

Accounting for Share Capital

Lesson 4

KEY CONCEPTS

■ Share capital ■ Equity Share ■ Preference Share ■ Premium ■ Bonus shares ■ Rights issue ■ Capital Redemption Reserve

Learning Objectives

To understand:

- Meaning of share capital, types of shares, a company's capital structure and its disclosure in the balance sheet.
- Accounting procedure of issuing of shares at par / premium / discount
- Accounting treatment in case of forfeiture and re-issue of shares
- Nuances of redemption and concept of Capital Redemption Reserve
- Aspects of Sweat Equity Shares and Bonus Shares along with the accounting
- Accounting of buyback of shares.
- Steps for Underwriting and its methods
- Difference between marked applications and unmarked applications along with determining the liability of underwriters

Lesson Outline

- Share Capital- Meaning, Types
- Disclosure of Share Capital
- Issue of Share at PAR
- Issue of Share at Premium
- Issue of Share at Discount
- Subscription
- Calls-in-Advance
- Calls-in-Arrear
- Issue of Shares for consideration other than cash
- Forfeiture of Share
- Re-issue of Forfeiture Shares
- Buyback of Shares
- Issue of Bonus Shares
- Issue of Sweat Equity Shares
- Issue of Rights Shares
- Redemption of Preference Shares
- Capital Redemption Reserve Account
- Underwriting of Share
- Lesson Round-Up
- Test Yourself
- List of Further Readings

MEANING OF SHARES

A share may be understood as an individual part or a singular unit into which the total share capital of a company is divided. Shares are used to raise the capital of a company and each share constitutes a unit of ownership which is offered for sale. A share represents a part of the share capital of the company.

For example, Company ABC has a share capital of Rs. 50,00,000 divided into 5,00,000 shares of Rs.10 each and Mr. Naveen is in possession of 6,000 shares, then he has a share of Rs. 60,000 in the share capital of the company.

According to Section 2(84) of the Companies Act, 2013, “share” means a share in the share capital of a company and its stock.

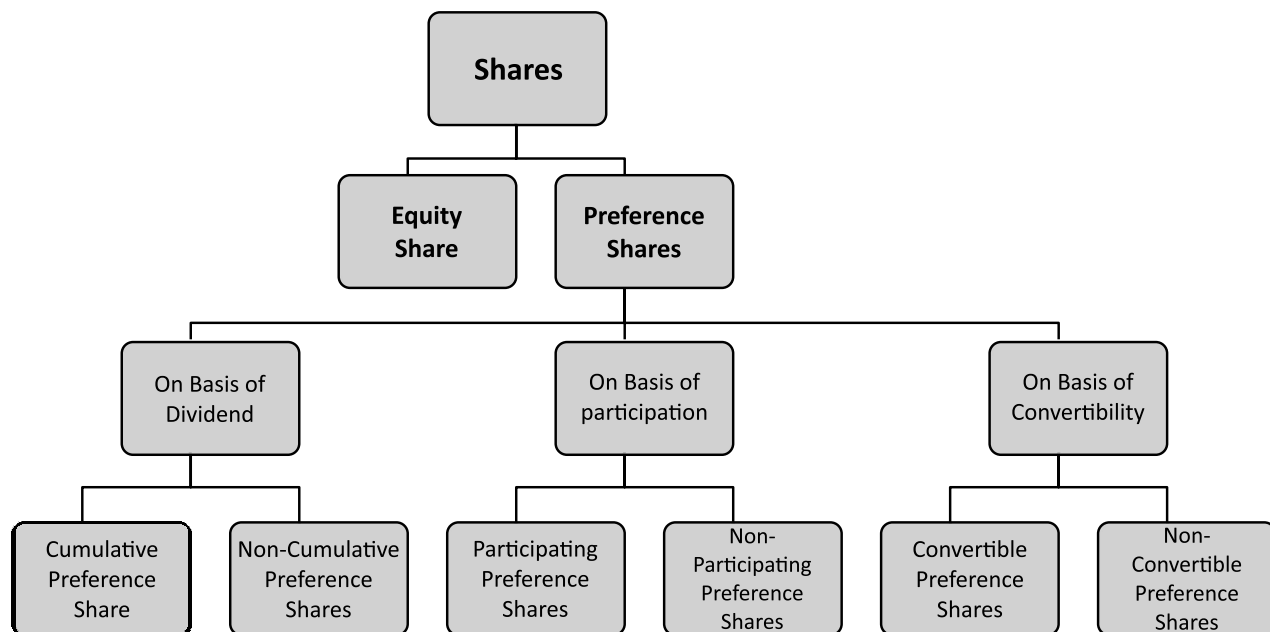
Meaning of Share Capital

A company, being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital. Since the number of shareholders is very large, a separate capital account cannot be opened for each one of them. Hence, numerous streams of capital contribution merge into a common **Nominal Personal Account** called ‘Share Capital Account’

A company raises capital by issuing of shares to finance and carry on its business. The Memorandum of Association, which is the charter of the company contains the amount of capital with which the company was registered and the number of shares into which it is divided. It constitutes the basis of the capital structure of a company. This amount mentioned in the Memorandum of Association is called Authorized Capital.

Kinds of Share Capital

The share capital of a company limited by shares can constitute of two kinds of share capital under the Companies Act, 2013, as follows:



Equity Share Capital	<p>Equity share capital with reference to any company limited by shares means all share capital that does not come under preference share capital. Equity share capital can further be divided into the following types:</p> <p>(i) with voting rights; or</p> <p>(ii) with differential rights regarding dividend or voting or any other such rights.</p> <p>In other words, shares which do not enjoy any preferential right in the payment of dividend or repayment of capital, are termed as equity/ordinary shares. The equity shareholders are entitled to share the distributable profits of the company after satisfying the dividend rights of the preference share holders.</p>
Preference Share Capital	<p>Preference, as the name suggests, with reference to any company limited by shares, refers to that share capital of the issued share capital of the company which would carry a preferential right with regard to payment of dividend and Repayment of capital.</p>
Deemed preference share capital	<p>The share capital is deemed to be preference share capital, notwithstanding that it is entitled to either or both of the following rights:</p> <ul style="list-style-type: none"> ● that in respect of dividends, in addition to the preferential rights to the payment of dividend, it has a right to participate, whether fully or to a limited extent, with capital not entitled to the preferential right aforesaid; ● that in respect of capital, in addition to the preferential right to the repayment, in case of a winding up, it has a right to participate, whether fully or to a limited extent, with capital not entitled to that preferential right in any surplus which may remain after the entire capital has been repaid.

The following table summarizes the major distinctions between Equity Share Capital and Preference Share Capital:

<i>Basis of Distinction</i>	<i>Equity Shares</i>	<i>Preference shares</i>
Refund of Capital	On winding up, the equity share capital is paid after the preference share capital or equity shareholder receives residual amount	On winding up, the preference share capital is paid before the equity share capital is paid or preference shareholders have preference to get refund of capital over equity shareholders.
Right of Dividend	Dividend is paid on equity shares after payment of dividend on preference shares	Dividend is paid on preference shares before payment of dividend on equity shares.
Rate of Dividend	No fixed rate of dividend. It is decided by the board of directors every year and it varies periodically	Fixed rate of dividend is paid as prescribed on the face of preference shares, e.g., Issue at 12%, in that case preference shares would have 12% rate of dividend.

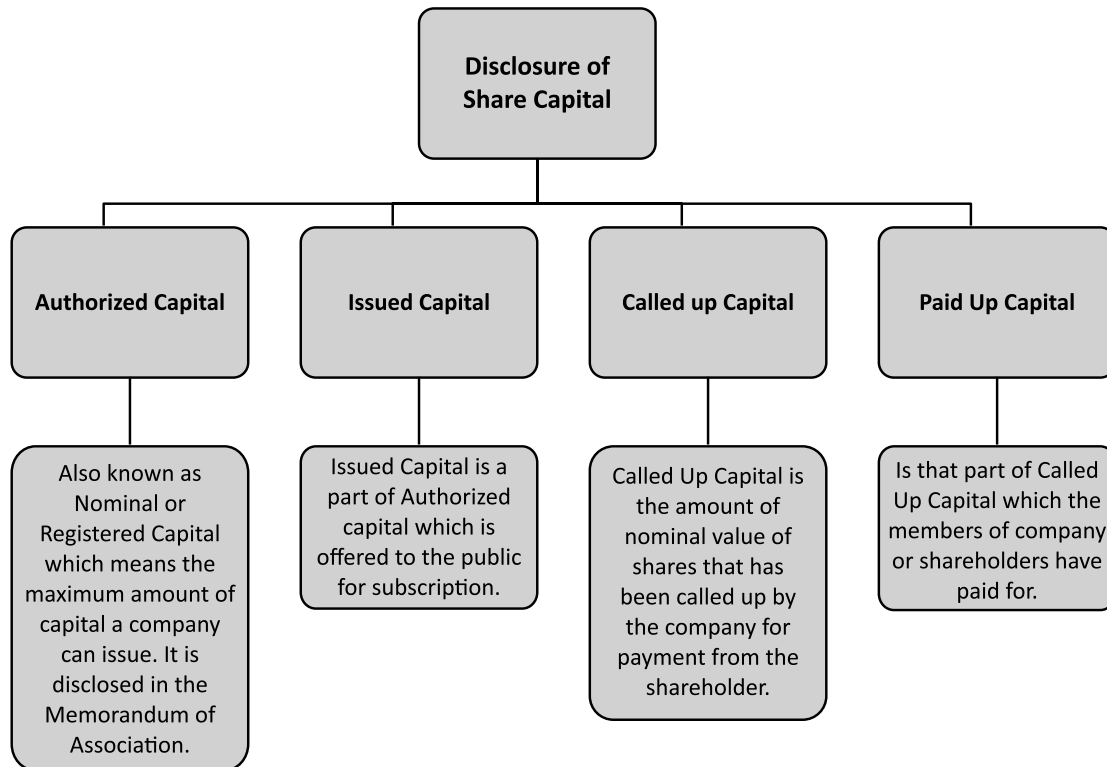
<i>Basis of Distinction</i>	<i>Equity Shares</i>	<i>Preference shares</i>
Right to Vote	Equity shareholders have the right to vote in a meeting of shareholders and they elect the director for managing the company	In normal course of business, preference shareholders do not enjoy the right to vote in the meetings of shareholders. But they may have the right to vote but only in special circumstances.
Redemption	Equity shares are not redeemable; however, a company may buy back its equity shares as conditions prescribed under Companies Act, 2013	Preference shares are always redeemable.

Types/Classes of Preference Shares

<i>On basis of Dividend</i>	<i>On basis of Participation</i>	<i>On basis of Convertibility</i>
Cumulative Preference Shares: Cumulative preference shares are the preference shares whose holders are entitled to receive arrears of dividend before any dividend is paid on equity shares	Participating Preference Shares: In addition to the fixed preference dividend, such shares carry a right to participate in the surplus profit, if any, after providing dividend at a stipulated rate to equity shareholders.	Convertible Preference Shares: They are preference shares with a right/option to get converted into equity shares.
Non-cumulative Preference Shares: Non-cumulative preference shares are the preference shares whose holders do not have the right to receive arrears of dividend. If no dividend is declared in any year due to any reason, they get nothing, nor can they claim unpaid dividend in any subsequent years.	Non-Participating Preference Shares: Such shares get only a fixed rate of dividend every year and do not have a right to participate in the surplus profit, if any.	Non-Convertible Preference Shares: These are preference shares which do not have the right/option to get converted into equity shares.

DISCLOSURE OF SHARE CAPITAL

Capital refers to the amount which is invested in a business with the basic aim of generating revenue. Capital is raised from public and people who contribute to the share capital are known as shareholders.



