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शक्तिउत्थानआश्रमलखीसरायबिहार

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Accounting for Share Capital

Illustration 6

Rohit and Company issued 30,000 shares of Rs.10 each payable Rs.3 on application, Rs.3 on allotment and Rs.2 on first call after two months. All money due on allotment was received, but when the first call was made a shareholder having 400 shares did not pay the first call and a shareholder of 300 shares paid the money for the second and final call of Rs.2 which had not been made as yet.

Give the necessary journal entries in the books of the company.

Solution

Books of Rohit & Company Journal

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Share Application A/c (application money received on 30,000 shares @ Rs.3 per share)		90,000	90,000
	Share Application A/c Dr. To Share Capital A/c (application money transferred to share capital account)		90,000	90,000
	Share Allotment A/c Dr. To Share Capital A/c (Allotment money due on 30,000 shares @ Rs.3 per share)		90,000	90,000
	Bank A/c Dr. To Share Allotment A/c (Allotment money received)		90,000	90,000
	Share First Call A/c Dr. To Share Capital A/c (First call money due on 30,000 shares @ Rs.2 per share)		60,000	60,000
	Bank A/c Dr. Call in Arrears A/c Dr. To Share First Call A/c To Calls in Advance A/c (Money received in advance on the second call for 300 shares @ Rs.2 per share, and the first call not received on 400 shares @ Rs.2 per share)		59,800 800	60,000 600

Do it Yourself

1. A company issued 20,000 equity shares of Rs.10 each payable at Rs.3 on application, Rs.3 on allotment, Rs.2 on first call and Rs.2 on second and the final call. The allotment money was payable on or before May 01, 2005; first call money on or before August 1st, 2005; and the second and final call on or before October 1st, 2005; 'X', whom 1,000 shares were allotted, did not pay the allotment and call money; 'Y', an allottee of Rs.600 shares, did not pay the two calls; and 'Z', whom 400 shares were allotted, did not pay the final call. Pass journal entries and prepare the Balance Sheet of the company as on December 31, 2005.
2. Alfa company Ltd. issued 10,000 shares of Rs.10 each for cash payable at Rs.3 on application, Rs.2 on allotment and the balance in two equal instalments. The allotment money was payable on or before March 3, 2006; the first call money on or before 30 June, 2006; and the final call money on or before 31st August, 2006. Mr. 'A', whom 600 shares were allotted, paid the entire remaining face value of shares allotted to him on allotment. Record journal entries in company's books and also prepare their balance sheet on the date.

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:

