



# ISSUES OF SHARES

\* Company : A company is an artificial person created by law, having separate legal entity with a perpetual succession and a common seal.

## → Features of a Company

- (i) Separate legal entity
- (ii) Perpetual succession (जो चलता रहे)
- (iii) Limited liability
- (iv) Common Seal (Company ka signature)
- (v) Transferability of shares.

## → Types of Company

| Basis                  | Private Company                                                             | Public Company                                        |
|------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------|
| Numbers of members     | Minimum number of members is 2, maximum is 200.                             | Minimum number is 7 and no limit to maximum.          |
| Invitation to public   | It cannot invite the public to subscribe to its shares.                     | It can invite the public to subscribe to its share.   |
| Transfer of shares     | There is restriction on the transfer of its share.                          | There is no restriction on the transfer of its share. |
| No. of Directors       | It must have at least two directors.                                        | It must have three directors.                         |
| Use of 'limited' word. | It is compulsory to use the words 'Private Limited' at the end of its name. | Only the word limited is used at the end of its name. |





- Company limited by Guarantee: Where the liability of member is limited upto the amount of guarantee given.
- Company limited to Shares: Where the liability of a member is limited upto ~~to~~ the amount of "unpaid" portion of shares.

### ➤ One Person Company (OPC)

- Introduced in companies Act, 2013.
- Only one ~~not~~ member can form a company with minimum paid up capital of ₹100,000.

Shareholder  
(मालिक)

Directors : Minimum - 1

(नौकर)

Maximum - 15

IMP

- ★ Conversion into Private / Public Company

- 2 years after incorporation (registration)
- Paid up capital  $\geq$  ₹50,00,000
- Average annual Turnover  $\geq$  ₹2 crores.

## SHARES

Total capital is divided into units of small denominations. Each unit is called SHARE.

### EQUITY SHARES

- Rate of dividend is not fixed.
- Dividend is paid after the payment of preference dividend.
- Enjoys voting rights.
- Cannot be converted into preference shares.

### PREFERENCE SHARES

- Rate of dividend is fixed.
- Right to receive dividend before ~~equa~~ equity dividend.
- No voting rights.
- Can be converted into equity shares.



## Types of preference shares.

1) Cumulative OR Non-cumulative.  
Entitled to get arrears of preference shares upto 3 years.

2) Participating OR Non-Participating.  
Right to participate in SURPLUS PROFITS.

3) Convertible OR Non-convertible  
who can convert into equity shares.

4) Redeemable (Repay) OR Irredeemable.  
To whom company has to repay.

★ In India, preference shares are to be redeemable within 20 years.



→ Minimum value of 1 share as mentioned in MOA (Memorandum of Association)

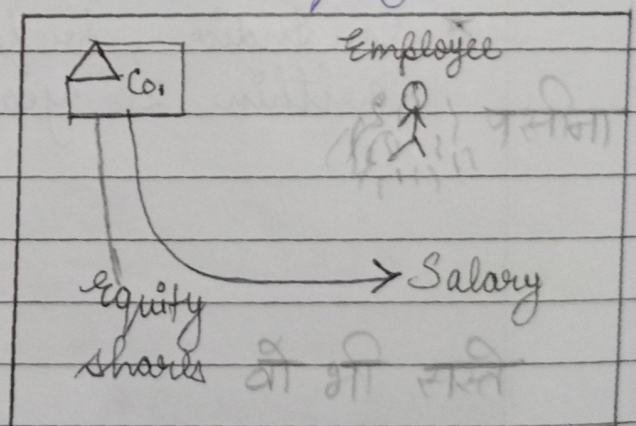
eg →  $1 \text{ share} = ₹ 10$

→ The price at which company issues the share to public

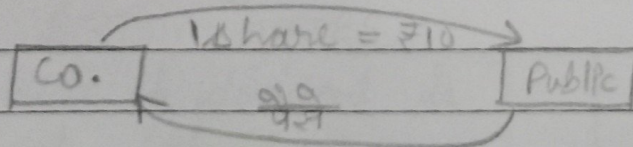
- Issue at Par: Face value = ₹10  
Issue price = ₹10
- Issue at Premium: Face value = ₹10  
issue price = ₹15
- Issue at Discount: Face value = ₹10  
issue price = ₹6

Companies Act, 2013 has prohibited (not allowed) this.

