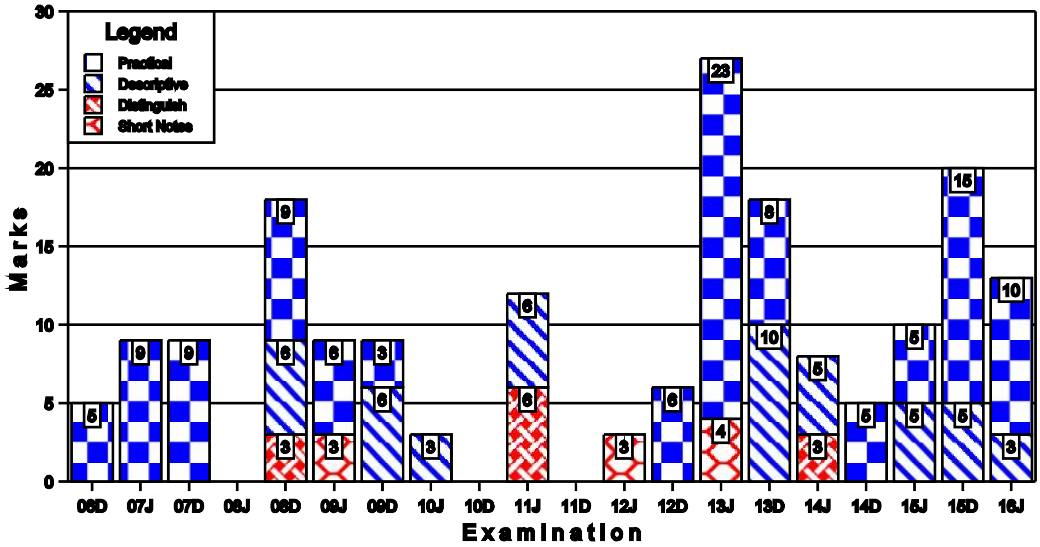
1 Share Capital

This Chapter Includes

- Meaning of Shares and Share Capital
- Issue of Shares for Cash — At Par, At Premium.
- Application supported by blocked amount (ASBA)
- Issue of Share on conversion and for consideration other than cash
- Accounting for Forfeiture and Re-issue of Shares
- Accounting for Buyback of Shares
- Redemption and Conversion of Preference Shares
- Rights Issue
- Bonus Shares
- ESOPs, ESPS, Sweat Equity Shares
- Alteration of Share Capital
- Underwriting of Shares

Marks of Short Notes, Distinguish Between, Descriptive & Practical Questions



Chapter at a Glance

Topic	Important Highlight
1. Share capital	Share capital of a company can be classified as: (a) nominal, authorized or registered capital; (b) issued and subscribed capital; (c) called up and uncalled capital;
2. Share	A share is defined as a share in the share capital of a company, including stock except where a distinction between stock and shares is expressed or implied.
3. Two classes of shares	The Companies Act, 2013 permits a company limited by shares to issue two classes of shares, namely equity share capital and preference share capital.
4. Preference share	A preference share or preference share capital is that part of share capital which carries a preferential right with respect to both dividend and capital.
5. Types of preference shares	Preference shares may be of various types, namely participating and non- participating, cumulative and non-cumulative shares, redeemable and irredeemable preference shares.
6. Equity share capital	Equity share capital means all share capital which is not preference share capital
7. Sweat equity shares	Means equity shares issued by a company to its employees or directors at a discount or for consideration, other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called. • Issue of sweat equity shares to be authorized by special resolution at a general meeting. • The special resolution authorizing sweat equity shares is not valid if the allotment is made after 12 months of passing the resolution. i.e the validity of special resolution is 12 months. • The price of sweat equity shares is to be

		determined by a registered valuer. • The company shall maintain a Register of Sweat Equity Shares in Form No. SH 3. • Issue of sweat equity shares to employees and directors at a discount under section 54 is outside the scope of Section 53.
8.	**Rights issue**	Rights issue is an issue of capital to be offered to the existing shareholders of the company through a letter of offer. • Listed companies to inform concerned stock exchanges • Company to give notice to equity shareholder giving him 15-30 days to decide • Company can issue shares to other than existing share holder for cash or other than cash if a special resolution is obtained • Price to be determined by the registered valuer's report • The provisions of section 62 are applicable to all type of companies
9.	**Bonus share**	When a company is prosperous and accumulates large distributable profits, it converts these accumulated profits into capital and divides the capital among the existing members in proportion to their entitlements. Members do not have to pay any amount for such shares. A company may, if its Articles provide, capitalize its profits by issuing fully-paid bonus shares • Authorised by articles • Authorised on recommendation of the board in general meeting • No default in payment of interest or principle in respect of debt securities and fixed deposits and in respect of payment to employees • Partly paid up shares to be made fully paid up on allotment • Listed companies to follow SEBI regulations • Once announced by the board about bonus issue no company shall withdraw the same.

10. Issue of shares at premium [Section 52]	• Share premium to be transferred to share premium account. • Utilisation of share premium account should be as prescribed in Section 52.
11. Issue of shares at discount [Section 53]	• Issue of shares at discount is prohibited except by issue of sweat equity shares. • Any share issued by the company at a discounted price shall be void.
12. Issue of shares with differential voting rights [Section 43(a) (ii)]	• Articles to authorise the issue • Ordinary resolution to be passed and if shares are listed then approval through postal ballot. • Not to exceed 26% of total post issue paid up equity capital including shares with differential voting rights at any point of time • The company not to be penalised under specified legislature in last 3 years • No default in filing financial statements in the last 3 years. • No default in payment of dividend.

13. Issue / redemption of preference shares [Section 55]	• Issue to be authorised by special resolution • Explanatory statement to be annexed to the notice of general meeting containing the relevant material facts • No company shall issue irredeemable preference shares of redeemable preference shares with the redemption period beyond 20 years • Infrastructural companies may issue preference shares for a period exceeding 20 years but not exceeding 30 years
14. ESOP	• Pass special resolution • Disclosures to be made in explanatory statement • Free pricing in conformity with accounting policies • Separate resolution to be obtained for granting options to employees of holding/subsidiaries • Minimum 1 year period between grant of options and vesting of option • Company is free to set lock-in period • Option granted shall not be transferable, pledged, hypothecated, mortgaged in any manner • Disclosures to be made in board report • Register to be maintained in form sh-6 • Listed companies to comply with SEBI guidelines
15. Preferential issue Rule 13 of the companies (share capital and debentures) rules, 2014	• Pass special resolution • Listed company shall follow SEBI regulations • Issue to be authorised by the articles • Securities to be made fully paid up on allotment • Disclosures to be made in explanatory statement to be annexed to the notice of general meeting • Allotment to get completed within 12 months if not completed a fresh resolution is required • Price determination by the registered valuer's report

CS Executive Programme (Module I)

SHORT NOTES

2009 - June [2] (a) Write short note on the following :
(ii) Issue of shares at a discount (3 marks)

Answer :

Issue of Shares at a Discount:

A company under section 53 of the Act has been prohibited to issue shares at discount, except in case of issue of sweat equity shares. Any share issued by a company at discounted price shall be void.

Where a company contravenes the provisions of this section, the company shall be punishable with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees and every officer who is in default shall be punishable with imprisonment for a term which may extend to six months or with fine which shall not be less than one lakh rupees but which may extend to five lakh rupees, or with both.

2012 - June [2] (c) Write a brief note on 'buy-back of shares'. (3 marks)

Answer :

Buy-Back of Shares Section 68(1) of Companies Act, 2013 :

Section 68(1) of the Companies Act, 2013 state that not with standing any thing containing in this Act, a company can buy-back its own shares or other specified securities from -

(i) its free reserves,
(ii) its securities premium A/c;
(iii) proceeds of any shares or other specified securities.

