

Issue of Shares

- Shares can be issued : i) For cash to the public
ii) For consideration other than cash

I. Issue of shares by a public limited company for cash involves:

1. Issue of prospectus
2. Receipts of share application money
3. Making allotment and receipts of allotment money and
4. Making calls and receipts of call money.

II. The shares may be issued either at par, at premium or at a discount.

- A. **Issue of shares at par:** When shares are issued for an amount equal to the face value of shares, they are said to be issued at par. For example, shares of Rs. 10 each (face value) are issued for Rs. 10 only. The issue is at par.

Accounting Entries for the Issue of Shares at Par

Transaction	Entry
1. On receipt of application money:	Bank A/cDr To ----- Share Application A/c (Being application money received on ----shares @ Rs. ---per share)
2. On allotment of Shares :	-----Share Application A/c..... Dr To ----- Share Capital A/c (Being application money on --- shares @ Rs. -- per share transferred to share capital a/c)
3. On rejection of allotment:	-----Share Application A/c..... Dr To Bank A/c Being application money on ---rejected shares @ Rs. --- per share refunded)
	OR -----Share Application A/cDr To ----Share Capital A/c To Bank A/c (Being application money on – shares @ Rs. – per share transferred to share capital and excess application money on – shares @ Rs. --- per share refunded)
4. On receipt of allotment money:	Bank A/c Dr To ----- Share Allotment A/c (Being amount received on allotment on ---shares @ Rs. --- per share)
5. On making First Call due:	----- Share First Call A/c..... Dr To ----- Share Capital A/c (Being first call money due on ---shares @ Rs. --- per share)
6. On receipt of first call money:	Bank A/cDr To ---- Share First Call A/c (Being first call money received on --- shares @ Rs. --- per share)
7. On making second and final call:	----- Share Second and Final Call A/c..... Dr To ---- Share Capital A/c (Being second & final call due on ---shares @ Rs. ---

	per share)
8. On receipt of second and final call money:	Bank A/c.....Dr To --- Second and Final Call A/c (Being second @ final call money received on --- shares @ Rs. ---per share)

Note: If other calls are there, similar entries will be passed.

- B. **Issue of shares at premium:** When shares are issued for value more than its face value, they are said to be issued at premium. For example. If share of Rs. 10 is issued at Rs. 12, it is said to have been issued at a premium of Rs 2 per share.

Accounting Entries for the Issue of Shares at Premium

Transaction	Entry
1. When securities premium received along with application	Bank A/cDr To ---- Share Application A/c (Being application money received on ---shares @ Rs.-- per share including premium of Rs. – per share)
2 On transfer of application money to share capital	----- Share Application A/cDr To ----- Share Capital A/c To Securities Premium A/c (Being application money on--- shares @ Rs.---per share transferred to share capital and securities premium a/c)
3. When securities premium is due on allotment	----- Share Allotment A/c.....Dr To ----- Share Capital A/c To Securities Premium A/c (Being allotment money due on --- shares @ Rs. --- per share including premium of Rs. – per share)
4. When allotment money is received	Bank A/c..... Dr To ---- Share Allotment A/c (Being share allotment money received on --- shares @ Rs. --- per share including premium)

Note: 1. The amount of securities premium may be demanded either in lump-sum or in installments

e.g. partly with application and partly with allotment.

2. If it is not specified when the premium is receivable then the amount of premium on shares

is to be recorded at the time of allotment.

- C. **Issue of shares at Discount:** When shares are issued for less than its face value, they are said to be issued at discount. For example, if share of Rs. 10 is issued at Rs. 8, it is said to be issued at a discount of Rs. 2 per share.

Accounting entry for the issue of shares at Discount

Transaction	Entry
When shares issued at discount	---Shares A/c.....Dr Discount on Issue of Shares A/c.....Dr To ---Share Capital A/c (Being amount on allotment of ---shares of Rs--- each due and discount on issue brought into a/c)

Note: As per section 53 of companies Act, 2013, companies would no longer be permitted to issue its shares at discount. Only sweat equity shares could be issued at discount i.e., where shares are issued to employees or directors in lieu of their services under section 54 of the Companies Act, 2013.

Calls-in- Arrears: When some shareholders fail to pay the amount due on allotment or on calls, the unpaid amount is known as calls-in-arrears.

