CHAPTER 8

Company Accounts—Accounting for Share Capital

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Company** — It is an entity incorporated through a process of law for undertaking (usually) a business. It is an artificial person distinct and separate from its members who are known as **shareholders**.

   A company may be one person company, a private company or a public company.

2. **One Person Company** — It means a company which has only one person as a member.

3. **Private Company** — It is a company with minimum paid-up share capital as may be prescribed* and which by its Articles of Association:
   - (i) restricts the right to transfer its shares, if any.
   - (ii) except in the case of One Person Company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them.

     If any share is held jointly by two or more persons, they shall be treated as a single member.
   - (iii) prohibits any invitation to the public to subscribe for any securities of the company.

     The minimum number of members required to form a private company is **two**.

   The name of a Private Company ends with the words, 'Private Limited'.

4. **Public Company** — It is a company which has minimum paid-up share capital as may be prescribed* and
   - (i) is not a one person company or a private company;
   - (ii) is a private company, being a subsidiary of a company which is not a private company.

   Minimum number of members required to form a public limited company is **seven**. There is no restriction on maximum number of members.

   The name of a public company ends with the word 'Limited'.

*The companies are not required to have minimum paid-up capital at present vide notification dated 20th May, 2015.

5. Share — 'Share' means a share in the Share Capital of a company and includes stock. [*Section 2(84) of the Companies Act, 2013*]

It is a unit into which Share Capital of a company is divided.

6. Share Capital — Share Capital means the capital raised by the issue of Shares. Share Capital of a company limited by shares is of *two* kinds, namely,

(A) Preference Share Capital, and

(B) Equity Share Capital.

7. Preference Share Capital — It is a kind of share capital which carries preferential rights in respect of payment of dividend and repayment of capital over Equity Share Capital, if the company is wound-up.

8. Equity Share Capital — It is that share capital which is not Preference Share Capital.

9. Allotment of Shares — Allotment is the allocation of shares to the successful applicants by the directors of a company.

10. Allotment Money — The amount payable on allotment is called **'Allotment Money'**.

11. Authorised or Nominal Capital — 'Authorised Capital' or 'Nominal Capital' means such capital as is authorised by the Memorandum of a company to be the maximum amount of Share Capital of the company.

[*Section 2(8) of the Companies Act, 2013*]

It is the maximum amount of capital which the company is, for the time being, authorised to raise.

12. Issued Capital — 'Issued Capital' means such capital as the company issues from time to time for Subscription. [*Section 2(50) of the Companies Act, 2013*]

13. Subscribed Capital — 'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.

[*Section 2(86) of the Companies Act, 2013*]

14. Paid-up Share Capital or Share Capital Paid-up — 'Paid-up Share Capital' or 'Share Capital Paid-up' means such aggregate of money credited and paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of a company, but does not include any other amount received in respect of such shares, by whatever name called.

[*Section 2(64) of the Companies Act, 2013*]

15. Subscribed and Fully Paid-up — It is the amount of share capital issued by a company that is subscribed on which the company has called and also received entire nominal (face) value of the share.

16. Subscribed but not Fully Paid-up	It is the amount of share capital issued by a company that is subscribed but the company has not received entire nominal (face) value of the share.
17. Reserve Capital	It is that part of the subscribed capital that a company resolves to call in the event of its winding-up.
18. Capital Reserve	It is a reserve created out of capital profits.
19. Issue of Shares for Cash	It means the consideration for shares is received by way of cheque or any other banking instrument.
20. Issue of Shares for Consideration Other than Cash	It means consideration for shares is not received by way of cheque or any other banking instrument but they have been issued for assets purchased or services taken.
21. Par Value	Par value means the Nominal or Face value of a share.
22. Issue of Shares at Par	It means the issue price and nominal (face) value of the share is same.
23. Issue of Shares at Premium	It means the issue price of the share is higher than its nominal (face) value.
24. Shares Payable in Lump sum	It means that shares are issued for a consideration payable in Lump sum, *i.e.*, full issue price is payable along with the application.
25. Shares Payable in Instalments	It means that shares are issued for a consideration not payable in Lump sum but in parts.
26. Undersubscription of Shares	The shares are said to be undersubscribed if the number of shares applied for is less than the number of shares issued for subscription.
27. Oversubscription of Shares	When the company receives applications for more shares than issued, it is known as '**Oversubscription**'.
28. Pro rata Allotment	*Pro rata* allotment means allotment in proportion of shares applied for.
29. Calls-in-Arrears	It is that part of the calls money that has been called-up by the company but has not been received by the company.
30. Calls-in-Advance	It is that amount which has not been called-up by the company but has been received by the company.
31. Forfeiture of Shares	Forfeiture of shares means cancellation of allotted shares.
32. Reissue of Shares	Reissue of shares means sale of forfeited shares.
33. Private Placement of Shares	It refers to issue and allotment of shares to a selected group of persons.
34. Employees Stock Option	It means the option granted to the employee directors and employees of a company which gives such employee directors and employees, the right to purchase, or to subscribe for, the shares of the company at a future date at a predetermined price.

CHAPTER SUMMARY

- A *company* is an organisation formed by an association of persons through a process of law for undertaking (usually) a business venture.

  The *essential characteristics* of a company are:

  (i) It is a *voluntary association* of individuals coming into existence through a process of law for undertaking (usually) a business.

  (ii) It is an *artificial legal person* created by the process of law.

  (iii) It has a *separate legal entity*.

  (iv) It has a *perpetual succession*, *i.e.*, it can be created and wound up by law only.

  (v) It may or may not have a *common seal*, *i.e.,* official seal of the company.

  (vi) The *shares of a company can be transferred* from one person to another.

- **Share Capital**

  (i) *Authorised Share Capital* is the maximum amount up to which a company can issue shares.

  (ii) *Issued Share Capital* is a part of authorised share capital that is issued by the company for subscription.

  (iii) *Subscribed Share Capital* is a part of issued share capital that is subscribed.

  Subscribed Share Capital is shown as:

  — Subscribed and fully paid-up.

  — Subscribed but not fully paid-up.

  Called-up amount is the amount of nominal value of share that has been called-up for payment.

  Paid-up amount is the amount that is received by the company.

  Reserve Capital is a part of subscribed share capital that a company resolves, by a Special Resolution, not to call except in the event and for the purpose of company being wound up.

- **Types of Shares:** Shares that can be issued are Preference Shares or Equity Shares.

  Preference Shares are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

  Equity Shares are the shares that are not Preference Shares.

  Shares can be issued (i) for cash and (ii) for consideration other than cash.

  Further, the shares can be issued for cash: (i) at par, or (ii) at premium.

- Shares can be Issued for consideration other than cash: (i) at par, or (ii) at premium.
- **Oversubscription of Shares** means shares applied for are more than the shares offered for subscription.
- **Undersubscription of Shares** means shares applied for are less than the shares offered for subscription.
- ***Pro rata* Allotment** means allotment of shares in a fixed proportion. *Pro rata* allotment takes place only when the shares are oversubscribed.

- **Securities Premium Reserve** can be utilised for the purposes prescribed in Section 52(2) of the Companies Act, 2013, which are:
  - (i) writing off preliminary expenses;
  - (ii) writing off expenses such as share issue expenses, commission, discount allowed on issue of Securities;
  - (iii) providing for the premium payable on redemption of debentures or Preference Shares;
  - (iv) in buying-back its own shares; or
  - (v) issuing fully paid bonus shares.
- **Call** is a demand by a company from the holders of partly paid shares to pay a further instalment towards full nominal value.
- **Calls-in-Arrears** is the amount not yet received by the company against the call or calls demanded.
- **Calls-in-Advance** is the amount received by the company from its allottees against the calls not yet made. Calls-in-Advance is shown as 'Other Current Liability' under 'Current Liabilities'.
- **Forfeiture of shares** means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

  Securities Premium —How dealt when shares are forfeited

  In case where Securities Premium Reserve Account has been credited and also it has been received—Securities Premium Reserve Account is not debited because of the restrictions imposed by Section 52(2) of the Companies Act, 2013 as to utilisation.

  In case Securities Premium Reserve Account has been credited but the amount has not been received—Securities Premium Reserve Account is debited because, the amount has not been received and, therefore, Section 52(2) of the Companies Act, 2013 does not apply.

  Reissue of Forfeited Shares: *Forfeited Shares can be reissued* and they may be reissued at a value lower than its face value. *But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Shares Account at the time of forfeiture.*

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on Reissue cannot exceed the forfeited amount.
2. If the Discount on reissue is less than the amount forfeited, the surplus (*i.e.*, gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited shares is reissued then the gain on reissue of such shares is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at Discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Reserve Account.
7. In case the forfeited shares are reissued at a price higher than the paid-up value, the excess of issue price over paid-up value is credited to 'Securities Premium Reserve Account'.

- **Private Placement of Shares:** It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called **Private Placement of Shares**.
- **Employees Stock Option Plan (ESOP):** It is the plan for granting options to subscribe shares by employees and employee directors.

Solved Questions

Illustration 1 (*Comprehensive Illustration*).

Paliwal Exports Ltd. with a share capital of ₹ 1,00,000 divided into 2,000 Equity Shares of ₹ 50 each offers Equity Shares to the public as follows:

₹ 10 payable on application, ₹ 10 payable on allotment, ₹ 15 payable on first call and ₹ 15 payable on second call.

Shareholder '*A*' who holds 30 Equity Shares has paid only application money.

Shareholder '*B*' who holds 20 Equity Shares has paid application money on 20 Equity Shares and allotment money on only 10 Equity Shares. He has not paid any other calls.

Shareholder '*C*' who holds 18 Equity Shares has paid only application and allotment money.

Shareholder '*D*' who holds 5 Equity Shares has paid application, allotment and first call money.

Shareholder '*E*' who holds 3 Equity Shares has paid application, allotment and first call money in full and second call money on only 2 Equity Shares.

The company forfeits the shares of the above shareholders who have not paid the arrears.

Journalise above transactions including entries relating to Bank in the books of Paliwal Exports Ltd.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		20,000	
	To Shares Application A/c				20,000
	(Being the application money received on 2,000 shares)				
	Shares Application A/c	...Dr.		20,000	
	To Share Capital A/c				20,000
	(Being the transfer of application money on 2,000 shares to Share Capital Account)				
	Shares Allotment A/c	...Dr.		20,000	
	To Share Capital A/c				20,000
	(Being the allotment money due on 2,000 shares)				
	Bank A/c	...Dr.		19,600	
	To Shares Allotment A/c				19,600
	(Being the allotment money received on 1,960 shares)				
	Shares First Call A/c	...Dr.		30,000	
	To Share Capital A/c				30,000
	(Being the first call money due on 2,000 shares)				
	Bank A/c	...Dr.		28,980	
	To Shares First Call A/c				28,980
	(Being the first call money received on 1,932 shares)				
	Shares Second and Final Call A/c	...Dr.		30,000	
	To Shares Capital A/c				30,000
	(Being the second and final call money due on 2,000 shares)				
	Bank A/c	...Dr.		28,890	
	To Shares Second and Final Call A/c				28,890
	(Being the second and final call received on 1,926 shares)				
	Share Capital A/c (74 × ₹ 50)	...Dr.		3,700	
	To Forfeited Shares A/c				1,170
	To Shares Allotment A/c				400
	To Shares First Call A/c				1,020
	To Shares Second and Final Call A/c				1,110
	(Being 74 shares forfeited as per Board's Resolution dated...)				

Note:

STATEMENT SHOWING AMOUNT RECEIVED AND CALLS-IN-ARREARS ON FORFEITED SHARES

Name of Allottee	Shares Application ₹ 10			Shares Allotment ₹ 10			Shares First Call ₹ 15			Shares Second and Final Call ₹ 15		
	Due ₹	Received ₹	Arrears ₹	Due ₹	Received ₹	Arrears ₹	Due ₹	Received ₹	Arrears ₹	Due ₹	Received ₹	Arrears ₹
A—30 Shares	300	300	NIL	300	NIL	300	450	NIL	450	450	NIL	450
B—20 Shares	200	200	NIL	200	100	100	300	NIL	300	300	NIL	300
C—18 Shares	180	180	NIL	180	180	NIL	270	NIL	270	270	NIL	270
D—5 Shares	50	50	NIL	50	50	NIL	75	75	NIL	75	NIL	75
E—1 Share	10	10	NIL	10	10	NIL	15	15	NIL	15	NIL	15
	740	740	NIL	740	340	400	1,110	90	1,020	1,110	NIL	1,110

Amount received on 74 forfeited shares = ₹ 740 (on application) + ₹ 340 (on allotment) + ₹ 90 (on first call) = ₹ 1,170.

No. of forfeited shares = 30(*A*) + 20(*B*) + 18(*C*) + 5(*D*) + 1(*E*) = 74 shares.

Illustration 2.

On 1st April, 2019, *X* Ltd. issued 30,000 Equity Shares of ₹ 10 each at a premium of ₹ 4 per share, payable as follows:

₹ 6 on application (including ₹ 1 premium);

₹ 2 on allotment (including ₹ 1 premium);

₹ 3 on first call (including ₹ 1 premium);

₹ 3 on second and final call (including ₹ 1 premium).

