III B. COM (V SEMESTER) – UNDER CBCS

PART III – MAJOR CORE -13

CORPORATE ACCOUNTING I

Class: III B.Com **Subject Code: SMCO51**

Unit I : Issue of shares- Issue at par, Premium and discount- Forfeiture and Re-issue of shares – Pro rata allotment- Redemption of preference shares. Issue of debentures (Excluding reduction of debentures).

Issue of Shares – Equity and Preference Shares

Issue of Shares is the process in which companies allot new shares to shareholders. Shareholders can be either individuals or corporates. The company follows the rules prescribed by Companies Act 2013 while issuing the shares. Issue of Prospectus, Receiving Applications, Allotment of Shares are three basic steps of the procedure of issuing the shares. The process of creating new shares is known as Allocation or allotment. Let us see the two types of shares of a company and the procedure for issue of shares that a company must follow.

Preference Shares

A preference share is one which carries two exclusive preferential rights over the other type of shares, i.e. equity shares. These two special conditions of preference shares are

- A preferential right with respect to the dividends declared by a company. Such dividends can be at a fixed rate on the nominal value of the shares held by them. So the dividend is first paid to preference shareholders before equity shareholders.
- Preferential right when it comes to repayment of capital in case of liquidation of the company. This means that the preference shareholders get paid out earlier than the equity shareholders.

Other than these two rights, preference shares are similar to equity shares. The holders of preference shares can vote in any matters directly affecting their rights or obligations.

Preference shares can actually be of various types as well. They can be redeemable or irredeemable. They can be participating (participate in further profits after a dividend is paid out) or non-participating. And they may be cumulative (arrears in demand will cumulate) or non-cumulative.

Equity Shares

Equity share is a share that is simply not a preference share. So shares that do not enjoy any preferential rights are thus equity shares. They only enjoy equity, i.e. ownership in the company.

The dividend given to equity shareholders is not fixed. It is decided by the Board of Directors according to the financial performance of the company. And if in a given year no dividend can be declared, the shareholders lose the dividend for that year, it does not cumulate.

Equity shareholders also have proportional voting rights according to the paid-up capital of the company. Essentially it is one share one vote system. A company cannot issue non-voting equity shares, they are illegal. All equity shares must come with full voting rights.

Issue of Shares

When a company wishes to issue shares to the public, there is a procedure and rules that it must follow as prescribed by the Companies Act 2013. The money to be paid by subscribers can even be collected by the company in instalments if it wishes. Let us take a look at the steps and the procedure of issue of new shares.

Procedure of Issue of New Shares

1] Issue of Prospectus

Before the issue of shares, comes the issue of the prospectus. The prospectus is like an invitation to the public to subscribe to shares of the company. A prospectus contains all the information of the company, its financial structure, previous year balance sheets and profit and Loss statements etc.

It also states the manner in which the capital collected will be spent. When inviting deposits from the public at large it is compulsory for a company to issue a prospectus or a document in lieu of a prospectus.

2] Receiving Applications

When the prospectus is issued, prospective investors can now apply for shares. They must fill out an application and deposit the requisite application money in the schedule bank mentioned in the prospectus. The application process can stay open a maximum of 120 days. If in these 120 days minimum subscription has not been reached, then this issue of shares will be cancelled. The application money must be refunded to the investors within 130 days since issuing of the prospectus.

3] Allotment of Shares

Once the minimum subscription has been reached, the shares can be allotted. Generally, there is always oversubscription of shares, so the allotment is done on pro-rata bases. Letters of Allotment are sent to those who have been allotted their shares. This results in a valid contract between the company and the applicant, who will now be a part owner of the company.

If any applications were rejected, letters of regret are sent to the applicants. After the allotment, the company can collect the share capital as it wishes, in one go or in instalments.

Nature and Classes of Shares

A share of a company is one of the units into which the capital of a company is divided. So if the total capital of a company is 5 lakhs, and such capital is divided into 5000 units of Rs 100/- each, then this one unit of amount 100 is a share of the company.

Thus a share is the basis of ownership of the company. And the person who holds such shares and is thus a member of the company is known as a shareholder.

Now the Articles of Association will contain some essential information about shares and share capital, like the classes of shares to be prescribed. In all, there are two types of shares a company can allot according to the Companies Act 2013. They have different natures, rights, and obligations.

List of Feature of Company as per Indian Companies Act 1956

- Incorporated Association
- Separate Legal Entity
- Limited Liability

- Transferability of Shares
- Perpetual Existence
- Common Seal

Let us take a look at these features one by one.

1] Incorporated Association

A company is required to be registered under the Companies Act 2013. Any association of persons that is not registered and subsequently incorporated with the Registrar of Companies is not recognized as a company at all.

