ACCOUNTING FOR SHARE CAPITAL

DEFINITION OF A COMPANY

"Company means a company incorporated under this Act or any previous Company Law" -Section 2(20) of the Companies Act, 2013

"A company is an artificial person, created by law having separate entity with a perpetual succession and a common seal" - Prof. Haney

A company/joint stock company is an entity incorporated by a group of persons through the process of law for undertaking a business. It is an artificial person and is separate from its members/shareholders. It normally has a share capital divided into units called shares, the owners of which are known as shareholders. It being a separate from its shareholders, insolvency or death of a member dies not affect the continuity of the company.

CHARACTERISTICS OF A COMPANY

1. Incorporation: A company is an artificial person created through the process of law, i.e., the Companies Act either under the present companies Act, 2013 or under any previous companies Acts.

2. Separate Legal Entity*:* A company has a separate legal entity which is distinct and separate from its members. It can hold and deal with any type of property. It can enter into contracts and even open a bank account in its own name.

3. Artificial person: - A company is called an artificial person because it comes into existence through law. It can own property, enter in to contract, conduct business, sue or be sued for its debts and actions.

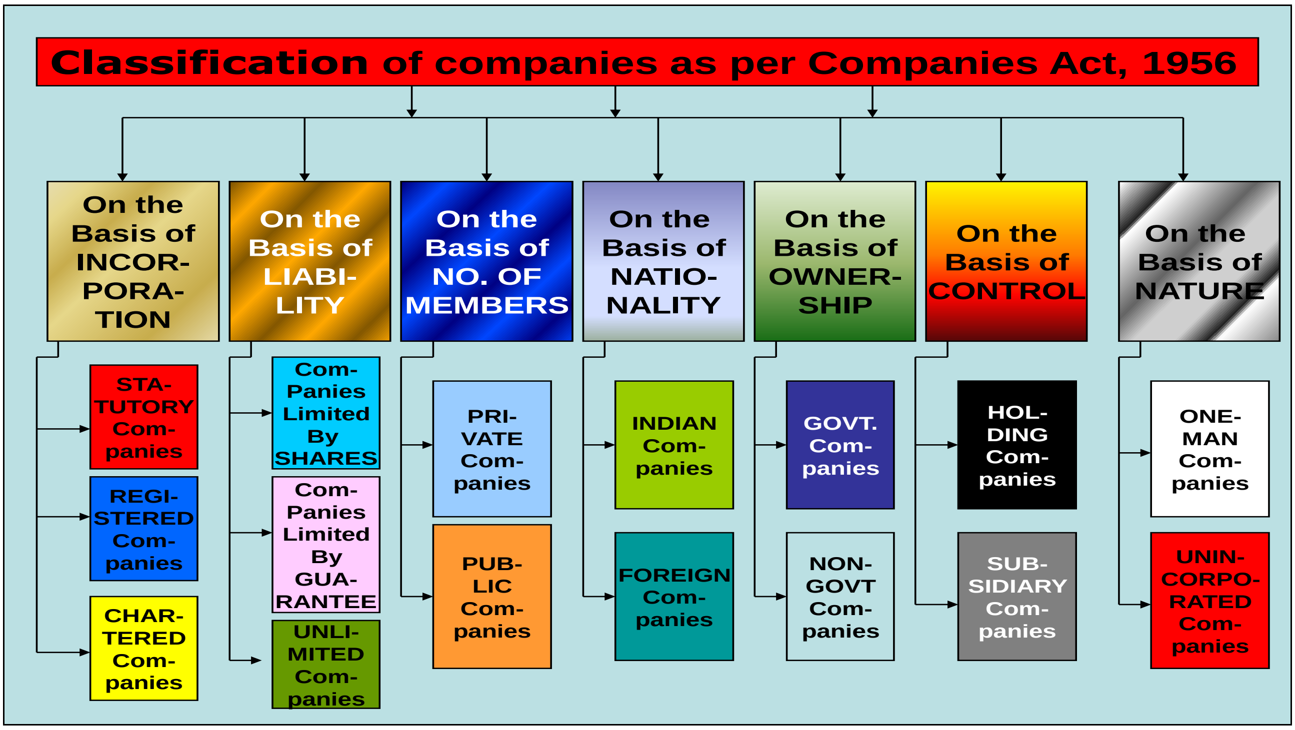
4. Perpetual Succession*:* The Company being an artificial person created by law continues to exist irrespective of the changes in its membership. A company can be terminated only through law. The death or insanity or insolvency of any member of the company in no way affects the existence of the company. Members may come and go but the company continues.