Applications were received for 45,000 shares, of which applications for 9,000 shares were rejected and their money was refunded. Rest of the applicants were issued shares on *pro rata* basis and their excess money was adjusted towards allotment.

Hari, to whom 600 shares were allotted, failed to pay the allotment money and his shares were forfeited after allotment. Mohan, who applied for 1,080 shares failed to pay the two calls and on his such failure, his shares were forfeited.

1,200 forfeited shares were reissued as fully paid on receipt of ₹ 9 per share, the whole of Mohan's shares being included.

Prepare Cash Book and pass necessary Journal entries. Also, give the Balance Sheet of the company.

Solution:

Dr. CASH BOOK *Cr.*

Particulars	₹	Particulars	₹
To Equity Shares Application A/c (45,000 × ₹ 6)	2,70,000	By Equity Shares Application A/c (9,000 × ₹ 6)	54,000
To Equity Shares Allotment A/c (WN 1)	23,520	By Balance *c/d*	4,21,320
To Equity Shares First Call A/c (WN 2) (28,500 × ₹ 3)	85,500		
To Equity Shares Second and Final Call A/c (WN 2) (28,500 × ₹ 3)	85,500		
To Equity Share Capital A/c (1,200 × ₹ 9)	10,800		
	4,75,320		4,75,320

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Shares Application A/c	...Dr.		2,16,000	
	To Equity Share Capital A/c (30,000 × ₹ 5)				1,50,000
	To Securities Premium Reserve A/c (30,000 × ₹ 1)				30,000
	To Equity Shares Allotment A/c (6,000 × ₹ 6)				36,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c (30,000 × ₹ 2)	...Dr.		60,000	
	To Equity Share Capital A/c (30,000 × ₹ 1)				30,000
	To Securities Premium Reserve A/c (30,000 × ₹ 1)				30,000
	(Being the allotment money due on 30,000 shares)				
	Equity Share Capital A/c (600 × ₹ 6)	...Dr.		3,600	
	Securities Premium Reserve A/c (WN 5)	...Dr.		480	
	To Equity Shares Allotment A/c (WN 1(*b*))				480
	To Forfeited Shares A/c				3,600
	(Being 600 shares of Hari forfeited for non-payment of allotment money)				
	Equity Shares First Call A/c (29,400 × ₹ 3)	...Dr.		88,200	
	To Equity Share Capital A/c (29,400 × ₹ 2)				58,800
	To Securities Premium Reserve A/c (29,400 × ₹ 1)				29,400
	(Being the first call money due on 29,400 shares)				
	Equity Shares Second and Final Call A/c (29,400 × ₹ 3)	...Dr.		88,200	
	To Equity Share Capital A/c (29,400 × ₹ 2)				58,800
	To Securities Premium Reserve A/c (29,400 × ₹ 1)				29,400
	(Being the second and final call due on 29,400 shares)				
	Equity Share Capital A/c (900 × ₹ 10)	...Dr.		9,000	
	Securities Premium Reserve A/c (900 × ₹ 2)	...Dr.		1,800	
	To Equity Shares First Call A/c (900 × ₹ 3)				2,700
	To Equity Shares Second and Final Call A/c (900 × ₹ 3)				2,700
	To Forfeited Shares A/c				5,400
	(Being 900 shares of Mohan forfeited for non-payment of calls)				
	Forfeited Shares A/c (1,200 × ₹ 1)	...Dr.		1,200	
	To Equity Share Capital A/c				1,200
	(Being the discount on reissue adjusted against the credit balance of Forfeited Shares Account)				
	Forfeited Shares A/c	...Dr.		6,000	
	To Capital Reserve A/c (WN 3)				6,000
	(Being the gain (profit) on reissue transferred to Capital Reserve)				

BALANCE SHEET OF *X* LTD. *as at 1st April, 2019*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	2,98,800
(b) Reserves and Surplus	2	1,22,520
Total		4,21,320
II. ASSETS		
Cash and Cash Equivalents	3	4,21,320
Total		4,21,320

Notes to Accounts

		₹
1. Share Capital		
Authorised Capital		
... Equity Shares of ₹ 10 each		...
Issued Capital		
30,000 Equity Shares of ₹ 10 each		3,00,000
Subscribed Capital		
Subscribed and fully paid-up		
29,700 Equity Shares of ₹ 10 each	2,97,000	
Add: Forfeited Shares A/c	1,800	2,98,800
		2,98,800
2. Reserves and Surplus		
Capital Reserve		6,000
Securities Premium Reserve (₹ 30,000 + ₹ 30,000 – ₹ 480 + ₹ 29,400 + ₹ 29,400 – ₹ 1,800)		1,16,520
		1,22,520
3. Cash and Cash Equivalents		
Cash at Bank		4,21,320

Working Notes:

1. (a) *Excess amount received from Hari on application:*
600 shares were allotted to Hari

Therefore, he must have applied for $\frac{36,000}{30,000} \times 600 = 720$ shares

Excess application money received from Hari:

(720 shares – 600 shares = 120 shares) × ₹ 6 = ₹ 720

(b) *Money due from Hari on allotment:*

	₹
600 shares × ₹ 2	1,200
Less: Excess application money adjusted on allotment [₹ 600 as a part of Share Capital (600 × ₹ 1) and balance ₹ 120 as a part of Securities Premium]	720
Money due from Hari	480

(c) *Money received on allotment:*

Total amount due on allotment (30,000 × ₹ 2)	60,000
Less: Excess application money adjusted (6,000 × ₹ 6)	36,000
	24,000
Less: Money not paid by Hari [WN 1(*b*)]	480
Net amount received on allotment	23,520

2. Mohan applied for 1,080 shares.

Therefore, he must have been allotted $\frac{30,000}{36,000} \times 1,080 = 900$ shares

He has not paid first and second and final call money. As such,

(a) First call money will be received on 29,400 shares – 900 shares of Mohan = 28,500 shares.

(b) Second call money will be received on 29,400 shares – 900 shares of Mohan = 28,500 shares.

3. *Amount Transferred to Capital Reserve:*

   1,200 shares have been reissued which include 900 shares of Mohan and the balance 300 of Hari.

	₹
(a) Amount forfeited in respect of Mohan's 900 shares	5,400
(b) Amount forfeited in respect of Hari's 300 shares = $\left(₹\,3{,}600 \times \frac{300}{600}\right)$	1,800
	7,200
Less: Loss on reissue of 1,200 shares @ ₹ 1 each	1,200
Gain (Profit) on reissue to be transferred to Capital Reserve	6,000

4. *Balance in Forfeited Shares Account:*

Profit on 600 shares of Hari	3,600
Therefore, the balance of Forfeited Shares A/c on 300 unissued shares = $\frac{₹\,3{,}600}{600} \times 300$	1,800

   It should be noted that forfeited amount of shares not yet reissued will be shown in the Balance Sheet as a part of Capital.

5. *Securities Premium Reserve related to allotment of 600 shares to Hari = 600 × ₹ 1 = ₹ 600, out of this ₹ 120 is already received as surplus application money. Balance of ₹ 480 has not been received by the company. Therefore, at the time of forfeiture, Securities Premium Reserve Account will be debited by ₹ 480 to cancel it, because Securities Premium Reserve Account was credited at the time of allotment. This should also be considered at the time of forfeiture of Mohan's shares.*

Illustration 3 (*Comprehensive Illustration*).

H Limited issued a prospectus inviting applications for 20,000 shares of ₹ 10 each at a premium of ₹ 2 per share 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 30,000 shares and *pro rata* allotment was made on the applications for 24,000 shares. Money overpaid on applications was adjusted against amount due on allotment.

Ramesh, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay first call his shares were forfeited. Mohan, the holder of 600 shares, failed to pay two calls and his shares were forfeited after the second call.

Of the shares forfeited, 800 shares were sold to Krishna credited as fully paid for ₹ 9 per share, the whole of Ramesh's shares being included.

Pass Journal entries and prepare the Balance Sheet.

Solution:

In the Books of *H* Limited

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		60,000	
	To Shares Application A/c				60,000
	(Being the application money received on 30,000 shares @ ₹ 2 per share)				
	Shares Application A/c (30,000 × ₹ 2)	...Dr.		60,000	
	To Share Capital A/c (20,000 × ₹ 2)				40,000
	To Shares Allotment A/c (4,000 × ₹ 2)				8,000
	To Bank A/c (6,000 × ₹ 2)				12,000
	(Being the application money adjusted and surplus refunded)				
	Shares Allotment A/c (20,000 × ₹ 5)	...Dr.		1,00,000	
	To Share Capital A/c (20,000 × ₹ 3)				60,000
	To Securities Premium Reserve A/c (20,000 × ₹ 2)				40,000
	(Being the amount due on allotment @ ₹ 5 per share on 20,000 allotted shares)				
	Bank A/c	...Dr.		90,160	
	To Shares Allotment A/c (WN 1 and 2)				90,160
	(Being the receipt of allotment money *less* Ramesh's share)				
	Shares First Call A/c	...Dr.		60,000	
	To Share Capital A/c				60,000
	(Being the first call due @ ₹ 3 on 20,000 shares)				
	Bank A/c	...Dr.		57,000	
	To Shares First Call A/c				57,000
	(Being the receipt of first call money on 20,000 shares *less* 1,000 shares of Ramesh and Mohan)				
	Share Capital A/c (400 × ₹ 8)	...Dr.		3,200	
	Securities Premium Reserve A/c (400 × ₹ 2)	...Dr.		800	
	To Shares Allotment A/c (WN 1)				1,840
	To Shares First Call A/c				1,200
	To Forfeited Shares A/c (WN 3)				960
	(Being the forfeiture of 400 shares held by Ramesh for non-payment of allotment and first call money)				
	Shares Second and Final Call A/c	...Dr.		39,200	
	To Share Capital A/c				39,200
	(Being the amount due on second and final call @ ₹ 2 per share on 19,600 shares (*i.e.*, 20,000 shares – 400 forfeited shares))				
	Bank A/c	...Dr.		38,000	
	To Shares Second and Final Call A/c				38,000
	(Being the receipt of second and final call money on 19,600 shares, *less* Mohan's 600 shares)				

	Share Capital A/c ...Dr. To Shares First Call A/c To Shares Second and Final Call A/c To Forfeited Shares A/c (Being the forfeiture of Mohan's 600 shares, for non-payment of both the calls)		6,000	 1,800 1,200 3,000
	Bank A/c (800 × ₹ 9) ...Dr. Forfeited Shares A/c (800 × ₹ 1) ...Dr. To Share Capital A/c (Being the reissue of 800 shares, discount allowed being ₹ 800)		7,200 800	 8,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (WN 4) (Being the profit on reissue of 800 shares transferred to Capital Reserve)		2,160	 2,160

Working Notes:

1. *Calculation of amount not paid by Ramesh on allotment:*

(a)	Number of shares applied by Ramesh: 20,000 shares allotted to applicants for 24,000 400 shares allotted to applicants who applied for 24,000/20,000 × 400 = 480 shares.	₹
(b)	Ramesh paid only application money @ ₹ 2 on 480 shares	960
	Less: Application money due on shares allotted (400 × ₹ 2)	800
	Excess application money to be adjusted	160
(c)	Allotment money due on 400 shares @ ₹ 5	2,000
	Less: Excess money transferred from Shares Application A/c [WN 1(*b*)]	160
	Amount not paid by Ramesh on allotment	1,840

2. Allotment money received = ₹ 1,00,000 – ₹ 8,000 – ₹ 1,840 = ₹ 90,160.
3. Since the question is silent as to utilisation of ₹ 160 (excess received on application from Ramesh) between Share Capital and Securities Premium, it has been assumed that the entire excess of ₹ 160 is exclusively for share capital and hence credited to Forfeited Shares Account.
4. The amount of ₹ 2,160 transferred from Forfeited Shares Account to Capital Reserve has been calculated as:

		₹
Amount relating to shares of Ramesh (480 × ₹ 2)	960	
Less: Discount allowed on reissue	400	560
Amount relating to shares of Mohan (400 × ₹ 5)	2,000	
Less: Discount allowed on reissue of 400 shares	400	1,600
		2,160

BALANCE SHEET *as at ...*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
(a) Share Capital	1	1,99,000
(b) Reserves and Surplus	2	41,360
Total		2,40,360
II. ASSETS		
Current Assets		
Cash and Cash Equivalents	3	2,40,360
Total		2,40,360

Notes to Accounts

	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 10 each	...
Issued Capital	
20,000 Equity Shares of ₹ 10 each	2,00,000
Subscribed Capital	
Subscribed and fully paid-up	
19,800 Equity Shares of ₹ 10 each	1,98,000
Add: Forfeited Shares A/c (Note)	1,000
	1,99,000
2. Reserves and Surplus	
Capital Reserve	2,160
Securities Premium Reserve (19,600 shares @ ₹ 2 per share)	39,200
	41,360
3. Cash and Cash Equivalents	
Cash at Bank	2,40,360

Note: Since 200 shares of Mohan have not yet been reissued, the forfeited amount in respect of these shares remain in the Forfeited Shares Account.

Illustration 4.

MD Enterprises Ltd. invited applications for 50,000 Equity Shares of ₹ 10 each payable along with application. Applications were received for 60,000 shares. Allotment was made on *pro rata* basis.

Pass necessary Journal entries.

