (1,000 X Rs. 2) (Being the amount received against reissue of 1,000 forfeited shares)	Dr.	22,000	20,000 2,000
Forfeited Shares Account To Capital Reserve A/c (2) (Being balance in Shares Forfeiture account in respect of 1,000 shares Transferred)	Dr.	13,400	13,400

(1) 200 X Rs. 9 = Rs. 1,800  
 400 X Rs. 12 = Rs. 4,800  
 600 X Rs. 17 = Rs. 10,200  
 16,800

(2) 200 X Rs. 9 = Rs. 1,800  
 400 X Rs. 12 = Rs. 4,800  
 00 X Rs. 17 = Rs. 6,800  
 13,400

### Question 23

Pass entries in the following cases:

1. A Ltd., forfeited 200 shares of Rs.10 each issued at 10% premium, payable Rs. 3 on applications. 3 on allotment (including premium), Rs. 2.50 on first call and balance on final call. Only application money has been received on these shares against the full called up money.
2. B Ltd., forfeited 40 shares of Rs.20 each on which Rs.15 has been called up (including Rs.5 for premium). Rs. 5 per share have only been received on these shares.
3. C Ltd., forfeited 100 shares of Rs. 100 each held by Kanta for non-payment of final call of Rs.20. These shares were issued at 10% premium payable on allotment

**Solution:**

1.	Share Capital A/c (200 X 10) Securities Premium Reserve A/c (200 X 1) To Share Forfeited A/c (200 X 3) To calls-in-arrears A/c (200 X 8) (Being 200 shares of Rs. 10 each forfeited for non-payment of allotment and calls)	Dr. Dr.	2,000 200	600 1,600
2.	Share Capital A/c (40 X 10) Securities Premium Reserve A/c (40 X 5) To Share Forfeited A/c (40 X 5) To Calls in arrears (40 X 10) (Being 40 shares Rs. 20 each forfeited for non-payment of shares premium Rs. 5 and calls)	Dr. Dr.	400 200	200 400
3.	Share Capital A/c (100 X 100) To Share Forfeited A/c (100 X 80) To Calls-in-arrears A/c (100 X 20) (Being 100 shares of Rs. 100 each forfeited for non-payment of final call @ Rs. 20 each)	Dr.	10,000	8,000 2,000

**Question 24**

**Alpha Ltd. issued 10000 shares of Rs 100 each payable as: Rs 25 on application. Rs 25 on allotment Rs 20 on First call and Rs 30 on second and final call. 9000 shares were applied for and allotted. All the payments were received with the exception of allotment money, first call and second and final call money on 300 shares allotted to Ganesh. The Board of Directors decided to forfeit these shares. Make journal entry to record transaction relating to forfeiture of shares.**

**Solution:**

Particulars	Amount Rs.	Amount Rs.
Share Capital A/c (300 X Rs. 100)      Dr.	30,000	

To Share forfeited A/c (300 X Rs. 25)		7,500
To Share allotment A/c (300 X Rs. 25)		7,500
To Share first call A/c (300 X Rs. 20)		6,000
To Share Second call A/c (300 X Rs. 30)		9,000
(300 shares of Rs. 100 each forfeited due to non-payment of allotment money and calls money)		

**Question 25**

**The Latest Technology Company Ltd. offered to public for subscription of 50,000 shares of Rs. 20 each at a premium of Rs. 5 per share. The amount was payable as under:**

**On application Rs. 5 per share on allotment Rs. 12 per share (Including premium of Rs 5 per share) On first call Rs. 4 per share On Second and Final call Rs. 4 per share Applications were received for all the shares. Allotment was made to all the applicants in full. Ashima failed to pay allotment and call money on 200 shares held by her. Reshma was allotted 300 shares. She did not pay the call money. Their shares were forfeited. Make necessary journal entry for the forfeiture only**

**Solution:**

	Particulars	L.F	Amount Rs.	Amount Rs.
(i)	Share Capital A/c (200 X 20) Dr.		4000	
	Securities Premium A/c (200 X 5) Dr.		1000	
	To Share Forfeited A/c (200 X 5)			1000
	To Share Allotment A/c (200 X 12)			2400
	To Share First Call A/c (200 X 4)			800
	To Share Second and Final call A/c (200 X 4)			800
	(Forfeiture of 200 shares held by Ashima who did not pay allotment and call money)			

(ii)	Share Capital A/c (200 X 20)	Dr.	6000	
	To Shares forfeited A/c			3600
	To Share First Call A/c			1200
	To Share second call A/c			1200
	(Forfeiture of 300 shares held by Reshma)			

## MAY 2018

### Question 1

**State with reasons, whether the following statement is true or false: Re-issue of forfeited shares is allotment of shares but not a sale.**

#### **Answer:**

**False:** A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale.

### Question 2

**Piyush Limited is a company with an authorized share capital of RS 2,00,00,000 in equity shares of RS 10 each, of which 15,00,000 shares had been issued and fully paid on 30th June, 2017. The company proposed to make a further issue of 1,30,000 shares of RS 10 each at a price of RS12 each, the arrangements for payment being: RS 2 per share payable on application, to be received by 1st July, 2017: Allotment to be made on 10th July, 2017 and a further RS 5 per share (including the premium) to be payable;**

**The final call for the balance to be made, and the money received by 30th April, 2018. Application were received for 4,20,000 shares and were dealt with follows:**

**(1) Applicants for 20,000 shares received allotment in full.**

**(2) Applicants for 1,00,000 shares received an allotment of one for every two applied for; no money was returned to applicants, the surplus on application being used to reduce amount due on allotment.**

**(3) Applicants for 3,00,000 shares received an allotment of ones share for every five shares applied, for; the money due on allotment retained by the company, the excess being returned to applicants; and**

**The money due on final call was received on the due date.**

**You are required to record these transactions (including cash items) in the journal of Piyush limited.**

**Solution:**

Date 2017	Particulars		Dr.	Cr.
July 1	Bank A/c (Note 1- Column 3) To Equity Share Application A/c (Being application money received on 4,20,000 shares @ 2 per share)	Dr.	8,40,000	8,40,000
July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c (Note 1 – Column 5) To Bank A/c (Note 1 – Column 6)  (Being application money n 1,30,000 shares transferred to Equity Share Capital Account; on 2,00,000 shares allotment and on 90,000 shares refunded)	Dr.	8,40,000	2,60,000 4,00,000 1,80,000
	Equity Share Allotment A/c To Equity Share Capital A/c	Dr.	6,50,000	3,90,000

	To Securities Premium A/c (Being allotment money due on 1,30,000 shares @ 5 each including premium at 2 each as per Board's Resolution)			2,60,000
	Bank A/c (Note 1- Column 8) To Equity Share Allotment A/c (Being final call money due on 1,30,000 shares @ 5 per share as per Board's Resolution)	Dr.	2,50,000	2,50,000
	Equity Share Final Call A/c To Equity Share Capital A/c (Being final call money due on 1,30,000 shares @ 5 per share as per Board's Resolution)	Dr.	6,50,000	6,50,000
April 30	Bank A/c To Equity Share Final Call A/c (Being final call money on 1,30,000 @ 5 each received)	Dr.	6,50,000	6,50,000

**Working Note:****Calculation for Adjustment and Refund****NOV 2018****Question 3**

**Give necessary journal entries for the forfeiture and re-issue of shares:**

**(i) X Ltd. forfeited 300 shares of ` 10 each fully called up, held by Ramesh for non- payment of allotment money of ` 3 per share and final call of ` 4 per share. He paid the application money of ` 3 per share. These shares were re-issued to Suresh for ` 8 per share**

**(i) X Ltd. forfeited 200 shares of ` 10 each ( ` 7 called up) on which Naresh**



had paid application and allotment money of ` 5 per 6262969699 6262969604 share. Out of these, 150 shares were re- issued to Mahesh as fully paid up for ` 6 per share.