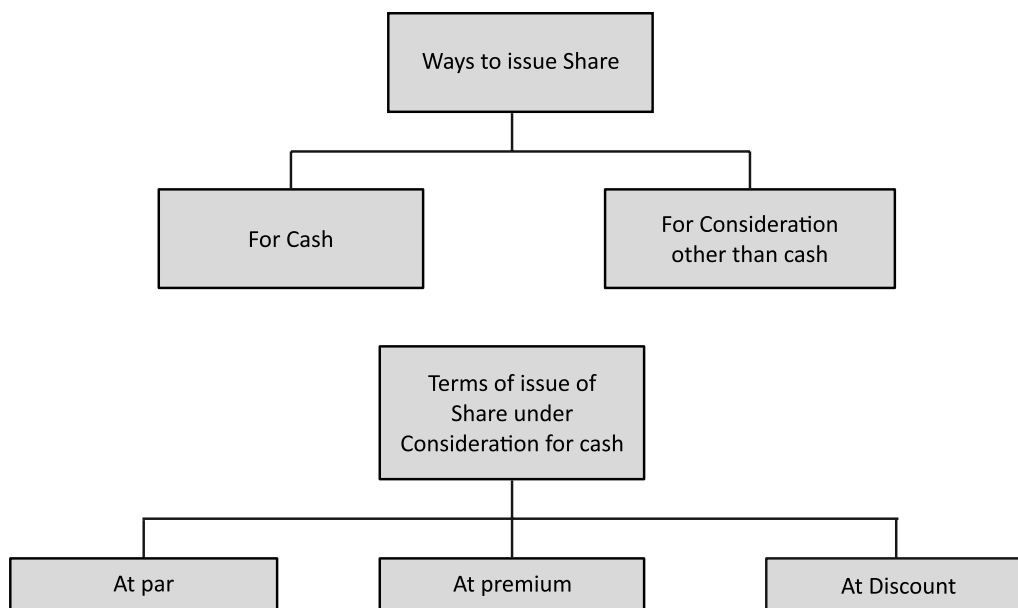
The following table describes the disclosure of Share Capital, as included in the Liabilities column of the Balance Sheet of a company:

<i>Particulars</i>	<i>Amount</i>
Equity and Liabilities	
Shareholders' Fund	
Share Capital:	
Authorized Capital: 2,00,000 shares of Rs. 10 each	20,00,000
Issued Capital: 1,50,000 shares of Rs. 10 each	15,00,000
Subscribed Capital: 1,00,000 shares of Rs. 10 each	10,00,000
Paid up Capital 1,00,000 shares of Rs. 10 each, Rs 5 paid up	5,00,000

The important steps in the procedure of share issue are:

- **Issue of Prospectus:** The Company first issues the prospectus to the public. Prospectus is an invitation to the public that a new company has come into existence and it needs funds for doing business. It contains complete information about the company and the manner in which the money is to be collected from the prospective investors.
- **Receipt of Applications:** When prospectus is issued to the public, prospective investors intending to subscribe the share capital of the company would make an application along with the application money and deposit the same with a scheduled bank as specified in the prospectus. The company has to get minimum subscription within 120 days from the date of the issue of the prospectus. If the company fails to receive the same within the said period, the company cannot proceed for the allotment of shares and application money should be returned within 130 days of the date of issue of prospectus.
- **Allotment of Shares:** If minimum subscription has been received, the company may proceed for the allotment of shares after fulfilling certain other legal formalities. Letters of allotment are sent to those whom the shares have been allotted, and letters of regret to those to whom no allotment has been made. When allotment is made, it results in a valid contract between the company and the applicants who now became the shareholders of the company.

Terms of Issue of Share



A. ISSUE OF SHARES AT PAR

Shares are said to be issued at par when the issue price is equal to the face value or nominal value of the shares i.e., when the issue price is Rs. 10 and face value is also Rs. 10. When the shares are issued, the company may ask for the payment of the shares either payable in lump sum/single instalment or in multiple installments.

(a) When shares are issued at par and are payable in full in a lump sum:

Accounting Treatment

(1) On receipt of application money -

Share Allotment A/c	Dr.	4,80,000	4,80,000
To Share Capital A/c			
(Money due on allotment of 12,000 shares @ Rs. 40 per share)			
Bank A/c	Dr.	4,80,000	4,80,000
To Share Allotment A/c			
(Money received on 12,000 shares @ Rs. 40 per share on allotment)			
Share First Call A/c	Dr.	2,40,000	2,40,000
To Share Capital A/c			
(Money due on 12,000 shares @ Rs. 20 per share on first Call)			
Alternative-1 [Call in arrear not open]			
Bank A/c	Dr.	2,38,000	2,38,000
To Share First Call A/c			
(First Call money received except for 100 shares)			
Alternative-2 [Call in arrear open]			
Bank A/c	Dr.	2,38,000	
Call in Arrear		2,000	
To Share First Call A/c			2,40,000
Share Second and Final Call A/c	Dr.	1,20,000	1,20,000
To Share Capital A/c			
(Money due on 12,000 shares @ Rs. 10 per share on Second and final Call)			
Alternative-1 [Call in arrear not open]			
Bank A/c	Dr.	1,19,000	1,19,000
To Share Second and Final Call A/c			
(Second and final call money received except for 100 shares)			
Alternative-2 [Call in arrear open]			
Bank A/c	Dr.	1,19,000	
Call in Arrear		1,000	
To Share Second and First Call A/c			1,20,000

Practice Question:

A limited company was incorporated with an authorised capital of Rs. 40,000 divided into shares of Rs. 10 each. It offered to the public for subscription of 3,000 shares payable as follows:

On Application Rs. 3 per share

On Allotment Rs. 2 per share

On First Call (One month after allotment) Rs. 2.50 per share

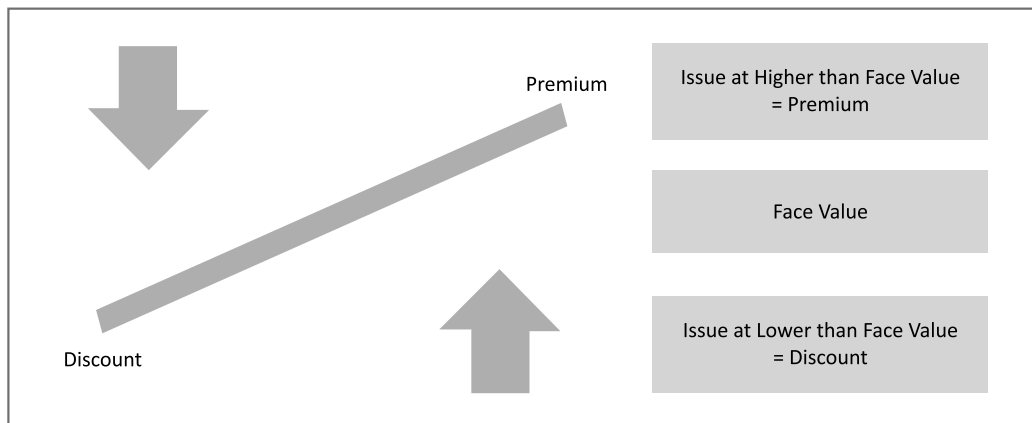
On Second and Final Call Rs. 2.50 per share

The shares were fully subscribed for by the public and application money duly received. The directors made the allotment. The Calls were paid by the shareholder. Pass necessary journal entries.

B. ISSUE OF SHARES AT PREMIUM

It is quite common for the shares of financially strong and well-managed companies to be issued at a premium, i.e. at an amount more than the nominal or par value of shares. Thus, when a share of the nominal value of Rs. 100 is issued at Rs. 105, it is said to have been issued at a premium of 5 per cent.

When the issue of shares is at a premium, the amount of premium may technically be called at any stage of the issue of shares. However, premium is generally called with the amount due on allotment, sometimes with the application money and rarely with the call money. The premium amount is credited to a separate account called 'Securities Premium Account' and is shown under the title 'Equity and Liabilities' of the company's balance sheet under the head 'Reserves and Surpluses'.



The premium on issue of shares is not to be treated as revenue profits. In fact it is considered as capital receipt. As per the Companies Act, 2013, when a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the premium collected on shares must be credited to a separate account called "Securities Premium Account". There are no restrictions in the Companies Act on the issue of shares at a premium, but there are certain restrictions at the time of its disposal. "Securities Premium Account" can be used only for the following five purposes:

- towards the issue of unissued shares of the company to the members of the company as fully paid bonus shares;
- in writing off the preliminary expenses of the company;
- in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company;
- in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company; or
- for the purchase of its own shares or other securities under section 68.

Disclosure

The Securities Premium Account must be shown as "Securities premium reserves" separately on the liabilities side of the balance sheet under the head "Reserves & Surplus".

It is to be noted here that utilization of the amount of Securities Premium Account except in any of the modes specified above, will attract the provisions relating to the reduction of share capital of a company under the Section 66 of the Companies Act, 2013.

Note: The premium is usually payable with the installment due on allotment. However, some companies may charge premium with share application money or partly with share application money and partly at the time of allotment of shares. It may be included in call money also.

Accounting treatment of the issue of Shares at Premium

Journal Entry

When allotment money becomes due:

Share Allotment A/c	Dr.	(with the money due on allotment including premium)
To Securities Premium A/c		(with the premium amount)
To Share Capital A/c		(with the share allotment amount)
(Being allotment money due on shares issued at premium)		

Illustration 2

Jupiter Company Limited issued 35,000 equity shares of Rs. 10 each at a premium of Rs.2 payable as follows:

On Application Rs. 3

On Allotment Rs. 5 (including premium)

Balance on First and Final Call

The issue was fully subscribed. All the money was duly received. Record journal entries in the books of the Company.

Solution:

Books of Jupiter Company Limited Journal Entry

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 35,000 shares @ Rs. 3 per share)		1,05,000	1,05,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on allotment to share capital)		1,05,000	1,05,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium A/c (Amount due on allotment of 35,000 shares @ Rs. 5 per share including premium)		1,75,000	1,05,000 70,000
	Bank A/c Dr. To Equity Share Allotment A/c (Money received including premium)		1,75,000	1,75,000

Equity Share First and Final Call A/c	Dr.	1,40,000	
To Equity Share Capital A/c			1,40,000
(Amount due on First and Final Call of Rs. 4 per share on 35,000 shares)			
Bank A/c	Dr.	1,40,000	
To Equity Share First and Final Call A/c			1,40,000
(Money received on First and Final Call)			

C. ISSUE OF SHARES AT DISCOUNT

When the issue price of a share is less than its face value, it is said to have been issued at a discount. For example, if a company issues shares of Rs. 10 each at Rs. 9 each, the shares are said to be issued at a discount. The amount of discount would be to Rs. 1 per share (i.e. Rs. 10 – Rs. 9) in this case. Discount on shares is a loss to the company.

Prohibition on the issue of Shares on Discount:

As per Section 53 of Companies Act, 2013, a company shall not issue shares at a discount except as provided in the following cases:

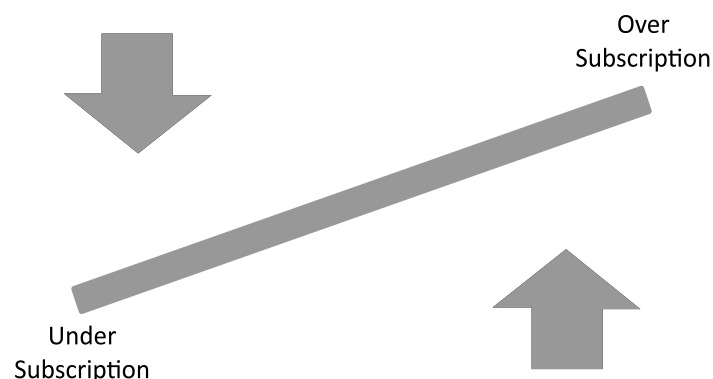
- a. Issue of Sweat Equity Share
- b. Shares may be issued at a discount to creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve Bank of India.