Solution:

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr.		6,00,000	
	To Equity Shares Application and Allotment A/c			6,00,000
	(Being the application received for 60,000 Equity Shares @ ₹ 10 each)			
	Equity Shares Application and Allotment A/c ...Dr.		5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being the shares allotted to all the applicants on *pro rata*)			
	Equity Shares Application and Allotment A/c ...Dr.		1,00,000	
	To Bank A/c			1,00,000
	(Being the excess application money refunded)			
	Alternatively, a compound entry can be passed instead of Last two entries as follows:			
	Equity Shares Application and Allotment A/c ...Dr.		6,00,000	
	To Equity Share Capital A/c			5,00,000
	To Bank A/c			1,00,000
	(Being the equity shares allotted on *pro rata* basis to all applicants and excess application money refunded)			

Illustration 5.

A company purchased a running business from M/s. Maheshwari Brothers for a sum of ₹ 1,50,000, payable as ₹ 1,20,000 in fully paid Equity Shares of ₹ 10 each and balance in cash. The assets and liabilities consisted of the following:

Plant and Machinery	₹ 40,000;	Stock	₹ 50,000;
Building	₹ 40,000;	Cash	₹ 20,000;
Sundry Debtors	₹ 30,000;	Sundry Creditors	₹ 20,000.

You are required to pass necessary Journal entries in the company's books.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant and Machinery A/c	...Dr.		40,000	
	Building A/c	...Dr.		40,000	
	Sundry Debtors A/c	...Dr.		30,000	
	Stock A/c	...Dr.		50,000	
	Cash A/c	...Dr.		20,000	
	To Sundry Creditors A/c				20,000
	To M/s. Maheshwari Brothers				1,50,000
	To Capital Reserve A/c (Balancing Figure)				10,000
	(Being the assets and liabilities taken over)				
	M/s. Maheshwari Brothers	...Dr.		1,50,000	
	To Equity Share Capital A/c				1,20,000
	To Bank A/c				30,000
	(Being the consideration paid to M/s. Maheshwari Brothers)				

Illustration 6 (*Forfeiture of Shares issued at Premium—Premium not received*).

Mukesh Ltd. issued 10,000 Equity Shares of ₹ 10 each at ₹ 12 per Equity Share. The amount was payable as follows:

On application ₹ 3, on allotment ₹ 4 (including premium), on first call ₹ 3 and on final call ₹ 2.

The company did not make the final call. Mohan, holder of 250 Equity Shares, failed to pay allotment and first call money. His shares were forfeited.

Pass the Journal entry for forfeiture of Mohan's shares.

Solution:

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Equity Share Capital A/c (250 × ₹ 8)	...Dr.		2,000	
	Securities Premium Reserve A/c (250 × ₹ 2)	...Dr.		500	
	To Forfeited Shares A/c (250 × ₹ 3)				750
	To Equity Shares Allotment A/c* (250 × ₹ 4)				1,000
	To Equity Shares First Call A/c* (250 × ₹ 3)				750
	(Being the forfeiture of Mohan's 250 Equity Shares for non-payment of allotment and first call money)				

*If amount not received towards allotment and first call is transferred to Calls-in-Arrears Account, Calls-in-Arrears Account will be credited.

Notes:

1. On forfeiture of shares, Share Capital Account is debited with the amount called on these shares (*i.e.*, Number of Forfeited Shares × Called-up Value per share).
2. In the case of Mohan, Securities Premium Reserve Account has been debited because the amount of premium has not been received.

Illustration 7.

Prakash Engineering Company issued for public subscription 40,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share, payable as:

On application	₹ 2 per share;
On allotment	₹ 5 per share (including premium);
On first call	₹ 2 per share;
On final call	₹ 3 per share.

Applications were received for 75,000 Equity Shares. The shares were allotted on *pro rata* basis to the applicants of 60,000 shares only, remaining applications being rejected. Money overpaid on application was utilised towards the sum due on allotment.

Ashok to whom 3,000 shares were allotted failed to pay the allotment money and the two calls. Baneet who applied for 3,000 shares paid the calls money along with allotment money. Pass Journal entries to record the above transactions. *(Delhi and AI 2008 C)*

Solution:

In the Books of Prakash Engineering Company

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,50,000	
	To Equity Shares Application A/c				1,50,000
	(Being the application money received on 75,000 Equity Shares @ ₹ 2 per share)				
	Equity Shares Application A/c	...Dr.		1,50,000	
	To Equity Share Capital A/c (40,000 × ₹ 2)				80,000
	To Equity Shares Allotment A/c (20,000 × ₹ 2)				40,000
	To Bank A/c (15,000 × ₹ 2)				30,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		2,00,000	
	To Equity Share Capital A/c				1,20,000
	To Securities Premium Reserve A/c				80,000
	(Being the allotment money due on 40,000 shares)				
	Bank A/c	...Dr.		1,58,000	
	To Equity Shares Allotment A/c (WN 1, 2 and 3)				1,48,000
	To Calls-in-Advance A/c (2,000 × ₹ 5) (WN 4)				10,000
	(Being the allotment money received except for 3,000 shares allotted to Ashok and calls-in-advance is received on 2,000 shares of Baneet)				
	Equity Shares First Call A/c	...Dr.		80,000	
	To Equity Share Capital A/c				80,000
	(Being the first call money due on 40,000 shares)				
	Bank A/c	...Dr.		70,000	
	Calls-in-Advance A/c	...Dr.		4,000	
	To Equity Shares First Call A/c				74,000
	(Being the first call money received except on 3,000 shares [₹ 80,000 – ₹ 6,000 – ₹ 4,000 (Calls-in-Advance)])				
	Equity Shares Second and Final Call A/c	...Dr.		1,20,000	
	To Equity Share Capital A/c				1,20,000
	(Being the second and final call money due on 40,000 shares)				
	Bank A/c	...Dr.		1,05,000	
	Calls-in-Advance A/c	...Dr.		6,000	
	To Equity Shares Second and Final Call A/c				1,11,000
	(Being the second and final call money received except on 3,000 shares held by Ashok)				

Working Notes:

1. 40,000 shares were allotted to the applicants for 60,000 shares
   Number of shares applied by Ashok = 60,000/40,000 × 3,000 = 4,500 Shares
   Therefore, application money paid by Ashok = 4,500 × ₹ 2 = ₹ 9,000.

2. *Money due from Ashok on allotment:*

	₹
Money paid on application (WN 1)	9,000
Less: Amount adjusted on application (3,000 × ₹ 2)	6,000
Excess application money	3,000
Money due on allotment (3000 × ₹ 5)	15,000
Less: Excess application money adjusted	3,000
Money not paid by Ashok	12,000

3. *Money received on allotment:*

	₹
Total amount due on allotment	2,00,000
Less: Excess application money adjusted	40,000
	1,60,000
Less: Money not paid by Ashok (WN 2)	12,000
Amount Received on Allotment	1,48,000

4. Number of shares allotted to Baneet = 40,000/60,000 × 3,000 = 2,000 shares.

Illustration 8. (*Business Purchase and Issue of Shares*).

Complete the following Journal entries:

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c	...Dr.		3,50,000	
	Land and Building A/c	...Dr.		6,00,000	
	Stock in Trade A/c	...Dr.		4,50,000	
	Goodwill A/c	...Dr.		2,00,000	
	To Sundry Creditors A/c				1,00,000
	To Parag Gupta				?
	(?)				
	?	...Dr.		?	
	To ?				?
	To ?				?
	(Being ? Equity Shares of ₹ 10 each issued at a premium of 50%)				

Solution:

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Plant A/c	...Dr.		3,50,000	
	Land and Building A/c	...Dr.		6,00,000	
	Stock in Trade A/c	...Dr.		4,50,000	
	Goodwill A/c	...Dr.		2,00,000	
	To Sundry Creditors A/c				1,00,000
	To Parag Gupta **(Balancing Figure)**				**15,00,000**
	(Being the business purchased for ₹ 15,00,000)				
	Parag Gupta	...Dr.		**15,00,000**	
	To **Equity Share Capital A/c**				**10,00,000**
	To **Securities Premium Reserve A/c**				**5,00,000**
	(Being **1,00,000** Equity Shares of ₹ 10 each issued at a premium of 50%) (Note)				

Note: Number of Equity Shares to be issued = $\frac{\text{Purchase Price}}{\text{Issue Price}} = \frac{₹\ 15,00,000}{₹\ 15}$ = 1,00,000 shares.

Illustration 9.

Hindustan Steel Ltd. invited applications for 4,00,000 equity shares of ₹ 10 each payable as ₹ 3 on application, ₹ 4 on allotment and ₹ 3 on call. Applications for 13,10,000 shares were received and allotment was made as follows:

Category	*Shares Applied*	*Shares Allotted*
A	1,00,000	1,00,000
B	1,00,000	80,000
C	70,000	20,000
D	1,80,000	40,000
E	2,00,000	40,000
F	6,60,000	1,20,000

Prepare the statement showing the adjustment of Application Money received (*a*) if excess Application Money was adjusted towards sum due on allotment, (*b*) if excess Application Money was adjusted towards other sum due on shares.

Solution: Case (*a*) Excess Application Money was adjusted towards Sum Due on Allotment:

Category	*Shares Applied*	*Shares Allotted*	*Application Money Received (₹)*	*Adjustment of Application Money Received*			
				Share Capital (₹)	*Shares Allotment (₹)*	*Calls-in-Advance (₹)*	*Refund ₹*
A	1,00,000	1,00,000	3,00,000	3,00,000	...	...	...
B	1,00,000	80,000	3,00,000	2,40,000	60,000	...	...
C	70,000	20,000	2,10,000	60,000	80,000	...	70,000
D	1,80,000	40,000	5,40,000	1,20,000	1,60,000	...	2,60,000
E	2,00,000	40,000	6,00,000	1,20,000	1,60,000	...	3,20,000
F	6,60,000	1,20,000	19,80,000	3,60,000	4,80,000	...	11,40,000

Working Notes:

Category A: No Excess Application Money.

	₹
Category B: Application Money Received (1,00,000 × ₹ 3)	3,00,000
Adjusted: Application Money—Share Capital (80,000 × ₹ 3)	2,40,000
Adjusted towards Share Allotment	60,000
Category C: Application Money Received (1,00,000 × ₹ 3)	3,00,000
Adjusted: Application Money—Share Capital (80,000 × ₹ 3)	2,40,000
Surplus adjusted towards Share Allotment	60,000
Category D: Application Money Received (1,80,000 × ₹ 3)	5,40,000
Adjusted: Application Money—Share Capital (40,000 × ₹ 3)	1,20,000
Excess Application Money	4,20,000
Adjusted towards Allotment (40,000 × ₹ 4)	1,60,000
Surplus to be refunded	2,60,000
Category E: Application Money Received (2,00,000 × ₹ 3)	6,00,000
Adjusted: Application Money—Share Capital (40,000 × ₹ 3)	1,20,000
Excess Application Money	4,80,000
Adjusted towards Allotment (40,000 × ₹ 4)	1,60,000
Surplus to be refunded	3,20,000
Category F: Application Money Received (6,60,000 × ₹ 3)	19,80,000
Adjusted: Share Application—Share Capital (1,20,000 × ₹ 3)	3,60,000
Excess Application Money	16,20,000
Adjusted towards Allotment (1,20,000 × ₹ 4)	4,80,000
Surplus to be refunded	11,40,000

Case (*b*) When Excess Application Money was adjusted towards other Sum Due on Shares:

Category	*Shares Applied*	*Shares Allotted*	*Application Money Received (₹)*	*Adjustment of Application Money Received*			
				Share Capital (₹)	*Shares Allotment (₹)*	*Calls-in-Advance (₹)*	*Refund ₹*
A	1,00,000	1,00,000	3,00,000	3,00,000	...	...	...
B	1,00,000	80,000	3,00,000	2,40,000	60,000	...	...
C	70,000	20,000	2,10,000	60,000	80,000	60,000	10,000
D	1,80,000	40,000	5,40,000	1,20,000	1,60,000	1,20,000	1,40,000
E	2,00,000	40,000	6,00,000	1,20,000	1,60,000	1,20,000	2,00,000
F	6,60,000	1,20,000	19,80,000	3,60,000	4,80,000	3,60,000	7,80,000

Working Notes:

Category A and B: Refer to Case (*a*)

	₹
Category C: Application Money Received (70,000 × ₹ 3)	2,10,000
Adjusted: Application Money—Share Capital (20,000 × ₹ 3)	60,000
Excess Application Money	1,50,000
Adjusted on Allotment (20,000 × ₹ 4)	80,000
Still Surplus	70,000
Adjusted on Call (20,000 × ₹ 3)	60,000
Surplus to be refunded	10,000
Category D: Application Money Received (1,80,000 × ₹ 3)	5,40,000
Adjusted: Application Money—Share Capital (40,000 × ₹ 3)	1,20,000
Excess Application Money	4,20,000
Adjusted: On Allotment (40,000 × ₹ 4)	1,60,000
Still Surplus	2,60,000
Adjusted on Call (40,000 × ₹ 3)	1,20,000
Surplus to be refunded	1,40,000
Category E: Application Money Received (2,00,000 ×3)	6,00,000
Adjusted: Share Application—Share Capital (40,000 × ₹ 3)	1,20,000
Surplus Application Money	4,80,000
Adjusted on Allotment (40,000 × ₹ 4)	1,60,000
Still Surplus	3,20,000
Adjusted on Call (40,000 × ₹ 3)	1,20,000
Surplus to be refunded	2,00,000
Category F: Application Money Received (6,60,000 × ₹ 3)	19,80,000
Adjusted: Application Money—Share Capital (1,20,000 × ₹ 3)	3,60,000
Excess Application Money	16,20,000
Adjusted towards Allotment (1,20,000 × ₹ 4)	4,80,000
Still Surplus	11,40,000
Adjusted on Call (1,20,000 × ₹ 3)	3,60,000
Surplus to be refunded	7,80,000

Illustration 10.