Conditions for Buy-Back of Shares 68(2):

Under section 68(2) of the Companies Act, 2013 the following conditions must be satisfied in order to buy - back of shares are:-

1. The buy-back is authorized by its articles.
2. The buy-back does not exceed twenty-five percent of the total paid-up capital and free reserves of the company.
3. The ratio of the debt owned by the company is not more than twice the capital and its free reserves after such buy-back.
4. All the shares or other specified securities for buy-back are fully paid-up.
5. The buy-back of the shares or other specified securities listed on any

recognised stock exchange should be in accordance with the regulations made by the SEBI.

6. Every buy-back must be completed within 12 months from the date of passing of special resolution or a resolution passed by the Board.

2013 - June [2] (c) Write a note on ‘buy-back of shares’. (4 marks)

Answer :

Please refer 2012 - June [2] (c) on page no. 20

DISTINGUISH BETWEEN

2008 - Dec [4] (a) Distinguish between the following :

(iii)’ Calls–in–arrears’ and ’calls–in–advance’. (3 marks)

Answer :

Calls-in-arrears : Sometimes amounts due on allotment or calls are not received from the shareholders within specified time. The allotment and call accounts in such circumstances, will show debit balances representing the unpaid amounts. The total unpaid amounts on account of various instalments is known as “Calls-in-Arrear”.

Calls-in-Advance : When a shareholders pays in advance any amount in respect of a call yet to be made the amount so received is known as ’Calls-in-Advance’.

2011 - June [2] (a) Distinguish between the following :

(i) ‘Bonus shares’ and ‘rights shares’. (3 marks)

(iii) ‘Statutory books’ and ‘statistical books’. (3 marks)

Answer :

(i) Bonus shares: Section 63 of Companies Act, 2013

Section 63 of the Act a company may issue fully paid up bonus shares to its members, in any manner whatsoever, out of-

(i) its free reserves;
(ii) the securities premium account; or
(iii) the capital redemption reserve account.

The section specifically clarifies that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets. The bonus shares shall not be issued in lieu of dividend.

Conditions for issue: No company shall issue fully paid-up bonus shares unless-

(a) it is authorised by its articles;
(b) it has, on the recommendation of the Board, been authorised in

the general meeting of the company;

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

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

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

(f) it complies with such conditions as may be prescribed.

Further issue of Capital

According to Section 62(1) of the Companies Act, 2013 where at any time a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares shall be offered to the following:

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. The offer shall be made by notice specifying the number of shares offered. The offer shall be open for a period not being less than 15 days and not exceeding 30 days from the date of the offer. If the offer is not accepted within the period it shall be deemed to have been declined.

Answer:

(iii) Every company incorporated under the Act, is required to keep at its registered office. The following statutory books and registers are given below :

(i) Register of investments in securities not held in company name
(ii) Register of charges
(iii) Register of fixed deposits
(iv) Register of members
(v) Books of accounts
(vi) Register of director's shareholdings
(vii) Dividend register
(viii) Register of buy back of shares

Statistical Books

A company usually maintains a no. of other books in order to keep complete records of the numerous details connected with the business operations.

For e.g :

1. Share application and allotment book

2. Share calls books
3. Share certificate books
4. Debenture application & allotment book
5. Debenture calls books
6. Dividend book
7. Agenda book
8. Register of share transfer book
9. Register of proxy book
10. Register of Employee stock option.

DESCRIPTIVE QUESTIONS

2008 - Dec [3] (a) Comment on the following statements :

(i) As a matter of prudence, whole of free reserves should not be utilised in the case of buy – back of shares.

(iii) In case of under– subscription of shares, question of returning the money does not arise at all. (3 marks each)

Answer :

(i) According to Section 68(1) of the Companies Act, 2013 states that a company may purchase its own shares or other specified securities from out of:

1. its free reserves; or
2. the securities premium account; or
3. the proceeds of any shares other than specified securities [Sec. 68 of Companies Act, 2013].

However, as a matter of prudence, the entire free reserve should not be utilized for the purpose of buy-back and the following items should be adjusted against free reserves to arrive at the net amount of free reserve that can be utilized for the purpose of buy-back;

(a) Unamortised deferred revenue expenditure.
(b) Contingent liabilities likely to mature and not provided for.
(c) Purchase goodwill.
(d) Any diminution of long term investments not provided for.

Answer:

(iii) In practical situation, it rarely happens that the number of shares applied for is exactly equal to the number of shares offered to public for subscription. In case of under subscription of shares, the number of shares applied is less than the number of shares issued.

All applications are accepted in full.
If the minimum subscription has not been subscribed, all applications money may be required to be returned.

However, in case of over subscription of shares, the shares issued are less than the number of shares applied, such situation is called over subscription of shares.

2009 - Dec [4] (b) "Issue of bonus shares by the subsidiary company does not affect the cost of control." Comment. (6 marks)

Answer :

Issue of bonus shares by the subsidiary Company will be recorded in the book of accounts in which manner is depended upon the fact that from which source the bonus shares has been issued. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of pre-acquisition profit or out of post acquisition profit.

(i) **Issue of bonus out of capital profit (Pre acquisition profit) :** If the bonus shares have been issued out of pre-acquisition profit or reserve, then it does not have any effect on the consolidated balance sheet. The reason for this is that due to issue of bonus shares, the share of holding company in pre-acquisition profit is reduced and on the other hand paid-up value of the shares held by them is increased. Hence cost of control or goodwill remains the same as it was before the issue of bonus shares.

(ii) **Regarding the issue of bonus share out of post-acquisition profit:** If the bonus shares have been issued out of post acquisition profit, then it does not affect the consolidated balance sheet. Due to this issue of bonus shares, the share of holding company will reduce in post-acquisition profit that is revenue profit and there will be increase in the paid-up value of shares held by the Company. Due to increase in paid up value, there will decrease in cost of control or increase in capital profit.

2010 - June [4] (c) "Buy-back may be misused by the corporate entities at the cost of innocent investors." Give your comments. (3 marks)

Answer :

It is feared that the buy-back may be misused by the corporate entities at the cost of innocent investor because of the following reasons :-

(i) It will provide enough opportunity for insider trading —The promoters, before the buy-back may understate the earning by manipulating accounting policies in respect of depreciation, valuation of inventories etc. This would lead to a fall in the quoted prices of shares and the promoter would buy them at low quotations. In this way, the insiders would earn extra money when the company buy-backs these shares at a lowest price.

(ii) Buy back may lead to artificial manipulation of stock prices.

2011 - June [4] (b) What are the conditions which must be fulfilled for redemption of preference shares ? (6 marks)

Answer :

As per Section 55 of the Companies Act, 2013 the conditions which must be fulfilled for redemption of preference shares are as follows :

1. Such shares must be fully paid up.
2. Such shares shall be redeemed only out of profits or out of the proceeds of a fresh issue of shares made for the purpose of redemption.
3. In case the company proposes redemption of shares out of the profits of the company, there shall, out of such profits, be transferred, a sum equal to the nominal amount of the shares to be redeemed, to a reserve, to be called the Capital Redemption Reserve Account, and the provisions of this Act relating to reduction of share capital of a company shall, except as provided in this section, apply as if the Capital Redemption Reserve Account were paid-up share capital of the company.