Issue of shares by a company at a discounted price shall be void.

Further Section 53(3) of Companies Act, 2013 mentions of the penalty provisions which reads as: Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of 12% per annum from the date of issue of such shares to the persons to whom such shares have been issued.

SUBSCRIPTION

Minimum Subscription– It is the minimum amount which has been mentioned in the prospectus that must be subscribed by the public before an allotment of any security can be made. Any company does not receive application equal to the number of shares offered for subscription and there may be either of the following two situations:



<i>Under Subscription</i>	<i>Over Subscription</i>
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 does not face any problem regarding allotment since every applicant will be allotted the shares applied for, and the company can proceed with allotment provided the minimum subscription for shares is met.	In case a 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:

Option I

(i) Rejection of Excess Applications and Money Returned

The company may reject the applications for shares which are received in excess of the shares offered 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 is as follows:

Journal Entry

Share Application A/c	Dr.	(with Excess application money)
To Bank A/c		

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

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

Journal Entry

Share Application A/c	Dr.	(with Excess application money)
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 authorise, the directors may retain the excess money as calls in advance to be adjusted against the call/calls falling due at a later date. The consent of the applicant has to be taken either by a separate letter or by inserting a clause in the company's prospectus.

The company can retain the calls in advance at maximum to the amount as is sufficient to make the allotted shares fully paid up ultimately. The following entry is made:

Journal Entry

Share Application A/c	Dr.	(with Excess application money left over the amount due on application and allotment)
To Call-in-advance A/c		

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

- (iv) If interest on Calls-in-Advance is not paid in cash - months)

Interest on Calls-in-Advance A/c Dr. (with the amount of interest payable)
 To Sundry Shareholders A/c

- (v) At the end of the year, when interest on Calls-in-Advance is transferred to Profit and Loss A/c -

Profit and Loss A/c Dr. (with the amount of interest)
 To Interest on Calls-in-Advance A/c

Disclosure Treatment: The money received on calls-in-advance does not become part of the share capital. It is shown under a separate heading, namely 'calls-in-advance' on the liabilities side of the Balance Sheet. Further, the liability to sundry shareholders is to be treated as outstanding liability and should be shown under the head "Current Liabilities" in the balance sheet.

CALLS-IN-ARREAR

It may happen that shareholders do not pay the call amount on due date. When any shareholder fails to pay the amount due on allotment or on any of the calls, such amount is known as 'Calls in Arrears'/'Unpaid Calls'.

Interest on Calls-in-Arrear The interest is recoverable according to the provisions in this regard in Articles of the company. But if the Articles are silent, Table 'F' of Schedule I of the Companies Act, 2013, shall be applicable which prescribes that if a sum called in respect of shares is not paid before or on the day appointed for payment, the person who failed to pay shall pay thereof from the day appointed for payment to the time of actual payment at a rate not exceeding 10% per annum. However, the Directors have the right to waive the payment of interest on Calls-in- Arrear. The interest on Calls-on-Arrear Account is transferred to the Profit and Loss Account at the end of the year.

Journal Entries

- (i) When call money is in arrear:

Calls-in-Arrear A/c Dr. (with the amount failed by the shareholders)
 To Relevant Call A/c

- (ii) Intent on Call-in-Arrear

Shareholder A/c Dr.
 To Intent on Call-in-Arrear

- (iii) On receipt of amount of Calls-in-Arrear with interest, on a subsequent date:

Bank A/c Dr. (with the amount received)
 To Calls-in-Arrears A/c

To Shareholder A/c

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

ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

There are instances where a company enters into an arrangement with the vendors from whom it has purchased assets, whereby the latter agrees to accept, the payment in the form of fully paid shares of the company issued to them. Normally, no such cash is received for issue of shares. These shares can also be issued either at par, at premium or at discount, and the number of shares to be issued will depend upon the price at which the shares are issued and the amount payable to the vendor.

Case 1: In some cases, shares are issued to the promoters of the company in lieu of the services provided by them during the incorporation of the company. This would generate good will.

To Share Capital A/c	57,00,000
To Securities Premium A/c	14,25,000

Notes:

$$\text{No of shares to be issued} = \frac{\text{Purchase Consideration}}{\text{Issue Price}}$$

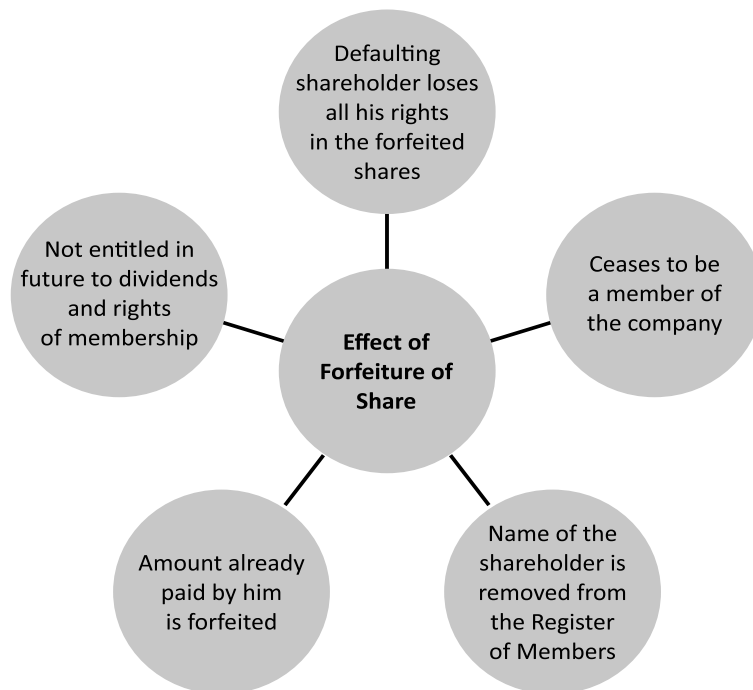
$$\frac{71,25,0000}{12.5}$$

$$= 5,70,000 \text{ Shares}$$

FORFEITURE OF SHARES

Meaning: In case where a shareholder fails to pay the allotment money and/or calls made on him, his shares are liable to be forfeited. Forfeiture of shares may be said to be the compulsory termination of his membership by way of penalty for non-payment of allotment and/or any call money. Articles of Association of the Company provide the authority to forfeit shares to the Board of Directors.

Illustration: S.K. Ltd. issued 100000 shares of Rs. 10 each payable as Rs. 2 on application, Rs. 2 on allotment, Rs. 3 on first call and Rs. 3 on second and final call. Mr. Harish, the allottee of 100 shares, fails to pay the second and final call money made by the company. In this case if the Board of Directors decides to forfeit his shares, his membership will be cancelled and the amount of Rs 700 paid by him (on 100 shares Rs. 2 on application, Rs. 2 on allotment and Rs.3 on first call per share) will be forfeited. Now Mr. Harish will no longer be the member of the company and the issued capital of the company will be reduced by Rs. 1000.



Procedure for Forfeiture of Shares

The Board has to give at least 14 days' notice to the defaulting members calling upon them to pay outstanding amount, with or without interest as the case may be, before the specified date.

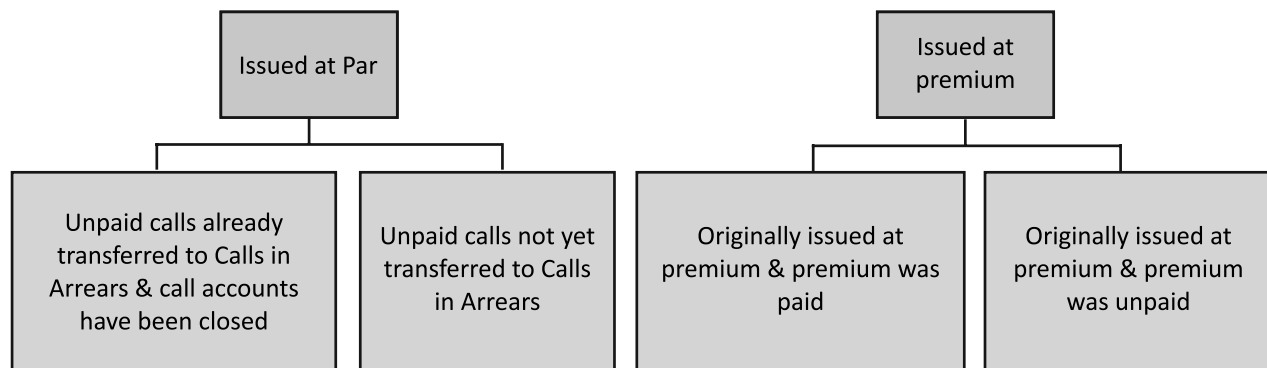
The notice must also state that if the shareholders fail to remit the amount mentioned therein within the stipulated period, their shares will be forfeited.

If they still fail to pay the amount within the specified period of time, the Board of Directors of the company may decide to forfeit such shares by passing a resolution.

The decision regarding the forfeiture of shares should be communicated to the concerned allottees.

Disclosure: Forfeited shares account is to be shown in the balance sheet by way of addition to the paid-up share capital on the 'liabilities' side, until the concerned shares are reissued.

Accounting Treatment for Forfeiture of Share



A. Forfeiture of Shares issued at par

The forfeiture of shares can be recorded in following two ways:

- Where the unpaid calls have already been transferred to Calls-in Arrear A/c and the respective call accounts have been closed:

Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited i.e. no. of shares forfeited x the called up value per share.)
To Shares Forfeited A/c		(with the amount already paid-up by the shareholders on the shares forfeited.)
To Calls-in-Arrear A/c		(with the amount of unpaid calls.) OR

2. Where the unpaid calls have not been transferred to Calls-in-Arrear A/c and the respective call accounts are showing balances representing unpaid amounts:

Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited i.e., no. of shares forfeited x the called up value per share.)
To Shares Forfeited A/c		(with the amount already paid up by the shareholders on the shares forfeited.)
To Share Allotment A/c		(with the amount failed on allotment, if any.)
To Share First Call A/c		(with the amount failed on first call, if any.)
To Share Final Call A/c		(with the amount failed on final call, if any.)

B. Forfeiture of Shares Issued at Premium

Case 1: Where shares to be forfeited were issued at a premium and the premium money remained unpaid: In such a case, the credit already given to the 'Securities Premium A/c' will be cancelled at the time of forfeiture of the shares by debiting the "Securities Premium A/c".

Journal Entries

Share Capital A/c	Dr.	with the amount of called up value of shares forfeited, i.e., no. of shares forfeited x called up value per share. (excluding premium).
Securities Premium A/c	Dr.	(with the amount of premium money remaining unpaid on shares forfeited.)
To Shares Forfeited A/c		(with the amount already paid by the shareholders on the shares forfeited.)
To Calls-in-Arrear A/c		(with the amount unpaid on calls.)
OR		
Share Capital A/c	Dr.	with the amount of called up value of shares for feited, i.e. no. of shares forfeited x called up value per share. (excluding premium).
Securities Premium A/c	Dr.	(with the amount of premium money remainingunpaid on shares forfeited.)
To Shares Forfeited A/c		(with the amount already paid by the shareholders on the shares forfeited.)
To Share Allotment A/c		(with the amount failed on allotment, if any.)
To Share First Call A/c		(with the amount failed on first call, if any.)
To Share Final Call A/c		(with the amount failed on final call, if any.)

Case 2: Where shares to be forfeited were issued at a premium and the premium money was duly received for the shares to be forfeited: If the amount of premium on shares forfeited has been received by the company prior to the forfeiture, Securities Premium Account shall not be affected. In this case, Securities Premium Account is already credited at the time of making the call and will not be cancelled when the shares are forfeited. In such a case, the accounting entry on forfeiture will be the same as the one passed in case of shares issued at par.