XYZ Ltd. issued 50,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share payable, ₹ 3 per share on application, ₹ 5 per share on allotment, ₹ 2 per share on first call and the balance on second call. Unpaid amount towards Allotment and Calls Money was transferred to Calls-in-Arrears Account. Mrs. Mahima was allotted 800 shares. Pass Journal entries for forfeiture in the books of the company in the following cases:

Case 1: Mrs. Mahima paid application and allotment money when due but could not pay first and second calls. Her shares were forfeited.

Case 2: Mrs. Mahima could not pay the allotment and the first call money. Her shares were forfeited after the first call.

Solution:

JOURNAL OF *XYZ* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
Case 1	Equity Share Capital A/c (800 × ₹ 10)	...Dr.		8,000	
	To Calls-in-Arrears A/c [(800 × ₹ 2) + (800 × ₹ 2)]				3,200
	To Forfeited Shares A/c (800 × ₹ 6)				4,800
	(Being 800 Equity Shares forfeited for non-payment of first and second calls)				
Case 2	Equity Share Capital A/c (800 × ₹ 8)	...Dr.		6,400	
	Securities Premium Reserve A/c (800 × ₹ 2)	...Dr.		1,600	
	To Calls-in-Arrears A/c [(800 × ₹ 5) + (800 × ₹ 2)]				5,600
	To Forfeited Shares A/c (800 × ₹ 3)				2,400
	(Being 800 Equity Shares forfeited for non-payment of allotment and first call)				

Illustration 11.

Nandan, a Director of 'Nanda Agro Products Ltd.', proposed in a Board Meeting that to inculcate the habit of savings among people he wanted to bring a special issue of shares. His proposal was accepted by the company.

The company issued 40,000 equity shares of ₹ 100 each. The share money per share was payable as:

On Application—₹ 30,

On Allotment—₹ 50,

On First and Final Call—₹ 20.

Raman, a farmer holding 80 shares could not pay his call money on time. Nathan, another farmer holding 50 shares, paid the call money also with allotment.

Raman paid the amount due from him after four months explaining the reason for delay; the company did not charge any interest from him.

Calculate the amount received by the company on attotment. (*Delhi 2016 C*)

Solution:

Calculation of Amount Received on Allotment:

	₹
Allotment money due on 40,000 shares @ ₹ 50 per share	20,00,000
Add: Call money received in advance on 50 shares @ ₹ 20 per share	1,000
Amount Received on Allotment	20,01,000

Illustration 12.

Give Journal entries to record the following transactions of forfeiture and reissue of shares and open Forfeited Shares Account in the books of the company.

L Ltd. forfeited 470 Equity Shares of ₹ 10 each issued at a premium of ₹ 5 per share for non-payment of allotment money of ₹ 8 per share (including share premium ₹ 5 per share) and the first and final call of ₹ 5 per share. All the forfeited shares were subsequently reissued at ₹ 14 per share. (*Delhi 2011, Modified*)

Solution:

In the Books of *L* Ltd.

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Dr. (₹)
	Equity Share Capital A/c (470 × ₹ 10)	...Dr.		4,700	
	Securities Premium Reserve A/c (470 × ₹ 5)	...Dr.		2,350	
	To Forfeited Shares A/c (470 × ₹ 2)				940
	To Equity Shares Allotment A/c (470 × ₹ 8)				3,760
	To Equity Shares First and Final Call A/c (470 × ₹ 5)				2,350
	Or				
	Equity Share Capital A/c (470 × ₹ 10)	...Dr.		4,700	
	Securities Premium Reserve A/c (470 × ₹ 5)	...Dr.		2,350	
	To Forfeited Shares A/c (470 × ₹ 2)				940
	To Calls-in-Arrears A/c				6,110
	(Being 470 shares forfeited due to non-payment of allotment and call money)				
	Bank A/c (470 × ₹ 14)	...Dr.		6,580	
	To Equity Share Capital A/c (470 × ₹ 10)				4,700
	To Securities Premium Reserve A/c (470 × ₹ 4)				1,880
	(Being 470 forfeited shares reissued @ ₹ 14 per share)				
	Forfeited Shares A/c	...Dr.		940	
	To Capital Reserve A/c				940
	(Being the gain on reissue transferred to Capital Reserve)				

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Capital Reserve A/c	940	By Equity Share Capital A/c	940
	940		940

Illustration 13.

AB Ltd. invited applications for issuing 75,000 Equity Shares of ₹ 100 each at a premium of ₹ 30 per share. The amount was payable as follows:

On Application and Allotment—₹ 85 per share (including premium),

On First and Final Call—the balance Account.

Applications for 1,27,500 shares were received. Applications for 27,500 shares were rejected and shares were allotted on *pro rata* basis to the remaining applicants. Excess money received on application and alloment was adjusted towards sums due on first and final call. The call was made. A shareholder, who applied for 1,000 shares, failed to pay the first and final call money. His shares were forfeited. All the forfeited shares were reissued at ₹ 150 per share as fully paid-up.

Pass necessary Journal entries for the above transactions in the books of *AB* Ltd. (*Delhi 2014*)

Solution:

In the Books of *AB* Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c (1,27,500 × ₹ 85) ...Dr.		1,08,37,500	
	To Equity Shares Application and Allotment A/c			1,08,37,500
	(Being the application and allotment money received for 1,27,500 shares @ ₹ 85 per share)			
	Equity Shares Application and Allotment A/c ...Dr.		1,08,37,500	
	To Equity Share Capital A/c (75,000 × ₹ 55)			41,25,000
	To Securities Premium Reserve A/c (75,000 × ₹ 30)			22,50,000
	To Equity Shares First and Final Call A/c			21,25,000
	To Bank A/c (27,500 × ₹ 85)			23,37,500
	(Being the shares allotted; applications for 27,500 shares rejected and the balance applicants issued shares on *pro rata*)			
	Equity Shares First and Final Call A/c (75,000 × ₹ 45) ...Dr.		33,75,000	
	To Equity Share Capital A/c			33,75,000
	(Being the first and final call due on 75,000 shares @ ₹ 45 per share)			
	Bank A/c (WN 2) ...Dr.		12,37,500	
	To Equity Shares First and Final Call A/c			12,37,500
	(Being the amount due on shares first and final call received except on 750 shares)			

	Equity Share Capital A/c (750 × ₹ 100) ...Dr. To Equity Shares First and Final Call A/c To Forfeited Shares A/c (Being 750 shares forfeited for non-payment of first and final call)		75,000	 12,500 62,500
	Bank A/c (750 × ₹ 150) ...Dr. To Equity Share Capital A/c To Securities Premium Reserve A/c (Being 750 forfeited shares reissued @ ₹ 150 per share as fully paid-up)		1,12,500	 75,000 37,500
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the amount of Forfeited Shares Account credited to Capital Reserve upon reissue)		62,500	 62,500

Working Notes:

		₹
1. Share Application and Allotment Money (1,000 × ₹ 85)		85,000
3 Shares Alloted against 4 shares applied, *i.e.*, 3/4 × 1,000 shares = 750 shares		
Appropriation of Share Application Money		
— Towards Share Capital (750 × ₹ 55)	41,250	
— Towards Securities Premium Reserve (750 × ₹ 30)	22,500	63,750
Excess Application and Allotment Money Received		21,250
Amount due towards First and Final Call (750 × ₹ 45)		33,750
Amount not received on 750 Shares (₹ 33,750 – ₹ 21,250)		12,500
2. *Amount Received on First and Final Call:*		
Due (75,000 × ₹ 45)		33,75,000
Less: Received in Advance		21,25,000*
		12,50,000
Less: Not Received on 750 Shares (WN 1)		12,500
Amount Received on First and Final Call		12,37,500

*Received in Advance = Total Amount Received on Application – Amount Refunded – Amount Adjusted in Capital and Securities Premium Reserve

= ₹ 1,08,37,500 – ₹ 23,37,500 – ₹ 41,25,000 – ₹ 22,50,000 = ₹ 21,25,000.

Illustration 14 (*Forfeiture of Shares Originally issued at Par, reissued at Discount*).

A Ltd. forfeited 200 Equity Shares of ₹ 10 each fully called-up, held by *X* for non-payment of allotment money of ₹ 3 per equity share and final call of ₹ 4 per equity share. He paid the application money of ₹ 3 per share. These shares were reissued to *Y* for ₹ 8 per share. Give Journal entries for the forfeiture and reissue of shares.

Solution:

In the Books of *A* Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c (200 × ₹ 10) ...Dr. To Shares Allotment A/c (200 × ₹ 3) To Shares Final Call A/c (200 × ₹ 4) To Forfeited Shares A/c (200 × ₹ 3) (Being the forfeiture of 200 shares held by *X*)		2,000	 600 800 600
	Bank A/c (200 × ₹ 8) ...Dr. Forfeited Shares A/c (200 × ₹ 2) ...Dr. To Share Capital A/c (200 × ₹ 10) (Being the reissue of forfeited shares to *Y*)		1,600 400	 2,000
	Forfeited Shares A/c ...Dr. To Capital Reserve A/c (Being the transfer of gain on reissue to Capital Reserve)		200	 200

Illustration 15.

Bharat Ltd. invited applications for 2,00,000 Equity Shares of ₹ 10 each. The amount was payable as follows:

On application ₹ 3 per share, on allotment ₹ 5 per share, and on first and final call ₹ 2 per share.

Applications were received for 3,00,000 shares and *pro rata* allotment was made to all the applicants.

Bajaj, who was allotted 3,000 shares failed to pay the allotment and call money. His shares were forfeited. Out of the forfeited shares, 2,500 shares were reissued as fully paid-up @ ₹ 8 per share.

Pass Journal entries to record the above transactions. *(Delhi 2002 C)*

Solution:

In the Books of Bharat Ltd.
JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		9,00,000	
	To Equity Shares Application A/c				9,00,000
	(Being the application money received on 3,00,000 shares)				
	Equity Shares Application A/c	...Dr.		9,00,000	
	To Equity Share Capital A/c				6,00,000
	To Equity Shares Allotment A/c				3,00,000
	(Being the application money adjusted)				
	Equity Shares Allotment A/c	...Dr.		10,00,000	
	To Equity Share Capital A/c				10,00,000
	(Being the allotment money due on 2,00,000 shares)				
	Bank A/c	...Dr.		6,89,500	
	To Equity Shares Allotment A/c				6,89,500
	(Being the remaining allotment money received on 1,97,000 shares) (WN 2)				
	Equity Shares First and Final Call A/c	...Dr.		4,00,000	
	To Equity Share Capital A/c				4,00,000
	(Being the first and final call money due on 2,00,000 shares)				
	Bank A/c	...Dr.		3,94,000	
	To Equity Shares First and Final Call A/c				3,94,000
	(Being the first and final call money received on 1,97,000 shares @ ₹ 2 per share)				
	Equity Share Capital A/c	...Dr.		30,000	
	To Equity Shares Allotment A/c				10,500
	To Equity Shares First and Final Call A/c				6,000
	To Forfeited Shares A/c				13,500
	(Being 3,000 shares forfeited for non-payment of allotment and first and final call) (WN 1)				
	Bank A/c	...Dr.		20,000	
	Forfeited Shares A/c	...Dr.		5,000	
	To Equity Share Capital A/c				25,000
	(Being the reissue of 2,500 shares as fully paid-up @ ₹ 8 per share)				
	Forfeited Shares A/c	...Dr.		6,250	
	To Capital Reserve A/c				6,250
	(Being the gain on 2,500 reissued shares transferred to Capital Reserve) (WN 3)				

Working Notes:

1. *Calculation of the amount due but not paid on allotment in case of Bajaj:*

   (a) Total number of shares applied by Bajaj = $\frac{3,00,000}{2,00,000} \times 3,000 = 4,500$ shares.

		₹
(b) Application money received on shares applied (4,500 × ₹ 3)		13,500
(c) Excess application money adjusted on allotment [₹ 13,500 – (3,000 × ₹ 3)]		4,500
(d) Total amount due on allotment (3,000 × ₹ 5)		15,000
(e) Amount due but not paid on allotment [₹ 15,000 – ₹ 4,500 (*c*)]		10,500

2. *Calculation of allotment money received later on:*

(a) Total allotment money due (2,00,000 × ₹ 5)		10,00,000
(b) *Less:* (i) Already received	3,00,000	
(ii) Not received (WN 1)	10,500	3,10,500
Allotment money received		6,89,500

3. *Calculation of amount transferred to Capital Reserve:*

Amount forfeited on reissued shares $\left[\frac{₹\ 13,500}{3,000} \times 2,500\right]$	11,250
Less: Loss on reissue	5,000
Gain on reissued shares transferred to Capital Reserve	6,250

Illustration 16 (*Pro rata Allotment in Different Cases*).