2] Separate Legal Entity

A company in the eyes of the law is distinct (separate) from the people who constitute it. It is capable of enjoying rights is also subject to duties under the law. A company can also own and deal in property and other such assets. One point to be noted is that the company is not the agent or the trustee of the subscribers; it has its own distinct legal identity.

3] Limited Liability

Since a company has its own legal identity, its members are not liable for its debts. The liability of the members of a company is limited to the unpaid share of their share value. There are some companies limited by guarantee, where the liability of each member is determined by such a guaranteed amount.

4] Transferability of Shares

The shares held by a shareholder of a company are transferable by nature. So the ownership in a company can be transferred in accordance with the manner provided in the Articles of Association. In a private company, there may be some restrictions placed on the transfer of shares. But the right is not taken away completely.

5] Perpetual Existence

A company is an artificial person, so it does not have a restricted span of life. Death, insolvency, insanity, retirement etc of any or even all of its members does not affect the status of a company.

6] Common Seal

Directors of a company are essentially its agents. So when a director acts within his powers a company is bound by his actions. The Common Seal is like a signature of the company. The directors use the seal to sign documents on behalf of the company. So until there is such a seal on the documents, they cannot be enforced.

Kinds of Company

Broadly there are two types of companies on the basis of the number of members, a private company, and a public company. But other than this classification, there are other kinds of company. These are classified on the basis of the liabilities of their shareholders. The kinds of a company are as follows,

1] Companies Limited by Shares

Here the liability of members is limited by the nominal value of their shares. So if the shares owned by him are fully paid up, then he has zero liability. If the shares are not fully paid up, he can be called to pay up the balance amount in case of liquidation of the company.

2] Companies Limited by Guarantee

Some companies are limited by guarantee. This means that the members agree to an amount that they will pay in case of liquidation, i.e. a guaranteed amount. Such a liability will only rise of the company is being winded up.

3] Unlimited Liability Companies

Here the members of the company are personally liable for the losses of the company. So in case of liquidation, the assets of the company are not enough to cover its debts, then the members have to pay the balance. Even their private property can be attached. Such kinds of company are actually not found in India.

Share Capital

Share capital means the capital of a company divided into “shares”. These shares are of a fixed amount and are generally in multiples of 5 or 10. So share capital is basically the contributions made by all the shareholders of a firm. Since a capital account cannot be opened for every single shareholder, we club this amount in the share capital account.

Accounting for Share Capital

The capital of a company is contributed by a large number of persons known as shareholders. These shareholders are issued shares of the company. The accounting of such transactions is special and involves the share capital account.

From an accounting point of view, there are certain categories of share capital. They are as follows

1] Authorized Share Capital

Also known as Nominal or Registered Share Capital. It is the sum of money stated in the Memorandum of Association as the share capital of the company. It is the maximum amount of capital the company can raise by issuing shares

2] Issued Capital

This is the portion of the nominal capital which the company has issued for a subscription. This amount of capital is either less than or equal to the nominal capital, it can never be more.

3] Subscribed Capital

This is the part of the issued capital that has been subscribed by the shareholders. It's not necessary that the whole of the issued capital will receive subscriptions, but at least 90% of issued capital should be subscribed generally.

4] Called-up Capital

The company may not always call up the full amount of the nominal value of shares. The amount of the subscribed capital called up from the shareholders is the called up capital, which is less or equal to the subscribed capital.

5] Paid-up Capital

This is the amount paid for the shares subscribed. If the shareholder does not pay on call, it will fall under "calls of arrears". When all shareholders pay their full amounts paid up capital and subscribed capital will be equal.

6] Reserve Capital

The capital reserved by a company, to be used in the event of winding up of the company.

Kinds of Share Issue

A company can issue its shares either at par, at a premium or even at a discount. The shares will be at par is when the shares are sold at their nominal value. Shares sold at a premium cost more than their nominal value, and the amount in excess of the face value is the premium. And of course, shares sold at discount cost less than the face/nominal value.

Now the accounting treatment of all these issues will be slightly different. The money for these shares may also be collected in instalments – on the application, allotment, first call, final call etc. The shares will be fully paid up only after the last instalment has been called and paid up.

- Issue of Shares at Par
- Issue of Shares at Premium
- Issue of Shares at Discount

Shares Issued at Par – Share Capital Account

On Application Money Received

Application of shares does not guarantee allotment of shares. Some applications will be rejected. So when the application money is received we do not credit the share capital account. For the sake of convenience, we open a new account- share application account.