Journal Entry

Share Capital A/c	Dr.	(with the amount of called up value of shares forfeited i.e. no. of shares forfeited x the called up value per share.)
To Shares Forfeited A/c		(with the amount already paid-up by the shareholders on the shares forfeited.)
To Calls-in-Arrear A/c		(with the amount of unpaid calls.)

Illustration 3:

M/s Herbal Tea Plantations Ltd. was registered with a capital of Rs 1 crore divided into equity shares of Rs 100 each. The company offered to public 50000 shares at a premium of Rs 20 per share. The amount on shares was payable as:

- Rs 25 on application
- Rs 50 (including Rs 20 premium) on allotment
- Rs 20 on first call and Rs 25 on final call.

Applications were received for 75000 shares. Shares were allotted to the applicants on prorata basis. Kanti Bhai who was allotted 500 shares did not pay the allotment money. He also failed to pay the first call. His shares were forfeited. Sheetal was holding 200 shares did not pay the first call. Final call was not made.

Make journal entries in the books of the company.

Solution:

M/s Herbal Tea Plantations Ltd.

Journal

Date	Particulars	Amount (Dr.)	Amount (Cr.)
1	Bank A/c Dr. To Share Application A/c (Being application money received on 75000 shares @Rs 25 per share)	18,75,000	18,75,000
2	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Application money of 50000 share transferred to share Capital A/c on their allotment and remaining adjusted towards shares allotment)	18,75,000	12,50,000 6,25,000

3	Share Allotment A/c To Share Capital A/c To Securities premium A/c (Allotment money due including premium)	Dr.	25,00,000	15,00,000 10,00,000
4	Bank A/c Call in Arrear A/c To Share Allotment A/c (Allotment money received)	Dr. Dr.	18,56,250 18,750	18,75,000
5	Share First Call A/c To Share Capital A/c(First Call money due)	Dr.	10,00,000	10,00,000
6	Bank A/c Calls-in-Arrears To Share First Call A/c (First call money received of 49300 shares, and of 200 shares debited to Calls in Arrears)	Dr. Dr.	9,86,000 4,000	9,90,000
7	Share capital A/c Securities premium A/c To Call in Arrear A/c To Share Forfeited A/c (Forfeiture of 500 shares on non- payment of allotment and call money)	Dr. Dr.	37,500 10,000	28,750 18,750

Working Notes:

Shares applied for 75,000; Share Allotted 50,000 Ratio = 3 : 2

Kanti Bhai Number of shares holding = 500 Number of shares applied= 750

Excess application money received = $250 \times 25 = \text{Rs. } 6,250$ Share allotment money due = $500 \times \text{Rs. } 50 = 25,000$

Net Amount due after adjustment of excess application money= $\text{Rs. } 25,000 - \text{Rs. } 6,250 = \text{Rs. } 18,750$

Total allotment money due =	Rs. 25,00,000
Less excess application money adjusted	(Rs. 625,000)
Less Kanti Bhai's amount due on allotment	(Rs. 18,750)
Net Amount Received	Rs. 18,56,250

Illustration 4

Ganga Limited issued 10,000 equity shares of 100 each payable as follows: Rs. 20 on application, Rs. 30 on allotment, Rs. 20 on first call and Rs. 30 on second and final calls 10,000 shares were applied for and allotted.

All money due was received with the exception of both calls on 300 shares held by Supriya. These shares were forfeited. Give necessary journal entries relating to Forfeiture of Shares.

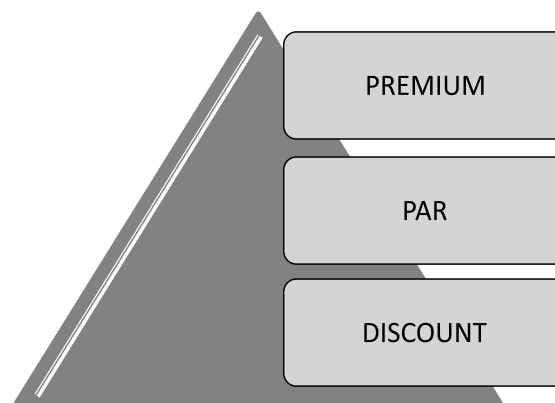
Solution:

Books of Ganga Limited
Journal Entries

Date	Particulars	Amount (Dr.)	Amount (Cr.)
1	Alternative-1 [Call in Arrear not open] Share Capital A/c Dr. To Equity Share First Call A/c To Equity Share Second and Final Call A/c To Share Forfeiture A/c (300 shares forfeited)	30,000	6,000 9,000 15,000
2	Alternative-2 [Call in Arrear open] Share Capital A/c Dr. To Call in Arrear To Share Forfeiture A/c (300 shares forfeited)	30,000	15,000 15,000

REISSUE OF FORFEITED SHARES

The board of directors can either cancel or re-issue the forfeited shares. In most cases, they reissue such shares which may be at par, at premium or at a discount. Forfeited shares may be reissued as fully paid at a par, premium, discount. In this context, it may be noted that the amount of discount allowed cannot exceed the amount that had been received on forfeited shares at the time of initial issue, and that the discount allowed on reissue of forfeited shares should be debited to the 'Forfeited Share Account'. The balance, if any, left in the Share-Forfeited Account relating to reissued Shares, should be treated as capital profit and transferred to Capital Reserve Account.



RE-ISSUE OF FORFEITED SHARES - AT PAR: In one of the cases, forfeited shares can be re-issued at par. In such a case, the entire amount standing to the credit of Shares Forfeited Account for those shares would be treated as net gain and transferred to Capital Reserve Account.

Journal entries

1. On re-issue of shares:

Bank A/c	Dr.	(with the amount received on reissue i.e. no. of shares re-issued x amount received per share.)
To Share Capital A/c		

2. On transfer of Shares Forfeited Account to Capital Reserve Account:

Shares Forfeited A/c	Dr.	(with the forfeited amount on shares re-issued.)
To Capital Reserve A/c		

RE-ISSUE OF FORFEITED SHARES - AT A PREMIUM

If forfeited shares are re-issued at a premium, the amount of such premium should be credited to Securities Premium Account. Also, in such a case, the entire amount standing to the credit of Shares Forfeited Account would be treated as net gain and transferred to Capital Reserve Account.

Journal entries

1. On Re-issue of shares:

Bank A/c	Dr.	(with the total amount received on re-issue.)
To Share Capital A/c		(with nominal value or paid-up value of shares.)
To Securities Premium A/c		(with the premium amount received.)

2. On transfer of Shares Forfeited A/c to Capital Reserve A/c:

Shares Forfeited A/c	Dr.	(with the forfeited amount on shares re-issued)
To Capital Reserve A/c		

Note: There may arise a situation when only part of shares forfeited be re-issued. In such a case, only the respective proportionate amount which represents the net gain on shares that are re-issued shall be transferred to the Capital Reserve Account and the remaining amount (balance) which represents the amount that is received on the forfeited shares, not yet re-issued, must be left in Shares Forfeited Account itself.

Disclosure: This amount is disclosed as addition to the paid up share capital on liabilities side of the balance sheet.

Forfeiture and Re-issue of Shares Allotted on Pro-rata Basis in Case of Over-subscription

In case where the shares of a Company are oversubscribed, it is not possible for the company to satisfy the demand of all the applicants. In such a case allotment may be made on a pro-rata basis, i.e., proportionately.

If such shares are subsequently forfeited for non-payment of allotment money and/or call money, the entries shall remain the same, but it may involve some difficulty in calculation. In such a case, it is to be noted carefully that if there is any excess amount received along with the application and it is adjusted against the allotment money which is failed by the shareholder, such amount should be deducted from the amount due on allotment to arrive at the net amount defaulted by the shareholder.

Example: Company A allots 10,000 shares on pro-rata basis among the applicants for 12,000 shares. In this case, the ratio between allotment of shares and application for shares will be 10,000: 12,000 or 5: 6, i.e., those applying for every 6 shares will be allotted 5 shares. If shares are allotted on pro-rata basis, the excess application money received on shares allotted will be retained by the company and may be adjusted subsequently against allotment money and/or call money.

Illustration 5:

Arjun & Co. Ltd. issued a prospectus offering 2,00,000 shares of Rs.10 each on the following terms :

On Application	Rs. 1 per share
On Allotment	Rs.3 per share (including premium of Rs. 2)
On First Call (three months after allotment)	Rs.4 per share
On Second Call (three months after first call)	Rs.4 per share

Subscriptions were received for 3,17,000 shares on 3rd April and the allotment was made on 30th April as under :

Shares Allotted

(i) Allotment in full (two applicants paid in full on allotment In respect of 4,000 shares each)	38,000
(ii) Allotment of two-thirds of shares applied for	1,60,000
(iii) Allotment of one-fourth of shares applied for	2,000

Cash amounting to Rs. 31,000 (being application money received with applications for 31,000 shares upon which no allotments were made) was returned to the applicants on 5th May. The amounts due were received on the due dates with the exception of the final call on 100 shares. These Shares were forfeited on 15th November and re-issued to Aayan on the 16th November for payment of Rs.9 per share.

Show the Journal

Solution:**Journal**

<i>Date</i>	<i>Particulars</i>	<i>Amount(Dr.)</i>	<i>Amount(Cr.)</i>
April 30	Share Application Account Dr. To Share Capital Account To Share Allotment Account (Being application money transferred to Share Capital Account on allotment of 2,00,000 shares and excess application money on 86,000 shares @ Rs. 1 per share utilized towards allotment)	2,86,000	2,00,000 86,000
" 30	Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being allotment money due on 2,00,000 shares @ Rs.3 per share including Rs.2 per share)	6,00,000	2,00,000 4,00,000
July 31	Share first Call Account Dr. To Share Capital Account (Being amount due in respect of first call on 2,00,000 shares @ Rs.4 per share)	8,00,000	8,00,000

July 31	Calls-in-Advance Account To Share First Call Account (Being first call money received on 8,000 shares @ Rs. 4 per share received in advance is debited to the Calls-in-Advance Account)	Dr.	32,000	32,000
Oct 31	Share Second and final Call Account To Share Capital Account (Being amount due in respect of second and final call on 2,00,000 shares @ Rs.4 per share)	Dr.	8,00,000	8,00,000
Oct 31	Calls-in-Advance Account To Share Second and Final Call Account (Being second call money received on 8,000 shares @ Rs. 4 per share received in advance is debited to the Calls-in-Advance Account)	Dr.	32,000	32,000
Nov. 15	Share Capital Account To Share Second and final Call Account To Share Forfeited Account (Being forfeiture of 100 shares for non-payment of second and final call)	Dr.	1,000	400 600
Nov. 16	Share Forfeited Account To Share Capital Account To Capital Reserve Account (Being discount allowed on re-issue of 100 forfeited shares @ Rs. 1 per share and profit on re-issue transferred to Capital Reserve Account)	Dr.	600	100 500

Working notes:

Analysis of Application Money Received

<i>Shares Applied</i>	<i>Shares Allotted</i>	<i>Amount Received@ Rs.1 per share</i>	<i>Application Money</i>	<i>Adjusted as Allotment Money</i>	<i>Money Returned to Applicants</i>
		<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
38,000	38,000	38,000	38,000	-	-
2,40,000(160000 * 3/2)	1,60,000	2,40,000	1,60,000	80,000	-
8,000(2,000 * 4/1)	2,000	8,000	2,000	6,000	
(2,000 * 3)	-				
31,000	Nil	31,000	Nil	-	31,000
3,17,000	2,00,000	3,17,000	2,00,000	86,000	31,000

Illustration 6:

The board of director of Poly Plastic Limited resolved that 200 equity shares of Rs.100 each be forfeited for non-payment of the second and final call of Rs.30 per share. Out of these, 150 shares were re-issued at Rs.60 per share to Mohit. Show the necessary journal entries.