   The capital redemption reserve account may be applied by the company, in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.
4. Certain class of companies as may be prescribed and whose financial statements comply with the accounting standards prescribed under section 133, for such class of companies, the premium if any, payable on redemption shall be provided for out of the profits of the company, before the shares are redeemed. For other companies the premium if any, payable on redemption shall be provided for out of the profits of the company or out of the company's securities premium account, before such shares are redeemed.
5. No company limited by shares shall after the commencement of the companies issue any preference shares which is irredeemable or is redeemable after the expiry of a period of twenty years from the date of issue.

PRACTICAL QUESTIONS

2008 - Dec [2] (b) Following is the balance sheet of Anupam Ltd. as on 31st March, 2008 :

Liabilities	₹	₹
2,00,000, 14% Preference shares		
of ₹ 100 each, fully called	2,00,00,000	
Less : Calls in arrears	4,00,000	
1,96,00,000		
@ ₹ 20 per share		
10,00,000 Equity shares of ₹ 10		
each, ₹ 8 per share called	80,00,000	
Less : Calls-in-arrears	20,000	
	79,80,000	
Add : Calls-in-advance	10,000	
79,90,000		
Securities premium		
5,10,000		
General reserve		1,50,00,000
10,000, 15% Debentures @ ₹ 1,000 each, fully paid		1,00,00,000
Current liabilities and provisions		10,00,000
		5,41,00,000
Assets		
Fixed assets		
1,30,00,000		
Investments		
28,00,000		
Other current assets		
2,15,00,000		
Cash and bank balances		
1,68,00,000		
5,41,00,000		

On 1st April, 2008, the Board of directors decided that —

(i) The fully paid preference shares are to be redeemed at a premium of 4% on 1st May, 2008 and for that purpose 6 lakh equity shares of ₹ 10 each are to be issued at a premium of 5%.

(ii) 3,000 Equity shares owned by Mohan, an existing shareholder, who has failed to pay the allotment money and the first call money @ ₹ 3 and ₹ 2.50 per share respectively, equity shares are to be forfeited on 31st May, 2008.

(iii) The final call of ₹ 2 per share is to be made on 7th July, 2008 on equity shares.

All the above are duly complied with according to schedule. The amount due on the issue of fresh issue and on final call are also duly received except from Sohan who had failed to pay the first call for his 1,400 equity shares, has again failed to pay the final call also. These shares of Sohan are to be forfeited on 31st August 2008.

Show the necessary journal entries. (9 marks)

Answer :

Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2008 May	Bank A/c	Dr.	63,00,000	
	To Equity Shares Capital A/c			60,00,000
	To Securities Premium A/c			3,00,000
	(Being Equity Shares issued at premium)			
	Securities Premium A/c	Dr.	7,20,000	
	To Premium on Redemption of Redeemable Preference Shares A/c			7,20,000
	(Being Premium on Redemption of Preference shares provided)			
	General Reserve A/c	Dr.	1,20,00,000	
	To Capital Redemption Reserve A/c			1,20,00,000
	(Being capital redemption reserve account created)			
	14% Preference Share Capital A/c	Dr.	1,80,00,000	
	Premium on Redemption A/c	Dr.	7,20,000	
	To Preference Shareholders A/c			1,87,20,000
	(Being amount due to preference shareholders)			
	Preference Shareholders A/c	Dr.	1,87,20,000	
	To Bank A/c			1,87,20,000
	(Being paid to preference shareholders)			
May 31	Equity Share Capital A/c	Dr.	24,000	
	To Equity Shares Allotment A/c			9,000
	To Equity Share 1st Call A/c			7,500
	To Forfeited Shares A/c			7,500
	(Being 3,000 shares forfeited due to non-payment of calls)			

July 7	Equity Share Final Call A/c	Dr.	19,94,000	
	To Equity Shares Capital A/c			19,94,000
	(Being final call due on equity shares)			
	Bank A/c	Dr.	19,81,200	
	Calls in Advance A/c	Dr.	10,000	
	To Equity Share Final Call A/c			19,91,200
	(Being Final Call received on Equity Shares)			
Aug 31	Equity Share Capital A/c	Dr.	14,000	
	To Equity Share 1st Call A/c			3,500
	To Equity Share 2nd Call A/c			2,800
	To Forfeited Shares A/c			7,700
	(Being 1,400 shares forfeited due to non-payment of calls)			

2009 - June [4] (a) Jolly Ltd. has the following balance sheet as on 31st March, 2008:

Liabilities	₹
Share capital :	
Issued, subscribed and fully paid-up (10,000 equity shares of ₹100 each)	10,00,000
5,000 Preference shares of ₹100 each	5,00,000
Capital reserve	1,00,000
Securities premium account	1,00,000
General reserve	2,00,000
Profit and loss account	1,00,000
Current liabilities	10,00,000
	30,00,000
Assets	
Fixed assets	22,00,000
Current assets	8,00,000
	30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act, 2013 for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilising the proceeds of the fresh issue are to be met by taking a bank loan. Show journal entries.

(6 marks)

Answer :

(a) Journal Entries in the Books of Jolly Ltd.

Particulars	Dr. (₹)	Cr. (₹)
Securities Premium A/c Dr. To Premium on Redemption of Preference Shares Account (Utilization of securities premium on Redemption of Preferences Shares)	50,000	 50,000
General Reserves Dr. Profit & Loss Account Dr. To Capital Redemption Reserve A/c (Creation of Capital Redemption Reserve to the maximum possible extent)	2,00,000 1,00,000	 3,00,000
Bank Dr. To Equity Share Application and Allotment A/c (Receipt of money for equity shares of ₹ 2,00,000)	2,00,000	 2,00,000
Equity Share Application and Allotment Account Dr. To Equity Share Capital Account (Allotment of equity shares of the face value of ₹ 2,00,000 at par)	2,00,000	 2,00,000
Preference Share Capital Account Dr. Premium on Redemption of Preference Share A/c Dr. To Sundry Preference Shareholders A/c (Amount payable to sundry preference shareholders to redeem 5,000 preference shares of ₹ 100 each at a premium of ₹ 10 per share)	5,00,000 50,000	 5,50,000
Bank Dr. To Bank Loan Account (Raising a bank loan to pay off the amount due to sundry preference shareholders)	3,50,000	 3,50,000
Sundry Preference Shareholders Account Dr. To Bank (Payment made to sundry preference shareholders)	5,50,000	 5,50,000

2009 - Dec [3] (c) Ronny Ltd. forfeited 200 shares of ₹ 10 each, ₹ 8 per share being called-up on which a shareholder paid application and allotment money of ₹ 5 per share but did not pay the first call money of ₹ 3 per share. Of these forfeited shares, 150 shares were subsequently re-issued by the company as fully paid-up for ₹ 8 per share. Give journal entries for the forfeiture and re-issue of shares. (3 marks)

Answer :

Journal Entries

Particulars	**Dr.** (₹)	**Cr.** (₹)
Share Capital A/c (200 × ₹8) Dr. To Share Forfeited A/c (200 × ₹5) To Share First Call A/c (200 × ₹3) (Forfeiture of 200 shares of ₹ 10/-each ₹8 being called up for non-payment of first call money of ₹3 per share as per Board's resolution dated ....)	1,600	 1,000 600
Bank A/c (150 x ₹ 8) Dr. Share Forfeited A/c Dr. To Share Capital A/c (Re-issue of 150 forfeited shares of ₹10 each as fully paid for ₹8 per share i.e. at a discount of ₹2 per share as per Board's Resolution dated ....)	1,200 300	 1,500
Share Forfeited A/c Dr To Capital Reserve A/c (Transfer of capital profit proportionate to forfeited shares re-issued i.e. on 150 shares to Capital Reserve A/c)	450	 450