(ii) X Ltd. forfeited 100 shares of ` 10 each (` 6 called up) issued at a discount of 10% to Dimple on which she paid ` 2 per share. Out of these, 80 shares were re-issued to Simple at ` 8 per share and called up for ` 6 share.

### Solution:

(a) Journal Entries in the books of X Ltd.

Date			Dr.	Cr.
(a)	Equity Share Capital A/c To Equity Share Allotment Money A/c (300 X 3) To Equity Share Final Call A/c (300 X 4) (Being the forfeiture of 300 equity shares of 10 each for non – Payment of allotment money)	Dr.	3,000	900 1,200 900
(b)	Bank Account (300 X 8) Forfeited Shares Account (300 X 2) To Equity Share Capital Account (Being the re-issue of 300 forfeited shares @ ` 8 each as fully paid up to Suresh as per	Dr. Dr.	2,400 600	3,000
	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve) Board's resolution No..... dated.....)	Dr.	300	300

(ii)

Date			Dr.	Cr.
(a)	Equity Share Capital A/c (200 x ` 7) Dr. To Equity Share First Call A/c (200 x ` 2) To Forfeited Shares A/c (200 x ` 5)	Dr.	1,400	400 1,000

	(Being the forfeiture of 200 equity shares of 10/- (₹7 called up) for non-payment of first call @ ₹ 2/- per share as per Board Resolution No..... dated.....)			
(b)	Bank Account Forfeited Shares Account To Equity Share Capital Account (Being the re-issue of 150 forfeited shares as fully paid up as per Board's resolution No..... dated.....)	Dr Dr.	900 600	1,500
(c)	Forfeited Shares Account To Capital Reserve Account (Being the profit on re-issue, transferred to capital reserve)	Dr	150	150

## Working Note:

Balance in forfeited shares account on forfeiture of 150 shares (150 x 5) `	750
Less: Forfeiture of 150 shares	<u>(600)</u>
Profit on re-issue of shares `	<u>150</u>

Date			Dr	Cr.
(a)	Equity Share Capital A/c (100 x ` 6) To Equity Share Final Call A/c (100 x ` 3) To Discount on issue of shares (100 x ` 1) To Forfeited Shares A/c (100 x ` 2) (Being the forfeiture of 100 equity shares issued at a discount as per Board's resolution No..... dated.....)	Dr	600	300 100 200
(b)	Bank Account (80 x ` 6) Discount on issue of shares (80 x ` 1) Forfeited Shares A/c (80 x ` 1) To Equity Share Capital Account (80 x 8) (Being the re-issue of 80 shares fully paid up as per Board's Resolution No.....dated.....)	Dr Dr Dr	480 80 80	640
(c)	Forfeited Shares Account To Capital Reserve Account		80	

(Being the profit on re-issue, transferred to capital reserve)			80
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**Working Note:**

Balance in forfeited shares account on forfeiture of 100 shares (100 x 2) ` 200.00

Forfeited shares balance for 80 shares ` 160

Less: Forfeiture of 80 shares ( ` 80.00)

Profit on re-issue of shares ` 80.00

**Note:** It may be noted that the facts given in the question are not in compliance with Companies Act, 2013. As per Section 53 of Companies Act, 2013 a company cannot issue shares at discount except for in case of sweat equity shares and therefore any issue on discount by the company is void. However, the above answer has been given strictly based on the information provided in the question.



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## UNIT 3: ISSUE OF DEBENTURE

<b>MEANING</b>	Debenture is one of the most commonly used debt instruments issued by the company to raise funds for the business.
<b>Types</b>	Secured, Unsecured, Redeemable, Non-Redeemable Convertible Non-convertible. Registered & bearer
<b>Debenture holder</b>	Debenture holders are the creditors of the company shareholders are the owners of the company. Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company. Shareholders have voting rights and consequently control the total affairs of the company.
<b>Issue of redeemable debentures can be categorized into the following</b>	Debenture issued at par and redeemable at premium; Debenture issued at a discount and redeemable at premium. Debenture issued at premium and redeemable at premium.
<b>Collateral security</b>	Collateral security means secondary or supporting security for a loan, which can be realised by the lender in the event of the original loan not being repaid on the due date Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft.
	The discount on issue of debentures is amortised

<b>Discount on issue of debenture.</b>	over a period between the issuance date and redemption date. Loss on issue of debentures is also a capital loss and should be written off in a similar manner as discount on debentures issued. In the balance sheet both the items (Discount and Loss) are shown as Noncurrent/current assets depending upon the period for which it has to be written off.
<b>Interest on debenture</b>	Interest payable on debentures is treated as a charge against the profits of the company. Interest on debenture is paid periodically and is calculated at coupon rate on the nominal value of debenture.

**Question 1**

**Discuss the meaning and basic purpose for raising debentures by the company.**

**Answer:**

A debenture is a bond issued by a company under its seal, acknowledging a debt and containing provisions as regards repayment of the principal and interest. If a charge\* has been created on any or on the entire assets of the company, the nature of the charge and the assets charged are described therein. Since the charge is not valid unless registered with the Registrar, and the certificate registering the charge is printed on the bond. It is also customary to create a trusteeship in favour of one or more persons in the case of mortgage debentures. The trustees of debenture holders have all powers of a mortgage of a property and can act in whatever way they think necessary to safeguard the interest of debenture holders. Section 2 (30) of the Companies Act, 2013 defines debentures as “Debenture” includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not. Thus, It is clear from definition that debenture may be Secured Debenture

or Unsecured Debenture. Note: No company shall issue any debentures carrying any voting rights.

## Question 2

**State the features of Debentures.**

**Answer:**

**Features of debentures:**

It is a document which evidences a loan made to a company.

- It is a fixed interest-bearing security where interest falls due on specific dates.
- Interest is payable at a predetermined fixed rate, regardless of the level of profit.

The original sum is repaid at a specified future date or it is converted into shares or other debentures.

- It may or may not create a charge on the assets of a company as security.

It can generally be bought or sold through the stock exchange at a price above or below its face value.

## Question 3

**Gives the categories of issue of Debenture.**

**Answer:**

**Debentures issued at par redeemable at par:** When debenture are issued at par, the issue price is equal to par value

**Debentures issued at Discount and Redeemable at par or at discount :**

When debentures are issued at discount, issue price will be less than par value. The difference between the two is considered as loss on issue on debentures and is to be written-off over the life of debentures

**Debentures Issued at Premium and Redeemable at par or at discount:**

When debenture are issued at premium, the issue price is more than the par value. The premium is transferred to securities premium account.

**Debentures issued at par and redeemable at a premium:** Where debentures are to be redeemed at premium, an extra entry is to be made at the time of issue and allotment of debentures. This extra entry is to be passed for providing premium payable on redemption. Debenture Redemption Premium Account is a personal account which represents a liability of the company in respect of premium payable on redemption.

**Debentures Issued at discount and redeemable at premium:** In this situation the issue price is less than par value but redemption value is more than par value. The difference between the redemption price and the issue price is treated as discount/loss on issue of debentures

**Debentures Issued at premium and redeemable at premium:** In this situation, the issue price is more than par value and also redemption value is more than par value. The premium received at the time of issue of debentures is credited to Securities premium account and premium paid at the time of redemption is a loss to be provided at the time of issue of debentures.

