

SHARE CAPITAL

MEANING OF COMPANY

Company is a voluntary association of persons formed for the purpose of doing business having a distinct name and limited liability. It is a juristic person having a separate legal entity distinct from the members who constitute it, capable of rights and duties of its own and endowed with the potential of perpetual succession. The Companies Act, 1956, states that 'company' includes company formed and registered under the Act or an existing company i.e. a company formed or registered under any of the previous company laws.



MEANING OF COMPANY

Company is a voluntary association of persons formed for the purpose of doing business having a distinct name and limited liability. It is a juristic person having a separate legal entity distinct from the members who constitute it, capable of rights and duties of its own and endowed with the potential of perpetual succession. The Companies Act, 1956, states that 'company' includes company formed and registered under the Act or an existing company i.e. a company formed or registered under any of the previous company laws.



FEATURES OF A COMPANY

1. Registration:

A company comes into existence only after registration under the Companies Act. But a Statutory Corporation is formed and commence business as notified or stated in the Act and as passed in Legislature. In case of partnership, registration is not compulsory.

2. Voluntary Association:

A company is an association of many persons on a voluntary basis. Therefore a company is formed by the choice and consent of the members.

3. Legal Personality:

A company is regarded by law as a single person. It has a legal personality. This rule applies even in the case of “One-man Company.”

4. Contractual Capacity:

A shareholder of a company, in its individual capacity, cannot bind the company in any way. The shareholder of a company can enter into contract with the company and can be an employee of the company.

5. Management

A company is managed by the Board of Directors, whole time Directors, Managing Directors or Manager. These persons are selected in the manner provided by the Act and the Articles of Association of the company. A shareholder, as such, cannot participate in the management.

6. Permanent Existence

The company has perpetual succession. The death or insolvency of a shareholder does not affect its existence. A company comes into end only when it is liquidated according to provision of the Companies Act.

KINDS OF COMPANIES

From the point of view of formation, the companies are of three kinds:

(1) Chartered Companies

Those companies which are incorporated under a special charter by the king or sovereign such as East Indian Company. Such companies are rarely formed now-a-days as trading companies.

(2) Statutory Companies

These companies are formed by special acts of Legislatures or Parliament. e.g.; the Reserve Bank of India, the Industrial Finance Corporation, Damodar Valley Corporation.

(3) Registered Companies

Such Companies which are incorporate under the Companies Act, 1956 or were registered under the previous Companies Act.

Form the point of view of liability there are three kinds of Companies

(1) Limited Companies

In case of such companies, the liability of each member is limited to the extent of a face value of shares held by him. Suppose A takes a share of Rs 10., he remains liable to the extent of that amount. As soon as that amount is paid, he is no more liable.

(2) Guarantee Companies

The liability of the member of such companies is limited to the amount he has undertaken to contribute to the assets of the company in the event of its wound up. This guaranteed amount is limited to fixed sum which is specified in the memorandum.

(3) Unlimited Companies

They are nothing but large partnership registered under the Companies Act and the members just like partners have unlimited liability and both share contribution as well as their property are at stake when the company is to be wound up. Such companies are rare these days.

From the point of view of Public investment companies may be of two kinds:

(1) Private Companies :

A private company means a company which by its articles (a) restricts the right to transfer its shares, if any (b) limits the number of its members to fifty excluding past or present employees of the company who are also members of the company. (c) Prohibits any invitation to the public to subscribe for any shares in our debentures of the company.

(2) Public Companies :

Public companies are those companies which are not private companies. All the three ABOVE restrictions are not imposed on such companies.



SHARE CAPITAL-ISSUE AND FORFEITURE OF SHARES

1.AUTHORISED CAPITAL is also referred to, at times, as registered capital. This is the total of the share capital which a limited company is allowed (authorized) to issue to its shareholders. It presents the upper boundary for the actually issued share capital (hence also 'nominal capital').

2.Issued Share Capital is the total of the share capital issued to shareholders. This may be less than the authorized capital.

3.Subscribed Capital is the portion of the issued capital, which has been subscribed by all the investors including the public. This may be less than the issued share capital as there may be capital for which no applications have been received yet ('unsubscribed capital').

4.Called up Share Capital is the total amount of issued capital for which the shareholders are required to pay. This may be less than the subscribed capital as the company may ask shareholders to pay by installments.

