VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce   Sub. ACT Date 10.07.2021

Teacher name – Ajay Kumar Sharma

Accounting for Share

Question 6:

Describe the provision of law relating to 'Calls-in-Arrears' and 'Calls-in-Advance'.

ANSWER:

Calls-in-Arrears: When a shareholder fails to pay the amount due on allotment or any subsequent calls, then it is termed as Calls-in-Arrears. The Company is authorised by its Article of Association to charge interest at a specified rate on the amount of Call in Arrears from the due date till the date of payment. If the Article of Association is silent in this regard, then Table A shall be applicable that is interest at 5% p.a. is charged from the shareholders. As per the Revised Schedule VI of the Companies Act, Calls-in-Arrears are deducted from the Called-up Share Capital in the Notes to Accounts (that is prepared outside the Balance Sheet) under the head 'Share Capital'. The final amount of Share Capital is shown on the Equity and Liabilities side of the Company's Balance Sheet. The company can also forfeit the shares on account of non-payment of the calls money after giving proper notice to the shareholders.

Example- X Ltd. issued 12,000 shares of Rs 10 each. All the shares were duly subscribed, however, the first and final call of Rs 4 on 5,000 shares remained unpaid.

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	1,00,000
2. Non-Current Liabilities		-
3. Current Liabilities		-
Total		
II. Assets		
1. Non-Current Assets		-
2. Current Assets		-

Total		

NOTES TO ACCOUNTS

Note No.	Particulars		Amount (Rs)
1	**Share Capital**		
	Authorised Share Capital		
	…….. shares of Rs 10 each		-
	Issued Share Capital		
	12,000 shares of Rs 10 each		1,20,000
	Subscribed, Called-up and Paid-up Share Capital		
	12,000 shares of Rs 10 each	1,20,000	
	Less: Calls-in-Arrears (5,000×4)	(20,000)	1,00,000

Calls-in-Advance: When a shareholder pays the whole amount or a part of the amount in advance, i.e. before the company calls, then it is termed as Calls-in-Advance. The company is authorised by its Article of Association to pay interest at the specified rate on call in advance from the date of payment till the date of call made. If the Article of Association is silent in this regard, then the Table A shall be applicable that is, interest at 6% p.a. is provided to the shareholders. As per the Revised Schedule VI of the Companies Act, Calls-in-Advance (along with interest on it) is added to the 'Other Current Liabilities' in the Notes to Accounts. The final amount of Other Current Liabilities is shown under the main head of 'Current Liabilities' on the Equity and Liabilities side of the Company's Balance Sheet.

<u>*Example*</u>- X Ltd. issued 12,000 shares of Rs 10 each. All the shares were duly subscribed. The final call of Rs 3 was not yet made, however, a shareholder holding 5,000 shares paid the final call installment in advance along with the allotment money.

X Ltd.
Balance Sheet

Particulars	Note No.	Amount (Rs)
I. Equity and Liabilities		
1. Shareholders' Funds		
a. Share Capital	1	84,000
2. Non-Current Liabilities		
3. Current Liabilities		
a. Other Current Liabilities	2	15,000
Total		

II. Assets 1. Non-Current Assets 2. Current Assets		
Total		

NOTES TO ACCOUNTS

Note No.	Particulars	Amount (Rs)
1	**Share Capital**	
	Authorised Share Capital	
	…….. shares of Rs 10 each	-
	Issued Share Capital	
	12,000 shares of Rs 10 each	1,20,000
	Subscribed, Called-up and Paid-up Share Capital	
	12,000 shares of Rs 10 each, Rs 7 called-up	84,000
2	**Other Current Liabilities**	
	Calls-in-Advance (5,000×3)	15,000

Question 7:

Explain the terms ‘Over-subscription’ and ‘Under-subscription’. How are they dealt with in accounting records?

ANSWER:

When the total number of applications received for shares exceeds the number of shares offered by the company to the public, the situation of Over-subscription arises. A company can opt for any of the three alternatives to allot shares in case of Over-subscription of shares.

i) Excess applications are refused and money received on excess applications is returned to the applicants.

The company can refuse excess applications and the money received on these excess applications is returned to the applicants.

Share Application A/c	Dr.		
To Share Capital A/c			
To Bank A/c			
(Excess application money returned)			

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
To Share Application A/c			24,000
(Application money received for 12,000 shares)			

Share Application A/c	Dr.	24,000	
To Share Capital A/c			20,000
To Bank A/c			4,000
(Application money transferred to Share Capital Account and the excess money returned)			

ii) Pro rata Basis

The company can allot shares on pro rata basis to all the share applicants. The excess amount received in the application is adjusted on the allotment.

Share Application A/c	Dr.		
To Share Capital A/c			
To Share Allotment A/c			

(Adjustment of application money on allotment)

Example: Shares issued 10,000 @ Rs 10 per share and money received for 12,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call.

Bank A/c	Dr.	24,000	
To Share Application A/c			24,000
(Application money received for 12,000 shares)			

Share Application A/c	Dr.	24,000	
To Share Capital A/c			20,000
To Share Allotment A/c			4,000
(Application money transferred to Share Capital Account and the balance amount is transferred to Share Allotment Account)			

Share Allotment A/c	Dr.	50,000	
To Share Capital A/c			50,000
(Amount due on allotment of 10,000 shares @ Rs 5 per share)			

Bank A/c	Dr.	46,000	

To Share Allotment			46,000
(Allotment money received, Rs 50,000 – Rs 4,000)			

iii) Pro rata and refund of money

In this case, the company follows a combination of both the method. It may reject some share applications and may allot some applications on the pro rata basis.