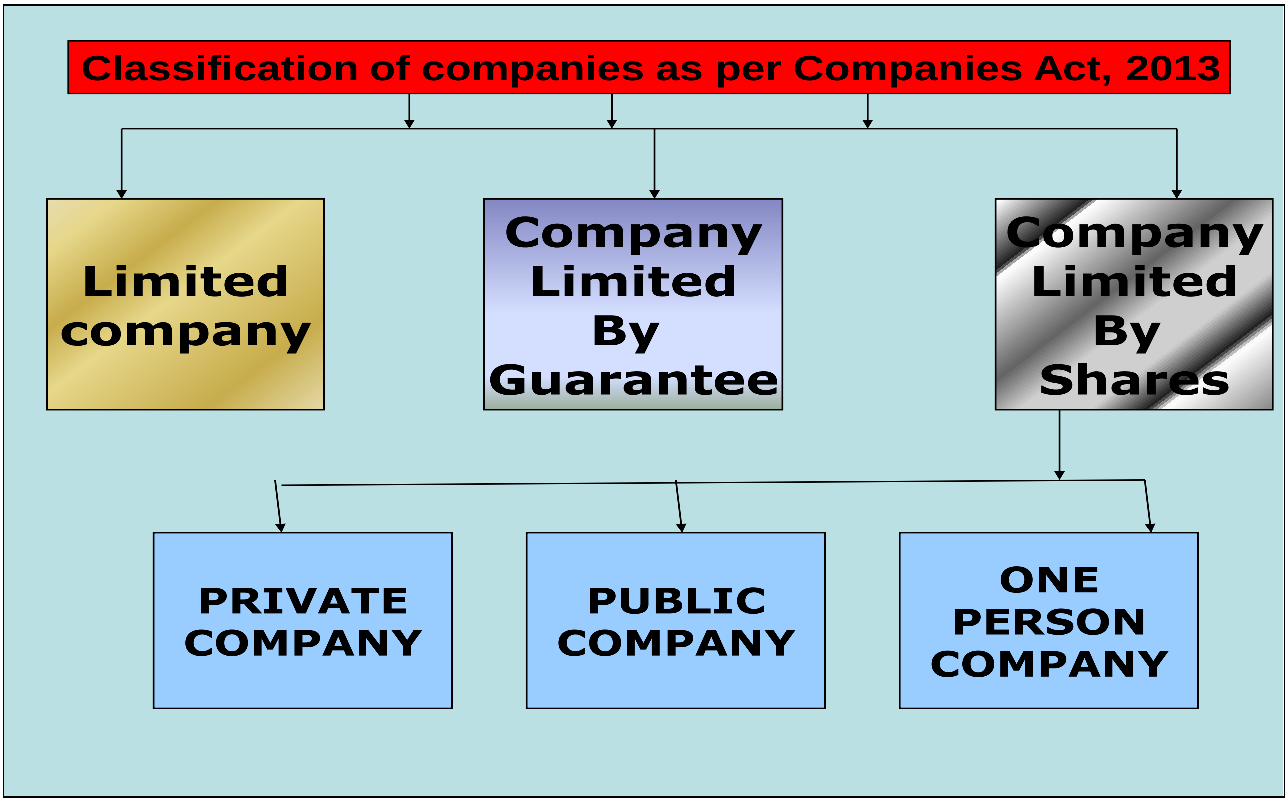
5. Limited Liability*:* The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them. In the case of the companies limited by guarantee, the liability of its members is limited to the extent of the guarantee given by them in the event of the company being wound up.

6. Transferability of Shares: The shares of a public limited company are freely transferable. The permission of the company or the consent of any member of the company is not necessary for the transfer of shares. But the Articles of the company can prescribe the manner in which the transfer of shares will be made.

7. Management and ownership: A company is not managed by all the members but by their elected representatives called Directors. Thus, management and ownership are separate.

8. Common Seal*:* The Company being an artificial person cannot sign its name by itself. Therefore, every company is required to have its own seal which acts as official signatures of the company. Any document which does not carry the common seal of the company is not binding on the company.


Classification of companies as per Companies Act, 1956
On the Basis of INCOR-PORA-TION
On the Basis of LIABI-LITY
On the Basis of NO. OF MEMBERS
On the Basis of NATIO-NALITY
On the Basis of OWNER-SHIP
On the Basis of CONTROL
On the Basis of NATURE
STA-TUTORY Com-panies
REGI-STERED Com-panies
CHAR-TERED Com-panies
Com-Panies Limited By SHARES
Com-Panies Limited By GUA-RANTEE
UNLI-MITED Com-panies
PRI-VATE Com-panies
PUB-LIC Com-panies
INDIAN Com-panies
FOREIGN Com-panies
GOVT. Com-panies
NON-GOVT Com-panies
HOL-DING Com-panies
SUB-SIDIARY Com-panies
ONE-MAN Com-panies
UNIN-CORPO-RATED Com-panies


Classification of companies as per Companies Act, 2013
Limited company
Company Limited By Guarantee
Company Limited By Shares
PRIVATE COMPANY
PUBLIC COMPANY
ONE PERSON COMPANY

TYPES OF COMPANIES

PRIVATE COMPANY:- As per Section 2 (68) of Companies Act, 2013, a private company is one which by is a Articles of Association

- Restricts the right to transfer its shares;
- Limits the number of its members to 200 (exclusive of past and present employees)
- Prohibits any invitation to the public to subscribe for any securities i.e, shares or debentures of the company
- The name of every private company must end with the words `Private Limited`.