→ Only EXCEPTION is Sweet equity shares.



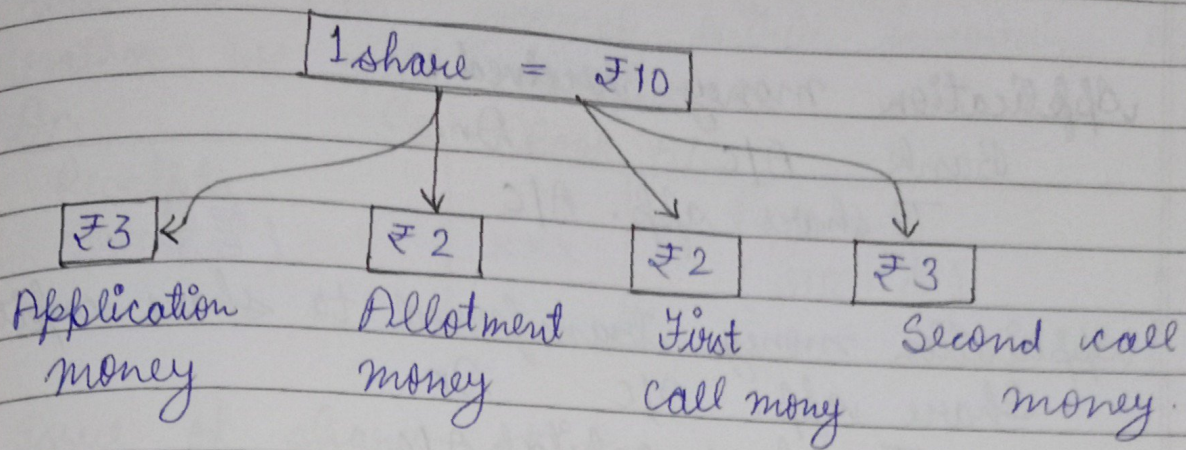
3) Issue of shares in LUMP SUM  
क. की जब एक साथ पूरे shares के  
पैसे दिया जाए।







# 47 Issue of shares in installments



## ★ Important Points to Remember

1 share = ₹10

₹3

App.

₹2

Allotment

₹4

Ist call

₹1

IInd call

Minimum  
1 month Gap

Ramu

✓

✓

(X)

Calls in Arrears.

Sonu

✓

✓

✓

Calls in Advance

(जल्दी)

Appal

✓

(X)

(X)

₹3

Capital profit for Company.

₹

Shares forfeited

Shares Cancel

Shares वापस लेना

Suresh

✓

(X)

REISSUE

Shares forfeited

At Par (✓)

At Premium (✓)

At Discount (✓)



## ★ JOURNAL ENTRIES

1) Application money received:

Bank A/c Dr.

To share app. A/c

2) Application money transferred to share capital

Share app. A/c Dr.

To share capital A/c

3) Company is asking for allotment money

Share allotment A/c Dr.

To share capital

4) Allotment money received:

Bank A/c Dr.

To share allotment.

5) First call money due:

First call A/c Dr.

To share capital A/c

6) First call money received:

Bank A/c Dr.

To share first call A/c

★ When shares are issued at premium then

**SECURITIES PREMIUM RESERVE A/c** is credited below share capital A/c.

★ Share capital A/c **ALWAYS** credited with face value.





\* When Ques. says prepare cash book, then we will not pass journal entries involving Bank A/c. rather we will prepare:

| Dr. Cash Book A/c    |     | Cr.                   |     |
|----------------------|-----|-----------------------|-----|
| Receipts<br>(आता है) | xxx | Payments<br>(जाता है) | xxx |
|                      |     |                       |     |

### I. Issue of shares at Par

X Ltd. issued 10,000 shares of ₹ 10 each to the public, payable as ₹ 3 on app., ₹ 2 on allotment and balance on first and final call. Journalise.