#### **Question 4**

**Gives the classification of debentures**

**Answer:**

The following are the types of debentures issued by a company. They can be classified on the basis of: (1) Security; (2) Convertibility; (3) Permanence; (4) Negotiability; and (5) Priority.

#### **Security**

(a) Secured Debentures: These debentures are secured by a charge upon some or all

(b) assets of the company. There are two types of charges:

(i) Fixed charge; and

(ii) Floating charge. A fixed charge is a mortgage on specific assets. These



assets cannot be sold without the consent of the debenture holders. The sale proceeds of these assets are utilized first for repaying debenture holders. A floating charge generally covers all the assets of the company including future one

(c) Unsecured or “Naked” Debentures: These debentures are not secured by any charge upon any assets. A company merely promises to pay interest on due dates and to repay the amount due on maturity date. These types of debentures are very risky from the view point of investors.

### **Convertibility**

Convertible Debentures: These are debentures which will be converted into equity shares (either at par or premium or discount) after a certain period of time from the date of its issue. These debentures may be fully or partly convertible. In future, these debenture holders get a chance to become the shareholders of the company

Non-Convertible Debentures: These are debentures which cannot be converted into shares in future. As per the terms of issue, these debentures are repaid.

### **Permanence**

Redeemable Debentures: These debentures are repayable as per the terms of issue, for example, after 8 years from the date of issue

Irredeemable Debentures: These debentures are not repayable during the life time of the company. These are also called perpetual debentures. These are repaid only at the time of liquidation.

### **Negotiability**

Registered Debentures: These debentures are payable to a registered holder whose name, address and particulars of holding is recorded in the Register of Debenture holders. They are not easily transferable. The provisions of the Companies Act, 2013 are to be complied with for effecting transfer of these debentures. Debenture interest is paid either to the order of registered holder as expressed in the warrant issued by the company or the bearer of the interest coupons.

Bearer Debentures: These debentures are transferable by delivery. These are negotiable instruments payable to the bearer. No kind of record is kept

by the company in respect of the holders of such debentures. Therefore, the interest on it is paid to the holder irrespective of any identity. No transfer deed is required for transfer of such debentures.

### Priority

**First Mortgage Debentures:** These debentures are payable first out of the property charged.

**Second Mortgage Debentures:** These debentures are payable after satisfying the first mortgage debentures.

### Question 5

#### **Distinction between debentures and shares.**

#### **Answer:**

Debentures	Shares
1. Debenture holders are the creditors of the company.	1. Shareholders are the owners of the company.
2. Debenture holders have no voting rights and consequently do not pose any threat to the existing control of the company.	2. Shareholders have voting rights and consequently control the total affairs of the company.
3. Debenture interest is paid at a predetermined fixed rate. It is payable, whether there is any profit or not. Debentures rank ahead of all types of shares for payment of the interest due on them.	3. Dividend on equity shares is paid at a variable rate which is vastly affected by the profits of the company (however, dividend on preference shares is paid at a fixed rate).
4. Interest on debentures are the charges against profits and they are deductible as an expense in determining taxable profit of the company.	4. Dividends are appropriation of profits and these are not deductible in determining taxable profit of the company

5. There are different kinds of debentures, such as Secured/Unsecured; Redeemable/Irredeemable; Registered/Bearer; Convertible	5. There are only two kinds of shares– Equity Shares and Preference Shares.
6. In the Company’s Balance Sheet, Debentures are shown under “Long Term Borrowings”.	6. In the Company’s Balance Sheet, shares are shown under “Shareholder’s Fund” detailed in ‘Share Capital’ of Notes to Accounts.
7. Debentures can be converted into other debentures or shares as per the terms of issue of debentures.	7. Shares cannot be converted into other shares in any circumstances.
8. Debentures cannot be forfeited for non- payment of call moneys.	8. Shares can be forfeited for non- payment of allotment and call moneys.
9. At maturity, debenture holders get back their money as per the terms and conditions of redemption	9. Equity shareholders cannot get back their money before the liquidation of the company (however, preference shareholders can get back their money before liquidation).
10. At the time of liquidation, debenture holders are paid-off before the shareholders.	10. At the time of liquidation shareholders are paid at last, after paying debenture holders, Trade payable, etc.

### **Question 6**

**Write a short note on. Issue of debentures as collateral security**

**Answer:**

Collateral security means secondary or supporting security for a loan, which can be realised by the lender in the event of the original loan not being repaid on the due date. Under this arrangement, the borrower agrees

that a particular asset or a group of assets will be realized and the proceeds there from will be applied to repay the loan in the event that the amount due, cannot be paid.

Sometimes companies issue their own debentures as collateral security for a loan or a fluctuating overdraft. When the loan is repaid on the due date, these debentures are at once released with the main security. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder.

### **Question 7**

**Explain the term Over Subscription**

#### **Answer:**

The company invites the investors to subscribe to its debenture issue. However, it may happen that the applications received for the debentures may be more than the original number of debentures offered. This scenario is referred to as oversubscription. In the case of over-subscription, a company cannot allocate more debentures than it had originally planned to issue. So, the company refunds the money to the applicants to whom debentures are not allotted. However, the excess money received from applicants who are allocated debentures is not refunded. The same money is used towards allotment adjustment and the subsequent calls to be made.

### **Question 8**

**ABC Limited issued Rs 10,000, 12% debentures of Rs 100 each payable Rs 30 on application and remaining amount on allotment. The public applied for 9,000 debentures which were fully allotted, and all the relevant allotment money was duly received. Give journal entries in the books of ABC Ltd., and exhibit the relevant information in the balance sheet**

#### **Solution:**

Date	Particular	Lf	Dr	Cr.
	Bank A/c Dr. To 12% Debenture Application A/c (Application money on 9,000 debentures received)		2,70,000	2,70,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c (Application money transferred to debentures Account on allotment)		2,70,000	2,70,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c  (Amount due on 9,000 debentures on allotment @ Rs 70 per debenture)		6,30,000	6,30,000
	Bank A/c Dr. To 12% Debenture Allotment A/c		6,30,000	6,30,000

Particular	Note	Amount
I. Equity and Liabilities /Non-current liabilities /Long- term borrowings	1	9,00,000
Assets Current assets /Cash and cash equivalents	2	9,00,000

**Note.**

Particular	Amount
1. Long – term borrowings 9,000, 12% Debentures of Rs. 100 each	9,00,000
Cash and cash equivalents	

Cash at bank	9,00,000
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### Question 9

**Koinal Chemicals Ltd. issued 15,00,000, 10% debenture of `50 each at premium of 10%, payable as `20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in application money.**

### **Solution:**

Date	Particular	Lf	Dr	Cr.
	Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	3,00,00,000	3,00,00,000
	Debentures Application A/c To 10% Debentures A/c To Securities Premium A/c	Dr.	3,00,00,000	2,25,00,000 75,00,000
	Debentures Allotment To 10% Debentures A/c (debentures account and securities premium account consequent upon allotment)	Dr	5,25,00,000	3,00,00,000 2,25,00,000

### Question 10

**Mahesh design Ltd. issued 20,00,000, 8% debentures of `100 each at par payable as `40 on application and `60 on allotment, redeemable at par after 5 years from the date of issue of debenture. Record necessary entries in the books of Mahesh design Ltd.**

