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Accounting for Share Capital

1.6.3 Over Subscription

There are instances when applications for more shares of a company are received than the number offered to the public for subscription. This usually happens in respect of share issues of well-managed and financially strong companies and is said to be a case of 'Over Subscription'.

In such a condition, three alternatives are available to the directors to deal with the situation: (1) they can accept some applications in full and totally reject the others; (2) they can make a pro-rata allotment to all; and (3) they can adopt a combination of the above two alternatives which happens to be the most common course adopted in practice.

The problem of over subscription is finally resolved with the allotment of shares. Therefore, from the accounting point of view, it is better to place the situation of over subscription within the total frame of application and allotment, i.e. receipt of application amount, amount due on allotment and its receipt from the shareholders, and the same has been observed in the pattern of entries.

First Alternative : When the directors decide to fully accept some applications and totally reject the others, the application money received from rejected applications is fully refunded. For example, a company invited applications for 20,000 shares and received the applications for 25,000 shares. The directors totally rejected the applications for 5,000 shares which are in excess of the required number and refunded their application money in full. In this case, the journal entries on application and allotment will be as follows :

The journal entries on application and allotment according to this alternative are as follows:

- | | | |
|---|--|-----|
| 1 | Bank A/c
To Share Application A/c
(Money received on application for 25,000 shares @ Rs. _ per share) | Dr. |
| 2 | Share Application A/c
To Share Capital A/c
To Bank A/c
(Transfer of money on application 20,000 for shares allotted and money refunded on applications for _ shares rejected) | Dr. |
| 3 | Share Allotment A/c
To Share Capital A/c
(Amount due on the allotment of _ shares @ Rs. _ per Share) | Dr. |
| 4 | Bank A/c
To Share Allotment A/c
(Allotment money received) | Dr. |

Second Alternative : When the directors opt to make a proportionate allotment to all the applicants (called 'pro-rata' allotment), the excess application money received is normally adjusted towards the amount due on allotment. In case, however, the excess application money received is more than the amount due on allotment of shares, such excess amount may either be refunded or credited to calls in advance.

For example, in the event of applications for 20,000 shares being invited and those received are for 25,000 shares, it is decided to allot shares in the ratio of 4:5 to all applicants. It is a case of pro-rata allotment and the excess application money received on 5,000 shares would be adjusted towards the amount due on the allotment of 20,000 shares. In this case, the journal entries on application and allotment will be as follows.

- | | | |
|---|---|-----|
| 1 | Bank A/c
To Share Application A/c
(Application money received on 25,000 shares @ Rs. _ per Share) | Dr. |
| 2 | Share Application A/c
To Share Capital A/c
To Share Allotment A/c

(Transfer of application money to share capital and the excess application money credited to share allotment.) | Dr. |
| 3 | Share Allotment A/c
To Share Capital A/c
(Amount due on the Allotment of 25,000 share @ Rs. _ per Share) | Dr. |

4	Bank A/c To Share Allotment A/c (Allotment money received after adjusting the amount already received as excess application money)	Dr.
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Third Alternative : When the application for some shares are rejected outrightly; and pro-rata allotment is made to the remaining applicants, the money on rejected applications is fully refunded and the excess application money received from applicants to whom prorata allotment has been made is adjusted towards the amount due on the allotment of shares allotted.

For example, a company invited applications for 10,000 shares and received applications for 15,000 shares. the directors decided to reject the applications for 2,500 shares outright and to make a pro-rata allotment of 10,000 shares to the applicants for the remaining 12,500 shares so that four shares are allotted for every five shares applied. In this case, the money on applications for 2,500 shares rejected would be refunded fully and that on the remaining 10,000 shares (12,500 shares - 2,500 shares) would be adjusted against the allotment amount due on 10,000 shares allotted and credited to share allotment account, the journal entries on application and allotment recorded as follows:

1	Bank A/c To Share Application A/c (Money received on application for 15,000 shares @ Rs. __ per share)	Dr.
2	Share Application A/c To Share Capital A/c To Share Allotment A/c To Bank A/c (Transfer of application money to share capital, and the excess application amount of pro-rata allottees credited to share allotment and the amount on rejected applications refunded)	Dr.
3	Share Allotment A/c To Share Capital A/c (Amount due on the Allotment of 10,000 shares @ Rs. __ per share)	Dr.
4	Bank A/c To Share Allotment A/c (Allotment money received after adjusting the amount already received as excess application money.)	Dr.