Ans-① Bank A/c Dr. 30000  
To share app. 30000

② Share app. Dr. 30000  
To share capital A/c 30000

③ Share allotment A/c Dr. 20000  
To share capital A/c 20000

④ Bank A/c Dr. 20000  
To share allotment A/c 20000

⑤ First call A/c Dr. 50000  
To share capital A/c 50000

⑥ Bank A/c Dr. 50000  
To share first call 50000



II

LUMP SUM

Date

Ques 2

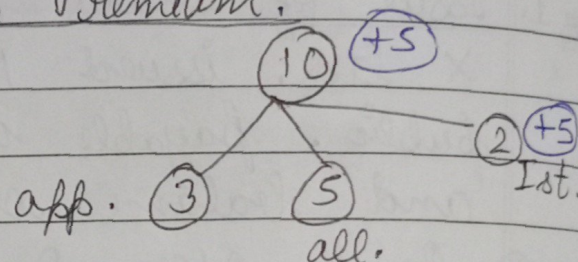
X ltd issued 10000 shares of ₹10 each in lumpsum. Journalise.

Ans- ① Bank A/c Dr. 10000  
To share app. & allotment A/c 10000

② Share app. & allotment A/c Dr. 10000  
To share capital A/c 10000

III. ~~Iss~~ Issue of shares at Premium.

③ X ltd 10000 shares



Ans- ① Bank A/c Dr. 30000  
To share app. A/c 30000

② Share app. A/c Dr. 30000  
To share capital 30000

③ Share allotment A/c Dr. 50000  
To share capital 50000

④ Bank A/c Dr. 50000  
To share allotment A/c 50000

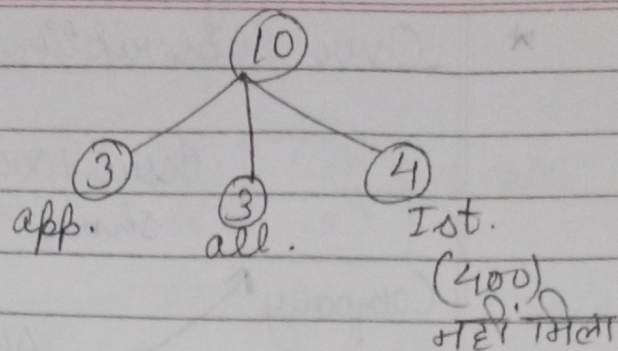
⑤ Share first call A/c Dr. 70000  
To share capital A/c (F.V) 20000  
To securities premium A/c 50000

⑥ Bank A/c Dr. 70000  
To share Ist call 70000





II) Call in Arrears  
 X Ltd. 10,000 shares



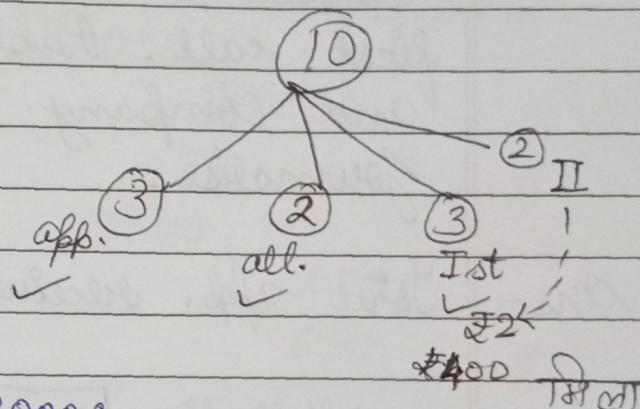
Ans - Same entries as per previous ques.

① Share first call A/c Dr. 40000  
 To share capital A/c 39600 40000

② Bank A/c Dr. 39600  
 Call in arrears A/c Dr. 400 (नुकसान)  
 To share Ist call A/c 40000

I) Calls in Advance

X Ltd. 10000 shares



Ans-① Share first call A/c Dr. 30000  
 To share capital A/c 30000

② Bank A/c Dr. 30400  
 To share Ist call 30000  
 To call in advance 400 (probability ↑)