5.Paid up Share Capital is the amount of share capital paid by the shareholders. This may be less than the called up capital .

DIFFERENCE BETWEEN SHARE AND STOCK

- 1.Stocks are fully paid up whereas shares may be fully paid up or partly paid up.
- 2.Shares may be issued when a company is incorporated but stock cannot be issued under such circumstances. Only fully paid shares are converted into stock.
- 3.Stock is convenient method of transferring because it can be issued or transferred in fractional parts whereas shares cannot be divided below the face value of share.
- 4.Stocks are not numbered whereas shares are serially numbered.
- 5.Shares are of equal nominal amount value but stocks may be divided into unequal amounts.
- 6.Shares are always registered and not transferrable by mere delivery but stock may be registered or unregistered and unregistered stock can be transferred by mere delivery.

EXPANSION OF SHARE CAPITAL

1. RIGHTS OR BONUS SHARES : The company may issues fresh shares to the existing shareholders in proportion to the shares held by them.

2. INITIAL PUBLIC OFFER(IPO): The company may make an offer , inviting the general public to subscribe to its shares.

3. PREFERENTIAL ALLOTMENT: A company may make a bulk allotment to an individual, companies, venture capitalists or any other person through a fresh issue of shares. It is known as preferential allotment. Under this method, the entire allotment is made to pre-identified people, who may or may not be existing shareholders at predetermined price. The lock-in-period under this is three years from the date of allotment in case of promoter Contribution. But in case of pre-issue of share capital of an unlisted company, the lock-in-period is one year from the date of commencement of commercial production.

JOURNAL ENTRIES FOR ISSUE OF SHARES

(1) On receipt of application money

Bank Account Dr

To Share Application A/c

(Being the application money on....shares..@ Rs.per share)

(2) On allotment of shares

(a) First of all application money on allotted shares is transferred to shares capital account

Share Application Account Dr

To Share Capital A/C

(Being the application money transferred to Share Capital Account)

(b) Those applicants who could not be allotted any share, their application money will be returned.

Share Application Account Dr

To Bank Account

(Being the application money of shares returned)

(3) On the allotment of share, the allotment money becomes due to the company

Share Allotment Account Dr.

To Share Capital Account

Being the Share allotment money due onshare @ Rs...per share

(4) On receipt of allotment money, the entry is

Bank Account Dr.

To share allotment account.

Being the share allotment money is received

(5) On making the first call due from shareholders the entry is :

Share first call Account Dr.

To share capital Account.

Being the first call money is due.

(6) On receipt of the first call money, the entry is

Bank Account Dr.

To share first call Account.

Being share first call money is received.



Illustration 1

Fashion Fabrics Ltd. issued 100000 shares of Rs. 10 each on 1st April, 2006.

The amount payable on these shares was as under:

Rs 2 per share on application.

Rs 3 per share on allotment.

Rs 5 per share on call.

Make journal entries in the books of company.

Solution:

1. Bank A/c Dr 200000

To Share Application A/c 200000

(Application money received @ Rs 2 per share)

2. Share Application A/c Dr 200000

To Share Capital A/c 200000

(Share application money for 100000 shares transferred to share capital A/c)

3. Share Allotment A/c Dr 300000

To Share Capital A/c... 300000

(Allotment money made due on 100000 shares @ Rs 3/- per share)

4. Bank A/c Dr 300000
 To Share Allotment A/c. 300000
(Allotment money received on 100000 shares @Rs 3 per share.)

5. Share First & Final call A/c. Dr 500000
 To Share Capital A/c 500000
(Call money on 1,00,000 shares @ Rs 5 per share made due)

6. Bank A/c Dr 500000
 To Share First & Final call A/c. 500000
(Call money received on 1,00,000 shares @ Rs 5 per share)

Note : Although shares may be equity shares or preference shares but if the term shares is used it means equity



ISSUE OF SHARES AT PREMIUM

If a company issues its shares at a price more than its face value, the shares are said to have been issued at Premium. The difference between the issue price and face value or nominal value is called 'Premium'. If a share of Rs 10 is issued at Rs 12, it is said to have been issued at a premium of Rs 2 per share. The money received as premium is transferred to Securities Premium A/c. The Companies Act has laid down certain restrictions on the utilization of the amount of premium.