PUBLIC COMPANY:- As per Section 2(71) of Companies Act, 2013, a public company means a company which is not a private company. As per the Indian Companies Act, a public company is one which:

- A company that is not a private company
- Has a minimum of 7 members and no limit on maximum members
- Has a minimum paid-up capital of 5 lacs, again there is no maximum limit
- Has no restriction on transfer of shares and is not prohibited from inviting the public to subscribe to its share capital or public deposits.
- A minimum of 3 directors are required and there is no restriction on the maximum number of directors
- The liability of each shareholder is limited
- It is a compulsory requirement under the Companies Act, 2013 for all the public companies to add the word 'limited' after their name.
- A private company that is a subsidiary of a public company, will be considered a public company

ONE PERSON COMPANY(OPC):- Companies Act, 2013 introduces a a new type of entity to the existing list i.e., apart from forming a public or private limited company, the Act enables the formation of a new entity `One Person Company` (OPC). An OPC means a private limited company with only one person as its member [Section 2 (62)]. Following rules are applicable on OPC

- Only a natural person who is an Indian citizen and resident in India can be a member of OPC. The term resident in India means a person who has stayed in India for a period of not less than 182 days immediately preceding one calendar year.
- One person can form only one OPC
- Its paid up share capital should not exceed Rs. 50 lakhs
- Its average annual turnover of three years should not exceed Rs. 2 crore
- As per Rule 3(5) of the Companies rules 2014, an OPC cannot be formed for charitable purposes. In other words, it can be formed for business purpose only.
- An OPC cannot invert itself into public or private company unless a period of 2 years has expired from the date of its incorporation and conversion is mandatory when the paid up share capital is increased beyond Rs. 50 lacks or its average annual turnover during the relevant period exceeds Rs. 2 crore.

Benefits of OPC

- OPC is not required to include Cash Flow Statement in its financial statements
- The provisions relating to calling of AGM, Notice for General Meeting, Quorum for meetings, Proxies etc., shall not apply to OPC.

NATURE AND CLASSES OF SHARES

Shares refer to the units into which the total share capital of a company is divided. Thus, a share is a fractional part of the share capital and forms the basis of ownership interest in a company. The persons who contribute money through shares are called shareholders. As per The Companies Act, a company can issue two types of shares, namely (1) preference shares, and (2) equity shares (also called ordinary shares).

PREFERENCE SHARES: - According to Section 43 of The Companies Act, 2013, a preference share is one, which fulfils the following conditions:
(a) That it carries a preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value of each share before any dividend is paid to the equity shareholders.
(b) That with respect to capital it carries or will carry, on the winding up of the company, the preferential right to the repayment of capital before anything is paid to equity shareholders.
However, notwithstanding the above two conditions, a holder of the preference share may have a right to participate fully or to a limited extent in the surpluses of the company as specified in the Memorandum or Articles of the company. Thus, the preference shares can be Participating and Non- participating. Similarly, these shares can be Cumulative or Non-cumulative, and Redeemable or Irredeemable.

EQUITY SHARES:- According to Section 43 of The Companies Act, 2013, an equity share is a share which is not a preference share. In other words, shares which do not enjoy any preferential right in the payment of dividend or repayment of capital are termed as equity/ordinary shares. The equity shareholders are entitled to share the distributable profits of the company after satisfying the dividend rights of the preference share holders. The dividend on equity shares is not fixed and it may vary from year to year depending upon the amount of profits available for distribution. The equity share capital may be (i) with voting rights; or (ii) with differential rights as to voting, dividend or otherwise in accordance with such rules and subject to such conditions as may be prescribed.

TYPES OF SHARE CAPITAL

1. AUTHORISED SHARE CAPITAL: - It is the amount of share capital that a company is authorized to raise as per its Memorandum of Association **<u>during its span of life</u>**. It may include equity share capital, preference share capital or both. This is maximum amount of capital authorized to be raised by issue of shares and which the company cannot issue shares beyond the limit unless the capital clause in the Memorandum is altered. It is just shown as information to members of the company. It is also called as NOMINAL CAPITAL/REGISTERED. It is never added to liabilities of the company.

2. ISSUED SHARE CAPITAL: - It is the part of the authorized share capital which is actually offered to the public for subscription (equity or preference or both) and it includes the shares taken by the subscribers to the memorandum of association. The rest of the authorized capital is called un-issued capital. The un-issued capital can be issued by the company at any time when it requires additional capital

3. SUBSCRIBED SHARE CAPITAL: - It is that part of issued share capital which has been subscribed/applied by the applicants. The subscribed capital cannot exceed issued capital of the company. However, it should not be less that 90% of the issued capital (as per SEBI guidelines).
Subscribed share capital is either equal or less or more than the issued share capital. If the public does not subscribe the whole of the capital issued then it is said to be undersubscribed, the balance of the issued capital not subscribed by the public is called un-subscribed capital. If the amount of share capital is more than the issued capital, it is said to be oversubscribed.

It will include the followings:

1. Shares allotted for consideration other than cash, bonus shares and the shares issued to vendors are shown separately.
2. Calls in arrears is shown as deduction from the paid up capital
3. Amount of share forfeited is shown as addition to paid up capital, however, profit on re-issue of forfeited shares is transferred to Capital reserve Account.

Subscribed capital can be further classified into (1) Subscribed and fully paid and (2) Subscribed but not fully paid. As per Revised Schedule VI, these two items should be separately shown in the Notes Accounts.

SUBSCRIBED AND FULLY PAID: - When entire nominal value of a share is called by the company and also paid up by the share holder, it is said to be \`Subscribed and fully paid\`. Ex:- A Ltd has issued 10,000 equity shares of Rs. 10 each. Full amount was called and paid by all t he shareholders. In this case Notes to Accounts on Share Capital shall be shown as under.