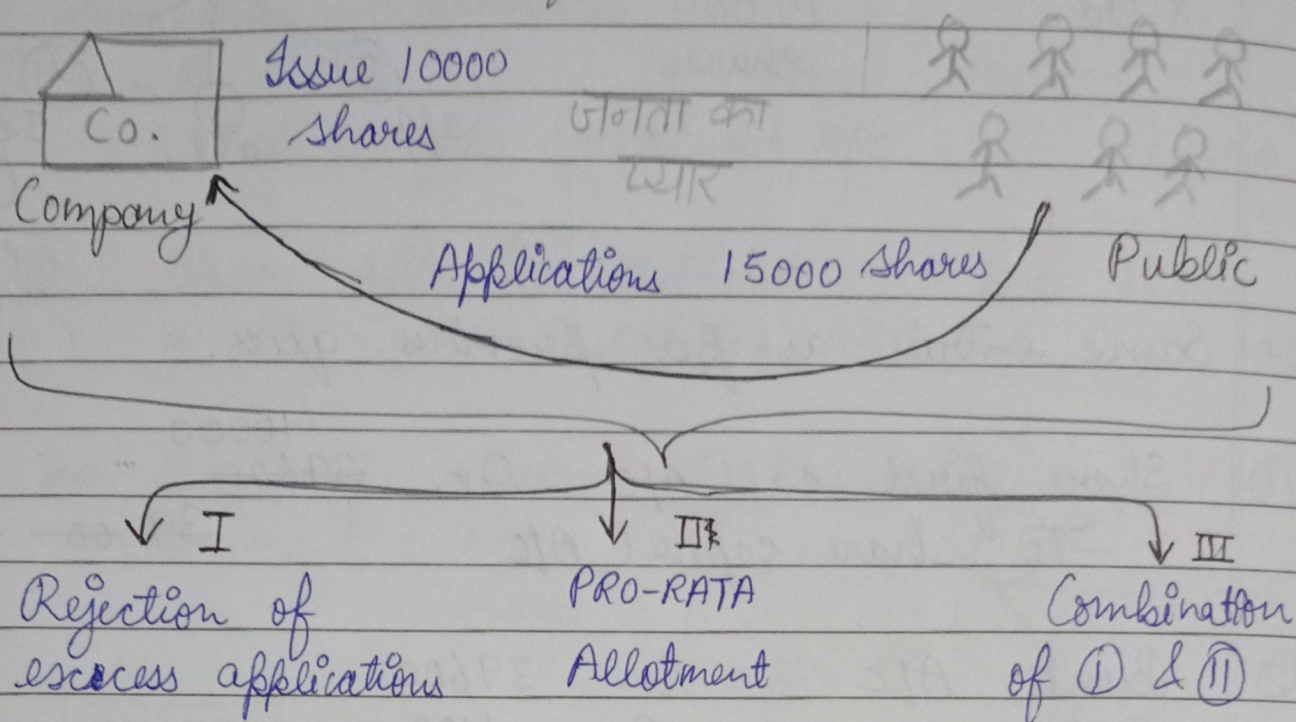
③ Share second call A/c Dr. 20000  
 To share capital A/c 20000

④ Bank A/c Dr. 19600  
 Calls in advance A/c Dr. 400  
 To share second A/c 20000



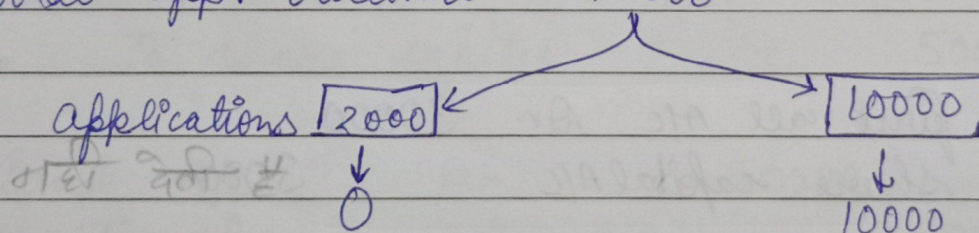


## \* Over Subscription of Shares



Example 1 → X Ltd. issued 10,000 shares of ₹10 each payable as ₹3 on app., ₹4 on all. and ₹3 on first call. Public applied for 12,000 shares and company rejected excess applications. Journalise.

Ans - Total app. received = 12000

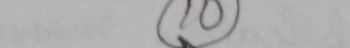


① Bank A/c (12000 x 3) Dr. 36000  
To share. app. A/c 36000

② Share application Dr. 36000  
To share capital [issued x F.V] 30000  
To Bank A/c (2000 x 3) 6000



the no. of shares applied Date by him

App.  Ist call

PRO-RATA K case me working krta hai.