This money collected on the application must be deposited in the bank account in a Schedule Bank according to the Companies Act. This account is exclusively opened to deal with the application money. The journal entry for this transaction in the books of the company is as follows,

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Share Application A/c			xxx
	(Being share application amount received for ___ shares @ Rs ___ per share)			

On Allotment of Shares

After the company receives minimum subscriptions, it may start allotting the shares. Once the shares are allotted, the applicants now become stakeholders in the company, i.e. they get into a contract with the company. Let us see the journal entries passed in the books of the company in event of allotment.

The first step is that the money received on the application for shares can now finally be transferred to the Share Capital Account since now the allotment has been finalized**.**

Date	Particulars	LF	Amount	Amount
	Share Application A/c Dr To Share Capital A/c (Being Application money of ___ shares being transferred to Share Capital A/c)		xxx	 xxx

Then there may be the case that certain applications were rejected for any reasons. So the money received on the application must now be refunded within the stipulated time frame. The entry for the same will be,

Date	Particulars	LF	Amount	Amount
	Share Application A/c Dr To Bank A/c (Being Application money of ___ shares being refunded)		xxx	 xxx

If the allotment was done on pro-rata basis than the excess application money received must be taken into account. But instead of refunding the money, it can simply be adjusted against the allotment payment due on such allotted shares. Such an adjustment entry will be,

Date	Particulars	LF	Amount	Amount
	Share Application A/c Dr		xxx	
	To Share Allotment A/c			xxx
	(Being Application money of ___ shares being adjusted against allotment)			

Then the final entry of this stage will be the allotment money becoming due, and finally being paid by the allottee. We will pass two entries for a better understanding of the process. But take note that one combined entry can also be passed instead of two.

Date	Particulars	LF	Amount	Amount
	Share Allotment A/c Dr		xxx	
	To Share Capital A/c			xxx
	(Being Allotment money becoming due)			

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Share Allotment A/c			xxx
	(Being allotment money received on __ shares)			

On Calls

The instalments after the allotment are known as calls, i.e. first call, second call, final call etc. If the shares are not fully paid up at the time of allotment, then several calls can be made until the shares are fully paid up. However, no call can exceed 25% of the nominal value of shares, and there must be at least one month between two calls.

Date	Particulars	LF	Amount	Amount
	Share Call A/c Dr		xxx	
	To Share Capital A/c			xxx
	(Being Call amount due)			

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Share Call A/c			xxx
	(Being Call amount received)			

Calls in Arrears

Sometimes when the company makes a call, the shareholder is unable to pay the call money. In this case, this stakeholder becomes in arrears, and it is called an unpaid call. The company may choose to simply debit the amount from the paid-up capital in the balance sheet. But companies choose to maintain a call-in-arrears account. The following entries are passed in the journal.

Date	Particulars	LF	Amount	Amount
	Calls in Arrears A/c Dr		xxx	
	To Share Call A/c			xxx
	(Being calls in arrears brought into the books)			

Then there are certain times when the calls in arrears are paid by the shareholder. However, the shareholder will have to pay an interest for the time delay.

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Calls in Arrears A/c			xxx
	To Interest A/c			xxx
	(Being call in arrear paid with interest)			

Calls in Advance

Then at times, shareholders pay more than the call amount. Such cases are called calls in advance. The excess amount received is a liability for the company. The following entry is passed when such advance is received and then is adjusted against the next call.

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Calls in Advance A/c			xxx
	(Being amount received as calls in advance)			

Date	Particulars	LF	Amount	Amount
	Calls in Advance A/c Dr		xxx	
	To Share Call A/c			xxx
	(Being calls in advance adjusted against call)			

Shares Issued at Premium

When the company decides to issue shares at a price higher than the nominal value or face value we call it shares issued at a premium. It is quite a common practice especially when the company has a great track record and strong financial performances and standing in the market.

So say the face value of a share is Rs 100/- and the company issues it at Rs 110/-. The share is said to have been issued at a 10% premium. The premium will not make a part of the Share Capital account but will be reflected in a special account known as the Securities Premium Account.

Now, this amount of premium can be called up by the company at any given time, i.e. with any call. The general norm is to collect the premium with either allotment or application money, rarely with call money. The premium amount as we discussed is credited to the Securities Premium Account. This account is found under the heading of Reserves and Surplus on the liabilities side of the Balance Sheet.

Securities Premium Account

Now according to the Companies Act 2013, there are some laws about the utilization of the Securities Premium Account. It states the specific purposes for which this balance may be used. So the account can only be used for such specific purposes and no other purpose.

- To issue fully paid-up bonus shares to its existing shareholders. However, you cannot exceed the limit of the unissued share capital of the company.

- Securities Premium Account can be used for writing off any preliminary expenses of the company.
- To write off expenses of issue of shares and **debentures**, such as commission paid or discount given on the issue of shares.
- The balance can also be used to provide for the premium that is payable on the redemption of debentures or of preference shares of the company.
- And finally, it can be utilized by the company to buy back its own shares.