Notes to Accounts	Rs.	Rs.
Share capital Subscribed and fully paid 10,000 Equity shares of Rs. 10 each		1,00,000

SUBSCRIBED BUT NOIT FULLY PAID:- Shares are said to be \`Subscribed but not fully paid-up\` under the following two situations: There may be two situations viz (a) when company has called up the full amount but some shareholders have not paid the full amount or (b) When company has not called up the full amount. In both the cases the capital shall be called subscribed but not fully paid. Following examples will further illustrate these cases.

Example. 1. B. Ltd has issued 10,000 equity shares of 10 each. Full amount was called but a shareholder holding 100 shares did not pay Rs. 2 on final call. In this case Notes to Accounts on Share Capital shall be shown as under.

Notes to Accounts	Rs.	Rs.
Share capital Subscribed and fully paid 9, 900 Equity shares of Rs. 10 each Subscribed but not fully paid 100 Equity shares of Rs. 10 each Less: Calls in arrears (100 X 2)	 1,000 200 --------	 99,000 800 99,800

Example. 2. C. Ltd has issued 10,000 equity shares of 10 each. Till the dater of balance sheet, Company has called Rs. 8 only. In this case Notes to Accounts on Share Capital shall be shown as under

Notes to Accounts	Rs.	Rs.
Share capital Subscribed but not fully paid 10,000 Equity shares of Rs. 10 each, Rs. 8 called up		 80,000

4. CALLED UP CAPITAL: - It means the amount that the shareholders have been called upon by the company to pay on the shares subscribed by them. It also includes the fully or partly paid shares issued to the vendors.

5. PAIDUP CAPITAL: - Paid up capital is the amount of money actually paid by the subscribers. It also includes the amount of money actually paid by the subscribers. It also includes the amount of shares issued to vendors for consideration other than cash. The amount not paid by members becomes calls in arrears.

At some time a few shareholders may fail to pay the call money on the shares. Such unpaid amount by shareholders against calls is to be shown as a deduction from called up amount.

6. UNISSUED SHARE CAPITAL: - It is that port5ion of the authorized capital for which shares have not been invited for subscription.

7. UNCALLED SHARE CAPITAL:- The unpaid portion of the subscribed capital is called uncalled capital. This represents the difference between the subscribed capital and the called up amount

8. RESERVED CAPITAL: - It is the part of the uncalled capital which has been reserved by the company to be called in the event of winding up (sec.418)

Sometimes the company keeps a part of the subscribed capital separately which can be called only on the winding up of the company. Such capital is called Reserve Capital

The disclosure of Share Capital in the Balance Sheet is limited to the following:

Name of the Company ……………………….
Balance Sheet (An Extract) as on………………………….

Particulars	Note No	Figures at the end of current of reporting period	Figures at the end of previous of reporting period
1	2	2	4
I. Equity and Liabilities			
1. Share holders' funds			
(a) Share Capital	1	XXX	XXX

Notes to accounts:

Particulars	Amount (Rs.)	Amount (Rs.)
(a) Share Capital		
Authorised Capital		
………………. Shares of Rs. ……… each		XXX
Issued Capital		
………………. Shares of Rs. ……… each		XXX
Subscribed Capital		
Subscribed and fully paid up		
………………. Shares of Rs. ……… each		XXX
Subscribed **but not** fully paid up		
………….. Shares of Rs. ……. Each, Rs. …… called up	XXX	
(-) Calls in arrears (ifany)	XXX	
	XXX	
(+) Shares forfeited A/C	XXX	XXX

Note: Equity share capital and Preference share capital to be shown separately.

TYPES OF SHARES

Under Section 43 of the Companies Act, 2013 a Company may issue two types of shares.

1. Preference Shares
2. Equity Shares

PREFERENCE SHARES: - According to Section 43 of The Companies Act, 2013, a preference share is one, which fulfils the following TWO conditions

(1) Preference Shareholders have a right to receive to dividend at a fixed rate before any dividend is paid on the equity shares

(2) When the company is wound up, Preference Shareholders have a right to the return of capital before that of equity shares

In addition to the above, the preference shares may carry some more rights such as the right to participate in excess profits when a specified dividend has been paid on the equity shares or the right to receive a premium at the time of redemption.

EQUITY SHARES: - Equity shares are those shares which are paid dividends only when profits are left after the preference shareholders have been paid fixed rate of dividends. In other words, there will be no fixed rate of dividend on the equity shares. If in a particular year, there are not profits or insufficient profits, the equity shares will receive nothing. If the Company earns more profits, they get a higher rate of dividend. As regards return of capital, equity share capital is returned only when preference share capital is returned in full. Equity shareholders have voting rights and control the affairs of the company.