Excess  $\nearrow$

$= 40000$

$= 6000$

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34000

|                    |     |       |
|--------------------|-----|-------|
| Bank A/c           | Dr. | 34000 |
| To share allotment |     | 34000 |

```

graph TD
    10((10)) --- 3_1((3))
    10 --- 4((4))
    10 --- 3_2((3))
    3_1 --- App[App]
    4 --- All[All]
    3_2 --- 2st[2 st]
    
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$$RR \Rightarrow 3:2$$





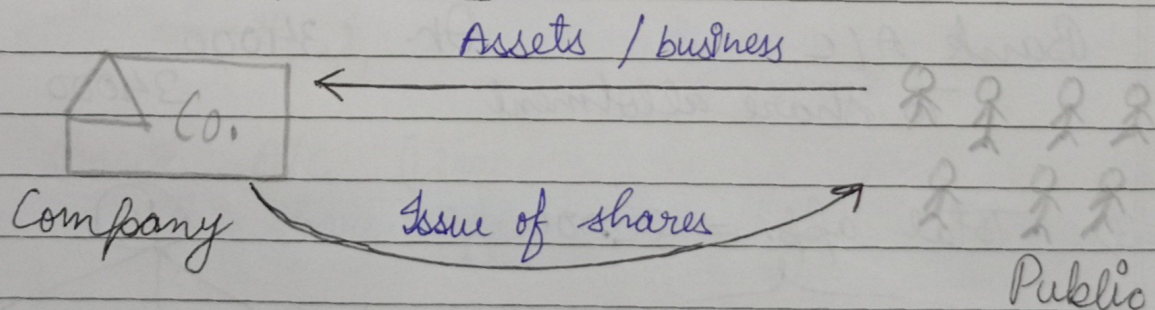
① Bank A/c Dr. (20000 × 3) 60000  
To share app. 60000

|   |                                |     |       |
|---|--------------------------------|-----|-------|
| ⑪ | Share app. A/c                 | Dr. | 60000 |
|   | To share capital [issued x FC] |     | 30000 |
|   | To bank A/c (5000 x 3)         |     | 15000 |
|   | To share allotment A/c         |     | 15000 |

(11) Share allotment A/c Dr. (10000 x 4) 40000  
To share capital 40000

|      |                        |     |       |
|------|------------------------|-----|-------|
| (IV) | Bank A/c               | Dr. | 25000 |
|      | To share allotment A/c |     | 25000 |

- Issues of shares for a consideration other than cash.



1) Issue of shares to Promoters

(a) Incorporation expense / Preliminary expense A/c Dr.  
To Promoters A/c  
(being amount due)



(b) Promoters A/c Dr.

To share capital A/c  
(being shares issued)

Shares.

27 Issues of shares to underwriters

(a) Underwriting commission A/c Dr.

To underwriters A/c  
(being amount due)

(b) Underwriters A/c Dr.

To share capital A/c  
(being shares issued)

37 Issues of shares to Vendor

(a) Asset A/c Dr.

To vendor A/c  
(being asset purchase)

OR

Sundry assets A/c Dr. (Agreed value)

Goodwill A/c Dr. {balancing figure}

To vendor A/c

To sundry liabilities A/c [Agreed value]

To Capital reserve A/c {balancing figure}  
(being purchase of business)

(b) Vendor A/c Dr.

To cash/bank A/c

To share capital A/c

To securities premium reserve A/c {in any}  
(being shares issued)



★

$$\text{Goodwill} = \text{Purchase consideration} - \text{Net assets}$$

★

$$\text{Capital reserve} = \text{Net assets} - \text{Purchase consideration}$$

Ques-

Z Ltd. purchased furniture costing ₹ 2,20,000 from C.D Ltd. The payment was to be made by issue of 9% preference shares of ₹ 100 each at a premium of ₹ 10 per share. Journalise.

Ans-

(a) Furniture A/c Dr. 2,20,000  
To C.D Ltd. A/c 2,20,000

(b) C.D Ltd. A/c Dr. 220000  
(2000 × 100) To 9% preference share A/c 200000  
(2000 × 10) To securities premium reserve A/c 20000

$$\text{WN} \rightarrow \text{No. of shares issued} = \frac{220000}{110} = 2000$$

Ques

2000 equity shares of ₹ 10 each were issued to Moon Limited from whom assets of ₹ 25,000 were acquired. Pass journal entry.

Ans-(i)

Moon Ltd. A/c Dr. 25,000  
To equity share capital A/c 20000  