Accounting entries for calls-in-arrears

Transaction	Entry
1. When allotment money is in-arrears	Bank A/cDr Calls-in-arrears A/cDr To ----Share Allotment A/c (Being allotment money received on ---shares @ Rs--- per share & allotment money on --- shares @ Rs.—per share unpaid transferred to calls-in-arrears a/c)
2. When call money is in-arrears	Bank A/cDr Calls-in-arrears A/cDr To ---share ---Call A/c (Being --share – call money of Rs. – per share received on ---shares @ Rs. – per share & --call money on – shares @ Rs. – per share unpaid transferred to calls-in-arrears a/c)

Calls-in-Advance: When shareholder pays the amount not yet called upon his shares is called in calls-in-advance.

Note: According to the section 92 of the companies Act, such calls –in-advance can be accepted by the company only when it is authorized by its Articles of Association.

Accounting entries for Calls-in-Advance

Transaction	Entry
1. When calls-in-advance received along with the allotment money	Bank A/cDr To –share Allotment A/c To Calls-in-Advance A/c (Being share allotment money received on---shares @ Rs.—per share & ---call money received in advance on ---shares @ Rs. ---per share)
2. When Calls-in-advance received along with call money	Bank A/cDr To ---share---Call A/c To Calls-in-advance A/c (Being –call money received on---shares @ Rs. – per share &-- call money received on – shares @ Rs. –per share)
3. When the actual call is due	i) –share –call A/cDr To –Share Capital A/c (Being –call money due on---shares @ Rs. --- per share) ii) Bank A/cDr Calls-in-Advance A/c.....Dr To ----Calls A/c (Being ---call money received on---shares @Rs. - --per share & calls-,in-advance received on – shares @ Rs.—per share adjusted)
4. When interest is paid on calls-in-advance	Interest A/cDr. To Bank A/c

	(Being interest paid on calls –in-advance @---% for--)
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Forfeiture of shares: If any shareholder fails to pay the amount due on allotment or on any call within the specified period, the directors may cancel shares of such shareholder. This is known as forfeiture of shares. Such shareholder will lose the amount already paid by him and cease to be a member of the company.

Accounting entries for forfeiture of shares

Transaction	Entry
1. Forfeiture of shares issued at par	---Share Capital A/cDr To Calls-in-arrears A/c To Share Forfeiture A/c (Being forfeiture of ----shares of Rs.--- each for on payment of ---- money)
2. Forfeiture of shares issued at premium: A. When the premium is received on those shares	---Share Capital A/cDr To Calls-in-arrears A/c To Share Forfeiture A/c ((Being forfeiture of --- shares of Rs--- each for non-payment of -----money)
B. When premium is not received on those shares	----Share Capital A/c.....Dr Securities Premium A/cDr To Calls-in-arrears A/c To Share Forfeiture A/c (Being forfeiture of --- shares of Rs---each for non-payment of ----)
3. Forfeiture of shares issued at discount	---Share Capital A/c.....Dr To Discount on issue of shares To Calls-in-arrears A/c To Share forfeiture A/c (Being forfeiture of – shares of Rs—each issued at discount of Rs—per share for non- payment of – money)

Re-issue of Forfeited Shares : The directors of the company have the authority to re-issue the forfeited shares in accordance with the provisions contained in articles of association or such terms directors find it suitable.

Accounting entries for re-issue of forfeited share

Transaction	Entry
1. When forfeited shares are re-issued at par	Bank A/c.....Dr To—Share Capital A/c (Being re-issue of --- forfeited shares of Rs--- each @ par)
2. When forfeited shares are re-issued at premium.	Bank A/c.....Dr To ---Share Capital A/c To Securities Premium A/c (Being ---forfeited shares of Rs--- each are re-issued at premium --- per share)

3. When forfeited shares are re-issued at discount	Bank A/cDr Share Forfeiture A/c.....Dr To ----Share Capital A/c (Being re-issue of --- shares of Rs.—each at a discount of --)
4. When surplus amount in share forfeiture account transferred to capital Reserve A/c.	Share Forfeiture A/c.....Dr To Capital Reserve A/c (Being surplus amount in share forfeiture account transferred to capital reserve account)

Issue of Shares for a consideration other than cash

Often the company allots fully paid shares for consideration other than cash to vendors, promoters any other party for furnishing technical information, engineering services, plant layout drawings and specifications.