Solution:**Books of Poly Plastic Limited****Journal Entries**

<i>Date</i>	<i>Particulars</i>	<i>Amount (Dr.)</i>	<i>Amount (Cr.)</i>
	Share Capital A/c Dr. To Share Second and Final Call A/c / Call in Arrear To Shares Forfeiture A/c (200 shares forfeited for non-payment of final call at Rs.30 per share)	20,000	6,000 14,000
	Bank A/c Dr. Shares Forfeiture A/c Dr. To Share Capital A/c (Reissue of 150 shares of Rs.100 each, issued as fully paid for Rs.60 each)	9,000 6,000	15,000
	Shares Forfeiture A/c Dr. To Capital Reserve A/c (Profit on reissue of 150 forfeited shares transferred to capital reserve)	4,500	4,500

Working Notes:

Total amount forfeited on 200 shares = 14,000 (200 shares × Rs. 70)

Amount forfeited on 150 shares = 10,500 (150 shares × Rs. 70)

Amount of loss on reissue of 150 shares = 6,000 (150 shares × Rs. 40)

Amount of profit on reissued shares transferred to capital reserve = 4,500 (Rs. 10,500 – Rs. 6,000)

Amount forfeited on 50 shares = 3,500 (50 shares × Rs. 70)

Balance left in share forfeited account = 3,500 (Rs.14,000 – Rs. 6,000– Rs. 4,500)

(equal to amount forfeited on 50 shares)

BUY-BACK OF SHARES

Buy-Back of Shares means the purchase of its own shares by the Company. It is kind of a corporate financial strategy and is an imperative mode of capital restructuring. It is a practice which is prevalent globally with the underlying objectives of increasing Earnings per Share, averting hostile takeovers, improving returns to the stakeholders and realigning the capital structure.

Buy-Back is an alternative way of Reduction of Share Capital. When a company has substantial cash resources, it may like to buy its own shares from the market particularly when the prevailing rate of its shares in the market is much lower than the book value or what the company perceives to be its true value. Buy back of shares enables the company to go back to its shareholders and off to purchase from them the shares that they hold.

Free Reserves: 'Reserves which, as per latest audited Balance Sheet of the company are free for distribution as dividend and shall include balance to the credit of Security Premium A/c but shall not include Share Application Money'.

Advantages of Buy Back:

- I. To improve the earnings per share;
- II. To improve return on capital, return on net worth and to enhance the long-term value for shareholders;
- III. To provide an additional exit route to shareholders when shares are undervalued or thinly traded;
- IV. It is an alternative mode of reduction in capital without requiring approval of the Court/CLB (NCLT),
- V. To enhance consolidation of stake in the company;
- VI. To prevent unwelcome takeover bids;
- VII. To return surplus cash to shareholders;
- VIII. To achieve optimum capital structure;
- IX. To support share price during periods of sluggish market conditions;
- X. To serve the equity more efficiently.

Example: Improvement in EPS can be explained by below example:

<i>Particulars</i>	<i>Pre Buy – Back</i>	<i>Post Buy – Back</i>
Profit	100	100
Number of Shares	10	5
EPS	10	20

Further, given below is a table for relevant sections and their applicability:

For Unlisted Public and Private Companies	<ul style="list-style-type: none"> ● Section 68, 69 and 70 of Companies Act, 2013 ● Rule 17 of Companies (Share Capital and Debentures) Rules, 2014
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For Listed Companies	<ul style="list-style-type: none"> ● Section 68, 69 and 70 of Companies Act, 2013 ● Rule 17 of Companies (Share Capital and Debentures) Rules, 2014 ● Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998 and Securities and Exchange Board of India (Buy-back of Securities) (Amendment) Regulations, 2013
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Relevant extracts for Sections 68, 69 and 70 of Companies Act, 2013 for Buy-Back of Shares

1. **Purchase can be made out of: According to section 68(1) of the Companies Act 2013, a company may purchase its own shares or other specified securities (referred to as buy-back) out of –**

- (a) its free reserves;
- (b) the securities premium account; or
- (c) the proceeds of the issue of any shares or other specified securities:

However, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

2. **Preliminary Conditions for buy-back: According to section 68(2), following conditions must be satisfied in order to buy-back the shares:**

- (a) must be authorized by its articles;
- (b) a special resolution has been passed at a general meeting of a company authorizing the buy-back, but
- (c) the same is not required when:
 - (i) the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company; and
 - (ii) such buy-back has been authorized by the Board by means of a resolution passed at its meeting;
- (d) In respect of the buy-back of equity shares in any financial year, the reference to twenty-five per cent shall be construed with respect to its total paid-up equity capital in that financial year.

This means a company cannot buy back more than twenty-five per cent of its paid-up equity capital in any financial year.

- (e) debt equity ratio should be 2:1, where debt is the aggregate of secured and unsecured debts owed by the company after buy-back and Equity is the aggregate of the paid-up capital and its free reserves;

Provided that the Central Government may, by order, notify a higher ratio of the debt to capital and free reserves for a class or classes of companies;

- (f) all the shares or other specified securities for buy-back are fully paid-up;
- (g) if shares or securities are listed, buy-back will be in accordance with the regulations made by the Securities and Exchange Board in this behalf; and

- (h) the buy-back in respect of unlisted shares or other specified securities is in accordance with such Rules as may be prescribed;

Illustration

The Particulars of X Ltd regarding share capital and free reserves are as follows:

PARTICULARS	Rs. Crores
Paid-up Equity Capital (PEC)(FV Rs. 10)	100
Paid-up Preference Capital	200
Free Reserves	200
Total	500
Market Price per Equity Share	Rs. 50

The amount of buy back and the number of shares which can be bought back will be calculated as follows:

25% of Paid-up Equity Capital (25% of 100)	25
25 per cent of PC + FR (25% of 500 crores)	125
No. of shares which we can buy back (25% of PEC/ Rs.10)	2,50,00,000
Amount Required $25000000 * 50$	125,00,00,000

- (i) no offer of buy-back shall be made within a period of one year from the date of the closure of the preceding offer of buy-back, if any.

3. Explanatory Statement

Section 68(3) spells out additional requirements that the notice of the meeting at which the special resolution is proposed to be passed shall be accompanied by an explanatory statement stating -

- a full and complete disclosure of all material facts;
- the necessity for the buy-back;
- the class of shares or securities intended to be purchased under the buy-back;
- the amount to be invested under the buy-back; and
- the time-limit for completion of buy-back.

As per the rules, following more details are to be included in the Explanatory Statement:

- the date of the board meeting at which the proposal for buy-back was approved by the board of directors of the company;
- the number of securities that the company proposes to buy-back;
- the method to be adopted for the buy-back;

- (d) the price at which the buy-back of shares or other securities shall be made;
- (e) the basis of arriving at the buy-back price;
- (f) the maximum amount to be paid for the buy-back, and the sources of funds from which the buy-back would be financed;
- (g) Shareholding:
 - (i) the aggregate shareholding of the promoters and directors, where the promoter is a company, and of the directors and key managerial personnel as on the date of the notice convening the general meeting;
 - (ii) the aggregate number of equity shares purchased or sold by persons mentioned in the sub-clause during a period of twelve months preceding the date of the board meeting at which the buy-back was approved and from that date till the date of notice convening the general meeting;
 - (iii) the maximum and minimum price at which purchases and sales referred to in sub-clause (ii) were made along with the relevant date.
- (h) if the persons mentioned in l(i) intend to tender their shares for buy-back -
 - (i) the quantum of shares proposed to be tendered;
 - (ii) the details of their transactions and their holdings for the last twelve months prior to the date of the board meeting at which the buy-back was approved including information of number of shares acquired, the price and the date of acquisition.
- (i) a confirmation that there are no defaults subsisting in repayment of deposits, interest payment thereon, redemption of debentures or payment of interest thereon, or redemption of preference shares or payment of dividend due to any shareholder, or repayment of any term loans, or interest payable thereon to any financial institution or banking company;
- (j) a confirmation:
 - (i) that the Board of Directors have made a full enquiry into the affairs and prospects of the company and that they have formed the opinion- general meeting is convened that there shall be no grounds on which the company could be found unable to pay its debts;
 - (ii) that the company's prospect for the year immediately following that date and its financial resources be available to meet its liabilities as and when they fall due, and the company shall not be rendered insolvent within a period of one year from that date; and
 - (iii) the directors have already taken into account the liabilities(including prospective and contingent liabilities), as if the company were being wound up under the provisions of the Companies Act, 2013.
- (k) a report addressed to the Board of Directors by the company's auditors stating that-
 - (i) they have inquired into the company's state of affairs;
 - (ii) the amount of permissible capital payment for the securities in question is in their view properly determined;

- (iii) that the audited accounts on the basis of which calculation with reference to buy-back is done is not more than six months old from the date of offer document; and
- (iv) the Board of Directors have formed the opinion as specified in point 'o' on reasonable grounds and that the company, with regard to its state of affairs, shall not be rendered insolvent within a period of one year from that date.

Transfer of Certain Sums to Capital Redemption Reserves Account [Section 69]

Capital Redemption Reserves: Where a company purchases its own shares out of free reserves or securities premium account, a sum equal to the nominal value of the shares so purchased shall be transferred to the capital redemption reserves account and details of such transfer shall be disclosed in the balance sheet.

Utilization: The capital redemption reserve account may be applied by the company, in paying up unissued shares of the company to be issued to its members as fully paid bonus shares.

Prohibition on Buy-Back in Following Circumstances [Section 70]

Restrictions on Buy-Back: No company shall directly or indirectly purchase its own shares or other specified securities

- (a) through any subsidiary company including its own subsidiary companies;
- (b) through any investment company or group of investment companies; or
- (c) through a default made by the company in the repayment of deposits accepted either before or after the commencement of this Act, interest payment thereon, redemption of debentures or preference shares or payment of dividend to any shareholder, or repayment of any term loan or interest payable thereon to any financial institution or banking company, provided that the buy-back is not prohibited, if the default is remedied and a period of three years has lapsed after such default ceased to subsist.

Prohibitions: No company shall, directly or indirectly, purchase its own shares or other specified securities in case such company has not complied with the provisions of:

Section 92: Annual Return

Section 123: Declaration and Payment of Dividend

Section 127: Failure to pay Dividend

Section 129: Failure to give True and Fair Statement

Companies (Share Capital and Debentures) Rules, 2014 for Buy-Back

Rule 17: Buy-back of shares or other securities:

Unless stated otherwise, the following norms shall be complied with by the Private companies and Unlisted public companies for buy-back of their securities.

- | | | |
|--------------------------------------|-----|--|
| Equity Share Capital A/c | Dr. | (with the nominal value of shares bought back) |
| Free reserves/Securities Premium A/c | Dr. | (with the excess amount/premium paid over nominal value) |
| To Equity Shareholders A/c | | (with the amount payable) |
5. In case the shares are bought back at discount:
- | | | |
|----------------------------|-----|---|
| Equity Share Capital A/c | Dr. | (with the nominal value) |
| To Equity shareholders A/c | | (with the amount paid) |
| To Capital Reserves A/c | | (with the amount of discount on buy-back) |
6. For transfer of nominal value of shares purchased out of free reserves/securities premium to Capital Redemption Reserves Account:
- | | | |
|------------------------------------|-----|--|
| Free Reserves A/c | Dr. | (with the amount transferred) |
| Securities Premium A/c | Dr. | (with the amount transferred) |
| To Capital Redemption Reserves A/c | | (with the nominal value of shares bought back) |
7. For expenses incurred in buy-back of shares:
- | | | |
|-----------------------|-----|-------------------------------|
| Buy-back Expenses A/c | Dr. | (with the amount) To Bank A/c |
| To Bank A/c | | |
8. For transfer of buy-back expenses:
- | | | |
|--------------------------|-----|--|
| Profit and Loss A/c | Dr. | |
| To buy-back Expenses A/c | | |

Illustration 7:

On 31st March, 2024, following was the balance sheet of Citadel Industries Ltd:

Liabilities	₹	Assets	₹
	(In lakhs)		(In lakhs)
Equity share capital (Fully paid-up shares of Rs.10 each)	2,400	Machinery	3,600
Securities premium	350	Furniture	452
General reserve	930	Investments	148
Profit and loss account	340	Stock	1,200
12% Debentures	1,500	Debtors	520
Sundry creditors	750	Cash at bank	740
Sundry provisions	390		
	6,660		6,660

On 1st April, 2024, the company announced the buy-back of 25% of its equity shares at ₹15 per share. For the purpose, it sold all its investments for ₹ 150 lakh and Issued 2,00,000 14% preference shares of ₹ 100 each at par, the entire amount being payable with application.

