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Accounting for Share Capital

1.6 Accounting Treatment

On application : The amount of money paid with various instalment represents the contribution to share capital and should ultimately be credited to share capital. However, for the sake of convenience, initially individual accounts are opened for each instalment. All money received along with application is deposited with a scheduled bank in a separate account opened for the purpose. The journal entry is as follows:

Bank A/c	Dr.
To Share Application A/c	
(Amount received on application for – shares @ Rs. _____ per share) .	

On allotment : When minimum subscription has been received and certain legal formalities on the allotment of shares have been duly complied with, the directors of the company proceed to make the allotment of shares.

The allotment of shares implies a contract between the company and the applicants who now become the allottees and assume the status of share-holders or members.

Box 2

Allotment of Shares

(Implications from accounting point of view)

- It is customary to ask for some amount called "Allotment Amount" from the allottees on the shares allotted to them as soon as the allotment is made.
- With the acceptance to the offer made by the applicants, the amount of application money received has to be transferred to share capital account as it has formally become the part of the same.
- The money received on rejected applications should either be fully returned to the applicant within 130 days of the date of issue of prospectus, or
- In case lesser number of shares have to be allotted, than those applied for the excess application money must be adjusted towards the amount due on allotment from the allottees.
- The effect of the later two steps is to close the share application account which is only a temporary account for share capital transactions.

The journal entries with regard to allotment of shares are as follows:

1. *For Transfer of Application Money*
Share Application A/c Dr.
 To Share Capital A/c
(Application money on _____ Shares allotted/
transferred to Share Capital)
2. *For Money refunded on rejected application*
Share Application A/c Dr.
 To Bank A/c
(Application money returned on rejected application for – shares) .
3. *For Amount Due on Allotment*
Share Allotment A/c Dr.
 To Share Capital A/c
4. *For Adjustment of Excess Application Money*
Share Application A/c Dr.
 To Share Allotment A/c
(Application Amount on – Shares @ Rs. per shares
adjusted to the amount due on allotment) .
5. *For Receipt of Allotment Amount*
Bank A/c Dr.
 To Share Allotment A/c
(Allotment money received on – Shares @
Rs. – per share Combined Account)

Sometimes a *combined account* for share application and share allotment called 'Share Application and Allotment Account' is opened in the books of a company. The combined account is based on the reasoning that allotment without application is impossible while application without allotment is meaningless. These two stages of share capital are closely inter-related. When a combined account is maintained, journal entries are recorded in the following manner:

1. *For Receipt of Application and Allotment*
Bank A/c Dr.
 To Share Application and Allotment A/c
(Money received on applications for shares
@ Rs. _____ per share) .
2. *For Transfer of Application Money and Allotment Amount Due*
Share Application and Allotment A/c Dr.
 To Share Capital A/c
(Transfer of application money to Share Capital Account
for amount due or allotment of – Share @ Rs. _____ per share)

3. *For Money Refunded on Rejected Applications*
Share Application and Allotment A/c Dr.
 To Bank A/c
(Application money returned on rejected application
for ___ shares) .
4. *On Receipt of Allotment Amount*
Bank A/c Dr.
 To Share Application and Allotment A/c
(Balance of Allotment Money Received) .

On Calls : Calls play a vital role in making shares fully paid-up and for realising the full amount of shares from the shareholders. In the event of shares not being fully called-up till the completion of allotment, the directors have the authority to ask for the remaining amount on shares as and when they decide about the same. It is also possible that the timing of the payment of calls by the shareholders is determined at the time of share issue itself and given in the prospectus.

Two points are important regarding the calls on shares. First, the amount on any call should not exceed 25% of the face value of shares. Second, there must be an interval of at least one month between the making of two calls unless otherwise provided by the articles of association of the company.

When a call is made and the amount of the same is received, the journal entries are as given below:

1. *For Call Amount Due*
Share Call A/c Dr.
 To Share Capital A/c
(Call money due on – Shares @ Rs. ____ per share)
2. *For Receipt of Call Amount*
Bank A/c Dr.
 To Share Call A/c
(Call money received)

The word/words First, Second, or Third must be added between the words "Share" and 'Call' in the Share Call account depending upon the identity of the call made. For example, in case of first call it will be termed as 'Share First Call Account', in case of second call it will be 'Share Second Call Account' and so on. Another point to be noted is that the words 'and Final' will also be added to the last call, say, if second call is the last call it will be termed as 'Second and Final Call' and if it is the third call which is the last call, it will be termed as 'Third and Final Call'. It is also possible that the whole balance after allotment may be collected in one call only. In that case the first call itself, shall be termed as the 'First and Final Call' .