To securities premium capital A/c 5000 {bal-}

Ques-

Jim Ltd. purchased machinery costing of ₹ 10,00,000 from Ayer Ltd. 50% of the payment was made by cheque and for the remaining





50%, the company issued equity shares of ₹100 each at a premium of 25%. Pass the journal entries.

Ans - (a) Machinery A/c Dr. 10,00,000  
To Oyer Ltd. 10,00,000

(b) Oyer Ltd A/c Dr. 10,00,000  
To Bank A/c 5,00,000  
To equity share capital A/c (4000 x 100) 400000  
To securities premium A/c (4000 x 25) 100000

WN → No. of shares issued =  $\frac{50,00,000}{125}$   
= 4000

Ques

Sandesh Ltd. purchase a running business from Sanchar Ltd. for ₹15,00,000 payable 10% by cheque and the balance by the issue of fully paid equity shares of ₹100 each at a premium of 20%. The assets & liabilities consisted of the following:

| Particulars       | Book Value (₹) | Agreed value (₹) |
|-------------------|----------------|------------------|
| Building          | 500000         | 650,000          |
| Machinery & Plant | 300000         | 250,000          |
| Stock             | 600000         | 500,000          |
| Trade receivables | 280000         | 250,000          |
| Trade payable     | 1,80,000       | 200,000          |

Pass the necessary journal entries.





Ans - (1) Building A/c Dr. 650000  
 Plant & machinery A/c Dr. 250000  
 Stock A/c Dr. 500000  
 Trade receivable A/c Dr. 250000  
**GOODWILL A/c \*** Dr. **50,000** (bal.)  
 To Trade payable A/c 2,00,000  
 To Sanchar Ltd. A/c 15,00,000

(11) Sanchar Ltd. Dr. 15,00,000  
 To bank A/c 150000  
 To equity share capital A/c (11250 x 100) 1125000  
 To securities premium (11250 x 20) 225000

WN → No. of shares issued =  $\frac{\text{Amount payable to Vendor}}{\text{face value [disc-] / premium [+]}}$

$$= \frac{1350000}{120} = \boxed{11250}$$

Ques- Sugandh Ltd. issued 60,000 shares of ₹10 each at a premium of ₹2 per share payable as ₹3 on application, ₹5 (including premium) on allotment and the balance on first and final call. Applications were received for 92,000 shares. The Directors resolved to allot as:

- (i) Applicants of 40,000 shares — 30000 shares
- (ii) Applicants of 50,000 shares — 30000 shares
- (iii) Applicants of 2,000 shares — Nil.

Mohan, who had applied for 800 shares in (i) Sohan, who was allotted 600 shares in (ii) failed to pay the allotment money. Calculate amount received on allotment.



Total applicants = 92,000

40000  
↓  
30000

PR-1

4:3

50000  
↓  
30000

PR-2

5:3

2000

X

Reject

(3)

App.

(3)

Allotment

+2

(4)

1st call

Mohan

App. 800

Allot. 600

Sohan

App. 1000

Allot. 600

Application money received

(-) App. money should be received

EXCESS

Mohan

PR-1

Sohan

PR-2

2400

120000

3000

150000

(1800)

(90000)

(1800)

(90000)

600

30000

1200

60000

3000

150000

3000

150000

(600)

(30000)

(1200)

(60000)

2400

(2400)

1800

(1800)