The issue was fully subscribed. The company achieved the target of the buy-back. Later, the company issued one fully paid up equity share of ₹ 10 by way of bonus share for every four equity shares held by the equity shareholders.

Show the Journal entries for all the transaction including cash transaction.

Particulars	L.F	Debit Amount	Credit Amount
Bank A/c To Investment A/c To Profit and Loss A/c (Being Sale of Investment at Profit)	Dr	1,50,00,000	1,48,00,000 2,00,000
Bank A/c To 14% Preference Share Capital A/c (Being issue of 14% Preference Share Capital)	Dr	2,00,00,000	2,00,00,000
Equity Share Capital A/c Security Premium A/c To Equity Shareholders A/c (Being Buyback of Equity Shares)	Dr Dr	6,00,00,000 3,00,00,000	9,00,00,000
Equity Shareholders A/c To Bank A/c (Being payment to Equity Shareholders)	Dr	9,00,00,000	9,00,00,000
General Reserves A/c To Capital Redemption Reserve A/c (Being transfer to Capital Redemption Reserve)	Dr	4,00,00,000	4,00,00,000
Securities Premium A/c General Reserves A/c Profit & Loss A/c TTo Equity Share Capital A/c (Being Issue of Bonus Shares)	TDr TDr TDr	50,00,000 3,30,00,000 70,00,000	4,50,00,000

Illustration 8:**ALLUWALIA Ltd.****Balance Sheet as at 31st March, 2023**

I. EQUITIES AND LIABILITIES		
1. Shareholders' funds		
(a) Share Capital	1	10,00,000
(b) Reserve & Surplus	2	7,05,000
2. Non-Current Liability		
Long-term borrowings		4,00,000
3. Current Liability		
Trade payables	3	60,000
TOTAL		21,65,000
II. ASSETS		
1. Non-current assets		
(a) Fixed Assets		
(i) Tangible fixed assets	4	13,30,000
(b) Non-Current Investment		1,50,000
2. Current Assets		
Inventories	1,00,000	
Trade receivables	1,00,000	
Cash and cash equivalents Balance	4,85,000	6,85,000
TOTAL		21,65,000
Notes		
1. Share Capital		
Authorized Share Capital		
Issued, Subscribed Called-Up and Paid-Up Share Capital:-		
1,00,000 shares of Rs. 10 each fully paid-up		10,00,000
2. Reserve and Surplus		
Securities Premium	2,00,000	
General Reserve	5,05,000	7,05,000
3. Long-term borrowings		

14% Debentures		4,00,000
4. Tangible Fixed assets		
Land-building	9,30,000	
Plant and machinery	3,50,000	
Furniture and fitting	50,000	13,30,000

On 1st April, 2023 the shareholders of the company have approved the scheme of buy-back of equity shares as under:

- (i) 5% of the equity shares would be bought back at Rs 15.
- (ii) 12% Debentures to be issued for Rs 10,000 to finance for the buy-back, and balance from the General reserve may be utilized for this purpose.
- (iii) Premium paid on buy-back of shares should be met from securities premium account.
- (iv) Investments would be sold for Rs 275,000.

Pass journal entries to record the above transactions and prepare the balance sheet of the company immediately after the buy-back of shares.

Solution:

ALLUWALIA Ltd.

Journal Entries

<i>Particulars</i>	<i>Dr. (Rs)</i>	<i>Cr. (Rs)</i>
Bank A/c Dr.	275,000	
To Investments A/c		150,000
To Profit and Loss A/c		125,000
(Sale of investments, the profit being transferred to profit and loss account as per shareholder's special resolution)		
Shareholders A/c Dr.	75,000	
To Bank A/c		75,000
(Purchase of 5,000 of own shares @ Rs 15 each)		
Equity Share Capital A/c Dr.	50,000	
Securities Premium A/c Dr.	25,000	
To Shareholders A/c		75,000
(Cancellation of 5,000 equity shares bought back, and securities premium utilized as per shareholders' special resolution)		
General Reserve A/c Dr.	40,000	
To Capital Redemption Reserve A/c		40,000
(Transfer of general reserve utilized to the extent of nominal value of shares bought back)		

Bank A/c	Dr.	10,000	
To 12% Debentures A/c			10,000
(Issue of 12% Debentures to partly finance the buy-back)			

ALLUWALIA Ltd.**Balance Sheet (After Buy-back) as at 1st April, 2023****I. EQUITIES AND LIABILITIES**

1. Shareholders' funds		950,000
(a) Share Capital		
(b) Reserve & Surplus		805,000
2. Non-Current Liability (Long-term borrowings)		410,000
3. Current Liability (Trade payables)		60,000
TOTAL		<u>22,25,000</u>

II. ASSETS

1. Non-current assets		
(a) Fixed assets		
(i) Tangible fixed assets		13,30,000
2. Current Assets (Stock)	1,00,000	
Sundry debtors	1,00,000	
Cash and Cash equivalents	6,95,000	8,95,000
TOTAL		<u>22,25,000</u>

Notes

1. Share Capital

Authorized Share Capital

Issued, Subscribed Called Up and Paid-up Share Capital

95,000 shares of Rs/ 10 each fully paid up 9,50,000

2. Reserve and Surplus

Securities Premium 1,75,000

General Reserve 4,65,000

Capital Redemption Reserve 40,000

Profit and Loss Account 1,25,000 8,05,000

3. Long-term borrowings

14% Debentures – 400,000

12% Debentures- 10,000 4,10,000

Note: The debt-equity ratio of the company after buy-back of shares:

$$\begin{aligned} \text{Debt-equity ratio} &= \text{Debt/ Equity (Capital and free reserves)} \\ &= (410000 + 60000) / (950,000 + 175,000 + 465,000 + 125,000) \\ &= 0.274 : 1 \end{aligned}$$

The debt equity ratio is within the limit.

Illustration 9:

Following information is available from the audited balance sheet of TH Ltd.:

	(Rs. lakhs)
Equity share capital	30,000
(3000 lakh shares of RS.10each)	
Securities premium A/c	3,000
General reserve	10,000
Secured loans	40,000
unsecured loans	22,000

Compute the maximum limit up to Which buy-back is permitted in the financial year 2023-2024.

Solution:

- (1) The buy-back of equity shares in any financial year should not exceed 25% of its total paid-up equity capital in that financial year .[RS.30,000*25%= RS.7,500]
- (2) 25% of the aggregate of paid-up capital and free reserves of the company .
[(30,000+3,000+10,000) *25%=RS.10,750]
- (3) The ratio of the aggregate of secured and unsecured debts owed by the company after buy-back is not more than **twice** the paid-up capital and its free reserves

let the amount of buy-back be 'x'
secured + Unsecured debts ≤ 2
 paid-up capital +free reserves
 let the amount to be buy-back be 'x'

$$\frac{62,000}{30,000 - x + (3000 + 10000 - x)} = 2$$

$$\frac{62,000}{43000 - 2x} = 2$$

$$62000 = 86000 - 4x$$

$$-24000 = - 4x$$

$$x = 6,000$$

since out of the above three calculations , minimum amount is 6,000; Hence maximum face value of shares that can be bought is RS. 6000 lakhs i.e 600 lakh shares. (6000/10=600)

ISSUE OF BONUS SHARES [SECTION 63]

A company may issue fully paid up bonus shares to its members, in any manner out of –

Its free reserves or

Securities premium
account or

Capital redemption
reserve account

However, no issue of bonus shares shall be made by capitalizing reserves created by the revaluation of assets.

No company shall capitalize its profits or reserves for the purpose of issuing fully paid up bonus shares under above, unless –

it is authorized by its articles;

it has, on the recommendation of the Board, been authorized in the general meeting of the company;

it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

it has not defaulted in respect of the payment of statutory dues of the employees, such as contribution to provident fund, gratuity and bonus;

the partly paid up shares, if any outstanding on the date of allotment, are made fully paid up;

The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same. [Rule 14 of Companies (Share Capital and Debentures) Rules, 2014]

Note: The bonus shares shall not be issued in lieu of dividend.

Journal Entries for Issue of Bonus Shares**(A) On capitalization of reserve for the issue of shares**

Profit & Loss A/c	Dr.
General Reserve A/c	Dr.
Capital Reserve A/c (realised in cash only)	Dr.
Securities Premium A/c	Dr.
Capital Redemption Reserve A/c	Dr.
To Bonus Shareholders A/c	

(B) On issue of Bonus share

Bonus to Shareholders A/c Dr.
 To Share Capital A/c.

Note: If some shares are partly paid up, first the shares are to be made fully paid up. Journal entries are as follows:

(C) Capitalization of Reserve for Issue of Shares

Profit & Loss A/c Dr.
 General Reserve A/c Dr.
 Capital Reserve Account (realized in cash only) Dr.
 To Bonus Shareholders A/c

(D) On making the final call due

Share Final Call Account Dr.
 To Share Capital Account

(E) On adjustment of final call

Bonus Shareholders A/c Dr.
 To Share Final Call A/c

Illustration 10:

1. Following is the extract of balance sheet of Sunrise Ltd. As on 31st March 2024;

Issued and subscribed capital:

40,000, 10% Preference shares of ₹10 each fully paid 4,00,000
 1,80,000 Equity shares of ₹ 10 each, ₹ 7.50 paid-up 13,50,000

Reserves and surplus:

Capital reserve 1,60,000
 General reserve 2,00,000
 Securities premium 40,000
 Surplus 3,20,000

The company made the final call of ₹ 2.50 per share from equity shareholders and duly received it. Thereafter, it was decided to capitalise its reserves by issuing bonus shares at the rate of 1 share for every 3 shares held. Capital reserve includes ₹80,000 being profit on sale of machinery.

Pass journal entries with necessary assumptions.

Particulars	L.F	Debit Amount	Credit Amount
Equity Shares Final Call A/c Dr		4,50,000	
To Equity Share Capital A/c			4,50,000
(Being the final call of Rs.2.50 each on 1,80,000 shares)			

Bank A/c	Dr		4,50,000	
To Equity Share Final Call A/c				4,50,000
(Being final call money received)				
Security Premium A/c	Dr		40,000	
Capital Reserve A/c	Dr		80,000	
General Reserve A/c	Dr		2,00,000	
Profit & Loss A/c	Dr		2,80,000	
To Bonus to Equity Shareholders A/c				6,00,000
(Being utilization of reserves and profit & loss balance for issue of bonus share in the ratio of 1:3)				
Bonus to Equity Shareholders A/c	Dr		6,00,000	
To Equity Share Capital A/c				6,00,000
(Being issue of bonus shares)				

ISSUE OF SWEAT EQUITY SHARES (SECTION 54)

Sweat equity shares refer to equity shares which are given to the company's employees on favourable terms, in recognition of their work. Sweat equity shares are one of the modes of making share-based payments to employees. Sweat equity shares rewards the beneficiaries by giving them incentives in lieu of their contribution towards development of the company. Further, sweat equity shares facilitate greater employee stakes as well as interest in company's growth and encourages employees to add more value towards the company.