2012 - Dec [2] (a) The summarised balance sheet of AB Ltd. as on 31st March, 2012 is as follows:

Equity and Liabilities ₹

Equity shares of ₹10 each ₹

₹ 8 called up 80,000

Less : calls in arrears

₹2 per share 300

79,700

1,000, 11% preference shares

of ₹100 each fully paid-up 1,00,000

Less : calls in arrears on 250 shares 5,000

95,000

Securities premium

5,300

Investment allowance

55,000

General reserve

50,000
Profit and loss *(Surplus)*
90,000
Trade payables
25,000

4,00,000
Assets
Land and building 1,50,000
Plants
50,000
Furniture
25,000
Investments (Face value ₹50,000)
45,000
Stock in trade
20,000
Trade receivables
30,000
Cash at bank
80,000

4,00,000

The company resolved to :

(i) Realise investments at ₹40,000.
(ii) Forfeit equity shares on which calls are in arrears.
(iii) Issue 500, 14% debentures of ₹100 each at premium of 5%.
(iv) Forfeit preference shares on which the call money remained unpaid immediately before the redemption of preference shares, holders of 200 shares paid their dues before forfeiture.
(v) Re-issue the forfeited preference shares at ₹50 each.
(vi) Re-issue the forfeited equity shares at ₹12 each as ₹8 paid-up.

Pass necessary journal entries to give effect to the above. (6 marks)

Answer:

			Amt. in ₹	*Amt. in ₹*
(i)	Bank	Dr.	40,000	
	Profit & Loss A/c	Dr.	5,000	
	To Investment			45,000
	(Sale of Investment & Loss of ₹ 5,000/-)			

(ii)	Equity share capital A/c Dr. To Calls in Arrears A/c To Equity Share Forfeited A/c (Forfeiture of 150 equity Shares for non-payment of Calls-in-arrears)	1,200	 300 900
(iii)	Bank To 14% Debentures A/c To Securities Premium A/c (Issue of 500, 14% debentures of ₹ 100 each at a premium of 5%)	52,500	 50,000 2,500
(iv)	(a) Bank Dr. To Calls in Arrear (calls in arrears received from holders of 200, 11% preference shares)	4,000	 4,000
	(b) 11% preference Share Capital A/c Dr. To Calls in Arrears A/c To 11% Preference Share Forfeited A/c (Forfeiture of 50, 11% Preference Shares for non-payment of Calls-in-arrears)	5,000	 1,000 4,000
(v)	(a) Bank Dr. 11% Preference Share Forfeited A/c Dr. To 11% Preference Share Capital A/c (Re-issue of forfeited preference shares @ 50 per shares)	2,500 2,500	 5,000
	(b) Bank Dr. To Equity Share Capital To Securities Premium A/c (Re-issue of Forfeited Preference Shares @ 50 per shares)	1,800	 1,200 600
(vi)	11% Preference Share Forfeited A/c Dr. Equity Share Forfeited A/c Dr. To Capital Reserve A/c (Balances of share forfeited A/c transferred to capital reserve A/c)	1,500 900	 2,400
(vii)	General Reserve A/c Dr. Profit and Loss A/c Dr. To capital Redemption Reserve A/c (Redemption of preference share out of free reserve)	50,000 50,000	 1,00,000

(viii)	11% Preference Share Capital A/c Dr. To Bank (Amount due on redemption paid to preference shareholders)	1,00,000	 1,00,000

2013 - June [2] (b) KBC Ltd. issued 50,000 equity shares. The whole of the issue was underwritten as follows:

Underwriter – K :40%
Underwriter – B :30%
Underwriter – C :30%

Applications for 40,000 shares were received in all, out of which applications for 10,000 shares had the stamp of Underwriter - K; those for 5,000 shares that of Underwriter- B; and those for 10,000 shares for Underwriter - C.

The remaining applications for 15,000 shares did not bear any stamp.

Determine the liability of the underwriters. (5 marks)

Answer:

Calculation of Net Liability of Underwriters

Particulars	K	B	C
Gross Liability in the agreed ratio of 40:30:30	20,000	15,000	15,000
Less: Market Applications	10,000	5,000	10,000
Balance Left	10,000	10,000	5,000
Less: Unmarked Applications in the ratio of gross liability	6,000	4,500	4,500
Net liability	4,000	5,500	500

2013 - June [3] (b) Shreya Ltd. had an issue of 1,000, 12% redeemable preference shares of ₹ 100 each, repayable at a premium of 10%. These shares are to be redeemed now 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 reserve account. (6 marks)

Answer :

In the books of Shreya Ltd.
Journal Entries

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)

	12% Redeemable Preference Shares Capital A/c Dr. Premium on redemption A/c Dr. To Preference Shareholders A/c (Being the amount due to redeemable preference shareholders on redemption)	1,00,000 10,000	 1,10,000
	Securities Premium Reserve A/c Dr. To Premium on Redemption A/c (Being premium on redemption provided out of securities premium reserve)	10,000	 10,000
	General Reserve A/c Dr. To Capital Redemption Reserve A/c (Being the amount of redeemed out of profits transferred to capital redemption reserve account)	1,00,000	 1,00,000
	Preference Shareholders A/c Dr. To Bank (Being amount paid on redemption to preference shareholders)	1,10,000	 1,10,000

2013 - June [4] (a) A limited company issued a prospectus inviting applications for 30,000 shares of ₹ 10 each at a premium of ₹ 2 per share. The amount was payable as follows:

		₹
On application	—	2
On allotment	—	5 *(including premium)*
On first call	—	3
On second and final call	—	2

Applications were received for 45,000 shares and allotment was made on *pro-rata* basis to the applicants of 36,000 shares. Money overpaid on applications was employed on account of sum due on allotment.
Ramesh, to whom 600 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited. Mohan, the holder of 900 shares failed to pay the two calls and his shares were forfeited after the second and final call.
Of the shares forfeited, 1,200 shares were sold to Krishna credited as fully paid for ₹ 9 per share, the whole of Ramesh's share being included.
Show journal and cash book entries and prepare the balance sheet.

(12 marks)

Answer :

In the books of A Ltd.
Journal Entries

Date	Particulars	Debit Amount (₹)	Credit Amount (₹)
	Bank Dr. To Share Application A/c (Being application money received on 45,000 shares @ ₹ 2 each)	90,000	 90,000
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank (Being application for 36,000 shares allotted 30,000 shares and application of 9,000 shares refunded. Excess application money transferred to share allotment A/c)	90,000	 60,000 12,000 18,000
	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c (Being share allotment amount due on 30,000 shares @ ₹ 5 each including a premium of ₹ 2 each)	1,50,000	 90,000 60,000
	Bank Dr. To Share Allotment a/c (Working Note 3) (Being amount due on allotment received except from the holder of 600 shares)	1,35,240	 1,35,240
	Share First Call A/c Dr. To Share Capital A/c (Being share first call due on 30,000 shares @ ₹ 3 each)	90,000	 90,000
	Bank Dr. To Share First Call A/c (Being amount received on first call except from the holders of 600 shares and 900 shares)	85,500	 85,500
	Share Capital A/c (600 × 8) Dr. Securities Premium Reserve A/c Dr. To Share Allotment A/c (600 × 5 – 120 × 2) To Share First Call A/c (600 × 3) To Shares Forfeited A/c (720 × 2)	4,800 1,200	 2,760 1,800 1,440

	(Being 600 shares forfeited on non-payment of share allotment and first call money)		
	Share Second and Final Call A/c (29,400 × 2) Dr. To Share Capital A/c (Being share final call due on 29,400 shares @ ₹ 2 each)	58,800	 58,800
	Bank Dr. To Share Second and Final Call A/c (Being amount received on final call except from the holder of 900 shares)	57,000	 57,000
	Share Capital A/c (900 × 10) Dr. To Share First Call A/c To Share Second and Final A/c To Shares Forfeited A/c (Being 900 shares forfeited on non-payment of first and second call money)	9,000	 2,700 1,800 4,500
	Bank (1,200 × 9) Dr. Shares Forfeited A/c Dr. To Share Capital A/c (Being 1,200 shares reissued @ ₹ 9 each full paid)	10,800 1,200	 12,000
	Shares Forfeited A/c Dr. To Capital Reserve A/c (Working Note 4) (Being profit on reissue of 1,200 shares transferred to capital reserve)	3,240	 3,240

Balance Sheet of A Ltd.