117600

88200

Total money received = 117600 + 88200  
on allotment

= 2,05,800



## ★ FORFEITURE & REISSUE OF SHARES

- Whenever the shares are forfeited [can cancelled by the company], then we have to pass the following journal entry:-

→ Share capital A/c Dr. {called-up F.V}  
 Securities premium reserve Dr. {Premium Not received}  
 A close हो गया → To share forfeiture A/c {Amount (F.V.) received}  
 ← To calls in arrears A/c {Amount (including premium) Not received}  
 OR  
 To share allotment A/c  
 To share call A/c  
 (Being shares forfeiture)

- Whenever the forfeited share are re-issued then we have to pass 2 journal entries.

→ Bank A/c Dr. {Re-issued price}  
 Share forfeiture A/c Dr. {Discount on Re-issued}  
 To share capital A/c {paid up ① / called-up ②}  
 To securities premium A/c [if any]  
 (Being shares re-issued)

→ Share forfeiture A/c Dr. XXX  
 To capital reserve A/c XXX  
 (Being capital profit transferred to capital reserve A/c)

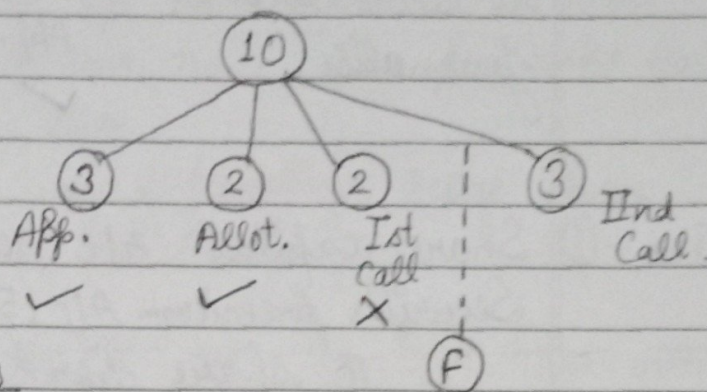
$$\text{Capital Reserve} = \text{Forfeited shares} \times \frac{\text{No. of shares re-issued}}{\text{No. of shares forfeited}} - \text{Discount on Re-issued}$$



Example ① X Ltd. forfeited 100 shares of Rs 10 after 1st call. It re-issued 60 shares @ ₹ 5 per share.

Called up = ₹ 7

Uncalled = ₹ 3



① For forfeiture of 100 shares

Share capital A/c (7x100) Dr. 700

To share forfeiture A/c (5x100) 500

To calls in arrears A/c (2x100) 200

OR

To 1st call A/c (2x100) 200

② For re-issued of 60 shares

Bank A/c (5x60) Dr. 300

Share forfeiture (2x60) Dr. 120

To share capital A/c (7x60) 420

③ Share forfeiture A/c Dr. 180

To capital reserve A/c 180

Capital =  $500 \times \frac{60}{100} - 120$

Reserve

=  $300 - 120 = 180$

Dr.

Share Forfeiture A/c

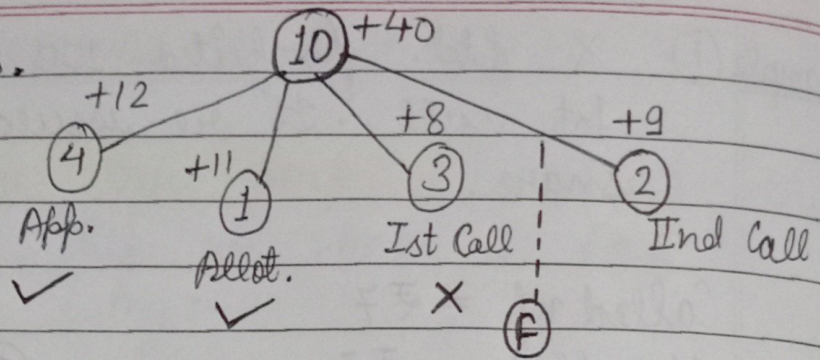
Cr.

|                      |     |                  |     |
|----------------------|-----|------------------|-----|
| To share capital A/c | 120 | By share capital | 500 |
| To capital reserve   | 180 |                  |     |
| To balance c/d       | 200 |                  |     |
|                      | 500 |                  | 500 |

As shown  
as Addition  
in Subscribed  
share capital  
in Notes A/c  
{B/S}



Example 2 Sonu <sup>forfeited</sup> has 500 shares.  
350 shares were  
re-issued @ ₹ 7.  
Journalise.



Ans - ① Share capital A/c  $(500 \times 8)$  Dr. 4000  
 Securities premium A/c  $(500 \times 8)$  Dr. 4000  
 To share forfeiture A/c  $(500 \times 5)$  2500  
 To calls in arrears A/c  $(500 \times 1)$  500  
 (3+8)

② Bank A/c  $(350 \times 7)$  Dr. 2450  
 Share forfeiture A/c  $(350 \times 1)$  Dr. 350  
 To share capital A/c  $(350 \times 8)$  2800

③ Share forfeiture A/c Dr. 1400  
 To capital reserve A/c 1400

$$\text{Capital reserve} = \frac{5}{2500} \times 350 - 350$$

$$= 1750 - 350 \Rightarrow \boxed{1400}$$