ISSUE OF SHARE PROCEDURE

Following steps are to be taken by a public company for the issue of share to public

1. To issue Prospectus
2. To receive Applications
3. To make Allotment of shares
4. To make calls

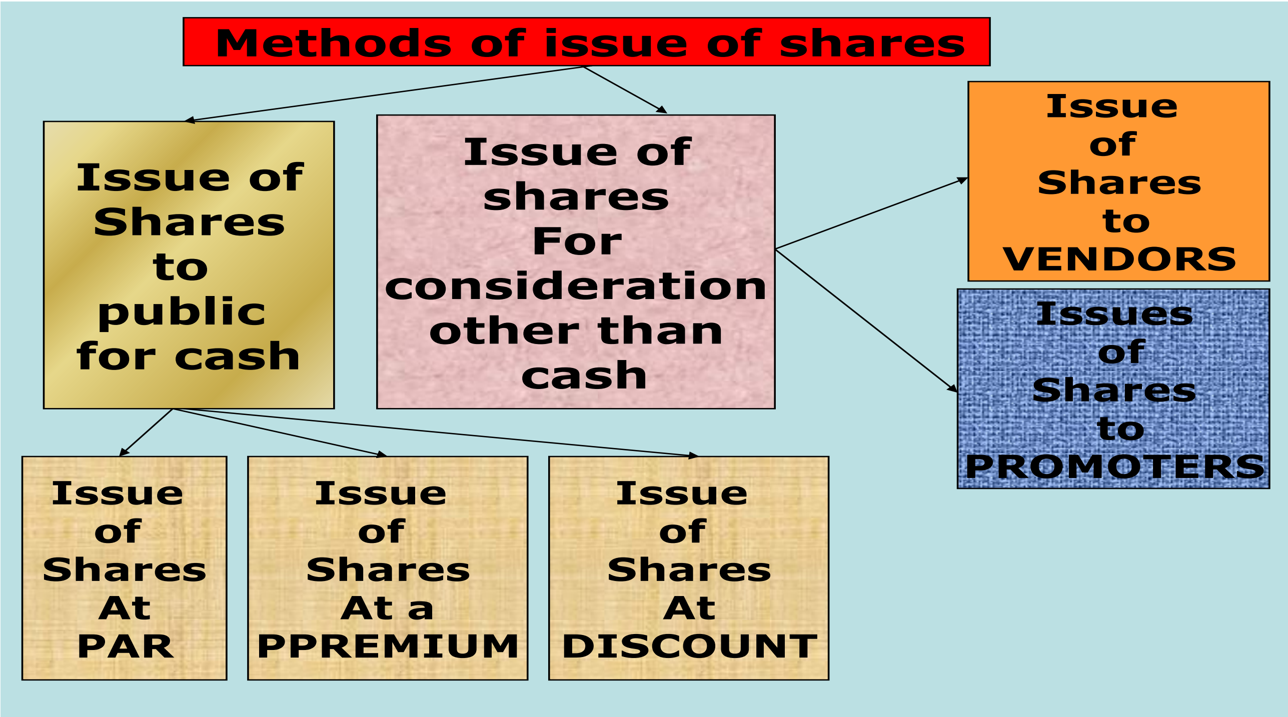
To Issue Prospectus: Prospectus is an invitation to the public that a new company has come into existence and it needs funds for doing business. Generally the company's request the public to purchase its shares. It describes the profitability and soundness of the business of the company to attract the investing public

To Receive Applications:- After reading the prospectus, prospective investors intending to subscribe the share capital of the company would make an application along with the application money and deposit the same with a scheduled bank as specified in the prospectus. The application money should not be less than 25% of the issue price of each share.

To make Allotment Shares: - After the last date fixed for receipt of application money expires, the Bank sends all applications to the company. The direct ors of the company cannot proceed to allot share s unless MINIMUM SUBSRIPTION mention in the prospectus has been received by the company.

Minimum subscription: - Section 39(1) of the Companies Act, 2013 provides that company cannot allot any securities of the company to public unless the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on application for the amount so stated haven received by the Company. Companies Act, 2013 has not stated prescribed the minimum subscription. However, according to SEBI guidelines minimum subscription has been fixed at 90% of the issued amount. As per Section 39 (3), the company has to get minimum subscription within 30 days from the date of issue of t he prospectus. If the company fails to receive the minimum subscription within the said, period, the company cannot proceed with the allotment of shares and the entire application money must be returned within next 15 days. If there is a delay in refund of such amount by more than 15 days, the Company shall be liable to repay it with interest at the rate of 15% per annum for the delayed period.

To make Calls: - The amounts paid on application and allotment are not calls but subsequent installments, as and when demanded are calls. A company may demand the whole amount of a share on application in one installment. If the whole of the amount of share is not paid on application and allotment, the unpaid amount may be called by the directors in one or more installments. Each installment is named as First Call, Second Call etc. Calls must be made strictly in accordance with the provision of the Articles of Association. In absence of the Articles of Association, the Provisions of Table F of Schedule I of the Companies Act, 2013 shall apply.



ACCOUNTING TREATMENT OF ISSUE OF SHARES TO PUBLIC

ENTRIES ON APPLICATION		
SITUATION	ENTRY	NARRATION
For receipt of application money	Bank A/C Dr. To Share Application A/C	Being the application money received for ….. shares @ Rs… per share)
For transfer of application money to share capital account	Share Application A/C Dr. To Share Capital A/C	Being the transfer of share application money towards share capital account)
For money refunded to rejected applicants	Share Application A/C Dr. To Bank A/C	(Being the money refunded to the rejected applicants)
For adjustment of excess application money towards allotment and calls	Share Application A/C Dr. To Share Allotment A/C To Calls-in-advance A/C	(Being the adjustment of excess amount received on application to allotment and calls in advance a/c)