**Solution:****Books of Mahesh Design Ltd.**

Date	Particular	Lf	Dr	Cr.
	Bank A/c To Debenture Application A/c (Debenture application money received)	Dr.	8,00,00,000	8,00,00,000
	Debenture Application A/c Debenture Allotment A/c To 8% Debentures A/c (Debenture application and call made consequent allotment money)	Dr. Dr.	8,00,00,000 12,00,00,000	20,00,00,000
	Bank A/c To Debenture Allotment A/c (Call made on allotment received)	Dr.	12,00,00,000	12,00,00,000
	Alternatively, for entry (b) above, the following two entries can be made:  Debenture Application A/c To 8% Debentures A/c (Transfer of application money to 8% debentures account on consequent upon allotment)	Dr.	8,00,00,000	8,00,00,000
	Debenture Allotment A/c To 8% Debentures A/c (Call made consequent upon allotment)	Dr.	12,00,00,000	12,00,00,000
	Vendors Dr. To 10% Debentures A/c, (Allotment of debentures to vendors as		2,00,000	2,00,000



	purchase consideration)			
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**Question 11**

**X Limited Issued 10,000, 12% debentures of Rs 100 each payable Rs 40 on application and Rs 60 on allotment. The public applied for 14,000 debentures. Applications for 9,000 debentures were accepted in full; applications for 2,000 debentures were allotted 1,000 debentures and the remaining applications, were rejected. All money was duly received. Journalise the transactions.**

**Solution:****Books of X Limited Journal**

Date	Particular	Lf	Dr	Cr.
	Bank A/c Dr. To 12% Debenture Application A/c (Receipt of application money on 14,000 debentures)		5,60,000	5,60,000
	12% Debenture Application A/c Dr. To 12% Debentures A/c To Debentures Allotment A/c To Bank A/c  (Debenture Application money transferred to Debenture A/c, Excess application money credited to Debenture Allotment account and money refunded on rejected application)		5,60,000	4,00,000 40,000 1,20,000
	12% Debenture Allotment A/c Dr. To 12% Debentures A/c  (Amount due on allotment on 10,000)		5,60,000	5,60,000

debentures)

**Question 12**

**Ashirwad Company Limited purchased assets of the book value of Rs 2,00,000 from another company and agreed to make the payment of purchase consideration by issuing 2,000, 10% debentures of Rs 100 each. Record the necessary journal entries.**

**Solution:**

Date	Particular	Lf	Dr	Cr.
	Sundry Assets A/c Dr. To Vendors (Assets purchased from vendors)		2,00,000	2,00,000
	Bank A/c To Debenture Allotment A/c (Call made consequent upon allotment money received)	Dr.	2,00,000	2,00,000

**Question 13**

**Simmons Ltd. issued 1,00,000, 12% Debentures of `100 each at par payable in full on application by 1<sup>st</sup> April, Application were received for 1,10,000 Debentures. Debentures were allotted on 7<sup>th</sup> April. Excess money refunded on the same date. You are required to pass necessary Journal Entries (including cash transaction) in the books of the company.**

**Solution:**

**In the books of Simmons Limited**

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Date	Particular	Lf	Dr.	Cr.
April 1	Bank A/c To 12% Debentures Application A/c (Being money received on 1,10,000 debentures)	Dr	1,10,000	1,10,000
April 7	12% Debentures Application A/c Dr. To Bank A/c (Being money on 10,000 debentures refunded as per Board's Resolution No.....dated...)		10,00,000	10,00,000
April 7	12% Debentures Application A/c Dr. To 12% Debentures A/c (Being the allotment of 1,00,000 debentures of ` 100 each at par, as per Board's Resolution No.... dated...)		1,00,000	1,00,000

### Question 14

**Manu Ltd. issued 10,000 12% Debentures of 100 each at a discount of 10% payable in full on application by 31st May, 2014. Applications were received for 12,000 debentures. Debentures were allotted on 9th June, 2014. Excess monies were refunded on the same date. Pass necessary Journal Entries.**

### **Solution:**

**In the books of Manu  
Limited Journal Entries**

Date	Particular	Lf	Dr	Cr.
2014				

May 31	Bank A/c To 12% Debentures Application A/c  (Being money received for 12,000 debentures @ `90 each)	Dr	10,80,000	10,80,000
June 9	12% Debentures Application A/c To Bank A/c  (Being excess money on 2,000 debentures @ `90 refunded as per Board's Resolution No.... dated....)	Dr	1,80,000	1,80,000
June 9	12% Debentures Application A/c  Discount on Issue of Debentures A/c To 12% Debentures A/c (Being the allotment of 10,000 debentures of `100 each at a discount of `10 per debenture as per Board's Resolution No....dated...)	Dr. Dr.	9,00,000 1,00,000	10,00,000

### Bank Account

Date	Particulars	'	Date	Particulars	'
31.5.2014	To 12% Debentures Application A/c		9.6.2014	By 12% Debentures Application A/c	1,80,000
		10,80,000			
			9.6.2014	By Balance c/d	9,00,000
		10,80,000			10,80,000

### 12% Debentures Account Cr.

Date	Particulars	'	Date	Particulars	'
9.6.2014	To Balance c/d	10,00,000	9.6.2014	By 12% Debentures Application A/c	9,00,000

			9.6.2014	By Discount on Issue of Debentures A/c	1,00,000
		10,00,000			10,00,000

### 12% Debentures Application Account

Date	Particulars	‘	Date	Particulars	‘
9.6.2014	To Bank A/c	1,80,000	31.5.2014	By Bank A/c	10,80,000
9.6.2014	To 12% Debentures A/c	9,00,000			
		10,80,000			10,80,000

### Dr. Discount on Issue of Debenture Account Cr.

Date	Particulars	‘	Date	Particulars	‘
9.6.2014	To 12% Debentures A/c	1,00,000	9.6.2014	By Balance c/d	1,00,000
		1,00,000			1,00,000

### Question 15

HDC Ltd. issues 10,000, 12% Debentures of ` 100 each at ` 94 on 1st January, 2008. Under the terms of issue, 1/15<sup>th</sup> of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2010. Calculate the amount of discount to be written-off from 2008 to 2014

### **Solution:**

Calculation of amount of discount to be written-off.

At the Year	Debentures	Ratio of benefit	Amount of discount to be written-off
2010	10,00,000	5	5/15th of `60,000 = `20,000
2011	8,00,000	4	4/15th of `60,000 = `16,000
2012	6,00,000	3	3/15th of `60,000 = `12,000
2013	4,00,000	2	2/15th of `60,000 = `8,000
2014	2,00,000	1	1/15th of `60,000 = `4,000
	TOTAL	15	`60,000

### Question 16

Give the necessary journal entries at the time of redemption of debentures in each of the following cases. 1. X Ltd. issued 5,000, 9% debentures of Rs 100 each at par and redeemable at par at the end of 5 years out of capital. 2. X Ltd. issued 1,000, 12% debentures of Rs 100 each at par. These debentures are redeemable at 10% premium at the end of 4 years 3. X Ltd. issued 12% debentures of the total face value of Rs 1,00,000 at premium of 5% to be redeemed at par at the end of 4 years 4. X Ltd. issued Rs 1,00,000, 12% debentures at a discount of 5% but redeemable at a premium of 5% at the end of 5 years.