According to Section 78 of this Act, the amount of premium can be utilized for :

- (i) Issuing fully-paid bonus shares;
- (ii) Writing off preliminary expenses, discount on issue of shares, underwriting commission or expenses on issue;
- (iii) Paying premium on redemption of Preference shares or Debentures.
- (iv) For purchase of its own shares.



ACCOUNTING TREATMENT OF PREMIUM ON ISSUE OF SHARES

Following is the accounting treatment of Premium on issue of shares :

(a) Securities premium collected with share Application money :

If the Securities premium is collected on application and the company has taken decision about the allotment of shares, the following journal entry is made :

Share Application A/c. Dr

To Securities Premium A/c

(The amount of Securities premium received on application of the allotted shares is transferred to Securities Premium A/c)

(b) Premium collected with Allotment money or Calls.

If the company decides to demand the premium with share Allotment or and share call money, the journal entry made is:

Share Allotment A/c Dr

Or/and

Share Call A/c Dr

To Securities Premium A/c

(Adjustment of share premium due on.....shares @Rs.....per share.)

Illustration Luxury Cars Ltd. issued 100000 shares of Rs 10 each at a premium of

Rs 5 per share, payable as:

On application Rs. 4 (including Rs 2 premium) per share

On allotment Rs 8 (including Rs 3 premium) per share

On call Rs. 3 per share

Applications were received for 100000 shares and allotment was made to all. Make journal entries.

Solution:

1. Bank A/c Dr. 400000

 To Share Application A/c 400000

(Amount received for 1,00,000 shares)

2. Share Application A/c Dr 400000

 To Share Capital A/c 200000

 To Securities Premium A/c 200000

(Share application money transferred to share capital A/c and securities Premium A/c)



3. Bank A/c Dr 800000
 To Share Allotment A/c 800000
(Share allotment money is received on 1,00,000 shares @ Rs 8 per share)

4. Share Allotment A/c Dr 800000
 To Share Capital A/c 500000
 To Securities Premium A/c 300000
(Share allotment money made Due)

5. Share First and Final Call A/c Dr 300000
 To Share Capital A/c 300000
(Share call money made due on 1,00,000 shares @ Rs 3 per share.)

6. Bank A/c Dr 300000
 To Share First and Final Call A/c 300000
(Share call money received on 1,00,000 shares @ Rs 3 per share.)



ISSUE OF SHARES AT DISCOUNT

When the issue price of share is less than the face value, shares are said to have been issued at discount. For example if a company issues its shares of Rs 100 each at Rs. 90 each, the shares are said to be issued at discount. The amount of discount is Rs 10 per share (i.e. Rs 100 – Rs 90). Discount on shares is a loss to the company.

Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows :

- (i) At least one year must have elapsed from the date of commencement of business;
- (ii) Such shares are of the same class as had already been issued;
- (iii) The company has sanctioned such issue by passing a resolution in its General meeting and the approval of the court is obtained.
- (iv) Discount should not be more than 10% of the face value of the share and if the company wants to give discount more than 10%, it will have to obtain the sanction of the Central Government.

ACCOUNTING TREATMENT OF SHARES ISSUED AT DISCOUNT

The amount of discount is generally adjusted towards share allotment money and the following journal entry is made:

Share Allotment A/c Dr

Discount on issue of shares A/c Dr

To Share Capital A/c

Allotment money due on....shares @Rsper share after allowing discount @Rsper share.

ILLUSTRATION

Sri Krishna Agro Chemical Ltd. was registered with a capital of Rs 5000000 divided into 50000 shares of Rs 100 each. It issued 10000 shares at discount of Rs 10 per share, payable as :

Rs 40 per share on application

Rs 30 per share on allotment

Rs 20 per share on call.

Company received applications for 15000 shares. Applicants for 12000 shares were allotted 10000 shares and applications for the remaining shares were sent letters of regret and their application money was returned. Call was made. Allotment and call money was duly received. Make journal entries in the books of the company.