ENTRIES ON ALLOTMENT		
For amount due on allotment	**If the share are allotted at PAR** Share Allotment A/C Dr. To Share Capital A/C	(Being the allotment money due on ….. shares @ Rs. ….. per share)
	If the share are allotted at a PREMIUM Share Allotment A/C Dr. To Share Capital A/C To Securities premium A/C	(Being the allotment money due on ….. shares @ Rs. ….. per share including premium of Rs. .. per share)
For receipt of allotment money	Bank A/C Dr. Calls in arrear A/C Dr(if so) To Share Allotment A/C	(Being the receipt of allotment money)
ENTRIES ON FIRST CALL		
For amount due on FIRST call	Share First Call A/C Dr. To Share Capital A/C	(Being the first call money due on ….. shares @ Rs. ….. per share)
For receipt of FIRST call money	Bank A/C Dr. Calls in arrear A/C Dr(if so) To Share first call A/C	(Being the receipt of first call money)
ENTRIES ON SECOND/FINAL CALL		
For amount due on SECOND/FINAL call	Share Second/ Final Call A/C Dr. To Share Capital A/C	(Being the first/final call money due on ….. shares @ Rs. ….. per share)
For receipt of SECOND/FINAL call money	Bank A/C Dr. Calls in arrear A/C Dr(if so) To Share Second/ Final Call A/C Dr	(Being the receipt of first/final call money)

ISSUE OF SHARES FOR LUMPSUM IF THE ENTIRE SHARE MOENEY IS RECEIVED IN LUMPSUM		
For Receipt of Share Application AND Allotment Money	Banka/c ….Dr. To Share Application and Allotment A/C	(Being the application money received)
For Allotment of Shares	Share Application and Allotment A/C…….Dr To Share Capital a/c To Securities Premium Reserves a/c [if the share issued at Premium]	(Being the issue of shares against share application and allotment)

ISSUE OF SHARES OF TO PUBLIC FOR CASH: - Issue of shares to the public for cash is of 3 types. Namely,

1. Issue of shares at PAR
2. Issue of shares at a PREMIUM
3. Issue of shares at DISCOUNT

ISSUE OF SHARES AT PAR: - Every share is of a certain price/value is known as its `Face Value`. If the shares are issued at their face value, then it is said to be "SHARES ISSUED AT PAR".

ISSUE OF SHARES AT A PREMIUM: - Generally, some companies enjoy a good reputation in the share market and people will be willing to buy shares of such companies even at a price higher than the nominal value of the shares. Such companies may issue shares at a price which is more than the face value. The excess amount collected over and above the face value is called SECURITIES/SHARE PREMIUM and the issue is called `Issue of Shares at a Premium`. The premium on issue of share is a capital profit and is to be credited to a separate account called Securities Premium Reserve Account. It must be shown separately in the Balance Sheet on the equity & liabilities side under the head `Reserves and Surplus`.

Securities Premium A/C Versus Securities Premium Reserve A/C	
As per Section 52(1) of the Companies Act, 2013 the amount of premium received should be credited to `Securities Premium A/C`.	Schedule III of the Companies Act, 2013 has given the head `Securities Premium Reserve A/C`
Students may use either of the two terms while making the journal entries.	

ENTRY FOR ISSUE OF SHARES AT A PREMIUM	
Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/C	(Amount due on allotment of shares @ Rs .... per share including premium)

Under Section 52(2) of the Companies Act, 2013, the amount of securities premium reserve may be used only for the following purposes.
1. To write-off preliminary expenses of the company
2. To write-off the expenses of, commission or discount allowed on issue of shares or debentures of company
3. To issue fully paid bonus shares to the shareholders of the company
4. To pay premium on the redemption of preference shares or debentures of the company
5. To buy back of its own shares and other securities as per Section 68

Normally, it is mentioned in the question as to when the securities premium is receivable, i.e., either it payable on application or on allotment or on calls. In the absence of any information, it is assumed that the securities premium is due along with allotment money.

ISSUE OF SHARES AT DISCOUNT: - When a share is issued at a price which is less than its face value, it is said that is has been issued at a discount.

PROHIBITION OS ISSUE OF SHARES AT A DISCOUNT
As per Section 53 of Companies Act 2013, Companies would no longer be permitted to issue shares at a discount. The only shares that could be issued at a discount are SWEAT EQUITY SHARES wherein shares are issued to employees or directors in lieu of the services under Section 54 of Companies Act, 2013

SWEET EQUITY SHARES: - A company may issue sweat equity shares as per Section 54 of Companies Act, 2013**.** Sweat equity shares means equity shares issued by the company to its employees or directors at a discount or for consideration other than cash for providing know-how or making available intellectual property rights. Such shares cannot be resold by their holders within a period of 3 years, called lock-in period. The company shall not issue sweat equity shares for more than 15% of the existing paid up equity share capital in a year or shares of the issue value of rupees five crores, whichever is higher.

CALLS-IN-ARREARS: - It is often happens that some shareholders fail to pay the amount of allotment or call when it becomes due. This is known as calls in arrears. There are two methods to deal with calls in arrears.