Sweat Equity Shares: As per Section 2(88) of the Companies Act, 2013 "sweat equity shares" means such equity shares as are issued by a company to its directors or employees at a discount or for consideration, other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

<p>"Employee" means-</p> <p>(a) a permanent employee of the company who has been working in India or outside India; or</p> <p>(b) a director of the company, whether a whole time director or not; or</p> <p>(c) an employee or a director as defined in sub-clauses (a) or (b) above of a subsidiary, in India or outside India, or of a holding company of the company.</p>	<p>'Value additions' means actual or anticipated economic benefits derived or to be derived by the company from an expert or a professional for providing know-how or making available rights in the nature of intellectual property rights, by such person to whom sweat equity is being issued for which the consideration is not paid or included in the normal remuneration payable under the contract of employment, in the case of an employee.</p>
--	--

Conditions for Issue of Sweat Equity Shares

The issue is authorized by a special resolution passed by the company;

The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

The special resolution authorizing the issue of sweat equity shares shall be valid for making the allotment within a period of not more than twelve months from the date of passing of the special resolution.

The sweat equity shares issued to directors or employees shall be locked in/non-transferable for a period of three years from the date of allotment and the fact that the share certificates are under lock-in and the period of expiry of lock-in shall be stamped in bold or mentioned in any other prominent manner on the share certificate.

Where the equity shares of the company are listed on a recognized stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with the Companies (Share Capital and Debentures) Rules, 2014.

Quantum of Sweat Equity Share

The company shall not issue sweat equity shares for more than fifteen percent of the existing paid up equity share capital in a year or shares of the issue value of rupees five crores, whichever is higher.

Provided that the issuance of sweat equity shares in the company shall not exceed twenty five percent, of the paid up equity capital of the company at any time.

Provided further that a startup company may issue sweat equity shares not exceeding fifty percent of its paid up capital upto five years from the date of its incorporation or registration.

Pricing of Sweat Equity Share

Price determined by a registered valuer as the fair price giving justification for such valuation.

The valuation of intellectual property rights or of know how or value additions for which sweat equity shares are to be issued, shall be carried out by a registered valuer, who shall provide a proper report addressed to the Board of Directors with justification for such valuation.

A copy of gist along with critical elements of the valuation report obtained under clause (1) and clause (2) shall be sent to the shareholders with the notice of the general meeting.

Disclosure in the Directors' report in respect of Sweat Equity Share

the class of director or employee to whom sweat equity shares were issued;

the class of shares issued as Sweat Equity Shares;

the number of sweat equity shares issued to the directors, key managerial personnel or other employees showing separately the number of such shares issued to them, if any, for consideration other than cash and the individual names of allottees holding one percent or more of the issued share capital;

the reasons or justification for the issue;

the principal terms and conditions for the issue of sweat equity shares, including pricing formula;

the total number of shares arising as a result of issuing of sweat equity shares; the percentage of the sweat equity shares of the total post issued and paid up share capital;

the consideration (including consideration other than cash) received or benefit accrued to the company from the issue of sweat equity shares;

the diluted Earnings Per Share (EPS) pursuant to issuance of sweat equity shares.

Accounting Treatment of Sweat Equity Share

- (1) Where sweat equity shares are issued for a non-cash consideration on the basis of a valuation report in respect thereof obtained from the registered valuer, such non-cash consideration shall be treated in the following manner in the books of account of the company:
 - (a) where the non-cash consideration takes the form of a depreciable or amortizable asset, it shall be carried to the balance sheet of the company in accordance with the accounting standards; or
 - (b) where clause (a) is not applicable, it shall be expensed as provided in the accounting standards.
- (2) The amount of sweat equity shares issued shall be treated as part of managerial remuneration for the purposes of sections 197 and 198 of the Act, if the following conditions are fulfilled:
 - (i) the sweat equity shares are issued to any director or manager; and
 - (ii) they are issued for consideration other than cash, which does not take the form of an asset which can be carried to the balance sheet of the company in accordance with the applicable accounting standards.
- (3) In respect of sweat equity shares issued during an accounting period, the accounting value of sweat equity shares shall be treated as a form of compensation to the employee or the director in the financial statements of the company, if the sweat equity shares are not issued as pursuant to the acquisition of an asset.

- (4) If the shares are issued as pursuant to the acquisition of an asset, the value of the asset, as determined by the valuation report, shall be carried in the balance sheet as per the Accounting Standards, and such amount of the accounting value of the sweat equity shares that is in excess of the value of the asset acquired, as per the valuation report, shall be treated as a form of compensation to the employee or the director in the financial statements of the company.

Explanation: Accounting value shall be the fair value of the sweat equity shares as determined by a registered valuer under Rule 8(6) of the Companies (Share Capital and Debentures) Rules, 2014.

ISSUE OF RIGHT SHARES

Meaning: Right issue means offering shares to existing members in proportion to their existing shareholding

- (1) Where at any time, a company having a share capital proposes to increase its subscribed capital by the issuing further shares, such shares shall be offered –
- (a) to persons who, at the date of the offer, are holders of equity shares of the company in proportion, as nearly as circumstances admit, to the paid up share capital on those shares by sending a letter of offer subject to the following conditions:
 - (i) the offer shall be made by notice specifying the number of shares offered and limiting a time not being less than fifteen days and not exceeding thirty days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;
 - (ii) unless the articles of the company otherwise provide, the offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person; and the notice referred to in clause (i) shall contain a statement about this right;
 - (iii) after the expiry of the time specified in the notice aforesaid, or on receipt of earlier intimation from the person to whom such notice was given and he declined to accept the shares offered, the Board of Directors may dispose of them in such manner which is not disadvantageous to the shareholders and company;
 - (b) to employees under a scheme of employees' stock option, subject to special resolution passed by company and subject to such conditions as may be prescribed; or
 - (c) to any persons, if it is authorized by a special resolution, whether or not those persons include the persons referred to in clause (a) or clause (b), either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer subject to such conditions as may be prescribed.
- (2) The notice referred to in sub-clause 1(a)(i) above shall be dispatched through registered post or speed post or through electronic mode to all the existing shareholders at least three days before the opening of the issue.
- (3) Nothing in this section shall apply to the increase of the subscribed capital of a company caused by the exercise of an option as a term attached to the debentures issued or loan raised by the company to convert such debentures or loans into shares in the company:

Provided that the terms of issue of such debentures or loans containing such an option have been approved before the issue of such debentures or the raising of loans by a special resolution passed by the company in the general body meeting.

Illustration 11:

Dr. R, a well known Scientist in the pharma industry has developed a new molecule for cure of cancer. He has also obtained an international patent for it. AH Ltd., a major player in manufacture of cancer drugs wishes to acquire the patent. The deal involves payment of Rs. 10,00,00,000 to Dr.R and allotment of shares of Rs.10 Each in AH Ltd., to him at a discount of Rs.2 per share for the balance consideration Rs.20,00,00,000.

Pass the necessary Journal entries.

Particulars	L.F	Debit Amount	Credit Amount
Patent A/c To Dr. R A/c (Being patent acquired from Dr.R at 30 Crores)	Dr	30,00,00,000	30,00,00,000
Dr. R A/c Discount issued on share To Bank A/c To Share Capital A/c (Being Consideration paid to Dr. R in cash s well as by allotment of 2,50,00,000 shares of Rs. 10 each at a discount of Rs. 2 per share)	Dr Dr	30,00,00,000 5,00,00,000	10,00,00,000 25,00,00,000

REDEMPTION OF PREFERENCE SHARES

A company which is limited by shares, if the articles so authorize, can issue preference shares liable to be redeemed within a period not exceeding twenty years from the date of their issue under section 55 of the Companies Act, 2013. No company limited by shares shall issue any irredeemable preference shares.

A company may issue preference shares for a period exceeding 20 years but not beyond 30 years for infrastructure projects (Specified in Schedule VI). However, the redemption is subject to minimum 10% of such preference shares per year from the twenty-first year onwards or earlier, on proportionate basis, at the option of the preference shareholders.

The preference shares can be redeemed only when they are fully paid up -

- 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.

CAPITAL REDEMPTION RESERVE ACCOUNT

If preference shares are to be redeemed out of the profits of a company, a sum equal to nominal amount of shares that are to be redeemed, shall be transferred to a reserve called Capital Redemption Reserve Account out of profits of the company and provisions of this Act relating to reduction of share capital of a company shall apply as if the Capital Redemption Reserve Account were paid up share capital of the company.

The capital redemption reserve account may be used by the company, in paying up of unissued shares of the company to be issued to members of the company as fully paid bonus shares.

Premium on redemption of Preference Shares

- (a) For the companies whose financial statements comply with the accounting standards as prescribed in section 133, the premium payable on redemption shall be provided out of the profits of the company, before the shares are redeemed.
- (b) For redemption of any preference shares issued on or before the commencement of Companies Act, 2013, the premium payable on redemption shall be provided out of the profits of the company, or out of the company's securities premium account, before such shares are redeemed.
- (c) For companies whose financial statements need not comply with the accounting standards as under section 133, the premium payable on redemption shall be provided out of the profits of the company, or out of the company's securities premium account, before such shares are redeemed.

Case 1: Redemption of preference shares out of the profits of the company which would otherwise be available for dividend.

In case redeemable preference shares are redeemed out of company profits, which are otherwise available for dividend, the "Capital Redemption Reserve Account" is to be created that will represent the redeemable preference shares in the balance sheet after redemption. This capital redemption reserve should be equivalent to the amount of Preference Shares which are to be redeemed. The profits available for dividend have to be transferred to Capital Redemption Reserve Account.

Journal Entries

1. Transfer profits available for dividend to Capital Redemption Reserve Account:

General Reserve Account	Dr. as the case may be
-------------------------	------------------------

Profit and Loss A/c	Dr.
---------------------	-----

Dividend Equalization Account	Dr.
-------------------------------	-----

To Capital Redemption Reserve A/c	with the nominal value of the shares to be redeemed
-----------------------------------	---

2. If current assets are realized to provide cash for redemption of preference shares:

Bank A/c	Dr.
----------	-----

To Respective Assets Account	with the realized value of assets
------------------------------	-----------------------------------

3. On transfer of redeemable preference share-capital to be redeemed to Preference Shareholders Account:

Redeemable Preference Share-Capital A/c	Dr. with the nominal value of the shares to be redeemed
---	---

To Preference Shareholders A/c	
--------------------------------	--

4. If preference shares are redeemed at a premium:

Redeemable Preference Share-Capital A/c	Dr.
---	-----

Premium on Redemption of Preference Shares	Dr. with the amount of premium payable
--	--

To Preference Shareholders A/c	
--------------------------------	--

5. For providing premium on redemption of preference shares:

Profit and Loss A/c	Dr.
---------------------	-----

To Premium on Redemption of Preference Shares Account	
---	--

6. On redemption of preference shares:

Preference Shareholders Account	Dr. with the amount paid
---------------------------------	--------------------------

To Bank A/c	
-------------	--

Illustration 12:

Hello Ltd. had an issue of 2,000, 10% Redeemable Preference Shares of Rs 100 each, repayable at a premium of 10%. These shares are to be redeemed out of the accumulated reserves, which are more than the necessary sum required for redemption. Show the necessary entries in the books of the company, assuming that the premium on redemption of shares has to be written off against the company's Securities Premium Reserves.