Accounting entries for the issue of shares for a consideration other than cash

Transaction	Entry
1. When shares are issued to vendors	
a) On purchase of assets	Asset A/c.....Dr To Vendors A/c (Being assets purchased from-----)
b) When shares are issued to vendors	
i) If shares are issued at par	Vendors A/c.....Dr To ----Share Capital A/c (Being ---shares of Rs-- each issued to vendors at par)
ii) If shares are issued at premium	Vendor's A/cDr To ---Share Capital A/c To Securities Premium A/c (Being ----Shares of Rs—each issued to vendor's at a premium of Rs--- pr share) No. of Shares = $\frac{\text{Net amount payable to vendors}}{\text{Issue price (Net Face Value) of shares}}$
2. When shares are issued to Promoters':	Goodwill A/c.....Dr To ---Share Capital A/c (Being --- shares of Rs—each are issued to promoters)

1. New Adventure Co. Ltd issued a prospectus inviting applications for 50000 equity shares of Rs.100 each at a discount of 10% (allowed at the time of allotment).

The amount is payable as follows:

On Application	Rs.25 per share
On Allotment	Rs.30 per share
On first call	Rs.15 per Share
On final call	Rs.20 per share

Applications were duly received for 50000 shares and allotment was made.

The entire amount was duly received. Mr. Sagar holding 500 shares paid the entire amount on his shares along with the allotment money.

Pass journal entries in the books of New Adventure Co. Ltd.

Journal entries in the Books of New Adventure Co. Ltd.

Date	Particulars	LF	Debit	Credit
1	Bank Account Dr To Equity Share Application A/c (Being Application money received on 50000 shares @ Rs.25 per share)		12,50,000	12,50,000
2	Equity Share Application A/c Dr To Equity Share Capital A/c. (Being Application money Transferred to equity share capital A/c)		12,50,000	12,50,000
3	Equity Share Allotment A/c Dr Discount on Issue of Shares A/c. Dr To Equity Share Capital A/c. (Being Allotment money due on 50000 shares @ of Rs.30 per share & discount on share @ of Rs. 10 Per share)		15,00,000 5,00,000	20,00,000
4	Bank Account Dr To Equity Share Allotment A/c To Calls in Advance A/c (Being Allotment money received on 50000 &I & II Call money received in advance on 500 shares held by Sagar 500@ Rs35)		15,17,500	15,00,000 17,500
5	Equity Share First Call A/c. Dr To Equity Share Capital A/c. (Being I Call money due on 50000 @ Rs. 15)		7,50,000	7,50,000
6	Bank Account Dr Calls in Advance A/c To Equity Share First Call A/c. (Being I Call money received on 49500 Shares @ Rs.15 per share and Calls in advance Adjusted on 500 shares held by Sagar)		7,42,500 7500	7,50,000
7	Equity Share Final Calls A/c. Dr To Equity Share Capital A/c. (Being final Call money due on 50000 @ Rs. 20 Per Share)		10,00,000	10,00,000
8	Bank Account Dr Calls in Advance A/c Dr To Equity Share Final Call A/c. (Being Final Call money received on 49500 Share @ Rs.20 per share and calls in advance adjusted on 500 shares held by Sagar)		9,90,000 10,000	10,00,000
	Total.....		95,17,500	95,17,500

2. National Trading Co. Ltd, incorporated with an authorized capital of Rs.80,00,000 divided into equity shares of Rs.100 Each.
The company offered to the public for subscription 40,000 equity shares payable as follows:

On Application	Rs.30 per share
On Allotment	Rs.40 per share
On first call	Rs.20 per Share
On final call	Rs.10 per share

The shares were fully subscribed by the public and application money duly received. The Board of Directors decided to make allotment. All the amounts due were duly received with the exception of 6000 shares of Mr. Shriram who failed to pay final call money. Later these shares were forfeited.

Pass journal entries in the books of National Trading Co. Ltd.

Journal entries in the books of National Trading Co. Ltd.