### **Solution:**

Date	Particular	Lf	Dr	Cr.
	9% Debentures A/c Dr. To Debenture holder's A/c (Amount due on redemption debentures)		5,00,000	5,00,000
	Debenture holder's A/c Dr. To Bank A/c		5,00,000	

	(Payment made to debenture holders)			5,00,000
	12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holder (Amount due on redemption of debentures)		1,00,000 10,000	1,10,000
	Debenture holder's A/c Dr. To Bank A/c (Payment made to debenture holders)		1,10,000	1,10,000
	12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holder's A/c (Amount due on redemption of debentures)		1,00,000 5,000	1,05,000
	Debenture holder's A/c Dr. To Bank A/c (Payment made to debenture holders)		1,05,000	1,05,000
	12% Debentures A/c Dr. Premium on Redemption of Debentures A/c Dr. To Debenture holder's A/c (Amount due on redemption of debentures)		1,00,000 5,000	1,05,000
	Debenture holder's A/c Dr. To Bank A/c (Payment made to debenture holders)		1,05,000	1,05,000

**Question 18**

**A company issued 12% debentures of the face value of `10,00,000 at 10% discount on 1- 1-2017. Debenture interest after deducting tax at**



**source @ 10% was payable on 30th June and 31<sup>st</sup> of December every year. All the debentures were to be redeemed after the expiry of five-year period at 5% premium. Pass journal entries for the accounting year 2017.**

**Solution:**

Date	Particular	Lf	Dr	Cr.
1-1-2017	Bank A/c Dr. Discount on Issue of Debentures A/c Dr Loss on Issue of Debentures A/c Dr.  To 12% Debentures A/c Dr. To Premium on Redemption of Debentures A/c  (For issue of debentures at discount redeemable at premium)		9,00,000 100000 50000	1000000 50000
30-6-2017	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c  (For interest payable)		60,000	54,000 6,000
	Debenture holders A/c Tax Deducted at Source A/c To Bank A/c  (For payment of interest and TDS)	Dr. Dr.	54,000 6,000	60,000
31-12-2017	Debenture Interest A/c To Debenture holders A/c To Tax Deducted at Source A/c  (For interest payable)	Dr	60,000	54,000 6,000

	Debenture holders A/c} Tax Deducted at Source A/c To Bank A/c  (For payment of interest and tax)	Dr Dr	54,000 6,000	60,000
	Profit and Loss A/c To Debenture Interest A/c (For transfer of debenture interest to profit and loss account at the end of the year)	Dr	1,20,000	1,20,000
	Profit and Loss A/c Dr. To Discount/Loss on issue of debenture A/c (For proportionate debenture discount and premium on redemption written off, i.e., 1,50,000 x 1/5)		30,000	30,000

**Question 19**

**Zed Ltd. issued 5,000 12% debentures of Rs. 100 each at a premium of 10%, payable Rs. 25 on application, Rs. 40 on allotment (including premium) and balance on first and final call. Applications were received for 7,500 debentures. Allotment was made proportionately; over-subscription being applied to the amount due on allotment. All sums due were received on the due dates. Journalise the above transactions and also show how the amounts will appear in the Balance Sheet of company.**

**Solution:**

	Particular		Dr.	Cr.
1.	Bank A/c To Debenture Application A/c (Being application money received for 7,500 debentures @ Rs. 25 each)	Dr.	1,87,500	1,87,500

2.	Debentures Application A/c To 10% Debentures A/c To Debenture Allotment A/c (Being application money transferred to 10% Debentures Allotment (A/c)	Dr.	1,87,500	1,25,000 62,500
3.	Debenture Allotment A/c To 10% Debenture A/c To Securities Premium Reserve A/c (Being allotment due on 5,000 debentures @ Rs. 40 per debenture including Rs. 10 as premium)	Dr.	2,00,000	1,50,000 50,000
4.	Bank A/c To Debenture Allotment A/c (Being allotment money received)	Dr.	1,37,500	1,37,500
5.	Debenture First and Final Call A/c To 10% Debenture A/c (Being allotment money due on 5000 debentures @ Rs. 45 each)	Dr.	2,25,000	2,25,000
6.	Bank A/c To Debentures First and Final Call A/c (Being First and Final call on 5,000 debentured received)	Dr.	2,25,000	2,25,000

**Reserve and Surplus:**

Securities Premium Reserve Rs. 50,000

Note 2:

**Long-term Borrowings**

10% Debenture Rs. 50,00,000

Note 3:

**Cash and cash Equivalents:**

Cash at Bank 5,50,000

**Question 20**

**Prem Ltd. purchased assets from Ram Ltd. for a book value of Rs 1,00,000 and liabilities worth Rs. 15,000 for a purchase consideration of Rs. 90,000. The two companies agreed to settle the purchase consideration by issue of 13% debentures of Rs. 100 each. Pass necessary journal entries in the books of Prem Ltd assuming that:**

**(a) Debentures are issued at par.**  
**(b) Debentures are issued at 20% discount.**  
**(c) Debentures are issued at 25% Premium.**

**Solution:****Journal Entries**

	Sundry Assets A/c Goodwill A/c (Balancing figure) To Liabilities A/c To Ram Ltd. A/c (Being Purchase consideration payable to vendor Co. and recording of assets and Liabilities)	Dr. Dr.	1,00,000 5,000	15,000 90,000
(a)	Ram Ltd. A/c To 13% Debenture A/c (Being settlement of Purchase consideration by issue of 900 debenture at Par)	Dr.	90,000	90,000
(b)	Ram Ltd. A/c Discount on issue of Debenture A/c To 13% Debenture A/c (Being settlement of purchase consideration by issue of 1,125 debentures at 20% discount)	Dr. Dr.	90,000 22,500	1,12,500
(c)	Ram Ltd. A/c To 13% Debenture A/c To premium on Debenture A/c (Being issue of 720 Debenture t premium)	Dr.	90,000	72,000 18,000

$$(A) \frac{\text{Rs.}90,000}{\text{Rs.}80} = 1125 \text{ Debenture} \times \text{Rs. } 100 = \text{Rs. } 1,12,500$$

$$(B) \frac{\text{Rs.}90,000}{\text{Rs.}12} = 720 \text{ Debenture} \times \text{Rs. } 100 = \text{Rs. } 72,000.$$

## Nov 2018

### Question 1

**Pure Ltd. issues 1,00,000 12% Debentures of ` 10 each at ` 9.40 on 1st January, 2018. Under the terms of issue, the Debentures are redeemable at the end of 5 years from the date of issue. Calculate the amount of discount to be written-off in each of the 5 years.**

### **Solution:**

(a) Total amount of discount comes to ` 60,000 ( ` 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

(a) Total amount of discount comes to ` 60,000 ( ` 0.6 X 1, 00,000). The amount of discount to be written-off in each year is calculated as under:

Year-end Debentures Ratio in which discount Amount of discount to be Outstanding to be written-off

1st ` 10, 00,000  $\frac{1}{5}$   $\frac{1}{5}$ th of ` 60,000 = ` 12,000

2nd ` 10, 00,000  $\frac{1}{5}$   $\frac{1}{5}$ th of ` 60,000 = ` 12,000

3rd ` 10, 00,000  $\frac{1}{5}$   $\frac{1}{5}$ th of ` 60,000 = ` 12,000

4th ` 10, 00,000  $\frac{1}{5}$   $\frac{1}{5}$ th of ` 60,000 = ` 12,000

5th ` 10, 00,000  $\frac{1}{5}$   $\frac{1}{5}$ th of ` 60,000 = ` 12,000

## MAY 2019

### Question 2

**On 1st January 2018, Ankit Ltd. issued 10% debenture of the face value of Rs .20,00 ,000 at 10% discount. Debenture interest after deducting tax at**

**source @10% was payable on 30th June and 31st December every year. All the debentures were to be redeemed after the expiry of five-year period at 5% premium. Pass necessary journal entries for the accounting year 2018.**