Accounting Treatment for Shares Issued At Premium

The accounting treatment for shares issued at a premium will differ slightly than those issued at par. Let us see some journal entries for the same.

When Premium is received with Application money

If the premium amount is called and received with the application money we do not credit it directly to the Securities Premium A/c. The application is received but it could be rejected as well, so we wait until the application is accepted and finalized. The entries will be as follows

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Share Application A/c			xxx
	(Being share application money received)			

Date	Particulars	LF	Amount	Amount
	Share Application A/c Dr		xxx	
	To Share Capital A/c			xxx
	To Share Premium A/c			xxx
	(Being application money transferred)			

When Premium is received with Allotment money

Sometimes the premium will be collected with the allotment money. In this case, the entries will be as follows

Date	Particulars	LF	Amount	Amount
	Bank A/c Dr		xxx	
	To Share Allotment A/c			xxx
	(Being share allotment money received)			

Date	Particulars	LF	Amount	Amount
	Share Allotment A/c Dr		xxx	
	To Share Capital A/c			xxx
	To Share Premium A/c			xxx
	(Being application money transferred)			

One point to remember is if any advance money was received during the application, then such money may be adjusted towards the share allotment account. However, first the advance should be adjusted against the nominal value of the shares, and if still balance is left then be adjusted against the securities premium account.

Issue of Shares at Discount

No company can assume its existence in the economy without proper finance or funds. Money plays an important part in their establishment as well as their retention. But the problem is that private sources of funds are not sufficient for meeting the overall requirement of the enterprise. Here comes the concept of shares. Here, we will look at 'Issue of Shares at Discount'.

Introduction to Issue of Shares at Discount

In general, share means a portion of a larger thing. Similarly, in real market share is a small proportion of the total amount of capital of the enterprise. Shares form the major source of any company's finance in this present world.

Shares tempt the investors also because it can give huge profits to them unlike the fixed rate of return on debentures. There are various ways or prices at which a company issues its shares like at par, at a premium and at discount.

The issue of shares at a discount means the issue of the shares at a price less than the face value of the share. For example, if a company issues share of Rs.100 at Rs.90, then Rs.10 (i.e. Rs 100—90) is the amount of discount.

It is nothing but a loss to the company. One must remember that the issue of share below the Market Price (MP) but above the Face Value (FV) is not termed as 'Issue of Share at Discount'.

The issue of Share at Discount is always below the Nominal Value (NV) of the shares. The company debits it to a separate account called 'Discount on Issue of Share' Account.

Conditions for Issue of Shares at Discount

1. In order to issue the shares at a price less than the face value, the company has to get permission from the relevant authority. For seeking permission, they should call and upon a general meeting and discuss and authorize the matter in that meeting.

2. There is a cap on the rate of discount. A company cannot issue any shares at more than 10% discount.

3. The company should issue the shares within 60 days of receiving permission from the relevant authority. In certain cases, the company can extend this time frame after getting permission in the permission.

4. The company cannot issue these shares before passing of 1 year from the date of commencement of business.

5. The shares must belong to the same class of shares which are already available in the market. For example, if the has previously issued Equity shares then this time also, the company has to issue Equity shares only.

6. Also, the company has to acquire the sanction by the Central Government after getting approval from the general meeting.

Note: In case of rehabilitation of sick industries, the permission of 'Tribunal' is required rather than the 'Central Government'.

Journal Entries

Generally, the shares are issued at discount at the time of allotment of shares. So, all the entries other than the allotment entries will be unaffected by these shares.

1. Entry for Due of Allotment

Journal

Date	Particulars	LF	Amount Dr	Amount Cr
	Share Allotment A/c Dr Discount on Issue of Shares A/c Dr To Share Capital A/c (Being the allotment money due)		With the amount due With the amount of discount	Total Amount (Due Amount + Discount)

2. Entry for Amount Received

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr To Share Allotment A/c (Being the receipt of the amount of allotment)		With the amount of money received	Amount of money received

Writing-off the Discount on Issue of Shares

Date	Particulars	LF	Amount Dr	Amount Cr
	Profit & Loss A/c Securities Premium A/c Dr		With the amount of discount	
	To Discount on issue of Shares A/c			With the amount of discount
	(Being the receipt of the amount of allotment)			

Entry if shares are issued to the underwriters

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr		With the amount received	
	Issue of Shares at Discount A/c		Amount of discount	
	To Share Capital A/c			Total amount (Amount received and amount of discount)
	(Hence, the application money received after adjustment of discount)			

Entry if shares are issued to the promoters for their service

Date	Particulars	LF	Amount Dr	Amount Cr
	Preliminary Expenses A/c Dr Issue of Shares at Discount A/c To Share Capital A/c (Being the shares given to the Promoters for their services)		Amount of Preliminary Expenses With the Amount of discount	With total amount (Preliminary expenses and the amount of discount)

Forfeiture of Shares

When shares are allotted to an applicant, he and the company enter into a contract automatically. Then such an applicant is bound to pay the allotment money and all the various call monies till the shares are fully paid up. But if the shareholder fails to pay any of the calls (one or more) on the authorization of the board of Directors, the said shares can be forfeited. Forfeiture essentially means cancellation.