Date	Particulars	L F	Debit	Credit
1	Bank Account To Equity Share Application A/c (Being Application money received on 40000 shares @ Rs.30 per share)	Dr	12,00,000	12,00,000
2	Equity Share Application A/c To Equity Share Capital A/c. (Being Application money Transferred to equity share capital A/c)	Dr	12,00,000	12,00,000
3	Equity Share Allotment A/c. To Equity Share Capital A/c. (Being Allotment money due on 40000 shares @ of Rs.40)	Dr	16,00,000	16,00,000
4	Bank Account To Equity Share Allotment A/c (Being Allotment money received on 40000 shares @ Rs. 40 per share)	Dr	16,00,000	16,00,000
5	Equity Share First Call A/c. To Equity Share Capital A/c. (Being I Call money due on 40000 shares @ 20 Per Share)	Dr	8,00,000	8,00,000
6	Bank Account To Equity Share First Call A/c. (Being I Call money received on 40000 @ Rs. 20 Per Share)	Dr	8,00,000	8,00,000
7	Equity Share Final Call A/c. To Equity Share Capital A/c. (Being final Call money due on 40000 @ Rs. 10 per share)	Dr	4,00,000	4,00,000
8	Bank Account Calls in Arrears Account To Equity Share Final Call A/c. (Being final Call money received on 34000 shares @ Rs.10 each, Except on 6000 shares held by Mr. Shriram)	Dr Dr	3,40,000 60,000	4,00,000

9	Equity Share Capital A/c To Calls in Arrears Account To Share Forfeited A/c (Being forfeiture of 6000 shares for non - payment of final call Rs.10 per share)	Dr	6,00,000	60,000 5,40,000
	Total		86,00,000	86,00,000

3 Shree Ram Industries Co. Ltd invited applications from the Public for 50000 equity shares of Rs. 100 each payable as follow:

- On Application Rs. 20 per share
- On Allotment Rs. 50 per share
- On first & final call Rs. 30 per Share

All the shares were subscribed and the amounts received except Mr. Anthony who held 400 shares failed to pay the first and final call. Latter these shares were forfeited and reissued to Mr. Ronaldo at Rs. 80 per share, taken as fully paid.

Pass journal entries in the books of Shree Ram Industries Co. Ltd.

Journal entries in the books of Shree Ram Industries Co. Ltd.

Date	Particulars	LF	Debit	Credit
1	Bank Account Dr. To Equity Share Application A/c (Being Application money received on 50000 shares @ Rs.20 per share)		10,00,000	10,00,000
2	Equity Share Application A/c Dr. To Equity Share Capital A/c. (Being Application money Transferred to equity share capital A/c)		10,00,000	10,00,000
3	Equity Share Allotment A/c Dr. To Equity Share Capital A/c. (Being Allotment money due on 50000 shares @ of Rs.50 Per Share.)		25,00,000	25,00,000
4	Bank Account Dr. To Equity Share Allotment A/c (Being Allotment money received on 50000 shares @ of Rs.50 Per Share.)		25,00,000	25,00,000
5	Equity Share First & Final call A/c Dr. To Equity Share Capital A/c. (Being first & final call money due on 50000 shares at the rate of Rs.30 per share)		15,00,000	15,00,000
6	Bank Account Dr. Calls in Arrears A/c To Equity Share First & Final Call (Being first & final Call money received on 49600 shares at the rate of Rs.30 per share & balance transfer to calls in Arrears A/c.)		14,88,000 12,000	15,00,000
7	Equity Share Capital A/c Dr. To Calls in Arrears Account To Share Forfeited A/c (Being forfeiture of 400 shares for non payment of final call Rs.30 per share)		40,000	12,000 28,000

8	Bank Account Forfeited Share A/c. To Equity Share Capital A/c. (Being reissue of 400 shares to Ronaldo @ Rs.80 per share, credited as fully paid)	Dr. Dr.	32,000 8,000	40,000
9	Forfeited Share A/c. To Capital Reserve A/c. (Being surplus on reissue of forfeited share transferred to capital Reserve)	Dr.	20,000	20,000
	Total.....		101,00,000	101,00,000

4. Asian Sunrise Co. Ltd invites application for 30000 equity shares of Rs. 10 each at a premium of Rs.2 per share, payable as follows:

On Application	Rs.3 per share
On Allotment	Rs.5 per share(including premium)
On first Call	Rs.2 per Share
On Final call	Rs.2 per Share

Applications were received for 40000 shares. The excess application money refunded to the applicants. Sanjay who was allotted 1000 shares failed to pay both calls and his shares were forfeited.