**Solution:**

	Particular		Dr	Cr.
2018 Jan 1	Bank A/c Dr. To 10% debenture application & allotment A/c (Being debenture application money received)		18,00,000	18,00,000
	Debenture application & allotment A/c Dr. Discount issue of debentures A/c To 10% debentures (Being debenture issue at discount)		18,00,000 12,00,000	20,00,000
2018 Jan 30	Interest on debenture A/c Dr. To debenture holder A/c To TDS on debenture interest A/c (Being debenture Interest due)		1,00,000	90,000 10,000
Jan 30	Debenture holder A/c Dr. TDS on debenture Interest A/c Dr. To Bank A/c (Being Interest payment & TDS on Interest paid)		90,000 10,000	1,00,000
Dec 31	Interest on debenture A/c To debenture holder A/c To TDS on debenture Interest A/c (Being debenture Interest due)		1,00,000	90,000 10,000
Dec	Debenture holder Dr. TDS on debenture Interest Dr.		90,000	

31	To Bank A/c (Being Interest payment & TDS on Interest paid)		10,000	1,00,000
Dec 31	Statement of Profit & Loss A/c To Interest on debenture A/c (Being interest on debenture transferred to SOPL)		2,00,000	2,00,000

Particulars	Amount
Inventory valuation on 10.4.2019	1,25,000
Sales b/w 1/4/2019 to 9/4/2019 (20,000 – 20% of 20,000)	16,000
Free Samples	
Purchases b/w 1/4/2018 to 9/4/2019	4000
Invoices for goods purchased on 28/3/2018	(8000)
Stock value on 31/3/2019	20,000
	157,000

## DEC 2020

### Question 3

State with reasons, whether the following statement are True or False:

- I. In case of admission of a new partner in partnership firm Profit/Loss on revaluation account is transferred to all partners in their new profits ratio.

### **Answer:**

**False:** At the time of admission of a new partner, the profit / Loss of Revaluation Account is Transferred to old partner in their old ratio

### Question 4

**ABC Limited issued 20,000 equity shares of Rs. 10 each payable as:**



- Rs 2 per share on application
- Rs. 3 per share on allotment
- Rs. 4 per share on first call
- Rs. 1 per share on final call

The entire shares were subscribed. Money due on all share was fully received except for Mr. Bird holding 300 shares who failed to pay first call and final call All those 300 shares were forfeited the forfeited shares of Mr. Bird were subsequently re-issued to Mr. John as fully paid up at a discount of Rs. 2 per share

Pass the necessary Journal Entries to record the above transactions in the books of ABC Limited.

**Solution:**

**In the books of ABC Ltd**

Date	Particular	L. F.	Dr. Amt	Dr. Amt
(i)	Bank a/c To Eq. Share Application a/c (Being Application Money Received)	Dr.	40000	40000
(ii)	Eq. share Application a/c To Eq. share capital a/c (Being App. Money Transferred to share Capital)	Dr.	40000	40000
(iii)	Eq. share Allotment a/c	Dr.	60000	

	To Eq. Share Capital. (Being Allotment Money due on 20000 shares @ Rs 3)			60000
(iv)	Bank a/c To Eq. share Allotment (Being Allotment Money Received)	Dr.	600000	60000
(v)	Eq. share 1 <sup>st</sup> Call a/c To Eq. share Capital (Being 1 <sup>st</sup> call Money due on 20000 Share @ 4)	Dr.	80000	80000
(vi)	Bank a/c Call in error A/c To Eq. share 1 <sup>st</sup> call (Being 1 <sup>st</sup> call Money Received excepted on 300 share)	Dr. Dr.	78800 1200	80000
<b>DATE</b>	<b>Particular</b>	<b>L.F.</b>	<b>Dr. Amt</b>	<b>Cr. Amt</b>

(vii)	Eq. Share find call a/c	Dr.	20000	
	To Eq. Share capital			20000
	(Being Final call Money Due on 20000@ Rs 1 each)			
(viii)	Bank a/c	Dr.	19700	
	Calls in error a/c	Dr.	300	
	To Eq. share final call a/c			20000
	(Being final call money received except on 300 share)			
(ix)	Eq. share capital a/c	Dr.	3000	
	To share for feature			1500
	To calls in arrear			1500
	(Being 300 shares forfeited for the non-payment of 1 <sup>st</sup> and final call a/c)			
(x)	Bank a/c	Dr.	2400	
	Share forfeited a/c	Dr.	600	
	To Eq. share capital			3000
	(Being forfeiture Transfer to capital reserve)			
(xi)	Share forfeiture a/c	Dr.	900	
	To capital reserve			900

(Being share forfeiture transfer to capital reserve)				
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**Question 5**

**Y company Limited issue 10,000 12% Debenture of the nominal value of Rs. 60,00,000 as follows:**

- I. To a vender for purchase of Fixed Assets worth Rs. 13,00,000- Rs. 15,00,000 nominal values**
- II. To sundry persons for cash at 90% of nominal value of – Rs. 30,00,000**
- III. To the banker as collateral security for a loan of Rs. 14,00,000 – Rs. 15,00,000 nominal values**

**Solution:**

In the Books of Y Ltd.

**Journal Entry**

Date	Particular	L.F.	Dr. Amt	Cr. Amt
(i)	Fixed Assets a/c To vender (Being Fixed Assets purchase)	Dr.	1300000	1300000
	Vender a/c	Dr.	1300000	

	Discount on issue of Dep	Dr.	200000	
	To 12% Debenture a/c			1500000
	(Being 2500, 12% Debenture issued at discount)			
(ii)	Bank A/C	Dr.	2700000	
	To 12% Debenture App. a/c			2700000
	(Being 5000, 12 % Debenture issued at 10 % Discount)			
	12% Debenture App. a/c	Dr.	27,00,000	
	Discount on issue of debenture	Dr.	3,00,000	
	To 12% Debenture a/c			30,00,000
	(Being App money transferred to 12% Debenture)			
(iii)	Bank a/c	Dr.	1400000	
	To Bank Loan a/c			1400000
	(Being Loan taken from Bank)			
	12 % Debenture suspense a/c	Dr.	1500000	
	To 12 % Debenture a/c			1500000
	(Being 2500 ,12% Debenture issued as			

collect securities)			
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## JAN 2021

### Question 6

State with reasons, whether the following statements are true or false.

I. Re-issue of forfeited is allotment of shares but not a sale.

**Answer:**

**False:** Reissue of forfeited shares is not an allotment of shares but only sale.

### Question 7

A Limited is a company with an authorized share capital of Rs. 1,00,00,000 in equity shares of Rs. 10 each of which 6,00,000 shares had been issued and fully paid up on 31<sup>st</sup> March, 2020. The company proposes to make a further issue of 1,35,000 of these Rs. 10 shares at a price of Rs. 14 each, the arrangement of payment being

- I. Rs. per share payable on application to be received by 31<sup>st</sup> May 2020
- II. Allotment to be made on 10<sup>th</sup> June 2020 and a further Rs. 5 per share (including the premium to be payable)
- III. The final call for the balance to be made and the money received by 31<sup>st</sup> December, 2020

Applications were received for 5,60,000 shares and dealt with as follows

1. Application for 10,000 shares received allotment in full
2. Applicants for 50,000 shares received allotment of 1 share for every 2 applied for. No money was returned to these applicants, the surplus on applications being used to reduce the amount due on allotment
3. Applications for 5,00,000 shares received an allotment of 1 share for

- every 5 shares applied for the money due on allotment was retained by the company the excess being returned to the applicants; and
4. The money due on final call was received on the due date You are required to record this transaction (including bank transaction) in the Journal Book of a Limited.