Particulars	Amount (₹)
I. EQUITIES AND LIABILITIES	
1. Shareholders' Funds	
(a) Share capital	
Issued capital (30,000 Equity shares @ ₹ 10 each)	3,00,000
Paid up capital (29,700 @ ₹ 10 each)	2,97,000
Shares Forfeited A/c	1,500
(b) Reserve and Surplus	
Capital Reserve	3,240
Securities Premium Reserve A/c	58,800
Total	3,60,540
II. Assets	
1. Non Current Assets	

2. Current Assets	3,60,540
Bank	3,60,540
Total	

Working Notes

1. For shares allotted 30,000, shares applied are 36,000

   For shares allotted 600, shares applied $= \dfrac{600 \times 36{,}000}{30{,}000}$

   = 720 shares

   For shares allotted 900, shares applied $= \dfrac{900 \times 36{,}000}{30{,}000}$

   = 1,080 shares

2. Amount received on application for 36,000 shares (36,000 × 2) = ₹ 72,000
   Amount used in application (30,000 × 2) = ₹ 60,000
   Amount transferred to share allotment (₹ 72,000 – 60,000) = ₹ 12,000

3. Amount to be received on allotment (30,000 × 5) = ₹ 1,50,000
   Less : Amount already received with application money = ₹ 12,000
   Less : Amount not received by the holder of 600 shares
   (600 × 5 – 120 × 2) = ₹ 2,760
   Amount received on allotment ₹ 1,35,240

4. Share forfeited amount on 600 shares of Ramesh = ₹ 1,440

   Share forfeited amount on 600 shares of Mohan = ₹ $\dfrac{4{,}500 \times 600}{900}$

   = ₹ 3,000

   Total forfeited amount = ₹ 4,440
   Less: Discount on reissue = ₹ 1,200
   Capital Reserve = ₹ 3,240

CS Executive Programme (Module II)

DISTINGUISH BETWEEN

2014 - June [2] (a) Distinguish between 'securities premium' and 'share premium'. (3 marks)

Answer:

Issue of Shares at Premium:

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of at a premium. For example, if a share of ₹ 10 is issued at ₹ 12, (12-10) = ₹ 2 is the premium.

The premium on issue of shares should be regarded as capital

receipt.
The Companies Act requires that when a company issued 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."

Securities Premium: The term securities premium implies premium received from issue of securities e.g. preference shares, equity shares, bonds, debentures etc.

DESCRIPTIVE QUESTIONS

2013 - Dec [1] (a) Write the meaning of 'issue of shares at premium' emphasising upon the purposes for which securities premium can be utilised. (5 marks)

Answer:

Issue of Shares at Premium:

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium. For example, if a share of ₹ 10 is issued at ₹ 12, (12-10) = ₹ 2 is the premium.

The premium on issue of shares should be regarded as capital receipt. The Companies Act requires that 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."

Under Section 52 of the Companies Act, 2013 the Securities Premium Account may be used wholly or in part for:

(i) issuing fully paid bonus shares to the members;
(ii) writing off preliminary expenses of the company;
(iii) writing off the expenses of or the commission paid or discount allowed on any issue of shares or debentures of the company; or
(iv) providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company;
(v) purchase of its own shares i.e. buy back of shares.

2013 - Dec [2] (Or) (a) (i) State the conditions for issue of bonus shares. (5 marks)

Answer:

Issue of Bonus Shares:

Section 63 of the Act a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of-

(i) its free reserves;
(ii) the securities premium account; or
(iii) the capital redemption reserve account.

The section specifically clarifies that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets. The bonus shares shall not be issued in lieu of dividend.

Conditions for issue: No company shall issue fully paid-up bonus shares unless-

(a) it is authorised by its articles;
(b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
(c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
(d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
(e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;
(f) it complies with such conditions as may be prescribed.

Under the rules no company which has once announced the decision of its Board recommending a bonus issue, can subsequently withdraw the same.

2014 - June [1] (a) State the conditions which are required to be satisfied by a company for the purpose of buy-back of shares. (5 marks)

Answer:

Buy-Back of Shares Section 68(1) of Companies Act, 2013 :

Section 68(1) of the Companies Act, 2013 states that notwithstanding any thing containing in this Act, a company can buy-back its own shares or other specified securities from:

(i) its free reserves;
(ii) its securities premium A/c;
(iii) proceeds of any shares or other specified securities.

Conditions for Buy-Back of Shares 68(2):

Under section 68(2) of the Companies Act, 2013, the following conditions must be satisfied in order to buy - back of shares are:

1. The buy-back is authorized by its articles.
2. The buy-back does not exceed twenty-five percent of the total paid-up capital and free reserves of the company.

3. The ratio of the debt owned by the company is not more than twice the capital and its free reserves after such buy-back.
4. All the shares or other specified securities for buy-back are fully paid-up.
5. The buy-back of the shares or other specified securities listed on any recognised stock exchange should be in accordance with the regulations made by the SEBI.
6. Every buy-back must be completed within 12 months from the date of passing of special resolution or a resolution passed by the Board.

2015 - June [1] (d) State the purposes for which balance in the securities premium account may be applied. (5 marks)

Answer:

Issue of Shares at Premium:

When shares are issued at a price higher than the face value, they are said to be issued at a premium. Thus, the excess of issue price over the face value is the amount of premium. For example, if a share of ₹ 10 is issued at ₹ 12, (12-10) = ₹ 2 is the premium.

The premium on issue of shares should be regarded as capital receipt. The Companies Act requires that 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."

Under Section 52 of the Companies Act, 2013 the Securities Premium Account may be used wholly or in part for:

(i) issuing fully paid bonus shares to the members;
(ii) writing off preliminary expenses of the company;
(iii) writing off the expenses of or the commission paid or discount allowed on any issue of shares or debentures of the company; or
(iv) providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company;
(v) purchase of its own shares i.e. buy back of shares.

2015 - Dec [1] (a) A listed company intends to issue sweat equity shares to its directors and a class of employees. Advise the company about the conditions to be fulfilled for such an issue. (5 marks)

Answer:

Issue of Sweat Equity Shares:

1. Notwithstanding anything contained in Section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely:
   (a) the issue is authorised by a special resolution passed by the company;
   (b) 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;
   (c) not less than one year has, at the date of such issue, elapsed since the date on which the company had commenced business; and
   (d) where the equity shares of the company are listed on a recognised 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 such rules as may be prescribed.
2. The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

2016 - June [2] (d) State the purposes for which balance in securities premium account can be utilised. (3 marks)

PRACTICAL QUESTIONS

2013 - Dec [2] (a) Y Ltd. forfeited 1,000 equity shares of ₹ 10 each, ₹ 7 called-up, issued at a premium of 20% (to be paid at the time of allotment) for non-payment of allotment money of ₹ 4 per share (including premium) and first call of ₹ 2 per share. Out of these, 600 shares were re-issued as fully paid-up for ₹ 8.50 per share.