Before such forfeiture is done a notice must be given to the shareholder. The notice must provide the shareholder with a minimum of 14 days to make the payment due, or his shares will be forfeited. Even after such notice if the shareholder does not pay, then the shares will be cancelled.

When the said shares are forfeited the shareholder ceases to be a member of the company. He loses all his rights and interests that a shareholder might enjoy. And once his name is removed from the register of shareholders he also losses all the money he has already paid towards the share capital. Such money will not be refunded.

Accounting Treatment for Forfeiture

When the shares have forfeited all entries regarding the issue of such shares have to be reversed. So the following adjustments are made for forfeiture of shares

i. Share Capital – debited with total amounts called up

ii. Unpaid Call A/c (Allotment, First Call etc) – credited with the portion of the amount called up but unpaid

iii. Share Forfeiture A/c – credited with the amount already paid by the defaulter

Date	Particulars	LF	Amount Dr	Amount Cr
	Share Capital A/c Dr		xxx	
	To Share Forfeiture A/c			xxx
	To Share Allotment A/c			xxx
	(Being Shares being forfeited for non-payment)			

Points to be noted

- If the company maintains a Calls in Arrears account, then that account will be credited with the unpaid portion of the amount instead of Share Allotment A/c or Share Call A/c.

- The balance in the Share Forfeiture A/c is shown under the Share Capital on the liabilities side of the balance sheet. This account will remain till the said shares forfeited are reissued by the company.

Forfeiture of Shares Issued at Premium

If the shares were initially issued at a premium then the forfeiture treatment changes a little. If at the time of the forfeiture the entire amount of premium has already been received by the company, then the entries remain the same, i.e. as if the shares were issued at par. Please note that the Share Premium Account will not be debited in this case.

However, at the time when the shares are forfeited if the entire, or part of the share premium is unpaid, certain adjustments must be made to Share Premium A/c. In such a case the Share Premium A/c will be debited by the amount of premium not received. So if none of the premium is received, the entry will be reversed completely. So both Share Capital account and Share Premium A/c (for the amount not received) will be debited.

Date	Particulars	LF	Amount Dr	Amount Cr
	Share Capital A/c Dr		xxx	
	Share Premium A/C Dr		xxx	
	To Share Forfeiture A/c			xxx
	To Share Allotment Call A/c			xxx
	(Being Shares being forfeited for non-payment)			

Again a point to remember if the company maintains a calls-in-arrears account, then that account will be credit instead of Share Allotment/Call A/c.

Forfeiture of Shares Issued at Discount

When the shares were initially issued at a discount and then forfeited, such a discount must be written off. So an adjustment entry will be passed to give this effect. So the discount applicable on the shares forfeited is written back by crediting the Discount on Issue A/c.

Date	Particulars	LF	Amount Dr	Amount Cr
	Share Capital A/c Dr		xxx	
	To Discount on Share Issue A/c			xxx

	To Share Forfeiture A/c To Share Allotment Call A/c (Being Shares being forfeited for non-payment)			xxx xxx

Reissue of Shares Forfeited

At times the directors of the company may decide to reissue the shares forfeited. The reissue can be done at par, premium or discount. Generally, the shares will be reissued at a discount. The maximum discount, however, will be restricted to the amount received on forfeiture of such shares plus their original discount if any. This discount given will be written off from the Share Forfeiture A/c.

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr Share Forfeiture A/c Dr To Share Capital A/c (Being forfeited shares reissued at discount)		xxx xxx	 xxx

And if there is any balance left in the Share Forfeiture A/c, such a balance represents a profit and will be transferred to the Capital Reserve A/c

Date	Particulars	LF	Amount Dr	Amount Cr
	Share Forfeiture A/c Dr		xxx	
	To Capital Reserve A/c			xxx
	(Being balance transferred)			

Re-issue of Forfeited Shares

Forfeited shares are available with the company for sale. After the forfeiture of shares, the company is under an obligation to dispose off the forfeited shares.

The company requires to pass a resolution in its Board Meeting for the re-issue of forfeited shares. Re-issue of forfeited shares is a mere sale of shares for the company. A company does not make allotment of these shares.