Pass journal entries in the books of Asian Sunrise Co. Ltd

Journal entries in the books of Asian Sunrise Co. Ltd.

Date	Particulars	LF	Debit	Credit
1	Bank Account To Equity Share Application A/c (Being Application money received on 40000 shares @ Rs.3 per share)	Dr.	1,20,000	1,20,000
2	Equity Share Application A/c To Equity Share Capital A/c (Being Application money Transferred to equity share capital A/c)	Dr.	90,000	90,000
3	Equity Share Application A/c To Bank Account (Being application money refunded)	Dr.	30,000	30,000
4	Equity Share Allotment A/c To Equity Share Capital A/c. To Securities Premium Account (Being Allotment money due on 30000 shares @ of Rs.5 Per Share including premium of Rs.2.)	Dr.	1,50,000	90,000 60,000
5	Bank Account To Equity Share Allotment A/c (Being Allotment money received on 30000 shares @ of Rs.5 Per Share)	Dr.	1,50,000	1,50,000
6	Equity Share First call A/c To Equity Share Capital A/c. (Being first call money due on 30000 shares @ Rs.2)	Dr.	60,000	60,000
7	Bank Account Calls in Arrears A/c	Dr. Dr.	58,000 2,000	

	To Equity Share First Call A/c. (Being first & final Call money received on 29000 shares at the rate of Rs.2 per share & balance transfer to calls in Arrears A/c.)			60,000
8	Equity Share Second call A/c To Equity Share Capital A/c. (Being Second call money due on 30000 shares at the rate of Rs.2 per share)	Dr.		60,000
9	Bank Account Calls in Arrears A/c To Equity Share Second Call A/c. (Being first & final Call money received on 29000 shares at the rate of Rs.2 per share)	Dr. Dr.		58,000 2,000
10	Equity Share Capital A/c To Calls in Arrears Account To Share Forfeited A/c (Being forfeiture of 1000 shares for non payment of first & Second call)	Dr.		10,000 4,000 6,000
	Total			7,90,000

5. Sunshine Trading Co. Ltd invites application for 20,000 10% Preference shares of Rs. 100 each at a premium of Rs.30 per share, payable as follows:

On Application	Rs.25 per share
On Allotment	Rs.50 per share (Including Premium)
On first Call	Rs.20 per Share
On Final call	Rs.35 per Share

Applications were received for 16,000 10% Preference shares. All the amount were duly received. Mr. Kapil holding 500 shares paid the entire amount of his shares along with first call money. The interest was paid on call in advance @ 6% per annum for a period of 4 months

Pass journal entries in the books of Sunshine Trading Co. Ltd.

Journal entries in the books of Sunshine Trading Co. Ltd.

Date	Particulars	LF	Debit	Credit
1	Bank Account To 10% Preference Share Application A/c (Being Application money received on 16,000 10% Preference Shares @ Rs.25 per share)	Dr.	4,00,000	4,00,000
2	10% Preference Share Application A/c To 10% Preference Share Capital A/c. (Being Application money Transferred to Equity share capital A/c)	Dr.	4,00,000	4,00,000
3	10% Preference Share Allotment A/c To 10% Preference Share Capital A/c. To Share Premium A/c (Being Allotment money due on 16,000 shares @ of Rs.50 Per Share including share premium of Rs. 30 per share)	Dr.	8,00,000	3,20,000 4,80,000
4	Bank Account To 10% Preference Share Allotment A/c (Being Allotment money received on 16000	Dr.	8,00,000	8,00,000

	shares @ of Rs.50 Per Share including share Premium)			
5	10% Preference Share First Call A/c. Dr. To Equity Share Capital A/c. (Being I Call money due on 16,000 @ Rs. 20 each)		3,20,000	3,20,000
6	Bank Account Dr. To 10% Preference Share First Call A/c. To Calls in Advance A/c (Being I Call money received on 16,000 shares @ Rs.20 and call money received in advance on 400 shares @ Rs.35 each, held by Mr. Prasad)		3,37,500	3,20,000 17,500
7	10% Preference Share Final Call A/c. Dr. To Equity Share Capital A/c. (Being final Call money due on 16,000 @ Rs. 35 per share)		5,60,000	5,60,000
8	Bank Account Dr. Calls in Advance Account Dr. To 10% Preference Share Final Call A/c. (Being Second & final Call money received on 15500 @ Rs. 35 Per Share & Calls in Advance adjusted on 500 shares held by Mr. Kapil)		5,42,500 17,500	5,60,000
9.	Interest on Calls in Advance Account Dr. To Bank Account (Being Interest paid on Calls in Advance for 4 months)		350	350
	Total.....		41,77,850	41,77,850