Share Application A/c	Dr.		
To Share Capital A/c			
To Share Allotment A/c			
To Bank A/c			
(Application money transferred to Share Capital			
Account and the balance amount is transferred to			
Share Allotment Account and the excess application			
money is refund)			

Example: Shares issued 10,000 @ Rs 10 per share and money received for 13,000 shares. Amount is payable Rs 2 on application, Rs 5 on allotment, Rs 3 on first and final call. If the company rejects the applications for 1,000 shares and allots the remaining on the pro rata basis.

Bank A/c	Dr.	26,000	
To Share Application A/c			26,000
(Application money received for 12,000 shares)			

Share Application A/c	Dr.	26,000	
To Share Capital A/c (10,000 × Rs 2)			20,000
To Share Allotment A/c (2,000 × Rs 2)			4,000
To Bank A/c (1,000 × Rs 2)			2,000
(Amount received on share application adjusted to Share Capital and share allotment and balance is refunded)			

Share Allotment A/c	Dr.	50,000	
To Share Capital A/c			50,000
(Amount due on share allotment of 10,000 share @ Rs 5 per share)			

Bank A/c	Dr.	46,000	
To Share Allotment A/c			46,000
(Allotment money received, Rs 50,000 – Rs 4,000)			

Under-subscription- When the number of shares applied by the public is lesser than the number of shares issued by the company, then the situation of Under-subscription arises. As per the Company Act, the Minimum Subscription is 90% of the shares issued by the company. This implies that the company can allot shares to the applicants provided if applications for 90% of the issued shares are received. Otherwise, the company should refund the entire application amount received. In this regard, necessary Journal entry is passed only after receiving and refunding of the application money.

Question 8:

Describe the purposes for which a company can use 'Securities Premium Account'.

ANSWER:

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities:

1. For paying up unissued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,

2. For writing off the preliminary expenses of the company,

3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,

4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.

5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own share

---

Question 9:

State clearly the conditions under which a company can issue shares at a discount.

ANSWER:

As per the Section 79 of the Company Act of 1956, following are the conditions under which a company can issue shares at a discount.

1. A company can issue shares at discount provided it has previously issued such type of shares.

2. The issue of shares at a discount is authorised by a resolution passed by the company in the General Meeting and sanction obtained from the Company Law Tribunal.

3. The resolution specifies that the maximum rate of discount is 10% of the face value of the shares, unless higher percentage of discount allowed by the Company Law Tribunal.

4. A company can issue shares at discount atleast after one year from the date of commencing business.

5. If a company wants to issue shares at discount, then it must issue them within two months of obtaining sanction from the Company Law Tribunal.

6. Every prospectus related to the issue of the shares should explicitly and clearly contain particulars of the discount allowed on the issue of shares.

Question 10:

Explain the term ‘Forfeiture of Shares’ and give the accounting treatment on forfeiture.

ANSWER:

If a shareholder fails to pay the allotment money and/or any subsequent calls, then the company has the right to forfeit shares by giving a proper notice to the shareholder.

As per the Table A of the Company Act, the procedure of forfeiting shares is mentioned below.

1. A notice is sent to default shareholder stating him/her to pay Calls in Arrears along with the interest accrued on the outstanding calls money within a period of 14 days of the receipt of notice, otherwise, the shares will be forfeited.

2. If the shareholder does not pay the amount, then the company has the right to forfeit his/her share by passing a resolution.

3. A notice of that resolution is send to the default shareholder and a public notice of the same is published in a daily newspaper.

4. The name of the shareholder is removed from the register of members (i.e. shareholders).

Accounting Treatment for Forfeiture of Shares:

i) Forfeiture of Shares that were issued at Par

Share Capital A/c	Dr.	(amount called up)
To Share Allotment A/c		(amount not received)
To Share Calls A/c		(amount not received)
To Share Forfeiture A/c		(amount received)
(Shares forfeited)		

ii) Forfeiture of Shares that were issued at Premium

a) *If premium is received, then the premium is not shown*.

Share Capital A/c	Dr.	(amount called up)
To Share Allotment A/c		(amount not received)
To Share Calls A/c		(amount not received)
To Share forfeiture A/c		(amount received)
(Share forfeited)		

b) *If premium is not received, then the premium is shown.*

Share Capital A/c	Dr.	(amount called up excluding premium)
Share Premium A/c	Dr.	(amount not received)
To Share Allotment A/c		(amount not received including premium)
To Share Calls A/c		(amount not received)
To Share Forfeiture A/c		(amount received including premium)
(Share forfeited)		

iii) Forfeiture of Shares that were issued at Discount

Share Capital A/c	Dr.	(amount called up, plus discount)
To Discount on Issue of Shares A/c		(amount of discount)
To Share Allotment A/c		(amount not received)
To Share Calls A/c		(amount not received)
To Share Forfeiture A/c		(amount received)
(Share forfeited)		