Pass the journal entries for forfeiture and re-issue of shares. (3 marks)

Answer:

Journal Entries

Forfeiture

Equity Share Capital A/c (1,000 x 7)	Dr.	7,000	
Security Premium A/c (1,000 x 2)	Dr.	2,000	
To Share Forfeiture A/c (1,000 x 3)			3,000
To Equity Share Allotment A/c (1,000 x 4)			4,000
To Equity Share First Call A/c (1,000 x 2)			2,000
(Being 1,000 share forfeited)			

⇒ **Re issue**

• Bank A/c (600 x 8.5)	Dr.	5,100	
Share Forfeiture A/c (600 x 1.5)	Dr.	900	
To Equity Share competed A/c (600 x 10)			6,000
(Being 600 share re-issued as fully paid up for 8.5 per share)			
• Share Forfeiture A/c	Dr.	900	
To Capital Reserve A/c			900

(Being transfer of net gain on Re-issue of 600 forfeited share to capital reserve)

i.e. $\left(\frac{3,000}{1,000} \times 600 - 900\right)$

2013 - Dec [3] (a) A company incorporated on 1st January, 2013 issued a prospectus inviting applications for 5,00,000 equity shares of ₹ 10 each. The whole issue was fully underwritten by four underwriters :

Underwriter — A : 2,00,000 shares
Underwriter — B : 1,50,000 shares
Underwriter — C : 1,00,000 shares
Underwriter — D : 50,000 shares

Applications were received for 4,50,000 shares of which marked applications were as follows :

Underwriter — A : 2,20,000
Underwriter — B : 90,000
Underwriter — C : 1,10,000
Underwriter — D : 10,000

Find out the liability of each underwriter individually. (5 marks)

Answer:

Statement Showing the Liability of underwriters

Particulars	*A*	*B*	*C*	*D*	*Total*
Gross Liability	2,00,000	1,50,000	1,00,000	50,000	5,00,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000	4,30,000
Balance Left	(20,000)	60,000	(10,000)	40,000	70,000
Less: Unmarked Applications in the ratio of gross liability (4:3:2:1)	8,000	6,000	4,000	2,000	20,000
	(28,000)	54,000	(14,000)	38,000	50,000
Division of surplus of A and C to B and D in the ration of (3:1)	28,000	(31,500)	14,000	(10,500)	0
Net Liability	Nil	22,500	Nil	27,500	50,000

2014 - Dec [2A] (Or) (i) Sun Ltd. issued 1,00,000 equity shares. The whole of the issue was underwritten as follows:

Marigold	35%
Lotus	25%
Tulip	30%
Lily	10%

Applications for 80,000 shares were received in all; out of which applications for 20,000 shares had the stamp of Marigold; 15,000 that of Lotus; 22,000 that of Tulip and 8,000 of Lily. The remaining 15,000 applications did not bear any stamp. Determine the liability of each underwriter. (5 marks)

Answer:

Statement showing liability of underwriter's

Particulars	Mari-gold 35%	Lotus 25%	Tulip 30%	Lily 10%
Gross Liability (35 : 25 : 30 :10)	35,000	25,000	30,000	10,000
Less: Marked application	20,000	15,000	22,000	8,000
	15,000	10,000	8,000	2,000
Less: Unmarked application (W.N.1) 15,000 in Gross liability ratio 7:5:6:2	5,250	3,750	4,500	1,500
Net Liability	9,750	6,250	3,500	500

Working Note:

Calculation of Unmarked application

Total application	80,000
Less: Marked application	
(20,000 +15,000 + 22,000 +,8000)	(65,000)
	15,000

2015 - June [3] (a) Following is the balance sheet of Tulika Ltd. as on 31st March, 2014:

		As on 31st March, 2014 (₹)
I. EQUITY AND LIABILITIES		
(1) Shareholders' funds		
(a) Share capital		
Authorised capital		
20,000 equity shares of ₹ 10 each		2,00,000
Issued, subscribed and paid-up capital 12,000 equity shares of ₹ 10 each	1,20,000	
Less: Calls in arrear		
(₹ 3 per share on 3,000 shares)	9,000	1,11,000

	(b) Reserves and surplus		
	Surplus as per last balance sheet (loss)	(22,000)	
	Add: profit for the year	1,200	(20,800)
	(2) Current liabilities		
	(a) Trade payables		15,425
	(b) Other current liabilities (provision for taxes)		4,000
	TOTAL		1,09,625
II.	ASSETS		
	(1) Non-current Assets		
	(a) Fixed assets		
	(i) Tangible assets		
	Land and building		20,500
	Machinery		50,850
	(ii) Intangible assets		
	Goodwill		10,000
	(2) Current Assets		
	(a) Inventories		10,275
	(b) Trade receivables		15,000
	(c) Cash and cash equivalents		1,500
	(d) Other current assets (preliminary expenses)		1,500
	TOTAL		1,09,625

The directors have found that the valuation of the machinery was overvalued by ₹ 10,000. It is proposed to write down these assets to its true value and to extinguish the deficiency in the statement of profit and loss and to write-off goodwill and preliminary expenses by adoption of the following schemes:

(i) Forfeit the shares on which the calls are outstanding
(ii) Reduce the paid-up capital by ₹ 3 per share
(iii) Re-issue of forfeited shares at ₹ 5 per share
(iv) Utilise the provision for taxes, if necessary

The shares on which the calls were in arrear were duly forfeited and re-issued as fully paid-up shares of ₹ 7 each on payment of ₹ 5 per share.

You are required to pass necessary journal entries. (5 marks)

Answer:

Journal Entry

Date	Particulars		Amount ₹	Amount ₹
1.	Equity Share Capital A/c	Dr.	30,000	
	To Calls in arrears			9,000
	To Share Forfeiture A/c			21,000
	(Being forfeiture of 3,000 equity shares of ₹ 10 each for nonpayment of call at ₹ 3 per share as per board resolution dated...)			
2.	Equity Share Capital A/c	Dr.	90,000	
	To Equity Share Capital A/c			63,000
	To Reconstruction A/c			27,000
	(Allotment of 9,000 fully paid equity of ₹ 7 each in lieu of 9,000 fully paid shares of ₹ 10 each as per scheme of reconstruction dated......)			
3.	Bank A/c	Dr.	15,000	
	Share Forfeiture A/c	Dr.	6,000	
	To Equity Share Capital A/c			21,000
	(Re-issue of 3,000 equity shares of ₹ 7 each as fully paid up @ ₹ 5 per share)			
4.	Share Forfeiture A/c	Dr.	15,000	
	To Reconstruction A/c			15,000
	(Transfer of balance of forfeited shares)			
5.	Provision for Taxation A/c	Dr.	300	
	To Reconstruction A/c			300
	(Transfer of Provision for taxes to the extent necessary)			
6.	Reconstruction A/c	Dr.	42,300	
	To Goodwill A/c			10,000
	To Machinery A/c			10,000
	To Preliminary Expenses A/c			1,500
	To Profit and Loss A/c			20,800
	(Transfer of balances as per Reconstruction scheme)			

2015 - Dec [1] (d) Fitness Ltd. is planning to raise funds by making rights issue of equity shares to part finance its expansion. The existing equity share capital of the company is ₹ 40 lakh and the market value is ₹ 45 per share. The company offered to its shareholders the right to buy 2 shares at ₹ 12 each for every 5 shares held. You are required to calculate –

(i) Theoretical market price per share after the rights issue;

(ii) The value of rights; and

(iii) Percentage increase in share capital. (5 marks)

(e) A company has its share capital dividend into shares of ₹ 10 each. On 1st April, 2014, it granted 5,000 shares as employees stock options at ₹ 40 per share, when the market price was ₹ 130 per share. The options were to be exercised between 16th December, 2014 and 15th March, 2015. The employees exercised their options for 4,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show journal entries in the books of the company.