1 Bank A/c Dr. 6,00,000

To Share Application A/c 6,00,000

(Application money received for 15000 shares @ Rs 40 per Share)

2. Share Application A/c Dr 4,00,000

To Share Capital A/c 4,00,000

(Application money of 10000 shares transferred to share Capital A/c on their allotment)

3. Share Application A/c Dr 2,00,000

To Share Allotment A/c 80,000

To Bank A/c 1,20,000

(Application money of 3000 shares returned and of 2000 shares adjusted towards sum due on allotment)

4. Shares Allotment A/c Dr 3,00,000

Share discount A/c Dr 1,00,000

To Share Capital A/c. 4,00,000

(Allotment money due)

5. Bank A/c Dr 2,20,000

To Share Allotment A/c 2,20,000

(Allotment money received)

6. Share First & Final Call A/c Dr 2,00,000

To Share Capital A/c 2,00,000

(Amount due on call)

7. Bank A/c Dr 2,00,000

To Share First & Final Call A/c 2,00,000

(Call money received)



FULL, UNDER AND OVER SUBSCRIPTION

A company decides to issue number of shares to raise capital. It invites public to buy these shares. Now there may be three situations :

1.FULL SUBSCRIPTION

Company may receive applications equal to the number of shares company has offered to people. It is called full subscription. In case of full subscription the journal entries will be made as follows :

(a) On receipt of application money

Bank A/c Dr

To Share Application A/c

(Application money received for shares)

(b) On allotment of shares

Share Application A/c Dr

To Share Capital A/c

(Application money of shares transferred to capital A/c on their allotment)

II. The company does not receive application equal to the number of shares offered for subscription, there may be two situations :

- (i) under subscription
- (ii) over subscription

(I) UNDER SUBSCRIPTION

The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be allotted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

(II) OVER SUBSCRIPTION

When company receives applications for more number of shares than the number of shares offered to the public for subscription it is a case of over subscription. A company cannot allot more shares than what it has offered. In case of over subscription, company has the following options

If the application money received on partially accepted applications is more than the amount required for adjustment towards allotment money, the excess money is refunded. However, if the Articles of the company so authorize, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due later on.

the entry is made :

Share Application A/c Dr

To Call-in-advance A/c

(The adjustment of excess share application money retained as call-in advance in respect of ... shares).



Option I

1. REJECTION OF EXCESS APPLICATIONS AND MONEY RETURNED

The company may reject the applications for shares in excess of the shares offered for issue and a letter of rejection is sent to such applicants. In this case the application money received from these applicants is refunded to them in full.

The journal entry made is as follows:

Share Application A/c Dr

To Bank A/c

(Application money on ... shares refunded to the applicants)

(ii) Excess application money adjusted towards sums due on allotment.

Journal entry made is :

Shares Application A/c Dr

To Share Allotment A/c

(Excess application money adjusted towards sums due on allotment)



If the application money received on partially accepted applications is more than the amount required for adjustment towards allotment money, the excess money is refunded. However, if the Articles of the company so authorize, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due later on.

the entry is made :

Share Application A/c Dr

To Call-in-advance A/c

(The adjustment of excess share application money retained as call-in advance in respect of ... shares).



OPTION II

PARTIAL ACCEPTANCE OF APPLICATIONS.

In some cases the company accepts the applications for subscription partially. It means that the company does not allot the full number of shares applied for. For example if an applicant has applied for 5000 shares and is allotted only 2000 shares, then the applications is said to have been partially accepted. The company may evolve some formula of accepting applications partially or making proportionate allotment/ the Pro rata allotment which means that the applicants are allotted shares proportionately. In such a case the company adjusts the excess share money received on application towards share allotment money due on partially accepted applications.

The journal entry recording the adjustment of application money towards share allotment money, is as under :

Share Application A/c Dr

To Share Allotment A/c

(Share application money transferred to Share Allotment Account in respect of ... shares)

CALLS IN ADVANCE AND CALLS IN ARREARS

If a shareholder pays any amount to company before it is demanded, it is called Call-in-Advance. This amount is put in a separate account known as Calls-in-Advance A/c. This amount is not shown as capital of the company, till such time the company makes a demand from all the shareholders.

Call-in-Advance A/c is shown on the liabilities side of the Balance Sheet.

For example if a company issued shares of Rs 10 on which it has already called Rs 5. Against the uncalled portion of Rs 5 per share the company makes a call Rs 3 per share, the entry for call money due will be made only for Rs 3 per share. Now suppose a shareholder pays Rs 5 per share including the uncalled amount of Rs 2 per share along with the call money, it means he has paid Rs 2 per share in advance, which will be credited to calls in Advance A/c.

The company is required to pay interest on this amount @ 6% till the date of its appropriation.