Mandal Ltd. invited applications for the issue of 25,000 shares of ₹ 10 each. The amount was payable as: ₹ 4 on application; ₹ 3 on allotment; ₹ 3 on first and final call. Mandal Ltd. has decided to make *pro rata* allotment if shares applied by the public are more than the shares issued and to utilise surplus money towards allotment.

Pass necessary Journal entries in each of the following cases:

Case I: If the applications are received for 37,500 shares.

Case II: If the applications are received for 43,750 shares.

Case III: If the applications are received for 50,000 shares.

Case IV: If the applications are received for 55,000 shares.

Solution:

Case I

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		1,50,000	
	To Shares Application A/c				1,50,000
	(Being the application money received)				
	Shares Application A/c	...Dr.		1,50,000	
	To Share Capital A/c				1,00,000
	To Shares Allotment A/c				50,000
	(Being the application money adjusted)				
	Shares Allotment A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	(Being the allotment money due)				

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Allotment A/c (Being the allotment money received) (WN)		25,000	 25,000
	Shares First and Final Call A/c ...Dr. To Share Capital A/c (Being the call money due)		75,000	 75,000
	Bank A/c ...Dr. To Shares First and Final call A/c (Being the call money received)		75,000	 75,000

Working Note:

Allotment Money Due = 25,000 × ₹ 3 = ₹ 75,000;

Excess Application Money Received = (37,500 – 25,000) × ₹ 4 = ₹ 50,000.

It means, the excess application money ₹ 50,000 will be adjusted towards allotment money and only ₹ 25,000 will be received later.

Case II

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the application money received)		1,75,000	 1,75,000
	Shares Application A/c ...Dr. To Share Capital A/c To Shares Allotment A/c (Being the application money adjusted)		1,75,000	 1,00,000 75,000
	Shares Allotment A/c ...Dr. To Share Capital A/c (Being the allotment money due)		75,000	 75,000
	Shares First and Final Call A/c ...Dr. To Share Capital A/c (Being the call money due)		75,000	 75,000
	Bank A/c ...Dr. To Shares First and Final call A/c (Being the call money received)		75,000	 75,000

Working Note:

Allotment Money Due = ₹ 75,000; Excess Application Money Received = (43,750 – 25,000) × ₹ 4 = ₹ 75,000.

It means, the entire excess application money will be adjusted towards share allotment money and no amount will be received on allotment.

Case III

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c ...Dr. To Shares Application A/c (Being the application money received)		2,00,000	 2,00,000
	Shares Application A/c ...Dr. To Share Capital A/c To Shares Allotment A/c To Bank A/c (Being the application money adjusted)		2,00,000	 1,00,000 75,000 25,000

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Shares Allotment A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	(Being the allotment money due)				
	Shares First and Final Call A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	(Being the call money due)				
	Bank A/c	...Dr.		75,000	
	To Shares First and Final call A/c				75,000
	(Being the call money received)				

Working Note:

Allotment Money Due = ₹ 75,000; Excess Application Money = (50,000 – 25,000) × ₹ 4 = ₹ 1,00,000.
Out of excess application money, ₹ 75,000 is adjusted towards allotment and balance ₹ 25,000 will be refunded. No amount will be received on allotment.

Case IV

JOURNAL

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		2,20,000	
	To Shares Application A/c				2,20,000
	(Being the application money received)				
	Shares Application A/c	...Dr.		2,20,000	
	To Share Capital A/c				1,00,000
	To Shares Allotment A/c				75,000
	To Bank A/c				45,000
	(Being the application money adjusted)				
	Shares Allotment A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	(Being the allotment money due)				
	Shares First and Final Call A/c	...Dr.		75,000	
	To Share Capital A/c				75,000
	(Being the call money due)				
	Bank A/c	...Dr.		75,000	
	To Shares First and Final call A/c				75,000
	(Being the call money received)				

Working Note:

Allotment Money Due = ₹ 75,000; Excess Application Money = (55,000 – 25,000) × ₹ 4 = ₹ 1,20,000.
Out of excess application money, ₹ 75,000 is adjusted towards allotment and balance ₹ 45,000 will be refunded. No amount will be received on allotment because the entire amount due towards allotment has been already received along with application money.

Illustration 17 (*Forfeiture of Shares Issued at Premium—Premium Received*).

A Ltd. issued 10,000 Equity Shares of ₹ 100 each at ₹ 120 payable as follows:

₹ 25 on application, ₹ 45 on allotment (including premium), ₹ 20 on first call; and ₹ 30 on second and final call.

9,000 Equity Shares were applied for and allotted. All the money was received with the exception of first call and the final call on 200 Equity Shares held by Ram. These Equity Shares were forfeited.

Pass Journal entries to record the above issue of shares and prepare extract of the Balance Sheet showing share capital.

Solution:

JOURNAL OF *A* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Bank A/c	...Dr.		2,25,000	
	To Shares Application A/c				2,25,000
	(Being the application money received on 9,000 Equity Shares)				
	Shares Application A/c	...Dr.		2,25,000	
	To Share Capital A/c				2,25,000
	(Being the transfer of application money to Share Capital Account)				
	Shares Allotment A/c	...Dr.		4,05,000	
	To Share Capital A/c				2,25,000
	To Securities Premium Reserve A/c				1,80,000
	(Being the amount due on allotment—₹ 25 on account of share capital and ₹ 20 on account of securities premium)				
	Bank A/c	...Dr.		4,05,000	
	To Shares Allotment A/c				4,05,000
	(Being the amount due on allotment received)				
	Shares First Call A/c	...Dr.		1,80,000	
	To Share Capital A/c				1,80,000
	(Being the amount due on first call @ ₹ 20 per share on 9,000 Equity Shares)				
	Bank A/c	...Dr.		1,76,000	
	To Shares First Call A/c				1,76,000
	(Being the amount received on account of the first call, *i.e.*, ₹ 20 on 8,800 Equity Shares)				
	Shares Second and Final Call A/c	...Dr.		2,70,000	
	To Share Capital A/c				2,70,000
	(Being the second and final call money due on 9,000 shares)				
	Bank A/c	...Dr.		2,64,000	
	To Shares Second and Final Call A/c				2,64,000
	(Being the amount actually received on account of second and final call)				
	Share Capital A/c	...Dr.		20,000	
	To Shares First Call A/c				4,000
	To Shares Second and Final Call A/c				6,000
	To Forfeited Shares A/c				10,000
	(Being 200 shares forfeited for non-payment of first call and second and final call money)				

Students should prepare the Ledger Accounts to draw the Balance Sheet.

BALANCE SHEET OF *A* LTD. *as at* ...

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	1	8,90,000

Note to Accounts

	₹
1. Share Capital	
Authorised Capital	
... Equity Shares of ₹ 100 each	...
Issued Capital	
10,000 Equity Shares of ₹ 100 each	10,00,000
Subscribed Capital	
Subscribed and fully paid-up	
8,800 Equity Shares of ₹ 100 each	8,80,000
Add: Forfeited Shares A/c (200 × ₹ 50)	10,000
	8,90,000

Unsolved Questions

1. *SRCC* Ltd. invited applications for 2,00,000 equity shares of ₹ 10 each payable as ₹ 3 on application, ₹ 4 on allotment and ₹ 3 on call. Applications for 6,55,000 shares were received and the allotment was made as follows:

Category	*Shares Applied*	*Shares Allotted*
A	50,000	50,000
B	50,000	40,000
C	35,000	10,000
D	90,000	20,000
E	1,00,000	20,000
F	3,30,000	60,000

Prepare the statement showing the adjustment of Application money received:

(a) if excess Application money was adjusted towards sum due on allotment,

(b) if excess Application money was adjusted towards other sum due on shares.

[*Surplus Refunded (a): C—₹ 35,000; D—₹ 1,30,000; E—₹ 1,60,000; F—₹ 5,70,000.*
Surplus Refunded (b): C—₹ 5,000; D—₹ 70,000; E—₹ 1,00,000; F—₹ 3,90,000.]

2. *Z* Ltd. forfeited 300 shares of Mr. Gupta who had applied for 500 shares on account of non-payment of allotment money ₹ 5 (including ₹ 2 premium) and first call ₹ 2 per share. Only ₹ 3 per share was received with application. Out of these 200 shares were reissued to Mr. Jain as fully paid shares of ₹ 10 each for ₹ 8 per share. Pass necessary Journal entries relating to forfeiture and reissue of shares.

[*Capital Reserve—₹ 600.*]

3. Sangita Ltd. invited application for issuing 10,000 Equity Shares of ₹ 100 each. The amount was payable as follows:

On application	₹ 30 per share;
On allotment	₹ 20 per share;
On First and Final Call	Balance.

Applications were received for 22,000 shares. Application for 2,000 shares were rejected and their application money was refunded. Shares were allotted to the remaining applicants as follows:

I. Allotted 50% Shares to Mohan who had applied for 4,000 shares.

II. Allotted shares in full to Sohan who had applied for 2,000 shares.

III. Allotted balance of the shares on *pro rata* basis to the other applicants.

Excess application money was utilised in payment of allotment and call. All calls were made and were duly received except the first and final call on 60 shares allotted to an applicant who belong to III category. His shares were forfeited. The forfeited shares were reissued for ₹ 90 per share fully paid-up.

Pass the necessary Journal entries in the books of company.

[*No. of shares applied by Defaulter —140 shares, Amount due but not received on First and Final call —₹ 1,800; Call Money received later on = ₹ 3,58,200; Capital Reserve—₹ 3,600.*]

4. Swaraj & Co. was registered with an authorised capital of ₹ 5,00,000 divided into 50,000 shares of ₹ 10 each. The company offered 30,000 of these shares to the public, which were payable ₹ 2 per share on application, ₹ 4 per share on allotment and the balance three months later. Applications for 46,000 shares were received on which the Directors allotted shares as:

Applications for	20,000	shares	...	Full,
Applications for	25,000	shares	...	40%,
Applications for	1,000	shares	...	Nil.

₹ 86,000 was realised on account of allotment money (excluding the amount carried from application money) and ₹ 1,00,000 on account of call. The Directors decided to forfeit those shares on which allotment money was overdue.

Show Journal entries in the company's books. [**Ans.:** *Forfeited Shares A/c—₹ 2,000.*]

5. Rolga Ltd. is having an authorised capital of ₹ 50,00,000 divided into equity shares of ₹ 100 each. The company offered 42,000 shares to the public. The amount payable was as follows:

On Application	—	₹ 30 per share,
On Allotment	—	₹ 40 per share (including premium),
On First and Final Call	—	₹ 50 per share.

Applications were received for 40,000 shares.

All sums were duly received except the following:

Lal, a holder of 100 shares did not pay allotment and call money.

Pal, a holder of 200 shares did not pay call money.

The company forfeited the shares of Lal and Pal. Subsequently, the forfeited shares were reissued for ₹ 70 per share as fully paid-up. Show the entries for the above transactions in the Cash Book and Journal of the company. (*Delhi 2015 C*)

[**Ans.:** *Capital Reserve—₹ 4,000; Balance of Cash Book—₹ 48,02,000.*]

6. Gupta Ltd. invited applications for issuing 30,000 Equity Shares of ₹ 10 each at a premium of ₹ 30 per share. The amount was payable as follows:

On Application	—	₹ 10 per share (including ₹ 8 Premium),
On Allotment	—	₹ 12 per share (including ₹ 9 Premium),
On First and Final Call	—	Balance.

Applications for 27,000 shares were received. All the calls were made and were duly received except on 3,000 shares held by Shiva who failed to pay the Allotment and First and Final call money and on 2,000 shares of Girdhar who did not pay the First and Final call. Shares of Shiva and Girdhar were forfeited. Out of the forfeited shares, 4,000 shares were reissued, including all the shares of Girdhar at ₹ 17 per share as fully paid-up.

Pass necessary Journal entries in the books of Gupta Ltd. for the above transactions. (*Foreigh 2012*)

[**Ans.:** *Amount Forfeited—₹ 16,000 (Shiva—₹ 6,000 + Girdhar—₹ 10,000); Amount transferred to Capital Reserve—₹ 14,000; Money Received on Allotment—₹ 2,88,000.*]

7. *A* Co. Ltd. offered to the public 20,000 Equity Shares of ₹ 100 each at a premium of ₹ 10 per share. The payment was to be as:

On application	—	₹ 20 per share,
On allotment	—	₹ 40 per share (including premium),
On first call	—	₹ 25 per share,
On second and final call	—	₹ 25 per share.

Applications were received for 35,000 shares. Applications for 10,000 shares were rejected. Applicants for 15,000 shares were allotted 10,000 shares and remaining applications were accepted in full. The Directors made both the calls. One shareholder holding 500 shares failed to pay the two calls and as a consequence his shares were forfeited. 200 of these shares were reissued as fully paid-up at ₹ 80 per share.

Prepare Cash Book, Journal and the Balance Sheet on the basis of information given above.