The company auctions the forfeited shares and disposes them off. A company can re-issue these shares at any price but the total amount received on these shares should not be less than the amount in arrears on these shares. Here, total amount refers to the amount received from the original allottee and the second purchaser.

For example, A pays the application amount of ₹3 on 100 shares of the face value ₹10. But, he fails to pay the allotment money. The company forfeits his shares and re-issues them. Now, the amount in arrear is ₹7 per share. The company can re-issue the shares at ₹7 or more. Thus, it cannot issue shares at a price less than ₹7.

Important Points:

1. We show the Forfeited shares A/c under the heading ‘Share Capital’.

2. When a company re-issues only a part of the forfeited shares, then it will transfer only the profit relating to this part to the capital reserve.

3. When a company re-issues shares at a price more than their face value, it needs to transfer the excess amount to the Securities Premium A/c.

Journal Entries for Re-issue of Forfeited Shares:

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1. On re-issue of shares	Bank A/c (Actual amount received)	Dr.	XXX	
	Forfeited Shares A/c (loss on re-issue)	Dr.	XXX	
	To Share Capital A/c	Cr.		XXX
	(Being ….. forfeited shares re-issued @ ₹…each as per the Board's Resolution no… dated….)			
2. On transfer of profit on re-issue	Forfeited Shares A/c	Dr.	XXX	
	To Capital Reserve A/c	Cr.		XXX
	(Being profit on re-issue of the shares transferred to capital reserve)			

Calculation of profit on re-issue when different categories of shares are re-issued

The company cannot treat the credit balance in the Share Forfeiture A/c until it re-issues the forfeited shares. The reason is that the company can re-issue these shares at a discount and it will adjust this amount from the Share Forfeiture A/c. When a company re-issues different categories of shares, it will transfer the amount to Capital Reserve only in respect of the category of shares re-issued.

For example, A company forfeits 500 shares with ₹4 paid-up and 400 shares with ₹6 paid-up. Thus, the balance of Share Forfeiture A/c will be: (500 x ₹4) + (400 x ₹6) = ₹ 4400

Now, if company issues 400 shares with ₹6 paid-up at ₹8, the amount that it will transfer to Capital Reserve will be:

[(₹6 + ₹8) – ₹10] x 400 shares = ₹1600

Pro Rata Allotment

In the case of over-subscription, it is not possible for the company to allot shares to every applicant in the number that he desires. The company needs to allot the shares in a proper manner. The company has the following three alternatives:

1. Accept some applications in full and reject the others totally.
2. Make Pro-Rata Allotment.
3. Adopt a combination of the above two.

Usually, the company does not consider the multiple applications from the same person. Also, generally a company takes the third course of action. The problem of accounting of over-subscription is usually resolved at the time of allotment of shares.

Pro-rata allotment refers to the allotment of shares in proportion of the shares applied for. When a company makes pro-rata allotment, it adjusts the excess money received at the time of application firstly, towards the allotment and then towards calls.

It refunds any surplus left after adjusting the amount towards allotment and calls to the applicants. The company advertises the allotment procedure in the leading newspapers.

For example, AB Ltd. offers 10000 shares to the public. The issue was heavily oversubscribed. It receives applications for 20000 shares.

When the company decides to allot the shares at pro-rata basis, then it has to allot 10000 shares to the applicants of 20000 shares. Thus, the ratio will be 20000:10000 i.e. 2:1. Hence, an applicant for 2 shares will receive 1 share. This is Pro-rata allotment.

Journal Entries in various cases

1. When a company decides to accept some applications in full and reject the other totally

Date	**Particulars**		**Amount (Dr.)**	**Amount (Cr.)**
1. On receipt of Application money	Bank A/c (total application amount)	Dr.	xxx	
	To Share Application A/c			xxx
	(Being application money received for…shares@ ₹…each)			
2. Transfer of application money to Share Capital A/c and refund of excess	Share Application A/c	Dr.	xxx	
	To Share Capital A/c (application amount)			xxx

	To Bank A/c (refund)			xxx
	(Being share application money on …..shares @ ₹…each, transferred to share capital and money on …..shares @ ₹…each, refunded)			
3. On Share Allotment due	Share Allotment A/c (amount due on allotment)	Dr.	xxx	
	To Share Capital A/c			xxx
	(Being share allotment due on …..shares @ ₹…each,)			
4. Share Allotment money received	Bank A/c (actual amount received)	Dr.	xxx	
	To Share Allotment A/c			xxx
	(Being share allotment money received)			
5. On Share call	Share Call A/c	Dr.	xxx	

due				
	To Share Capital A/c			xxx
	(Being money on share call due on …..shares @ ₹…each,)			
6. Share call amount received	Bank A/c	Dr.	xxx	
	To Share Call A/c			xxx
	(Being share call amount received)			