ACCOUNTING TREATMENT

Following journal entry is made for calls-in-advance.

Bank A/c Dr

To Calls-in-Advance A/c

(Calls in advance received on.....shares @ Rsper share)

Appropriation of calls-in-Advance A/c say in the final call

Journal entry will be :

Calls-in-Advance A/c Dr

To Share Final call A/c

(Calls in advance amount adjusted)

For interest given on Calls-in-Advance

Journal entry will be

Interest on calls-in-Advance A/c Dr

To Bank A/c

(Interest paid on the amount of Call-in-Advance)



CALLS IN ARREARS

When the company sends notice to the shareholders to pay allotment and call money, it has to be paid by them within the specified time period.

If it is not paid by any one or more of the shareholders, the unpaid amount becomes arrears due from them. Such arrears are transferred to an account termed as Calls-in-Arrears A/c. The company is authorized to charge interest on calls-in-Arrears @ 5% p.a. for the intervening period

Accounting Treatment

The following journal entry is made to record Calls-in-Arrears:

Calls-in-Arrears A/c Dr

To Share Allotment/Call A/c

(Share allotment/ Call money not received on shares)

When the unpaid balance is received later on the following journal entry is made:

Bank A/c Dr

To Calls in Arrears A/c

(Amount due on allotment/ call remaining unpaid now received on..... shares.)

FORFEITURE OF SHARES

If a shareholder fails to pay the due amount of allotment or any call on shares issued by the company, the Board of directors may decide to cancel his/her membership of the company. With the cancellation, the defaulting shareholder also loses the amount paid by him/her on such shares. Thus, when a shareholder is deprived of his/her membership due to non payment of calls, it is known as **forfeiture of shares**.

1. FORFEITURE OF SHARES ISSUED AT PAR

When shares issued at par are forfeited the accounting treatment will be as follows:

- (i) Debit Share Capital Account with amount called up (whether received or not) per share up to the time of forfeiture.
- (ii) Credit Share Forfeited A/c. with the amount received up to the time of forfeiture.
- (iii) Credit 'Unpaid Calls A/c' with the amount due on forfeited shares. The



JOURNAL ENTRY IS :

Share capital A/c Dr (Amount called up)
 To share forfeited A/c (Amount paid)
 To unpaid calls A/c (Amount called but not paid)

Note : (i) Amount called up = No. of shares \times called up per share
(ii) Amount paid = No. of shares \times Amount paid per share
(iii) Amount called but not paid = No. of shares \times Amount called but not paid per share

ILLUSTRATION : X, a shareholder, holding 100 shares of Rs 10 each has paid application money of Rs 2 per share and allotment money of Rs 3 per share, but has failed to pay the first call of Rs 2 per share and second call of Rs 3 per share. His shares were forfeited. Make the journal entry to record the forfeiture of shares.

Solution :

Share Capital A/c (100 \times Rs 10) Dr 1000
 To Share forfeited A/c (100 \times Rs 5) 500
 To Share First Call A/c (100 \times Rs 2) 200
 To Share Second and Final Call A/c (100 \times Rs 3) 300
(forfeiture of 100 shares)

FORFEITURE OF SHARES ISSUED AT PREMIUM AND AT DISCOUNT

In case shares are issued at premium and thereafter forfeited there can be two situations :