Solution:**Journal**

<i>Particulars</i>	<i>Dr. (Rs.)</i>	<i>Cr. (Rs.)</i>
10% Redeemable Preference Share Capital A/c	Dr. 2,00,000	
Premium on Redemption of Preference Shares A/c	Dr. 20,000	
To Preference Shareholders A/c		2,20,000
(Amount payable to 10% preference shareholders on redemption of 10% preference shares at a premium of 10%)		
Profit & Loss A/c	Dr. 20,000	
To Premium on Redemption of Preference Share A/c		20,000
(Application of Securities Premium Account to write off premium on Redemption of Preference Shares)		
Preference Shareholders A/c	Dr. 2,20,000	
To Bank A/c		2,20,000
(Amount due to preference shareholders on redemption paid)		
General Reserve Account	Dr. 2,00,000	
To Capital Redemption Reserve A/c		2,00,000
(Transfer of reserves to Capital Redemption Reserve Account on Redemption of Redeemable Preference Shares)		

Note: Capital Redemption Reserve Account replaces the 10% Redeemable Preference Shares Capital Account and the capital structure of the company remains unchanged.

Case 2: If the redeemable preference shares are redeemed out of the proceeds of a fresh issue of shares made for the purpose of redemption:

In a case where redeemable preference shares are redeemed out of proceeds received from fresh issue of shares, the Share Capital Account raised by fresh issue shall take the place of Redeemable Preference Share Capital Account after redemption. Thus, in such a case, new Share Capital Account (Equity or Preference) must be equal to the redeemable preference shares redeemed.

First of all, entries for fresh issue of shares will be passed. Then entries for redemption passed as has been given in the previous case.

Illustration 13:

Diamond Ltd. has part of its share capital consisting of 20000, 12% Redeemable Preference Shares of Rs. 10 each, repayable at a premium of 5%. The shares have now become ready for redemption. It is decided that the whole amount will be redeemed out of a fresh issue of 20,000 equity shares of Rs. 10 each at Rs. 15 each. The whole amount is received in cash and the 12% preference shares are redeemed for the relevant portion.

Show the necessary journal entries in the books of the company.

Solution:**Journal**

Particulars		Dr. Rs)	Cr. (Rs)
Bank	Dr.	3,00,000	
To Equity Share Application and Allotment A/c			3,00,000
(Application money on 20,000 equity shares @ Rs 15 per share including a premium of Rs 5 per share)			
Equity Share Application and Allotment A/c	Dr.	3,00,000	
To Equity Share Capital A/c			200,000
To Securities Premium A/c			100,000
(Allotment of 20,000 equity shares Rs 10 each issued at a premium of 5 per share as per Board's Resolution dated.)			
Redeemable Preference Share Capital A/c	Dr.	2,00,000	
Premium on Redemption of Preference Share A/c	Dr.	10,000	
To Preference Shareholders A/c			2,10,000
(Amount due to 12% preference shareholders on redemption of 8% preference shares at a premium of 5%)			
Profit & Loss A/c	Dr.	10,000	
To Premium on Redemption of Preference Shares A/c			10,000
(Application of Securities Premium Account to write off Premium on Redemption of Preference Shares)			
Preference Shareholders A/c	Dr.	2,10,000	
To Bank A/c			2,10,000
(Amount due to 12% preference shareholders on redemption paid)			

Case 3: If the redeemable preference shares are redeemed partly out of the profits of the company which would otherwise be available for dividend and partly out of the proceeds of a fresh issue of shares made for the purpose of redemption:

In such a case, the Capital Redemption Reserve Account and the new Share Capital Account taken together will replace the Redeemable Preference Share Capital redeemed.

Thus, Redeemable Preference Share Capital redeemed = Capital Redemption Reserve Account + New Share Capital Account (Equity or Preference).

Here, all the entries shown under Case (i) and Case (ii) have to be passed. But there are certain common entries which can be combined together.

Illustration 14:

Jumpers Ltd
Balance Sheet as at 31st March, 2022

I. EQUITY AND LIABILITIES		
1. Shareholders' funds		
(a) Share Capital	1	350,000
(b) Reserve & Surplus	2	64,000
2. Current Liabilities		
Trade Payable	23,700	
Short-term provisions	38,500	62,200
TOTAL		4,76,200
II. ASSETS		
1. Non-current assets		
(a) Property Planted Equipment		2,25,000
(b) Non-Current Investments		60,000
2. Current Assets		
Inventories	1,30,500	
Trade receivable	49,550	
Cash and cash equivalents	9,950	
Other current assets	1,200	1,91,200
TOTAL		4,76,200

Notes

1. Share capital	
Authorized Share Capital	
40,000 equity shares of Rs 10 each fully paid up	4,00,000
1000, 8% preference shares of Rs 100 each	1,00,000
	5,00,000

Issued, Subscribed Called Up And Paid up Share Capital	
1000, 8% Preference shares of Rs 100 each fully paid up	1,00,000
25,000 equity shares of Rs 10 each fully paid up	2,50,000
	3,50,000

2. Reserve and Surplus

Securities Premium Reserves	9,000
Surplus Account	55,000
	64,000

In order to redeem its preference shares, the company issued 5,000 equity shares of Rs.10 each at a Premium of 10% and sold its investment of Rs. 70,800. Preference shares were redeemed at a premium of 10%.

Show the necessary journal entries in the books of the company.

Solution:

Particulars	Dr. (Rs)	Cr. (Rs)
Bank A/c To Equity Share Application and Allotment A/c (Application money received on 5,000 equity shares of Rs. 10 at a premium of 10%).	Dr. 55,000	55,000
Equity Share Application and Allotment A/c To Equity Share Capital A/c To Securities Premium A/c (Allotment of 5000 equity shares of Rs. 10 each issued at a premium of 10% as per Board's resolution dated.)	Dr. 55,000	50,000 5,000
Bank A/c To Investments A/c To Surplus A/c (Sale on Investments at a profit and transfer of profit on sale to Profit and Loss A/c)	Dr. 70,800	60,000 10,800
8% Redeemable Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (Amount due to preference shareholders on redemption)	Dr. 1,00,000 10,000	1,10,000

Surplus A/c To Premium on Redemption of Preference Shares A/c (Application of securities premium to write off premium on redemption of preference shares)	Dr.	10,000	10,000
Preference Shareholders A/c To Bank A/c (Amount due to Preference Shareholders on redemption paid)	Dr.	1,10,000	1,10,000
Surplus A/c To Capital Redemption Reserve A/c (Transfer of the balance amount of the nominal value preference shares to be redeemed not covered by fresh issue, i.e., Rs 1,00,000 - 50,000 on redemption to Capital Redemption Reserve A/c)	Dr.	50,000	50,000

Note: In the above example, the capital structure of the company remains unchanged, as seen by fact - the Equity Share Capital is issued at Rs 50,000 and Capital Redemption Reserve is at Rs 50,000, which jointly replaces 8% Redeemable Preference Share Capital Rs 1,00,000.

LESSON ROUND-UP

- Share represents a singular unit into which the total share capital of a company is divided.
- Share capital includes majorly the following two types of shares under the Companies Act, 2013:
 - (a) Preference Shares and (b) Equity Shares.
- An equity share is the one which is not a preference share. Equity shares are also known for their risk-bearing. Preference shares are the shares that hold preferential rights as to the payment of dividend at a fixed rate; and the return of capital on winding up of the company.
- Shares may be issued for cash or for a consideration other than cash. When a company allots fully paid shares to promoters or to creditors or to any other party for the services rendered by them, it is known as issue of shares for consideration other than cash.
- Shares of a company may be issued at :
 - a. **Par** – When shares are issued on a price equivalent to its face value.
 - b. **Premium** – When shares are issued at a price higher than the face value.
 - c. **Discount** – When shares are issued at a price lower than the face value.
- Restrictions on the usage of the Securities premium money received has been laid under section 52(2) of Companies Act 2013.
- When the number of shares applied for exceeds the number of shares issued, the shares are said to be oversubscribed. In such a case, some applications may be rejected; some applications are accepted in full; and allotment is made to the remaining applicants on pro-rata basis.

- Forfeiture of shares is considered as the compulsory termination of membership by way of penalty for non-payment of allotment and/or any call money.
- The forfeited shares may be reissued at:
 - a. Par
 - b. Premium
 - c. Discount
- In case of reissue of forfeited shares at a premium, the entire amount standing to the credit of Shares Forfeited Account would be treated as net gain and transferred to Capital Reserve Account.
- In case the forfeited shares are reissued at a discount, the amount of discount can, in no case, exceed the amount credited to Shares Forfeited Account.
- As per Section 68, 69, 70 of the Companies Act, 2013, a company may purchase its own shares or other specified securities out of its free reserves and this is known as buy-back.
- A company is under a legal obligation to first offer the subsequent issue of shares to its existing equity shareholders. This right is called rights issue.
- Company may issue fully paid up bonus shares to its members, in any manner out of (i) its free reserves; (ii) the securities premium account; or (iii) the capital redemption reserve account.
- Sweat equity shares refers to equity shares given to the company's employees/ directors on favourable terms in recognition of their work at a discount or consideration other than cash
- Underwriting is known as a guarantee given by the underwriters to the company that the shares or debentures offered to the public will be subscribed for in full. An underwriting agreement may be:
 - a. Complete Underwriting
 - b. Partial Underwriting. Firm Underwriting.

TEST YOURSELF

1. Distinguish between Equity shares and Preference shares.
2. Discuss the classes of shares on the basis of participation.
3. Enumerate the restrictions on application of premium money received.
4. ABC Ltd. brought out an issue which was oversubscribed. What option does the company have in case of over subscription?
5. Describe the accounting treatment of Calls in advance.
6. What do you mean by share forfeiture?
7. Discuss the advantages of buy-back of shares.
8. Enumerate the procedure for issue of sweat equity shares.
9. Elaborate the types of underwriting options available to a company.
10. Describe the purposes for which a company can use the amount of Securities Premium.
11. Explain the terms 'Over subscription' and 'Under subscription'. How are they dealt with in accounting records?

Practical Questions

1. Girish Limited issued 30,000 equity shares of Rs.100 each payable at Rs.30 on application, Rs.50 on allotment and Rs.20 on 1st and final call. All money was duly received. Record these transactions in the journal of the company.
2. The Ashish Control Device Ltd. was registered with the authorised capital of Rs.3,00,000 divided into 30,000 shares of Rs.10 each, which were offered to the public. Amount payable as Rs.3 per share on application, Rs.4 per share on allotment and Rs.3 per share on first and final call. These shares were fully subscribed and all money was duly received. Prepare journal and Cash Book.
3. Tally Software Solution India Ltd. invited applications for 20,000 equity shares of Rs.100 each, payable Rs.40 on application, Rs.30 on allotment and Rs.30 on first and final call. The company received applications for 32,000 shares. Application for 2,000 shares were rejected and money returned to applicants. Applications for 10,000 shares were accepted in full and applicants for 20,000 shares allotted half of the number of shares applied and excess application money adjusted into allotment. All money due on allotment and call was received. Prepare journal and cash book.
4. Sushil Consulting Ltd. issued 10,000 shares of Rs.100 each payable Rs.20 per share on application, Rs.30 per share on allotment and balance in two calls of Rs.25 per share. The application and allotment money were duly received. On first call, all members paid their dues except one member holding 200 shares, while another member holding 500 shares paid for the balance due in full. Final call was not made. Give journal entries and prepare cash book.
5. Shashi Glass Ltd. issued 20,000 shares of Rs.100 each at Rs.110 per share, payable Rs.30 on application, Rs.40 on allotment (including Premium), Rs. 20 on first call and Rs.20 on final call. The applications were received for 24,000 shares and allotted 20,000 shares and rejected 4,000 shares and amount returned thereon. The money was duly received. Give journal entries.

LIST OF FURTHER READINGS

- **Advanced Accounts**
Author: M.C. Shukla, T.S. Grewal & S.C. Gupta
Publisher: S. Chand & Company Ltd.
- **Corporate Accounting**
Author: Dr. S. N. Maheshwari & Dr. Suneel K Maheshwari
Publisher: Vikas Publishing House
- **Fundamentals of Corporate Accounting**
Author: Bhushan Kumar Goyal
Publisher: Taxmann
- **Treatise of Ind AS**
Author: CA. (Dr.) Alok K. Garg
Publisher: Bloomsbury