Practice Problems:

1. Skylight Limited issued a prospectus inviting applications for 3,000 shares of Rs. 100 each at a premium of Rs.20 payable as follows:

- On Application Rs.20 per share
- On Allotment Rs.50 per share (Including premium)
- On First call Rs.20 per share
- On Second call Rs.30 per share

Applications were received for 4,000 shares. The remaining applications being rejected and money refunded.

Renuka to whom 360 shares were allotted, failed to pay allotment money and calls money, and her shares were forfeited.

Kanika, the applicant of 200 shares failed to pay the two calls, her shares were also forfeited. All these shares were re-issued to Naman @ Rs.80 per share as fully paid share. Show the journal entries in the books of the company.

2. Ganesh Electrical Co. Ltd issued a prospectus inviting applications for 12,000 shares of Rs.200 each at a premium of Rs.50 per share, payable as follows:

- On Application Rs.75 per share
- On Allotment Rs.75 per share (Including premium)
- On first call Rs.40 per Share
- On final call Rs.60 per share

Applications were received for 15,000 shares and allotment made by the directors as follows:

Reject fully Applications for 3,000 shares and refund application money.

Allot 100% shares to remaining applicants.

The directors made calls on shares and moneys duly received except on 500 shares held by Mr. Ajay Pednekar, who failed to pay first call and final call. His shares were forfeited and then re-issued to Mr. Mahesh @ Rs.180 per share as fully paid.

Pass journal entries in the books of Ganesh Electrical Co. Ltd.

3. On 1st April 2013, Kapil Trading Co. Ltd was incorporated with an authorized capital of Rs.60,00,000 divided into equity shares of Rs.100 each. The company offered to the public for subscription 30,000 equity shares payable as follows:

On Application Rs.30 per share

On Allotment Rs.40 per share

On first call Rs.20 per Share (One month after Allotment)

On final call Rs.10 per share (Two months after First call)

The shares were fully subscribed by the public and application money duly received on 20th April 2013. The Board of Directors decided to make allotment on 1st May 2013.

All the amount due were duly received on 20th day of making the allotment and calls money, with the exception of 6,000 shares of Mr. Raturaj who failed to pay final call money.

Pass journal entries in the books of Kapil Trading Co. Ltd

4. Adventure Trading Co. Ltd issued 15,000 equity shares of Rs.10 each at a premium of Rs.2 per share payable as follows:

On Application Rs.3 per share

On Allotment Rs.5 per share (Including premium)

Balance on first and final call

The issue was fully subscribed. All money was duly received.

The company purchased a machine from Sagar Trading Co. for Rs.2,50,000. As per the agreement Rs.50,000 was paid in cash and the balance by issue of Equity shares of Rs.10 each at par.

The company also purchased Air Condition Plant from Asian Trading Company for Rs.4,00,000 and issued Equity shares of Rs.10 each at a discount of 10%.

Pass journal entries in the books of Adventure Trading Co. Ltd

5. Sunshine Trading Company Ltd invited applications for 5,000, 10% preference shares of Rs.100 each for public subscription. The amount payable on shares was as follows:

On Application Rs.20 per share

On Allotment	Rs.30 per share
On first & final call	Rs.50 per Share

The company received an applications for 7,500 10% Pref. shares. The Board of Directors allotted the shares as follows:

To the applicants for 2,500 shares.....NIL

To the applicants for 5,000 shares.....100% Allotment.

The entire amounts due were received except first and final call on 500 shares held by Mr. Sunil. His shares were forfeited and later on re-issued at the rate of Rs.80 per share to Mr. Kumar, credited as fully paid shares of Rs.100 each.

Pass journal entries in the books of Sunshine Trading Company Ltd