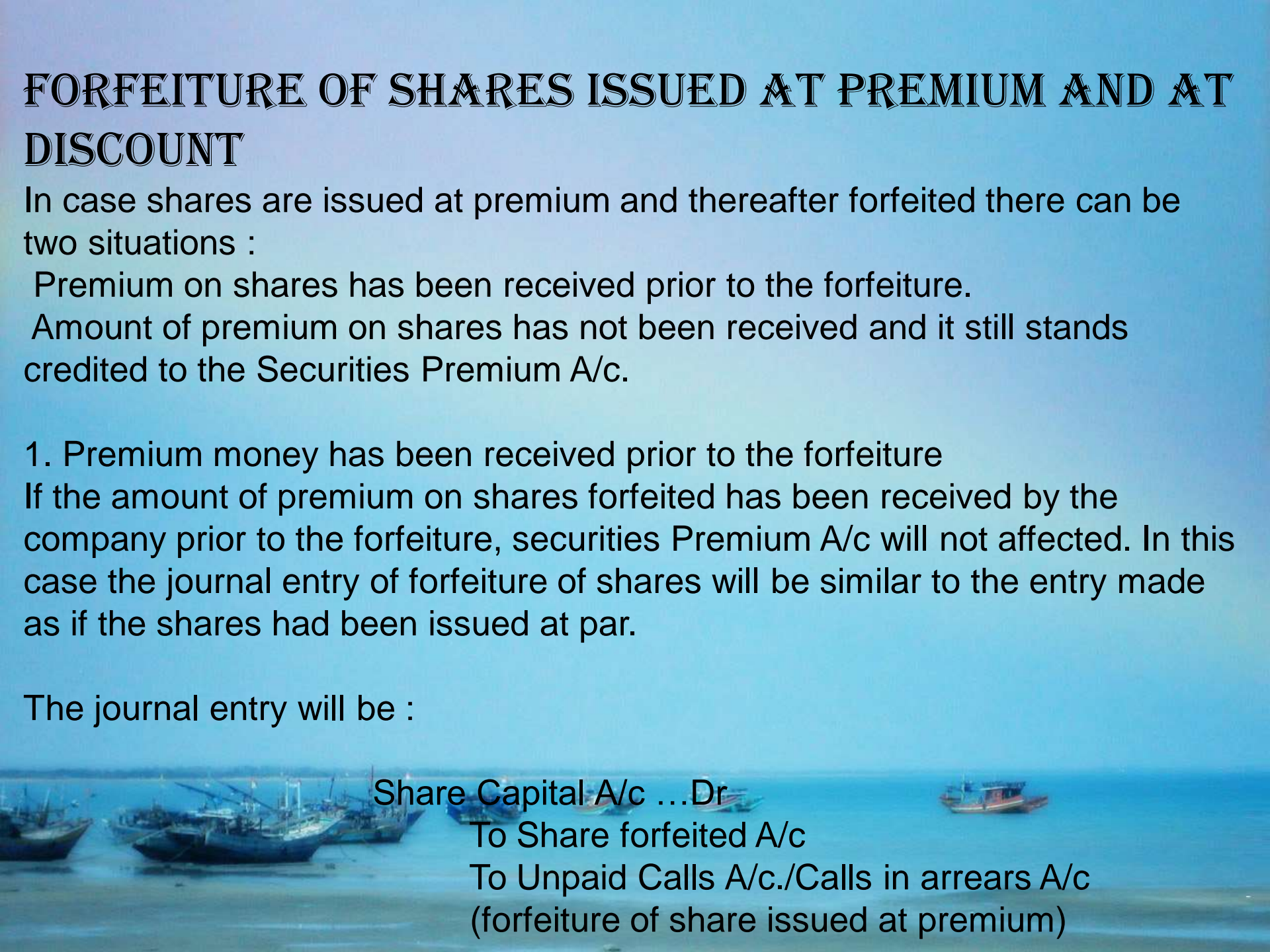
Premium on shares has been received prior to the forfeiture.

Amount of premium on shares has not been received and it still stands credited to the Securities Premium A/c.

1. Premium money has been received prior to the forfeiture

If the amount of premium on shares forfeited has been received by the company prior to the forfeiture, securities Premium A/c will not be affected. In this case the journal entry of forfeiture of shares will be similar to the entry made as if the shares had been issued at par.

The journal entry will be :



Share Capital A/c ...Dr
To Share forfeited A/c
To Unpaid Calls A/c./Calls in arrears A/c
(forfeiture of share issued at premium)

2. PREMIUM ON SHARES HAS NOT BEEN RECEIVED AND STANDS CREDITED TO SECURITIES PREMIUM A/C AS DUE BUT NOT PAID.

When a share is forfeited on which the amount of premium has been made due but has not been received, either wholly or partially, the Securities Premium A/c will be cancelled. At the time of making due, Securities Premium A/c will be credited.

The journal entry will be as follows:

Share Capital A/c Dr
Securities Premium A/c Dr
 To Share Forfeited A/c
 To Unpaid call A/c.

(Forfeiture of shares originally issued at premium due to non payment of dues).