### Solution:

### Working Note:

	Shares applied	Shares allotted
a)	10,000 shares	10,000 shares
b)	50,000 shares	25,000 shares (one share for every two applied)
c)	5,00,000 shares	1,00,000 shares (One share for every five applied)
	5,60,000 shares	1,35,000 shares

### Calculation for Adjustment and Refund

Category	No. of shares Applied for	No. of Shares Allotted	Amount Received on Application (1x Rs. 2)	Amount Required Application (2 x Rs. 2)	Amount adjusted on Allotment	Refund (3-4-5)	Amount due on Allotment @Rs.5	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	10,000	10,000	20,000	20,000	Nil	Nil	50,000	50,000
(ii)	50,000	25,000	1,00,000	50,000	50,000	Nil	1,25,000	75,000
(iii)	5,00,000	1,00,000	10,00,000	2,00,000	5,00,000	3,00,000	5,00,000	Nil
Total	5,60,000	1,35,000	11,20,000	2,70,000	5,50,000	3,00,000	6,75,000	1,25,000

**Books of JHP Limited**



## Journal

Date 2020	Particulars	LF	Debit Rs.	Credit Rs.
May 31	Bank A/c Dr. (5,60,000 shares @ Rs. 2) To Equity share application A/c (Being the application money received)		11,20,000	11,20,000
June 10	Equity share Application A/c Dr. To Equity share capital A/c (1,35,000 shares @ Rs. 2) To Equity share Allotment A/c To Bank A/c (Being shares allotted to the applicants)		11,20,000	2,70,000 5,50,000 3,00,000
June 10	Equity share Allotment A/c Dr. (1,35,000 @ Rs. 7) To Equity share capital A/c (1,35,000@ 1) To Security Premium A/c (1,35,000@ 4) (Being Allotment money was due)		6,75,000	1,35,000 5,40,000
	Bank A/c (Rs. 6, 75,000-Rs. 5, 50,000) Dr. To Equity share Allotment A/c (Being allotment money was received)		1,25,000	1,25,000

Dec 31	Equity share First & Final Call A/c (1,35,000@Rs7) To Equity share capital A/c (Being first & Final was due)	Dr.	9,45,000	9,45,000
	Bank a/c To Equity share First & Final call A/c (Being first & final call money received)	Dr.	9,45,000	9,45,000

## JULY 2021

### Question 8

**State with reason, whether the following statements are true or false:**

**A Company is not allowed to issue shares at a discount to the public in general.**

**Answer:**

**True:** According to Section 53 of the Companies Act, 2013, a Company cannot issue shares at a discount except in the case of issue of sweat equity shares (issued to employee and directors).

### Question 9

**A person holding preference shares of company cannot hold equity shares of the same company.**

**Answer:**

**False:** A person holding preference shares of a company can also hold equity shares of the same company.

### Question 10

**PQR Limited's Profit and Loss account for the year ended 31<sup>st</sup> March, 2021 includes the following information:**

(1)	Liability for Income Tax	- ₹ 40,000
(2)	Retained Profit	- ₹ 2,00,000

(3)	Proposed Dividend	- ₹ 20,000
(4)	Increase in Provision for Doubtful Debts	- ₹ 25,000
(5)	Bad Debts written off	- ₹ 20,000

State which one of the items above is – (a) transfer to provision; (b) transfer to reserves; and (c) neither related to provision nor reserves.

**Answer:**

- |   |
|---|
| a) Transfer to provision – (1), (4)                     |
| b) Transfer to reserve – (2)                            |
| c) Neither related to provision nor reserves – (3), (5) |

**Question 11**

X Limited invited applications for issuing 75,000 equity shares of ₹ 10 each at a premium of ₹ 5 per share. The total amount was payable as follows:

- ₹ per share (including premium) on application and allotment
- Balance on the First and Final Call

Application for 3,00,000 equity shares were received. Applications for 2,00,000 equity shares were rejected and money refunded. Shares were allotted on pro-rata basis to the remaining applicants. The first and final call was made. The amount was duly received except on 1,500 shares applied by Mr Raj. His shares were forfeited. The forfeited shares were re-issued at a discount of ₹ 4/- per share

Pass necessary journal entries for the above transactions in the books of X Limited.

**Answer:**

**Journal Entries in the books of X Ltd.**

Date	Particulars	L F	Debit (₹)	Credit (₹)
	Bank A/c To Equity Share Application & Allotment A/c (3,00,000 × 9) (Being Money received on Application for 3,00,000 shares @ 9/- per share)	Dr.	27,00,000	27,00,000

Equity Share Application A/c & Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (75,000 × 5) To Bank A/c (2,00,000 × 9) To Equity Share First & Final Call A/c (Being Transfer of Application & Allotment money on 75,000 shares to shares capital A/c @ 4/- per share and to securities premium @ 5/- per share and money received on 2,00,000 applications was returned to applicants and the excess paid by the shareholders was adjusted to I & Final call)	Dr.	27,00,000	3,00,000 3,75,000 18,00,000 2,25,000
Equity Share First & Final Call A/c To Equity Share Capital A/c (75,000 × 6) (Being call money due on 75,000 shares @ 6/- per share)	Dr.	4,50,000	4,50,000
Bank A/c (W.N.2) Call- in – arrears A/c (W.N.1) To Equity shares First & Final Call A/c (Being call money received after adjusting excess application & Allotted money and subject to an arrear of Rs. 3,375/- a shares held by Mr Raj)	Dr. Dr.	2,21,625 3,375	2,25,000
Equity Share Capital A/c (1,125, × 10) To Call – in – arrears A/c To Forfeited shares A/c (4,500 + 3,375) (Being share of Mr Raj were forfeited for non-payment of balance call money due on his 1,125 Shares)	Dr.	11,250	3,375 7,875
Bank A/c (1,125 × 6) Forfeited shares A/c (1,125 × 4) To Equity Share Capital A/c (1,125 × 10) (Being directors reissued all the forfeited shares at a discount of Rs. 4/- per shares)	Dr. Dr.	6,750 4,500	11,250
Forfeited Shares A/c To Capital Reserve A/c (7,875 – 4,500) (Being profit on re- issue transferred to Capital reserve A/c)	Dr.	3,375	3,375

## Working Notes:

- i) Calculation of Calls – in arrears on Raj's shares
- |                        |         |
|------------------------|---------|
| Shares Applied by him  | = 1,500 |
| Shares Allotted to him | = 1,125 |

$$\left[ 1,500 \times \frac{75,000}{1,00,000} \right]$$

Excess Application money adjusted to call =  $1,500 - 1,125 = 375 \times 9 = 3,375$

Amount of call money due from him =  $(1,125 \times 6) = 6,750$

(-) Excess Application money adjusted = 3,375

Call – in – arrears = 3,375

(ii) Calculation of Call Money received

Due =  $75,000 \times 6 = 4,50,000$

(-) Excess Application & Alt money = 2,25,000

(-) Call – in – arrears = 3,375

Call money received = 2,21,625

## DEC 2021

### Question 1

Fashion Garments Ltd invited applications for issuing 10,000 Equity Shares of ` 10 each. The amount was payable as follows:

- |                               |               |
|-------------------------------|---------------|
| (i) On Application            | ` 1 per share |
| (ii) On Allotment             | ` 2 per share |
| (iii) On First call           | ` 3 per share |
| (iv) On Second and final Call | ` 4 per share |

The issue was fully subscribed. Ram to whom 100 shares were allotted, failed to pay the allotment money and his shares were forfeited immediately after the allotment. Shyam to whom 150 shares were allotted, failed to pay the first call. His shares were also forfeited after the first call. Afterwards the second and final call was made. Mohan to whom 50 shares were allotted failed to pay the second and final call. His shares were also forfeited. All the forfeited shares were re-issued at ` 9 per share fully paid-up.