- **Without opening calls in arrear account**: - Under this method, there is no need to open calls-in-arrear account. In such a case the actual amount received from the shredders is credited to the call account and the call account will show a debit balance equal to the unpaid amount of the call. On a subsequent date, when the unpaid amount is received, Bank Account is debited and the relevant Call A/C is credited.
- **By opening Calls-in-arrears account: -** Under his method, `Calls in Arrears A/C` is opened and this account is debited when some amount of allotment or calls is not received. On a later date, when the arrear amount is received, Bank Account is debited and the Calls in Arrear A/C is credited.
- **NOTE**:- Whether the calls in arrear a/c is opened or not, the amount of calls in arrear is shown as a deduction from the amount of **subscribed but not fully paid capital** on the equity & liabilities side of t he Balance Sheet. This account is closed when the amount of arrear is received or t he relevant shares are forfeited.

ENTRY FOR CALLS-IN-ARREARS		
For Calls-in-arrears	Calls in Arrears A/c Dr. To Share First Call A/C To Share Second and Final Call A/C	(Being Calls in arrears brought into account)
For receipt of calls in arrears	Bank A/C Dr. To Calls-in-arrears A/C	(Being the receipt of calls in arrears)

Interest on Calls-in Arrears: - The company is authorised to charge interest on Calls in arrears at a specified rate mentioned in its articles, from the due date t o t he date of actual payment. But if the articles are silent, Table F of schedule I of the Companies of Act, 2013 shall be applicable, according to which interest shall be charged at a rate not exceeding **10%** p.a. However, the directors have the right to waive the payment of such interest wholly or in part.

ENTRY FOR INTEREST ON CALLS-IN-ARREARS @ 10%		
For interest on Calls-in-arrears due from shareholders (O/S)	O/S interest on Calls in Arrears A/c Dr. To interest on Calls in Arrears A/c	(Being interest on Calls in arrears due from share holders)
For receipt of interest on calls in arrears	Bank A/C Dr. To Interest on Calls in Arrears A/c	(Being the receipt of interest on calls in arrears)

CALLS IN ADVANCE:- A shareholder sometimes pay a part, or whole, of the amount not yet called upon his shares in order to save himself the trouble of paying different calls at different times. Thus the amount of future calls is received in advance by the Company. According to Section 50 of the companies Act, 2013 such amount of Calls in advance can be accepted by the Company only when it is so authorised by its Articles of Association.

The amount received as calls in advance, credited to a newly opened account "Calls in advance A/C". The calls in advance amount may be adjusted against allotment and calls account. If any balance left in `Calls in advance a/c`, shown as a separate item under the tile equity & liabilities in the company`s balance sheet under the main head `**Current Liabilities**` and Sub-head `**Other Current Liabilities**`.

ENTRY FOR CALLS-IN-ADVANCE		
For receipt of Calls-in-arrears	Bank A/C Dr. To Calls in Advance A/C	(Being the amount received on calls in advance)
For transfer of share application money to calls in advance a/c	Share Application A/C Dr. To Calls in Advance A/C	(Being the application money transferred to calls in advance account)
For transfer of calls in advance to Allotment , Calls a/c	Calls in advance A/C Dr. To Share Allotment A/C To Share Calls A/C	(Being the transfer of calls in advance amount to allotment and calls account)

Interest on Calls in advance: - The amount received as Calls in advance is a debt of the company. It is liable to pay interest on Calls in advance from the date of receipt till the date when the calls is due for payment.

Table F of Schedule I of the Companies Act, 2013 shall be applicable which leaves the matter to the Boar d of Directors subject to a maximum rate of **12%** pa.

ENTRY FOR INTEREST ON CALLS-IN-ADVANCE @12%		
For interest on Calls-in-advance due to shareholders (O/S)	Interest on Calls in Advance A/C Dr. To O/S interest on Calls in Advance A/C Dr.	(Being interest on Calls in advance due to share holders)
For payment of interest on calls in advance	Interest on Calls in Arrears A/c To Bank A/C Dr.	(Being payment of interest on calls in advance to share holders)

- It is to be noted that, interest on calls in advance is a charge against the profits of the company. As such, the interest on Calls in Advance is payable even if there are not profit s
- No Dividend is payable on Calls in advance since the amount of Calls in advance is not a part of share capital.

UNDER SUBSCRIPTION: - Sometimes**,** number of shares applied for by the public sis less than the number of shares offered by the company. Such an issue is said to be under –subscribed.

OVER SUBSCRIPTION: - Shares issued by well managed and financially strong Companies often get over-subscribed. Shares are said to be over-subscribed when the number of share applied for is more than the number of shares offered to the public for subscription. No company cannot allot shares more than that offered for subscription.

PRO-RATA BASI/ALLOTMENT: Pro-rata basis means issue smaller numbers of shares are allotted to each applicant according to the number of share applied by him. The excess application money received is normally adjusted towards the amount due on allotment

In case of over subscription, the Board of Directors can issue the shares in any of the following four alternatives.

1. Rejecting the applications for excess number of shares
2. Allotting the shares on pro-rata basis on all the applications received
3. Rejecting some applications completely and allotting to the remaining application on a pro-rata basis
4. Rejecting some applications, allotting the number of shares asked for by some applicants and allotting the remaining shares to the remaining applications on a pro-rata basis.

Accounting treatment of Surplus Application money in case of Pro-rata allotment
1. If the question is silent about the treatment of surplus application money or state that surplus application money will be adjusted only on allotment , then surplus application money will be used only for allotment and the balance, if still left, will be refunded
2. If the question specially states that surplus application money will adjusted towards allotment and calls, then the surplus application money is transferred to allotment and calls in advance account. The balance, if still left, will be refunded.