(5 marks)

Answer:

(d) (i) Calculation of Theoretical Market Price per Share after the Right Issue:

$$\text{Theoretical Market Price} = \frac{\text{No. of Shares before Right Issue} \times \text{Market Price} + \text{No. of Shares Issued as Right Issue} \times \text{Right Issue Price}}{\text{No. of Shares outstanding before Right Issue} + \text{No. of Shares Issued as Right Issue}}$$

$$= \frac{\mathbf{400000 \times 45 + 160000 \times 12}}{\mathbf{400000 + 160000}}$$

$$= \frac{\mathbf{18000000 + 1920000}}{\mathbf{560000}}$$

$$= \frac{\mathbf{19920000}}{\mathbf{560000}} = ₹\ 35.57$$

(ii) The Value of Rights = Market Price - Theoretical Market Price

= 45.35.57 = 9.43

(iii) Percentage increase in Share Capital:

$$= \frac{\textbf{No. of fresh Shares Issued}}{\textbf{Total no. of Shares before Right Issue}} \times 100$$

$= \frac{160000}{400000} \times 100 = 40\%$

Working Notes:

1. No. of Shares Outstanding at Beginning

   $= \frac{4000000}{10} = 400000$ Shares

2. No. of Shares Issued as Right Issue

   $= 400000 \times \frac{2}{5} = 160000$ Shares.

(e) Journal Entries

Date	Particulars		Amount in ₹ (Dr.)	Amount in ₹ (Cr.)
April 01, 2014	Employee Compensation Expenses A/c	Dr.	4,50,000	
	To Employee Stock Options Outstanding A/c			4,50,000
	(Being grant of 5000 stock options to employees at ₹ 40 when market price is ₹ 130)			
December 16, 2014	Bank A/c (4,500 × 40)	Dr.	1,80,000	
	Employee Stock options Outstanding A/c (4,500 × 90)	Dr.	4,05,000	
	To Equity share capital A/c (4500 × 10)			45,000
	To Securities premium A/c (4500 × 120)			5,40,000
	(Being allotment to employees of 4500 equity shares of ₹ each at a premium of ₹ 120 per share in exercise of stock options by employees)			
March 16, 2015	Employee stock option outstanding A/c	Dr.	45,000	
	To Employee Compensation Expenses A/c			45,000
	(Being entry for lapse of stock options for 500 shares)			
March 31, 2015	Profit & loss a/c	Dr.	4,05,000	
	To Employee Compensation expenses A/c			4,05,000
	(Being transfer of employee compensation expenses to profit and loss account)			

2015 - Dec [2A] (Or) (iii) Excel Ltd. issued 1,00,000 equity shares and the entire issue was underwritten as follows:

Underwriter - X – 50%
Underwriter - Y – 30%
Underwriter - Z – 20%

Applications were received for 90,000 shares. Out of these, applications for 20,000 shares were marked with X; 10,000 marked with Y and 5,000 marked with Z. The remaining applications for 55,000 shares did not bear

any stamp.
Determine the liability of each underwriter in relation to above.

(5 marks)

Answer:

Determination of Liability of Underwriters

Particulars	Total	Underwriters		
		X	Y	Z
Gross Liability	100%	50%	30%	20%
” ”	1,00,000	50,000	30,000	20,000
Less: Marked Applications	35,000	20,000	10,000	5,000
Balance	65,000	30,000	20,000	15,000
Less: Unmarked Applications (in the Ratio of G.L. 5:3:2)	55,000	27,500	16,500	11,000
Net Liability	10,000	2,500	3,500	4,000

2016 - June [1] (e) Following is the extract of balance sheet of Sunrise Ltd. as on 31st March, 2015:

	₹
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 exchange of machinery.

Pass journal entries with necessary assumptions. (5 marks)

2016 - June [3] (a) Extract of ledger balances of Kalpana Ltd. as on 31st March, 2015 includes the following:

	₹
2,000, 12% Preference shares of ₹ 100 each, fully paid	2,00,000
Surplus	40,000
Securities premium	12,000

Under the terms of issue, the preference shares are redeemable on 31st March, 2015 at a premium of 10%. The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at a premium of 5% for redemption purpose.

You are required to ascertain the amount of fresh issue to be made and pass necessary journal entries in the books of the company.

(5 marks)

CS Inter Gr. I

PRACTICAL QUESTIONS

2006 - Dec [2] (a) The following particulars are given from the records of Maxel Ltd. relating to issue and forfeiture of equity shares. The amount per share was payable as ₹ 3 on application; ₹ 5 on allotment (including ₹ 2 as premium); and ₹ 4 on first and final call :

Category	*No. of Shares Allotted*	*No. of Shares Applied*	
I	20,000	30,000	
II	10,000	10,000	
III	—	5,000	(Application money refunded)

Allotments were made *pro rata* in Category-I Raj, who applied for 450 shares in Category-I, failed to pay the allotment money and call money and his shares were forfeited by the company. Subsequently, 200 forfeited shares were issued to Hari as fully paid for ₹ 9 per share

Show the journal and cash book entries to record the above transactions. (5 marks)

Answer :

Particulars		*Dr.(₹)*	*Cr.(₹)*
Equity Share Application A/c	Dr.	1,20,000	
To Equity Share Capital A/c			90,000
To Equity Share Allotment A/c			30,000
(Being application money on 30,000 Shares transferred to share capital and excess application money on 10,000 shares transferred to share allotment account)			
Equity Share Allotment A/c	Dr.	1,50,000	
To Equity Share Capital A/c			90,000
To Securities Premium A/c			60,000
(Being allotment money due on 30,000 Shares including share premium money)			
Equity Share First and Final Call A/c	Dr.	1,20,000	
To Equity Share Capital A/c			1,20,000
(Being call money due on 30,000 shares @ ₹ 4 each)			
Equity Share Capital (300×₹10) A/c	Dr.	3,000	
securities Premium (300× ₹ 2) A/c	Dr.	600	
To Shares Forfeited A/c			1,350
To Share Allotment A/c			1,050
To Share First and Final Call A/c			1,200
(Being forfeiture of 300 shares on which allotment and call moneys have not been paid)			
Shares Forfeited A/c	Dr.	900	
To Equity Share Capital			200
To Capital Reserve			700
(Being discount on re-issue of 200 forfeited shares of Re.1 per share debited to shares forfeitured account and proportionate profit on forfeited shares transferred to capital reserve)			

Dr. **Cash Book** Cr.