Pass necessary Journal entries in the books of Fashion Garments Ltd. (15 Marks)

**Answer:**

- (a) In the books of Fashion Garments Ltd.Journal  
Entries

Particulars		L.F.	Debit Amount (₹)	Credit Amount (₹)
Bank A/c	Dr.			
(Money received on applications for 10,000 shares @ ` 1 per share)				
Equity Share Application A/c	Dr.		10,000	10,000
To Equity Share Capital A/c				
(Transfer of application money on 10,000 shares to share capital)				
Equity Share Allotment A/c	Dr.		20,000	20,000
To Equity Share Capital A/c				
(Amount due on the allotment of 10,000 shares @ ` 2 per share)				
Bank A/c	Dr.		19,800	19,800
To Equity Share Allotment A/c				
(Allotment money received on 9,900 shares)				
OR				
Bank A/c	Dr.		19,800	
Calls in arrears A/c	Dr.		200	
To Equity Share Allotment A/c				20,000
(Allotment Amount received except 100 shares)				
Equity Share Capital A/c	Dr.		300	
To Share Forfeiture A/c				100
To Equity Shares Allotment A/c (100 Shares of Ram forfeited)				200
OR				
Equity Share Capital A/c	Dr.		300	
To Shares Forfeiture A/c				100
To Calls in arrears A/c				200
(100 shares forfeited due to non-payment of allotment money)				
Equity Share First Call A/c	Dr.		29,700	29,700
To Equity Share Capital A/c				
(First call made due on 9,900 shares at ` 3 per share)				
Bank A/c	Dr.		29,250	
To Equity Share First Call A/c				

(First call money received on 9,750 shares at ` 3 per share) OR				29,250
Bank A/c	Dr.		29,250	
Calls in arrears A/c To Equity Share First Call A/c (First Call money received except 150 shares)	Dr.		450	29,700
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c				450
To Equity Share First Call A/c (150 Shares of Shyam forfeited)				450
OR				
Equity Share Capital A/c	Dr.		900	
To Share Forfeiture A/c To Calls in arrears A/c (150 shares forfeited due to non - payment of First call money)				450 450
Equity Share Second and Final Call A/c	Dr.		39,000	
To Equity Share Capital A/c				39,000
(Second and Final call made due on 9,750 shares at ` 4 per share)				
Bank A/c	Dr.		38,800	
To Equity Share Second and Final Call A/c				38,800
(Second and Final call money received on 9,700 shares at ` 4 per share) OR				
Bank A/c	Dr.		38,800	
Calls in arrears A/c To Equity Shares Second and Final call A/c (Second and Final call money received except 50 shares)	Dr.		200	39,000
Equity Share Capital A/c	Dr.		500	
To Share Forfeiture A/c				300
To Equity Share Second and Final Call A/c (50 Shares of Mohan forfeited)				200
OR				
Equity Share Capital A/c	Dr.		500	
To Shares Forfeiture A/c To Calls in arrears A/c (50 shares forfeited due to non-payment of Second and final call money)				300 200

Bank A/c	Dr.		2,700	
Share Forfeiture A/c To Equity Share Capital A/c (300 shares reissued at `9 per share)	Dr.		300	3,000
Share Forfeiture A/c To Capital Reserve A/c (W.N.1) (Profit on re-issue transferred to Capital Reserve)	Dr.		550	550

**Working Note-1:** Calculation of amount to be transferred to Capital Reserve:

Surplus out of 100 shares of Ram forfeited	`100
Surplus out of 150 shares of Shyam forfeited	`450
Surplus out of 50 shares of Mohan forfeited	<u>`300</u>
	<u>`850</u>
<b>Less:</b> Loss on re-issue of shares	<u>300</u>
Transferred to Capital Reserve	<u><u>`550</u></u>

## JUNE 2022

### Question 1

**A Limited issued 20,000 Equity shares of, 10 each at a premium of 10%, payable ` 2 on application; ` 4 on allotment (including premium); ` 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. M who held 2000 shares paid full remaining amount on first call itself. The final call which was made after 4 months from the first call was fully paid except a shareholder having 200 shares and one another shareholder having 100 shares. They paid their due amount after 3 months and 4 months respectively along with interest on calls in arrears, Company also paid interest on calls in advance to Mr. M. The Company maintains Calls in Arrear and Calls in Advance A/c. Give journal entries to record these transactions. Show workings of Interest calculation. (Ignore dates).**

**(15 Marks)**

**Answer:**

Entry No.	Particulars	L.F.	Debit Amount ( )	Credit Amount ( )
	Bank A/c	Dr.	40,000	
	To Equity Share Application A/c			



1	(Money received on applications for 20,000 shares @ ₹ 2 per share)			40,000
	Equity Share Application A/c	Dr.	40,000	
2	To Equity Share Capital A/c			40,000
	(Transfer of application money on 20,000 shares to share capital)			
	Equity Share Allotment A/c	Dr.	80,000	
3	To Equity Share Capital A/c			60,000
	Securities Premium A/c			20,000
	(Amount due on the allotment of 20,000 shares @ ₹ 3 per share and Securities Premium @ ₹ 1 per share)			
	Bank A/c	Dr.	80,000	
4	To Equity Share Allotment A/c			80,000
	(Allotment money received)			
	Equity Share First Call A/c	Dr.	40,000	
5	To Equity Share Capital A/c			40,000
	(Being first call made due on 20,000 shares at ₹ 2 per share)			
	Bank A/c	Dr.	46,000	
6	To Equity Share First Call A/c			40,000
	To Calls in Advance A/c			6,000
	(Being first call money received along with calls in advance on 2,000 shares at ₹ 3 per share)			
	Equity Share Final Call A/c	Dr.	60,000	
7	To Equity Share Capital A/c			60,000
	(Being final call made due on 20,000 shares at ₹ 3 each)			
	Bank A/c	Dr.	53,100	
	Calls in Advance A/c	Dr.	6,000	
8	Calls in Arrears A/c	Dr.	900	
	To Equity Share Final Call A/c			60,000
	(Being final call received for 17,700 shares, calls in advance for 2,000 shares and calls in arrears on 300 shares adjusted)			
	Interest on Calls in Advance A/c	Dr.	240	
9	To Shareholders A/c			240
	(Being interest made due on calls in advance of ₹ 6,000 at the rate of 12% p.a.)			

	Shareholders A/c	Dr.	240	
10	To Bank A/c			240
	(Being payment of interest made to shareholder)			
	Shareholders A/c	Dr.	15	
11	To Interest on Calls in Arrears A/c			15
	(Being interest on calls in arrears made due at the rate of 10%)			
	Bank A/c	Dr.	615	
12	To Calls in Arrears A/c			600
	To Shareholders A/c			15
	(Being money received from shareholder having 200 shares for calls in arrears and interest thereupon)			
13	Shareholders A/c	Dr.	10	
	To Interest on Calls in Arrears A/c			10
	(Being interest on calls in arrears made due at the rate of 10%)			
14	Bank A/c	Dr.	310	
	To Calls in Arrears A/c			300
	To Shareholders A/c			10
	(Being money received from shareholder having 100 share for calls in arrears and interest thereupon)			

### Calculation of Interest on Calls in Advance & Calls in Arrears:

Interest on Calls in Advance = ` 6,000 x 12% x 4 / 12 = ` 240

Interest on Calls in Arrears ` 600 x 10% x 3 / 12 = ` 15

Interest on Calls in Arrears ` 300 x 10% x 4 / 12 = ` 10

Table F of The Companies Act, 2013 prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and calls in advance. Accordingly these rates have been considered while passing the above entries,

**Note:** For entry no 9&10, 11&12,13&14 combined entry can also be passed.