2. When a company makes pro-rata allotment

Date	Particulars		Amount (Dr.)	Amount (Cr.)
1. On receipt of Application money	Bank A/c (total application amount)	Dr.	xxx	
	To Share Application A/c			xxx

	(Being application money received for…shares@ ₹…each)			
2. Transfer of application money to Share Capital A/c	Share Application A/c	Dr.	xxx	
	To Share Capital A/c (application amount)			xxx
	To Share Allotment A/c (excess)			xxx
	To Share Call A/c (balance, if any)			xxx
	(Being share application money on …..shares @ ₹…each, transferred to share capital and money on …..shares @ ₹…each, utilizes towards allotment and call)			
3. On Share Allotment due	Share Allotment A/c (amount due on allotment)	Dr.	xxx	

	To Share Capital A/c			xxx
	(Being share allotment due on …..shares @ ₹…each,)			
4. Share Allotment money received	Bank A/c (actual amount received)	Dr.	xxx	
	To Share Allotment A/c			xxx
	(Being share allotment money received)			
5. On Share call due	Share Call A/c	Dr.	xxx	
	To Share Capital A/c			xxx
	(Being money on share call due on …..shares @ ₹…each,)			
6. Share call amount received	Bank A/c	Dr.	xxx	

	To Share Call A/c		xxx
	(Being share call amount received)		

3. When the company adopts a combination of the above two.

In this case, all entries except at the time of transferring the application amount being due are same. The entry at the time of allotment will be:

Date	Particulars	Amount (Dr.)	Amount (Cr.)
At the time of transfer of the application money	Share Application A/c Dr.	xxx	
	To Share Capital A/c (application amount)		xxx
	To Bank A/c (refund)		xxx
	To Share Allotment A/c (excess)		xxx
	To Share Call A/c (balance, if		

any)

(Being share application money on …..shares @ ₹…each, transferred to share capital, money on …..shares @ ₹…each, refunded and money on …..shares @ ₹…each, utilizes towards allotment and call)

REDEMPTION OF PREFERENCE SHARES

Section 55 of the **Companies Act, 2013** (the Act) prescribes that a company shall not issue an irredeemable preference shares. Further, it also imposes restriction on companies limited by shares to issue preference shares liable to be redeemed at the end of the end of twenty years. However, a company engaged in the setting up and dealing with of infrastructural projects, may issue preference shares for a period exceeding twenty years but not more than thirty years, subject to the redemption of a minimum ten percent of such preference shares from the twenty first year on wards on an annual basis at the option of such preferential shareholders.

In terms of the provisions of Section 55 (2) of the Act, redeemable preference shares shall be redeemed *out of the profits of the company which would otherwise be available for dividend* or out of the *proceeds of a fresh issue of shares made for the purposes of such redemption*.

A Company must have either sufficient profits by way of surplus/ accumulated profits or general reserve or any other free reserve to redeem its preference shares out of profits. In other case, where there is no profit or inadequate profit, a company may issue fresh issue of shares. However, a company may issue share to redeem its preference shares, even it is having sufficient profit.

REDEMPTION OUT OF PROFITS OF THE COMPANY

The expression "*out of the profits of the company which would otherwise be available for dividend means"* that a company may use its accumulated profit for redemption of preference shares. So, any account in which profits earned by the company is kept may be used; but security premium account, capital redemption reserve, capital reserve and debenture redemption reserve, etc. which are not available for distribution by way of dividend cannot be used. However the companies proposing to redeem out of its profits are required to keep a sum equal to the nominal amount of the share to be redeemed, to a reserve known as Capital Redemption Reserve Account.

REDEMPTION IN CASE OF ISSUE OF SHARES

A company may also decide to redeem its preference shares, through "*proceeds of a fresh issue of shares made for the purposes of such redemption"*. The company proposing such manner of redemption, issues shares equal to the face value of the redeemable preference shares, which is to be redeemed. In such a case, the fresh issue of shares shall replace the redeemable preference share in the balance sheet.

In case of redemption of preference shares through allotment of fresh issue of shares and wherein the fresh issue has been made at a premium, the amount of face value of shares shall be credited to the share capital account and the amount of premium shall be credited to the security premium account. A company may issue shares of any class of shares whether at par/premium, and use the money so raised to redeem the shares. A company while redemption through issue of shares, uses the proceeds of issue as redemption.

The premium received in case of issue of fresh share must be credited to the security premium account and can be used for the purpose stated in the Section 52(2) of the Act. Further, Section 52(2)(d) of the Act, prescribes that the amount underlying in the Security Premium Account could be utilised for redemption of Preference Shares at premium.