[**Ans.:** *Capital Reserve—₹ 6,000; Balance Sheet Total—₹ 21,91,000.*]

8. Veer Ltd. invited applications for issuing 1,00,000 Equity Shares of ₹ 500 each at a premium of ₹ 100 per share. The amount was payable as:

On application	—	₹ 200 per share,
On allotment	—	₹ 300 per share (including premium),
On first and final call	—	Balance of the amount.

Applications for 2,00,000 shares were received. Applications for 50,000 shares were rejected and the application money was refunded. *Pro rata* allotment was made to the remaining applicants. Amount overpaid with application was adjusted towards sums due on allotment.

All calls were made and were duly received except the first and final call on 100 shares allotted to Vasu. These shares were forfeited. The forfeited shares were reissued to Ravi for ₹ 60,000 as fully paid-up.

Pass necessary Journal entries in the books of the company for the above transactions. (*Delhi 2009 C*)

[**Ans.:** *Amount forfeited—₹ 40,000; Amount transferred to Capital Reserve—₹ 40,000.*]

9. Bhamashah Company Limited made an issue of 1,00,000 Equity Shares of ₹ 10 each at a premium of 20% payable as follows:

On application	—	₹ 2.50 per share,
On allotment	—	₹ 4.50 per share, and
On first and final call	—	Balance.

Applications were received for 2,00,000 Equity Shares and the Directors made *pro rata* allotment.

Ranu who had applied for 800 shares did not pay the allotment and final call money, as a result his shares were forfeited. Later on 80% of the forfeited shares were reissued at ₹ 8 per share as fully paid-up.

Pass necessary Journal entries for the above mentioned transactions in the books of the company. (*Delhi 2011 C*)

[**Ans.:** *Capital Reserve—₹ 960.*]

10. A company issued for public subscription 50,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share, payable as under:

On application	—	₹ 2 per share,
On allotment	—	₹ 5 per share,
On first call	—	₹ 2 per share,
On final call	—	₹ 3 per share.

Applications were received for 75,000 Equity Shares. The shares were allotted on *pro rata* basis to the applicants for 60,000 shares, the remaining applications being rejected. Money overpaid on applications was utilised towards sum due on allotment.

A, to whom 2,000 shares were allotted, failed to pay allotment and calls money and *B*, to whom 2,500 shares were allotted, failed to pay the two calls. These shares were, subsequently, forfeited after the final call was made. All the forfeited shares were reissued to *X* as fully paid-up @ ₹ 8 per share.

Pass Journal entries to record the above transactions. [**Ans.:** *Capital Reserve—₹ 8,300.*]

11. Eastern Star Cycle Ltd. was registered with a capital of ₹ 5,00,000 divided into 20,000 shares of ₹ 25 each. The company offered to public for subscription 10,000 shares payable ₹ 5 per share on application, ₹ 5 per share on allotment and the balance in two calls of ₹ 7.50 each. The company received applications for 11,600 shares. Applications for 1,000 shares were rejected and application money was refunded to the applicants. A person who applied for 1,000 shares was allotted only 400 shares and excess of his application money was carried forward towards the payment of allotment and calls. Pass Journal entries to record the above issue of shares and show how it will be shown in the Balance Sheet.

[**Ans.:** *Balance Sheet Total—₹ 2,50,000.*]

12. Apollo Television Co. Ltd. issued 5,000 Equity shares of ₹ 10 each credited as fully paid-up to the underwriters for their underwriting services. Pass necessary Journal entries in the books of the company.

13. *A* Ltd. has authorised capital of ₹ 2,00,000, divided into shares of ₹ 20 each, the whole of which is issued and subscribed at a premium of ₹ 2 per share. The amount was payable as:

On application and allotment ₹ 12 per share (including premium) and on first call ₹ 2 per share, the balance as and when required.

The application and allotment money (including premium) was duly received but a shareholder holding 500 shares failed to pay the first call and his shares were forfeited. They were later reissued for ₹ 16 per share as fully paid-up.

Pass Journal entries for the above.

[**Ans.:** *Capital Reserve—₹ 3,000.*]

14. Tata Ltd. having an authorised capital of ₹ 20,00,000 in shares of ₹ 100 each invited applications for 10,000 shares payable as:

On application	₹ 20 per share,
On allotment	₹ 30 per share,
On first call	₹ 25 per share,
On second and final call	₹ 25 per share.

[**Ans.:** *Capital Reserve—₹ 16,500.*]

15. Radha Mohan Ltd. invited applications for issuing 4,00,000 equity shares of ₹ 50 each. The amount was payable as follows:

On Application	—	₹ 15 per share,
On Allotment	—	₹ 25 per share,
On First and Final Call	—	₹ 10 per share.

Applications for 6,00,000 shares were received and *pro rata* allotment was made to all the applicants on following basis:

Applicants for 4,00,000 shares were allotted 3,00,000 shares.

Applicants for 2,00,000 shares were allotted 1,00,000 shares.

It was decided that excess amount received on applications will be adjusted towards sums due on allotment and surplus if any will be refunded. Vibhuti, who was allotted 6,000 shares out of the group applying for 4,00,000 shares did not pay the allotment money and his shares were forfeited immediately.

Afterwards, these forfeited shares were reissued at ₹ 30 per share fully paid-up. Later on, first and final call was made. Shahid, who had applied for 2,000 shares out of the group applying for 2,00,000 shares failed to pay first and final call and his shares were also forfeited. These shares were afterwards reissued at ₹ 60 per share fully paid-up.

Pass necessary Journal entries in the books of Radha Mohan Ltd. for the above transactions. (*OD 2016 C*)

[**Ans.:** *Capital Reserve—₹ 40,000.*]

16. *D* Ltd. offered to the public 20,000 Equity Shares of ₹ 10 each payable ₹ 4 on application, ₹ 2 on allotment, ₹ 2 on first call and the balance on final call. Applications totalled for 35,000 shares. Applications for 10,000 shares were rejected. Those totalling 15,000 shares were allotted 10,000 shares and the remaining applications were accepted in full. Excess application money was utilised towards the money due on allotment. Both the calls were made. One shareholder holding 500 shares failed to pay the two calls and as a consequence his shares were forfeited. 200 of these shares were reissued as fully paid-up for as ₹ 6 per share.

Record the above in the company's Journal and Cash Book and prepare the Balance Sheet.

[**Ans.:** *Capital Reserve—₹ 400.*]

17. Applications were invited by the Directors of *X* Ltd. for 15,000 of its Equity Shares of ₹ 100 and at ₹ 115 per share payable as:

(a) On application on 1st April, 2013 (including premium of ₹ 15 per share) ₹ 75;
(b) On allotment on 30th April, 2013 ₹ 20 and
(c) On first and final call on 31st May, 2013 ₹ 20.

Applications were received for 18,000 shares and it was decided to deal with these as:

(i) to refuse allotment to applicants for 800 shares,
(ii) to give full allotment to applicants for 2,200 shares,
(iii) to allot the remainder of the available shares on *pro rata* basis among the other applicants and
(iv) to utilise the surplus received on applications in part payment of amounts due on allotment.

An applicant, to whom 400 shares had been allotted, failed to pay the amount due on the first and final call and his shares were declared forfeited on 31st July, 2013. These shares were reissued on 3rd September, 2013, as fully paid-up @ ₹ 90 per share.

Pass Journal entries to record the above issue of shares.

[**Ans.:** *Amount transferred to Capital Reserve—₹ 28,000; Money adjusted with allotment—₹ 1,65,000; Ratio of pro rata allotment—75 : 64.*]

18. Bharat Tyres Ltd. invited applications for 1,00,000 Equity Shares of ₹ 10 each issued at a premium of ₹ 4 per share. The amount was payable as:

On application	—	₹ 6 (including premium ₹ 2),
On allotment	—	₹ 6 (including premium ₹ 2),
On first and final call	—	Balance.

Applications for 1,50,000 shares were received. Allotment was made to all the applicants on *pro rata* basis.

Subodh, to whom 200 shares were allotted, failed to pay allotment and call money. Vikram, to whom 100 shares were allotted, failed to pay the call money. Their shares were forfeited and afterwards reissued @ ₹ 8 per share as fully paid-up.

Pass necessary Journal entries. [**Ans.:** *Capital Reserve—₹ 1,600.*]

19. *ABC* Ltd. was floated with a capital of ₹ 3,00,000 divided into shares of ₹ 10 each. It offered 4,000 shares at ₹ 12 each, payable ₹ 2 per share on application, ₹ 5 per share (including premium) on allotment, ₹ 3 per share on first call and ₹ 2 per share on final call. Applications were received for 6,000 shares. Applicants for 2,000 shares were sent letters of regret and application money was refunded. All the money due on shares was received.

Pass necessary Journal entries and the Balance Sheet. [**Ans.:** *Balance Sheet Total—₹ 48,000.*]

20. *S* Ltd. with a registered capital of ₹ 5,00,000 in shares of ₹ 10 each, invited applications for 20,000 shares payable as:

On application	₹ 2 per share,
On allotment	₹ 2 per share,
On first call	₹ 3 per share,
On second and final call	₹ 3 per share.

An applicant who had been allotted 250 shares failed to pay allotment and first call money due from him. His shares were forfeited. After this, the second and final call was made and the forfeited shares were reissued as fully paid-up @ ₹ 8.50 per share.

Pass Journal entries and show the company's Balance Sheet.

[**Ans.:** *Capital Reserve—₹ 125; Balance Sheet Total—₹ 2,00,125.*]

21. (a) *X* Ltd. forfeited 30 shares of ₹ 10 each fully called-up, held by Karim for non-payment of allotment money of ₹ 3 per share and final call of ₹ 4 per share. He had paid the application money of ₹ 3 per share. These shares were reissued to Salim for ₹ 8 per share. [**Ans.:** *Capital Reserve—₹ 30.*]

(b) *X* Ltd. forfeited 20 shares of ₹ 10 each, ₹ 7 called-up on which Mahesh had paid application and allotment money of ₹ 5 per share. Of these, 15 shares were reissued to Naresh as fully paid-up for ₹ 6 per share. [**Ans.:** *Capital Reserve—₹ 15.*]

22. Wye Ltd. issued 20,000 shares of ₹ 20 each payable as:

On application	₹ 4 per share,
On allotment	₹ 4 per share,
On first call	₹ 6 per share,
On second and final call	₹ 6 per share.

All the amounts were received except the following:

A, 500 shares, has not paid allotment, first call and final call.

B, 300 shares, has not paid first call and final call.

C, 200 shares, has not paid final call.

All the above shares were forfeited and were reissued in the following manner:

Shares of *A* @ ₹ 18 per share, Shares of *B* @ ₹ 16 per share and Shares of *C* @ ₹ 15 per share.

Pass Journal entries regarding forfeiture and reissue of shares. [**Ans.:** *Capital Reserve—₹ 4,000.*]

23. *X* Ltd. issued 10,000 Equity Shares of ₹ 10 each, payable ₹ 3 on application, ₹ 3 on allotment and the balance on two calls. All the calls were duly made and the amount so realised with the exception of the following:

(i) Mr. *A* holding 100 shares did not pay the amount due on first and final call, and

(ii) Mr. *B* holding 100 shares did not pay the amount due on final call.

All the shares were forfeited and reissued only 150 shares (all of *A* and balance of *B*) to Mr. *D* @ ₹ 8 per share. Show the forfeiture and reissue entries. [**Ans.:** *Capital Reserve—₹ 700.*]

24. *XYZ* Ltd. forfeited 200 Equity Shares of ₹ 10 each issued at a premium of ₹ 5 per share, held by Shyam for non-payment of allotment money of ₹ 8 per share (including share premium ₹ 5 per share), first call of ₹ 2 per share and final call of ₹ 3 per share. Out of these, 125 Equity Shares were reissued to Bhajanlal @ ₹ 9 per share as fully paid-up.

Give the Journal entries to record forfeiture and reissue of shares. (*AI 2003*)

[**Ans.:** *Capital Reserve—₹ 125.*]

25. Jiyaji Ltd. has an authorised capital of ₹ 4,00,000 divided into shares of ₹ 20 each, the whole of which is issued and subscribed at a premium of ₹ 2 per share. The amount was payable as:

on application and allotment ₹ 10 per share, on first call ₹ 4 per share (including premium) and the balance as and when required.

The company made both the calls. The application and allotment money was duly received. But a shareholder holding 2,000 shares failed to pay both the calls and his shares were forfeited. They were later reissued @ ₹ 14 per share as fully paid-up.

Pass Journal entries regarding the above. [**Ans.:** *Capital Reserve—₹ 8,000.*]

26. Complete the following Journal entries:

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
	Share Capital A/c ...Dr.		80,000	
	To Forfeited Shares A/c			50,000
	To Shares First Call A/c			30,000
	(Being 1,000 Shares of ₹ 100 each forfeited for non-payment of first call)			
	Bank A/c ...Dr.		...(1)...	
	Forfeited Shares A/c ...Dr.		...(2)...	
	To Share Capital A/c			...(3)...
	(Being 1,000 Shares reissued at ₹ 70 per share ₹ 80 paid-up)			
	...(4)... A/c ...Dr.		...(5)...	
	To ...(6)... A/c			...(7)...
	(Being the gain on reissue of shares transferred to Capital Reserve)			

[**Ans.:** *1: ₹ 70,000; 2: ₹ 10,000; 3: ₹ 80,000; 4: Forfeited Shares; 5: ₹ 40,000; 6: Capital Reserve; 7: ₹ 40,000.*]

27. Fill in the following blanks:

Dr. FORFEITED SHARES ACCOUNT *Cr.*

Particulars	₹	Particulars	₹
To Share Capital A/c (Discount on Reissue of 200 shares)	2,000	By Share Capital A/c (Amount forfeited on 500 shares)	15,000
To Capital Reserve A/c	...(1)...		
To Balance *c/d*	...(2)...		
	...(3)...		...(4)...