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

Sometimes, a company purchases some assets or entire business and instead of making the payment to the vendors in the form of cash, it issues fully paid shares to the vendors.

<table>
<tr><th colspan="3">ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH</th></tr>
<tr><td rowspan="2">01</td><td>On purchase of ASSET</td><td>Sundry Assets (with agreed value assets taken over)
To Vendors A/C (with agreed value of Purchase Consideration)</td></tr>
<tr><td>On purchase of entire BUSINESS</td><td>Sundry Assets (with agreed value assets taken over)
Goodwill A/C Dr. (with the excess of P.C. over of net assets)
To S. Liabilities (with agreed value liabilities taken over)
To Vendors A/C(with agreed value of Purchase Consideration)
To Capital Reserves A/C (with the excess of value of net Assets over P.C.)</td></tr>
</table>

02	**ON ISSUE OF SHARES TO VENDORS**	If the Shares are issued at PAR	Vendor A/C Dr. To Share Capital A/C
		If the Shares are issued at PREMIUM	Vendor A/C Dr. To Share Capital A/C To SPR A/C
Calculation of No. of Shares to be issued to Vendor		**Amount payable to Vendor through Shares** **Share value at Par/Premium**	

FORFEITURE OF SHARES

If any shareholder fails to pay amount due on allotment or on any call within the specified period, the Directors may cancel his shares. This is called Forfeiture of Shares.

It may be noted that the shares can be forfeited only if the Articles of Association of the Company allow them to be forfeited. In order to make the forfeiture valid, it is essential to follow the rules laid down in the Articles. If no rules are given in Articles, the provisions of Table F of Schedule I of the Companies Act, 2013 regarding forfeiture apply. The usual procedure is that the defaulting shareholder must be given a minimum of 14 days notice requiring him to pay the unpaid amount on his shares together with the accrued interest thereon. The notice must state that if the unpaid amount is not paid within a certain period, his shares shall be forfeited. If, in spite of this notice, the share holder still does not pay the unpaid amount on his shares, his shares may be forfeited by a resolution of the Board of Directors.

After the forfeiture, the name of the share holder is removed from the Register of members. The amount already paid by him belongs to the company and is not returned to him.

Forfeiture of shares which were **ISSUED AT PAR**	Share Capital A/C Dr. (No. of shares forfeited **X** amount called up per share EXCLUDING PREMIUM) To Shares forfeited A/C (Cash received on forfeited shares) To Share Allotment (due on allotment) To Share First call A/C (due on First call) To Share Second Call A/C (due on Second Call) To Share Final Call A/C (due on Final Call)
Forfeiture of shares which were **ISSUED AT A PREMIUM** and the premium on shares **ALREADY RECEIVED** is forfeited (as per Sec.52 of CA 2013)	
Forfeiture of shares which were **ISSUED AT A PREMIUM** and the premium on shares **NOT RECEIVED** is forfeited	Share Capital A/C Dr. (No. of shares forfeited **X** amount called up per share EXCLUDING PREMIUM) Securities Premium A/C Dr. (No. of shares forfeited **X** Premium on each share) To Shares forfeited A/C (Cash received on forfeited shares) To Share Allotment (due on allotment) To Share First call A/C (due on First call) To Share Second Call A/C (due on Second Call) To Share Final Call A/C (due on Final Call)

REISSUE OF FORFEITED OF SHARES

Directors have the authority to reissue the forfeited shares on such terms as they think fit. That is to say that they are at liberty to reissue the forfeited shares at par, at premium or at discount. However, if the shares are re-issued at a discount the amount of the discount cannot exceed the amount previously received on these shares.

After the reissue of forfeited shares, the credit balance left in the Share Forfeiture A/C is a `Capital Gain` to the company and must be transferred to `Capital Reserves Account`.

<table>
<tr><th rowspan="2">SHARES ORIGINALLY ISSUED AT</th><th colspan="3">IF THE SHARES ARE RE-ISSUED AT</th></tr>
<tr><th>PAR</th><th>PREMIUM</th><th>DISCOUNT</th></tr>
<tr><td>Re-issue of forfeited shares which were originally ISSUED AT PAR</td><td rowspan="3">Bank A/C Dr. (1)
To S. Capital A/C (2)</td><td rowspan="3">Bank A/C Dr. (1)
To S. Capital A/C (2)
To. SPR. A/C (3)</td><td rowspan="3">Bank A/C Dr. (1)
Shares forfeited A/C Dr.(4)
To S. Capital A/C (2)</td></tr>
<tr><td>Re-issue forfeited shares which were originally ISSUED AT A PREMIUM and the premium on shares ALREADY RECEIVED</td></tr>
<tr><td>Re-issue forfeited shares which were originally ISSUED AT A PREMIUM and the premium on shares NOT RECEIVED</td></tr>
<tr><td colspan="4">1. Amount received on re-issue of forfeited shares
2. With the amount called-up per re-issued share
3. Premium allowed on each re-issued share
4. Discount allowed on re-issued share/Discount allowed at the time of re-issue</td></tr>
<tr><td colspan="4">ENTRY FOR TRANSFER OF PROFIT ON RE-ISSUE OF FORFEITED SHARES</td></tr>
<tr><td colspan="4">Shares forfeited A/C Dr.
To Capital Reserves A/C</td></tr>
</table>