Particulars	₹	*Particulars*	₹
To Equity Share Application A/c	1,35,000	By Equity Share Application A/c	15,000
To Equity Share Allotment A/c	1,18,950	By Balance c/d	3,59,550
To Equity Share First & Final Call A/c	1,18,800		
To Equity Share Capital A/c	1,800		
	3,74,550		3,74,550
To Balance c/d	3,59,550		

2007 - June [2] (a) Zutshi Ltd. has 12% redeemable preference share capital of ₹ 2,00,000 consisting shares of ₹ 100 each fully called and paid-up. The company wants to redeem them at 10% premium. The ledger accounts show the following balances :

Profit and loss account ₹ 40,000 and securities premium account ₹ 8,000. The company desires to make a minimum fresh issue of equity shares of ₹ 10 each at 5% premium for redemption of the preference shares. You are required to ascertain the amount of such fresh issue to be made by the company and pass necessary journal entries regarding fresh issue and redemption of preference shares. (9 marks)

Answer :

No. of shares to be calculated as follows:

Total liability = Preference Share Capital to be redeemed + Profit and Loss Account balance + Proceeds of Fresh issue.

$$₹\ 2,20,000 = ₹\ 8,000 + ₹\ 40,000 + x + \frac{x}{20}$$

$$= ₹48,000 + \frac{21x}{20} \text{ Or } ₹1,72,000 = \frac{21x}{20}$$

$$= 21x = ₹\ 34,40,000 \text{ Or } x = ₹1,63,810$$

Amount of fresh issue :

No. of shares	=		16,381
Equity share capital	=	₹	1,63,810
Securities premium	=	₹	8,190
Total	=	₹	1,72,000

Journal Entries

Particulars		*Dr. (₹)*	*Cr. (₹)*
Bank A/c	Dr.	1,72,000	
To Equity Share Capital A/c			1,63,810
To Securities Premium A/c			8,190
(16,381 equity shares of ₹10 each at a premium of 5%)			
Securities Premium A/c	Dr.	16,190	
Profit & Loss A/c	Dr.	3,810	
To Premium on Redemption of Preference Shares A/c			20,000
(Premium provided for redemption)			

Profit & Loss A/c	Dr.	36,190	
To Capital Redemption Reserve A/c			36,190
(Amount transferred to capital Redemption Reserve not covered by fresh issue)			
12% 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
(Payment due to preference shareholders)			
Preference Shareholders A/c	Dr.	2,20,000	
To Bank			2,20,000
(Payment made)			

2007 - Dec [3] (b) Following is the balance sheet of Navyug Construction Ltd. as on 31st March, 2007:

Liabilities:		₹
Authorised capital :		
20,000 Equity shares of ₹ 10 each		2,00,000
Issued, subscribed and paid-up capital:		
12,000 Equity shares of ₹ 10 each	₹ 1,20,000	
Less: Calls in arrear (₹ 3 per share on 3,000 shares)	₹ 9,000	1,11,000
Sundry creditors		15,425
Provision for taxes		4,000
		1,30,425
Assets		
Goodwill		10,000
Land and buildings		20,500
Machinery		50,850
Stock		10,275
Book debts		15,000
Cash at bank		1,500
Preliminary expenses		1,500
Profit and loss account:		
Balance as per last balance sheet	₹ 22,000	
Less: Profit for the year	₹ 1,200	20,800
		1,30,425

The directors have had a valuation made of the machinery and found it overvalued by ₹ 10,000. It is proposed to write down this asset to its true value and to extinguish the deficiency in the profit and loss account and to write off goodwill and preliminary expenses by adoption of the following scheme:

(i) Forfeit the shares on which the calls are outstanding.

(ii) Reduce the paid-up capital by ₹ 3 per share.
(iii) Re-issue the forfeited shares at ₹ 5 per share.
(iv) Utilise the provision for taxes, if necessary.

The shares on which the calls were in arrear were duly forfeited and re-issued as fully paid shares of ₹ 7 each on payment of ₹ 5 per share.

You are required to pass necessary journal entries and prepare the balance sheet of the company after carrying out the terms of the scheme as set-out above. (9 marks)

Answer :

Dr. **Cr.**

Particulars		₹	₹
Equity Share Capital (₹10 each) Account To Calls in arrear Account To Forfeited Share Account (Forfeiture of 3,000 equity shares of ₹ 10 each for non-payment of call @ ₹ 3 per share as per Resolution No....... of the Board of Directors)	Dr.	30,000	 9,000 21,000
Equity Share Capital (₹ 10 each) Account To Equity Share Capital (₹7 each) Account To Reconstruction Account (Allotment of 9,000 fully paid equity shares of ₹7 each in lieu of 9,000 fully paid equity shares of ₹7 each in lieu of 9,000 fully paid equity shares of ₹10 each as per scheme of reconstruction confirmed by Court vide Order No......... Dated........)	Dr.	90,000	 63,000 27,000
Bank Forfeited share Account To Equity Share Capital (₹7 each) Account (Reissue of 3,000 equity shares of ₹ 7 each as fully paid @ ₹5 per share)	Dr. Dr.	15,000 6,000	 21,000
Forfeited Share Account To Reconstruction Account (Transfer of balance of forfeited Share Account to Reconstruction Account after reissue of all the forfeited shares)	Dr.	15,000	 15,000
Provision for Taxes Account	Dr.	300	

To Reconstruction Account (Utilisation of the provision for taxes for purposes of reconstruction to the extent necessary)			300
Reconstruction Account To Goodwill Account To Machinery Account To Preliminary Expenses Account To Profit and Loss Account (The Balances of Goodwill account, Preliminary Expenses Account and Profit and Loss Account written off and the Reduction made in the value of Machinery as per scheme of reconstruction.)	Dr.	42,300	 10,000 10,000 1,500 20,800

Name of the company Navyug Construction Ltd.
Balance Sheet as on 31st March 2007
(As per New Revised Schedule III)

	Particulars	Note No.	Current Period	Previous Period
I	**Equity and Liabilities**			
	1. **Shareholders' Funds**			
	(a) Share Capital	1	84,000	
	(b) Reserve & Surplus			
	(c) Money received against share warrants			
	2. **Share application money pending allotment**.			
	3. **Non-Current Liabilities**			
	(a) Long term borrowings			
	(b) Deferred tax Liabilities (Net)			
	(c) Other long term liabilities			
	(d) Long-term provisions			
	4. **Current Liabilities**			
	(a) Short-term borrowings			
	(b) Trade payables	2	15,425	
	(c) Other current liabilities			
	(d) Short term provisions	3	3,700	

	Total		**1,03,125**	
II	**Assets - Non - Current Assets**			
	1. (a) **Fixed Assets.**			
	(i) Tangible	4	61,350	
	(ii) Intangible Assets	5	–	
	(iii) Capital WIP			
	(iv) Intangible assets under development			
	(b) **Non- Current investment**			
	(c) Deferred Tax Assets (net)			
	(d) Long-term Loans and Advances			
	(e) Other Non-Current Assets			
	2. **Current Assets**			
	(a) Current Investment			
	(b) Inventories			
	(c) Trade receivable			
	(d) Cash and Cash Equivalents	6	10,275	
	(e) Short term Loans &	7	15,000	
	Advances	8	16,500	
	(f) Other Current Assets			
	Total		**1,03,125**	

Notes to account:(₹)

1	**Share Capital**	
	Authorised:	
	20,000 Equity share of ₹ 7 each	1,40,000
	Issued and Subscribed:	
	12,000 Equity Shares of ₹ 7 each Fully paid	84,000
2	**Trade Payables**	
	Sundry Creditors	15,425
3	**Short term Provisions**	
	Provision for tax	3,700

4	**Tangible Assets**		
	Land & Building		20,500
	Machinery	50,850	
	Less: Amount w/off under scheme of Reconstruction dated	10,000	40,850
			61,350
5	**Intangible Assets**		
	Goodwill	10,000	
	Less: Amount w/off under Scheme of Reconstruction	10,000	Nil
6	**Inventories**		
	Stock		10,275
7	**Trade Receivables**		
	Book Debts		15,000
8	**Cash & Cash Equivalent**		
	Cash at Bank		16,500

Repeatedly Asked Questions

No.	Question	Frequency
1	Write short note on 'buy-back of shares'. 12 - June [2] (c), 13 - June [2] (c)	2 Times
2	State the purposes for which balance in securities premium account can be utilised. 13 - Dec [1] (a), 15 - June [1] (d), 16 - June [2] (d)	3 Times

Motivational Quote