[**Ans.:** *1: ₹ 4,000; 2: ₹ 9,000; 3: ₹ 15,000; 4: ₹ 15,000.*]

[**Hints:** 1. *Calculation of Capital Reserve:*

Amount forfeited on 200 shares $= \frac{₹\,15{,}000}{500} \times 200 = ₹\,6{,}000$

Less: Discount on Reissue of 200 shares = ₹ 2,000

Gain on Reissue transferred to Capital Reserve = ₹ 4,000

2. *Closing Balance of Forfeited Shares Account:* $= \frac{₹\,15{,}000}{500} \times 300 = ₹\,9{,}000$.]

CHAPTER 9

Company Accounts—Issue of Debentures

MEANING OF KEY TERMS USED IN THE CHAPTER

1.	**Debenture**	Debenture is a written acknowledgement of Debt issued by the company. According to Section 2(30) of the Companies Act, 2013, 'Debenture' includes debenture stock, bonds or any other instrument of a company evidencing a debt, whether constituting a charge on the assets of the company or not.
2.	**Debentureholder**	Debentureholder is the person to whom debentures are issued.
3.	**Issue of Debentures for Cash**	It means issue of debentures against consideration being received in cash.
4.	**Issue of Debentures for Consideration other than Cash**	It means issue of debentures against consideration not being received in cash but received in kind, *i.e.*, assets or services.
5.	**Issue of Debentures as Collateral Security**	It means that the debentures have not been issued for consideration received in cash or in kind but have been issued as a security for loan taken.
6.	**Issue of Debentures at Par**	It means that the issue price and the nominal (face) value of debentures are same.
7.	**Issue of Debentures at Premium**	It means that the issue price of the debenture is higher than its nominal (face) value.
8.	**Issue of Debentures at Discount**	It means that the issue price of the debenture is lower than its nominal (face) value.
9.	**Redemption of Debentures at Par**	It means that the redemption value and the nominal (face) value of debenture is same.
10.	**Redemption of Debentures at Premium**	It means that the redemption value of the debenture is higher than its nominal (face) value.
11.	**Interest on Debentures**	It is the cost of servicing the loans raised by the issue of debentures.

CHAPTER SUMMARY

- **Debenture:** Debenture is a written acknowledgement of a debt by the company. It contains the terms for the repayment of the principal debt on a specified date and for payment of interest at a fixed per cent until the principal sum is paid.
- **Disclosure of Debentures in Company's Balance Sheet:** As per Schedule III of the Companies Act, 2013, *Debentures are shown in the Balance Sheet as* Long-term Borrowings under Non-current Liabilities. But debentures, shown as Long-term Borrowings and payable within 12 months from the date of Balance Sheet or within the period of Operating Cycle is shown as Current Maturity of Long-term Debts under Other Current Liabilities under the head Current Liabilities. Interest Accrued (due and not due) is shown as Other Current Liability under Current Liabilities.
- **Characteristics of a Debenture**
  - (i) A debenture is a written document or certificate which acknowledges the debt by the company.
  - (ii) The debenture certificate is issued under the common seal of the company, if the company has a common seal.
  - (iii) Mode and period of payment of principal and interest is fixed and is stated in the debenture.
  - (iv) Rate of interest is fixed and is stated in the debenture.
  - (v) The debt taken by issue of debentures is usually secured by a charge on the assets of the company.
  - (vi) It is considered as an *external equity* or *Long-term Borrowings* of the company.
- **Types of Debentures**
  - (i) *Secured Debentures* are those debentures which are secured either on a particular asset or on all the assets of the company in general.
  - (ii) *Unsecured Debentures* are those debentures which are not secured by any charge on assets of the company.
  - (iii) *Redeemable Debentures* are those debentures which will be repaid by the company at the end of a specified period.
  - (iv) *Irredeemable Debentures* are those debentures which are not repayable during the life of the company.
  - (v) *Registered Debentures* are those debentures, where the name, address and number of debentures held by the debentureholders are registered with the company.
  - (vi) *Bearer Debentures* are those debentures which can be transferred to any other person by mere delivery. No record of such debentureholders is maintained by the company.
  - (vii) *First Debentures* are those debentures which are to be repaid before the other debentures.
  - (viii) *Second Debentures* are those debentures which are to be repaid after the first debentures.
  - (ix) *Specific Coupon Rate Debentures* are those debentures which carry specified rate of interest.
  - (x) *Zero Coupon Debentures* (*Bonds*) are those debentures which do not carry any rate of interest.
  - (xi) *Convertible Debentures* are those debentures which can be converted into shares after a specified period.
  - (xii) *Fully Convertible Debentures* (FCD) are those debentures where the whole amount is to be converted into Equity Shares.
  - (xiii) *Partly Convertible Debentures* (PCD) are those debentures where only a part of the amount of debenture is convertible into Equity Shares.
  - (xiv) *Non-Convertible Debentures* are those debentures that are not convertible into shares of the company.
- **Debentures Trust Deed** is a document created by the company whereby trustees are appointed to protect the interest of debentureholders before they are offered for public subscription.

- **Issue of Debentures:** Debentures like shares, can be issued for: (i) cash and (ii) consideration other than cash. These debentures can be issued at: (a) par or (b) premium or (c) discount.

  Accounting for issue of debentures for cash is the same as the accounting for issue of shares with one change, *i.e.*, the word 'Share' shall be replaced by 'Debentures' and 'Share Capital' by 'Debentures'. The terms used for the issue of shares will be changed at the time of issue of debentures.

Terms for Issue of Shares	*Terms for Issue of Debentures*
1. Shares Application/Allotment/First Call ... etc.	1. Debentures Application/Allotment/First Call ... etc.
2. Share Capital	2. Debentures
	3. Discount on Issue of Debentures

Note: Premium on the issue of shares or debentures is called **Securities Premium Reserve**.

- **Premium on Redemption of Debentures: Disclosure in the Balance Sheet**
  - (i) *If debentures are shown as 'Long-term Borrowings',* then it is shown in the Equity and Liabilities Part of the Balance sheet under the head 'Non-Current Liabilities' and sub-head 'Other Long-term Liabilities'.
  - (ii) *If debentures are shown as 'Short-term Borrowings',* then it is shown in the Equity and Liabilities part of the Balance Sheet under the head 'Current Liabilities' and sub-head 'Other Current Liabilities'.
  - (iii) *If debentures are shown as 'Current Maturities of Long-term Debts',* then it is shown under the head 'Current Liabilities' and sub-head 'Other Current Liabilities'.
- **Interest on Debentures** is considered as an expense. It is a charge against the profit of the company and is payable whether the company earns profit or not.
- **Tax Deducted at Source (TDS):** Tax is deducted on interest at the specified rate and deposited in the Government Account on the due date.
- **Issue of Debentures for Consideration other than Cash:** A company can issue debentures to the vendors as a payment for the purchase of the assets, such an issue of debentures is known as **issue of debentures for consideration other than cash**.
- **Issue of Debentures as Collateral Security** means issue of debentures as a subsidiary or secondary security. Collateral security means additional security, *i.e.*, in addition to the prime security. It is only to be realised when the prime security fails to pay the amount of the loan.

  Debentures issued as Collateral Security may or may not be recorded in the books of account. If an accounting entry is not passed, it is disclosed under the loan. If an accounting entry is passed, it is shown below the loan first as Debentures Issued and thereafter Debentures Suspense Account is deducted.
- **Writing off Discount or Loss on Issue of Debentures** Discount or Loss on Issue of Debentures is written off in the year when debentures are issued. It is written off from Securities Premium Reserve, if it has a balance or from Statement of Profit and Loss. Accounting entry will be as follows:

Securities Premium Reserve A/c	...Dr.
Statement of Profit and Loss (Finance Cost)	...Dr.
To Discount or Loss on Issue of Debentures A/c	

Solved Questions

Illustration 1.

X Ltd. has issued ₹ 1,00,000, 9% Debentures at a discount of 6%. These debentures are to be redeemed at par equally spread over 5 annual instalments. It has a balance of ₹ 50,000 in Securities Premium Reserve. Show the Discount on Issue of Debentures Account for 5 years.

Solution: Total amount of Discount on Issue of Debentures = ₹ 1,00,000 × 6/100 = ₹ 6,000. It will be written off in the year of issue from Securities Premium Reserve.

Dr. DISCOUNT ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
1st Year	To 9% Debentures A/c	6,000	1st Year End	By Securities Premium Reserve A/c	6,000
		6,000			6,000

Illustration 2.

R & *R* Ltd. issued 15,000; 10% Debentures of ₹ 100 each at 6% discount on 1st April, 2018, redeemable at par after 5 years. Issue was fully subscribed. According to the terms of issue, interest is payable on quarterly basis. Interest for the quarter ending 31st March, 2019 was paid on 31st March, 2019. Tax was deducted @ 10% and deposited in the Government Account.

Pass Journal entries for issue of debentures and interest.

Solution: JOURNAL OF *R* & *R* LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 Apr. 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received on 15,000; 10% Debentures @ ₹ 94)		14,10,000	 14,10,000
	Debentures Application and Allotment A/c ...Dr. Discount on Issue of Debentures A/c ...Dr. To 10% Debentures A/c (Being the debentures allotted to applicants, discount to be written off in 5 years)		14,10,000 90,000	 15,00,000
2018 Jun. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest on 10% Debentures for the quarter ended 30th June, 2018 payable @ 10% on ₹ 15,00,000 and tax deducted @ 10%)		37,500	 33,750 3,750
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest payable for quarter ended 30th June, 2018)		33,750	 33,750
	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deposited in the Government Account)		3,750	 3,750
Sept. 30	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due for the quarter ended 30th September, 2018 and tax deducted at source @ 10%)		37,500	 33,750 3,750

	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid for quarter ended 30th September, 2018)		33,750	33,750
	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deposited in the Government Account)		3,750	3,750
Dec. 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due for the quarter ended 31st December, 2018 and tax deducted at source @ 10%)		37,500	33,750 3,750
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid for the quarter ended 31st December, 2018)		33,750	33,750
	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deposited in the Government Account)		3,750	3,750
2019 Mar. 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due for the quarter ended 31st March, 2019)		37,500	33,750 3,750
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid for the quarter ended 31st March, 2019)		33,750	33,750
	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deposited in the Government Account)		3,750	3,750
	Statement of Profit and Loss (Finance Cost) ...Dr. To Debentures' Interest A/c (Being the interest on debentures transferred to Statement of Profit and Loss)		1,50,000	1,50,000
	Statement of Profit and Loss (Finance Cost) ...Dr. To Discount on Issue of Debentures A/c (Being the discount on issue of debentures written off from Statement of Profit and Loss)		90,000	90,000

Illustration 3.

SKS Ltd. issued 1,00,000; 8% Debentures of ₹ 10 each at ₹ 12 on 1st April, 2018. The issue was fully subscribed. In terms of the issue of debentures, interest was payable yearly at the end of the financial year. Interest and TDS were paid on 31st March, 2019. TDS was deducted on interest @ 10%.

Pass Journal entries for the above transactions.

Solution:

JOURNAL OF SKS LTD.

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2018 April 1	Bank A/c ...Dr. To Debentures Application and Allotment A/c (Being the application money received on 1,00,000; 8% Debentures @ ₹ 12)		12,00,000	12,00,000
	Debentures Application and Allotment A/c ...Dr. To 8% Debentures A/c To Securities Premium Reserve A/c (Being 1,00,000; 8% Debentures allotted to debenture applicants)		12,00,000	10,00,000 2,00,000

2019 March 31	Debentures' Interest A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due and TDS deducted @ 10%)		80,000	 72,000 8,000
	Debentureholders' A/c ...Dr. To Bank A/c (Being the interest paid to debentureholders)		72,000	 72,000
	TDS Payable A/c ...Dr. To Bank A/c (Being the TDS deposited in Government Account)		8,000	 8,000
	Statement of Profit and Loss (Finance Cost) ...Dr. To Debentures' Interest A/c (Being the interest on debentures transferred to Statement of Profit and Loss)		80,000	 80,000

Note: Interest is calculated @ 8% p.a. on the face value of the debentures, *i.e.*, ₹ 10,00,000.

Illustration 4.

Reynold Ltd. issued 10,000; 9% Debentures of ₹ 100 each at a discount of 5% redeemable at 5% premium in instalments as follows:

Year I—1,000; Year II—2,000; Year III—2,500; Year IV—2,500 and Year V—Balance.

Show the Loss on Issue of Debentures Account.

Solution:

Dr. LOSS ON ISSUE OF DEBENTURES ACCOUNT *Cr.*

Date	Particulars	₹	Date	Particulars	₹
Year I	To 9% Debentures A/c To Premium on Redemption of Debentures A/c	50,000 50,000	Year I (End)	By Statement of Profit and Loss (Finance Cost)	1,00,000
		1,00,000			1,00,000

Illustration 5.