Thus, the amount of premium received in case of issue of shares cannot be utilised for redemption of preference shares to the extent of face value of shares, rather it can be utilised for the purpose of premium, if any in case of redemption.

For Illustration

Any of the three options are possible for redemption of the redeemable preference shares of Face Value Rs.10/- at a premium of Rs. 90/- per share

Option 1: Issue Preference share of face value Rs. 10/- each at a premium of Rs. 90/-. In this case the proceeds of issue of preference share capital and the security premium could be adjusted respectively.

Option 2: Issue Equity share of face value Rs. 10/- each at a premium of Rs. 90/-. In this case the proceeds of issue of Equity share and the security premium could be adjusted respectively with the amount payable towards redemption of the preference shares.

Option 3: Issue such number of Equity Shares at par which is equivalent to the sum total of the amount of redemption of preference shares (i.e. Face value + Premium amount)

Issue of Debentures

The issue of Debentures is very similar to the issue of shares by a company. Here to the money can be collected lump sum or in installments. The accounting treatment of the two is also quite similar. Now debentures can be issued for cash or some other consideration. At times issue of debentures is also done as a collateral security. Let us study in detail the issue of debentures.

Issue of Debentures for Cash

Debentures in the general course of business are issued for cash. This issue of debentures that happens can be of three kinds, just like an issue of shares, at par, at a discount, and at a premium. So let us take a look at all three and their respective accounting entries as well.

Issue at Par

Here the debentures will be issued exactly at their nominal price, i.e. not above or below the face value of the debentures. Now the company can decide to collect the cash all at once, in a lump sum. Or the money will be collected in installments, like with allotment, first call, second call, last call etc. Let us see the accounting journal entries for both these scenarios.

(A) Money Received in One Installment

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr		xxx	

	Share Forfeiture A/c Dr To Debenture Application & Allotment A/c (Being amount received in one installment)		xxx	xxx

Date	**Particulars**	**LF**	**Amount Dr**	**Amount Cr**
	Debenture Application & Allotment A/c Dr To Debenture A/c (Being allotment being done)		xxx	xxx

(B) Being *Money* Received in Two or More Installments

Date	**Particulars**	**LF**	**Amount Dr**	**Amount Cr**
	Bank A/c Dr To Debenture Application A/c (Being amount received on application)		xxx	xxx

Date	Particulars	LF	Amount Dr	Amount Cr
	Debenture Application A/c Dr To Debenture A/c (Being allotment being done)		xxx	 xxx

Date	Particulars	LF	Amount Dr	Amount Cr
	Debenture Allotment A/c Dr To Debenture A/c (Being allotment money becoming due)		xxx	 xxx

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr To Debenture Allotment A/c (Being allotment money received)		xxx	 xxx

Issue at Discount

When the debentures are issued at below face value, such issue of debentures is known as a discount issue. Like, say for example the debenture has a nominal value of 100/- but is issued for 90/-. Then such debentures are said to be issued at discount.

Discount on issue of debentures is treated as a capital loss and put under "Miscellaneous Expenses" on the asset side of the balance sheet until it can be written off. Then during the life of the debentures, such discount amount is written off by debiting it to the Profit and Loss A/c. It can also be charged against the Capital Profits of the company. The accounting entries for the issue of debentures on discount and the writing off the expense are as below,

Date	**Particulars**	**LF**	**Amount Dr**	**Amount Cr**
	Debenture Allotment A/c Dr		xxx	
	Discount on Debenture A/c Dr		xxx	
	To Debenture A/c			xxx
	(Being allotment money becoming due)			

Date	**Particulars**	**LF**	**Amount Dr**	**Amount Cr**
	Bank A/c Dr		xxx	
	To Debenture Allotment A/c			xxx
	(Being allotment money received)			

Date	Particulars	LF	Amount Dr	Amount Cr
	Profit and Loss A/c Dr		xxx	
	To Discount on Debenture A/c			xxx
	(Being discount written off)			

Issue at Premium

Now we come to the issue of debentures at a premium, that is when more money than the nominal value is charged. So if a debenture with a face value of 100/- is sold at 110/- then it is issued at a premium. The amount of the premium is charged to a special account known as Securities Premium Reserve Account. This account will be shown on the liabilities side of the Balance Sheet under the heading of Reserves and Surplus.

The accounting entries for the issue of debentures at a premium will be as below,

Date	Particulars	LF	Amount Dr	Amount Cr
	Debenture Allotment/Call A/c Dr		xxx	
	To Debenture A/c			xxx
	To Securities Premium A/c			xxx
	(Being allotment/call money becoming due)			

Date	Particulars	LF	Amount Dr	Amount Cr
	Bank A/c Dr To Debenture Allotment/Call A/c (Being allotment/call money received)		xxx	 xxx

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