ILLUSTRATION: The Latest Technology Company Ltd. offered to public for subscription of 50,000 shares of Rs. 20 each at a premium of Rs. 5 per share. The amount was payable as under:

On application Rs. 5 per share

On allotment Rs. 12 per share (Including premium of Rs 5 per share)

On first call Rs. 4 per share

On Second and Final call Rs. 4 per share

Applications were received for all the shares. Allotment was made to all the applicants in full. Ashima failed to pay allotment and call money on 200 shares held by her.

SOLUTION : (i) Share Capital A/c (200×20) Dr. 4000

Securities Premium A/c (200×5) Dr. 1000

To Share Forfeited A/c (200×5) 1000

To Share Allotment A/c (200×12) 2400

To Share First Call A/c (200×4) 800

To Share Second and Final call A/c (200×4) 800

(Forfeiture of 200 shares held by Ashima who did not pay allotment and call money).

FORFEITURE OF SHARES ISSUED AT DISCOUNT

Discount on issue of shares is a loss to the company. When shares issued at a discount are forfeited for non payment of dues, the discount allowed on such shares is written back. At the time of issue of shares, Discount on issue of Shares A/c is debited and when forfeited, this account is credited to cancel the discount allowed on such shares.

In this case the following journal entry is made :

Share Capital A/c Dr.

To Share Forfeited A/c

To Discount on Issue of Shares A/c

To Unpaid call A/c

(Forfeiture of shares originally issued at discount for non payment of dues).



ILLUSTRATION : The Evergrowing Ltd. invited applications for 20000 shares of Rs. 50 each at a discount of 10% payable as follows:

On application Rs. 10 per share

On allotment Rs. 20 per share

On call Rs. 15 per share

Whole of the issue was subscribed and paid for except the calls money on 200 shares which were forfeited by the company.

Make journal entry for forfeiture of shares.

Solution:

Share Capital A/c (200×50) Dr. 10000

 To Shares forfeited A/c (200×30) 6000

 To Discount on Issue of Shares A/c (200×5) 1000

 To Share First and Final call A/c (200×15) 3000

(Forfeiture of 200 shares of Rs 50 each issued at discount of 10% on non payment of call money)



REISSUE OF FORFEITED SHARES

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares plus original discount on reissued shares, if any.

The following journal entry will be passed :

Bank a/c Dr. (amount received)

Discount on issue of shares a/c Dr.(with original rate of discount if issued at dis)

Share forfeited a/c(loss on issue)

 To share capital a/c(with face value of shares)

 To securities premium a/c(if shares are reissued at premium)

After the reissue if there is no balance in shares forfeited account then there will be no capital profit. But where there is profit on the reissue of forfeited shares , such a profit is treated as a capital profit and balance or amount relating to shares reissued will be transferred to capital reserve by following entry ;

 Share Forfeited a/c

 To capital reserve a/c

ILLUSTRATION : India infrastructure Ltd. has issued its shares of Rs. 20 each at a discount of Rs 2 per share. Mahima holding 100 shares did not pay final call of Rs 5 per share. Later on the company reissued 100 shares of these forfeited shares at (I) Rs. 15 per share. Make journal entries for the forfeiture and reissue of the shares in the books of company.

SOLUTION: Share Capital A/c Dr 2000
 To Shares Forfeited A/c 1300
 To Discount on Issue of Shares A/c 200
 To Shares Final Call A/c 500

(Forfeiture of 200 shares issued at discount for non payment of final call)

REISSUE OF SHARES: Reissued at Rs 15 per share

I. (i) Bank A/c Dr 1500
 Discount on Issue of Shares A/c Dr 200
 Shares Forfeited A/c Dr 300
 To Share Capital A/c 2000

(100 shares reissued at Rs 15 per share)

(ii) Shares Forfeited A/c Dr 1000
 To Capital Reserve A/c 1000

(Balance in share Forfeited A/c of 100 shares reissued transferred to Capital Reserve A/c)

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

Sometimes shares are issued to the promoters of the company in lieu of the services provided by them during the incorporation of the company. The issue price of these shares is normally debited to 'Goodwill A/c' and journal entry is made as follows :

Goodwill A/c Dr

To Share Capital A/c

In case of purchase of assets like building, machinery, stock of materials, etc. the following journal entry is made :

1. Assets A/c Dr

To Vendors/Creditors A/c

(Assets purchased)

2. Vendors/Creditors A/c Dr

To Share Capital A/c

(Issue of shares of Rs.....each fully paid up)



****THANK YOU****