DSC Ventures Ltd. had issued on 1st April, 2018, 10,000, 9% Debentures of ₹ 100 each at 10% discount redeemable after four years on 31st March, 2022. It has balance in Securities Premium Reserve of ₹ 50,000.

Show how Discount on Issue of Debentures will be shown in the Balance Sheet.

Solution:

BALANCE SHEET *as at 31st March, 2019*

Particulars	Note No.	₹
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Reserves and Surplus	1	(50,000)

Note to Accounts

		₹
1. Reserves and Surplus		
Securities Premium Reserve	50,000	
Less: Discount on Issue of Debentures Written off	50,000	...
Surplus, *i.e.*, Balance in Statement of Profit and Loss	...	
Less: Balance of Discount on Issue of Debentures Written off	50,000	(50,000)
		(50,000)

Illustration 6.

Complete the following Journal entries:

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		30,00,000	
	To Sundry Liabilities A/c				15,00,000
	To *RSM* Ltd.				13,00,000
	To ?				?
	(Being the business of *RSM* Ltd. purchased)				
	RSM Ltd.	...Dr.		?	
	?	...Dr.		?	
	To ?				?
	To ?				?
	To ?				?
	(Being ?; 10% Debentures of ₹ 100 each redeemable at 10% premium issued at 10% discount)				
	?	...Dr.		?	
	To ?				?
	(Being the loss on issue of debentures written off)				

Solution:

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	Sundry Assets A/c	...Dr.		30,00,000	
	To Sundry Liabilities A/c				15,00,000
	To *RSM* Ltd.				13,00,000
	To **Capital Reserve A/c (Balancing Figure)**				**2,00,000**
	(Being the business of *RSM* Ltd. purchased)				
	RSM Ltd.	...Dr.		**13,00,000**	
	Loss on Issue of Debentures A/c	...Dr.		**2,88,880**	
	To **10% Debentures A/c**				**14,44,400**
	To **Premium on Redemption of Debentures A/c**				**1,44,440**
	To **Bank A/c**				**40**
	(Being **14,444**; 10% Debentures of ₹ 100 each redeemable at 10% premium issued at 10% discount)				
	Statement of Profit and Loss (Finance Cost)	Dr.		**2,88,880**	
	To **Loss on Issue of Debentures A/c**				**2,88,880**
	(Being the loss on issue of debentures written off)				

Unsolved Questions

1. *Emm Ess* Ltd. issued 10,000, 10% Debentures of ₹ 100 each at a discount of 10% on 1st April, 2016. The debentures were redeemable after 5 years at a premium of 10%. The amount was payable along with application. Interest was payable half-yearly. Applications were received for 15,000 debentures. Allotment was made to applicants for 10,000 Debentures and rest were sent letters of regret. Tax is deducted at source (TDS) @ 10%.

   You are required to:

   (i) Pass Journal entries for Issue of Debentures,

   (ii) Pass Journal entries for interest on debentures for the year ended 31st March, 2017, and

   (iii) Prepare 10% Debentures Account.

2. *Aar Kay* Ltd. issued on 1st April, 2016, 15,000, 10% Debentures of ₹ 100 each at a premium of 10% redeemable at a premium of 5%. The amount was payable along with application and the interest was payable half-yearly on 30th September and 31st March each year. Tax is deducted @ 20%.

Applications were received for 20,000 Debentures. Allotment was made to all the applicants on *pro rata* basis.

You are required to:

(i) Pass Journal entries for issue of debentures,

(ii) Pass Journal entries for interest, and

(iii) Prepare 10% Debentures Account.

3. On 1st January, 2016, Raha Ltd. issued 8% Debentures, face value ₹ 6,00,000 repayable at 5% premium in equal proportions at the end of 5, 10 and 15 years. It has a balance of ₹ 10,000 in Securities Premium Reserve. The company decides to write off loss from Securities Premium Reserve.

Pass Journal entries. Also give Journal entries for writing off Loss on Issue of Debentures if the loss is written off in the first year.

[**Ans.:** *Dr. Securities Premium Reserve A/c—₹ 10,000 and Statement of Profit and Loss—₹ 20,000; Cr. Loss on Issue of Debentures A/c—₹ 30,000.*]

4. On 1st April, 2014, *X* Ltd. issued 1,000, 10% Debentures of ₹ 100 each at a discount of 10% redeemable at par. Show the "Discount on Issue of Debentures Account" if (a) such debentures are redeemable after 4 years, and (b) such debentures are redeemable by equal annual drawings in 4 years. *X* Ltd. follows financial year as its accounting year.

[**Ans.:** *Amount of Discount to be written off from Statement of Profit and Loss in the first year—₹ 10,000.*]

5. Bandhan Ltd. issued 10,000, 7% Debentures of ₹ 100 each at a discount of ₹ 5 redeemable at the end of 5 years at a premium of 10%. The company has a balance in Securities Premium Reserve of ₹ 1,00,000.

Pass the Journal entries for writing off the Loss on Issue of Debentures. Also prepare Loss on Issue of Debentures Account.

[**Ans.:** *Dr. Securities Premium Reserve A/c—₹ 1,00,000; Dr. Statement of Profit and Loss (Finance Cost)—₹ 50,000; Cr. Loss on Issue of Debentures A/c—₹ 1,50,000.*]

6. *XYZ* Ltd. issued 5,000; 9% Debentures of ₹ 100 each. Pass the Journal entries and prepare the relevant extract of Balance Sheet in each of the following cases:

(i) The debentures are issued at a premium of 10%.

(ii) The debentures are issued as a collateral security to bank against a loan of ₹ 4,00,000.

(iii) The debentures are issued at a discount of 5%.

(iv) The debentures are issued to a supplier of machinery costing ₹ 4,50,000.

(v) The debentures are issued to a supplier of Machinery costing ₹ 6,00,000 as his full and final payment.

7. Pass the necessary Journal entries for the following transactions in the books of *Y* Ltd:

(a) Purchased machinery ₹ 1,65,000. The vendor was paid by issuing 9% Debentures of ₹100 each at a premium of 10%.

(b) Issued 9% Debentures of ₹ 1,50,000 as collateral security.

(c) Paid half yearly interest on ₹ 1,80,000; 9% Debentures.

(d) Issued 1,000; 9% Debentures of ₹ 100 each at a discount of 5%.

The debentures were repayable at a premium of 10%.

8. *Gee Ess* Ltd. is registered with authorised capital of 2,00,000 shares of ₹ 10 each and issued, subscribed and fully paid-up capital of ₹ 15,00,000. It purchased computers of ₹ 7,50,000 and office furniture of ₹ 2,50,000 and issued 10% Debentures of ₹ 100 each at 10% discount to the Vendors, redeemable at par.

The company also issued 10,000, 8% Debentures of ₹ 100 each at a premium of 10% redeemable at 10% premium. The amount was payable along with application.

The applications were received for 12,500 debentures and allotment was made on *pro rata* basis to all the applicants. Both the allotments were made on 1st April, 2018.

You are required to:

(i) Pass Journal entries for issue of debentures;

(ii) Pass Journal entries for interest for the year ended 31st March, 2019 and

(iii) Prepare Balance Sheet showing the above transactions.

Note: According to the terms of issue, interest is payable on half-yearly basis.

[**Ans.:** *Total of Balance Sheet*—₹ *34,08,880*.]

9. Apollo Ltd. issued 50,000, 9% Debentures of ₹ 100 each at a premium of ₹ 20 per debenture payable ₹ 70 (including securities premium), ₹ 20 on allotment and balance on first and final call. The allotment was made and call was made subsequently.

Applications were received for 1,00,000 debentures. The company allotted debentures on *pro rata* basis to all the applicants. The Articles of Association permitted the company to retain excess application money to be appropriated towards allotment money and calls. The Articles of Association did not permit the company to pay interest on Calls-in-Advance. The company made the allotment and refunded excess application money beyond allotment money to the applicants.

You are required to pass necessary Journal entries and determine the value followed by the company.

[**Hint:** The company followed the value of being just and fair by refunding the excess money to the shareholders as the Articles of Association did not allow payment of interest on Calls-in-Advance.]

CHAPTER 10

Company Accounts—Redemption of Debentures

MEANING OF KEY TERMS USED IN THE CHAPTER

1. **Redemption of Debentures**	Redemption of Debentures means repayment of the amount of debentures.
2. **Debentures Redemption Reserve (DRR)**	It is a reserve set aside out of profits available for distribution as dividend for the purpose of redemption of debentures. It is created for Non-convertible Debentures (NCD) and Non-convertible part of Partly Convertible Debentures (PCD).
3. **Debentures Redemption Investment (DRI)**	It is an investment made by a company on or before 30th April of the current year of an amount that is at least equal to 15% of the nominal value of debentures to be redeemed by 31st March of next year.
4. **Redemption of Debentures out of Capital**	When profits are not transferred from Surplus, *i.e.,* Balance in Statement of Profit and Loss to Debentures Redemption Reserve (DRR) before the redemption of debentures, such redemption is Redemption of Debentures out of capital.
5. **Redemption of Debentures out of Profits**	When adequate profits are transferred from Surplus, *i.e.*, Balance in Statement of Profit and Loss to Debentures Redemption Reserve (DRR) before redemption of debentures, such redemption is Redemption of Debentures out of profits.
6. **Redemption of Debentures in Lump Sum**	It means all the debentures are redeemed at the date specified for redemption of debentures.
7. **Redemption in Instalment by Draw of Lots**	It means redemption of debentures (selected by lottery) at the specified date.

CHAPTER SUMMARY

- **Redemption of Debentures** is a process of repayment of loan taken by issue of debentures.
- **Methods of Redemption of Debentures:** 1. On maturity in lump sum, 2. In instalments by draw of lots, 3. By purchase of Own Debentures from Open Market, and 4. By Conversion of Debentures into Shares or New Class of Debentures.

- **Sources of Redemption of Debentures:** Debentures can be redeemed by utilising any of the following sources:
  - (i) *Redemption Out of Capital:* When debentures are redeemed without adequate profits being transferred from Surplus, *i.e.*, Statement of Profit and Loss to Debentures Redemption Reserve (DRR), at the time of redemption of debenture, such redemption is said to be out of capital.
  - (ii) *Redemption Out of Profits:* When debentures are redeemed only out of profits and amount equal to nominal (face) value of Debentures is transferred from Surplus, *i.e.*, Statement of Profit and Loss to Debentures Redemption Reserve (DRR) before the redemption of debentures, such redemption is said to be out of profits.
  - (iii) *Redemption Partly out of Profits and Partly out of Capital:* It means that the company does not transfer 100 per cent nominal (face) value of total redeemable debentures of a particular series to DRR from Surplus, *i.e.*, Balance in Statement of Profit and Loss.
- **Debentures Redemption Reserve (DRR)** is the amount transferred out of profits of the company that is available for payment as dividend for the purpose of redemption of debentures.

  As per the provisions of Section 71(4) of the Companies Act, 2013 read with Rule 18(7)(b) of the Companies (Share Capital and Debentures) Rules, 2014, a company shall transfer at least 25 per cent of the nominal (face) value of outstanding redeemable debentures of that class out of surplus available for payment of dividend to DRR.

  It should be noted that dividend can be paid by a company from General Reserve, Dividend Equalisation Reserve and Surplus, *i.e.*, Balance in Statement of Profit and Loss.

  In case, redemption is purely out of profit, 100% of the nominal (face) value of outstanding redeemable debentures is transferred to DRR.

  DRR is required to be created only in case of **Non-convertible Debentures (NCD) and Non-convertible portion of Partly Convertible Debentures (PCD)**.

  Debentures Redemption Reserve is transferred to General Reserve after the debentures have been redeemed. However, if the debentures are redeemed in parts, Debentures Redemption Reserve that is in proportion to debentures redeemed is transferred to General Reserve after each redemption.

  Alternatively, if the company decides to transfer amount of DRR to General Reserve after all the debentures are redeemed, DRR is transferred to General Reserve after redemption of all the debentures.
- **Debentures Redemption Investment (DRI):** A company required to create/maintain DRR shall **on or before 30th April** of the current year, deposit or invest (as the case may be) **at least 15% of the amount of its debentures maturing during the year** ending on 31st March of the next year, *i.e.*, during the financial year.

  Investment in specified securities is to be made on or before 30th April of the financial year.

  The amount invested or deposited shall not be used for any purpose other than for redemption of debentures.

  Companies not required to create DRR are not required to invest in specified securities.
- Debentures may be redeemed in lump sum at the time of maturity. They may be redeemed in instalments by draw of lots or by purchase from open market. They may be converted into new debentures or shares after maturity or before maturity.
- Please note that Redemption by Purchase from Open Market and Conversion of Debentures are not in syllabus. Hence, they have not been discussed.

Solved Questions

Illustration 1.

N Ltd. issued 10,000; 9% Debentures of ₹ 100 each at par on April, 2014 with the condition that they will be redeemed at a premium of 5% after the expiry of five years.

Pass Journal entries for issue and redemption of these debentures along with the entries for DRR. Investment is to earn interest @ 6% p.a.

Solution:

JOURNAL OF *N* LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2014					
April 1	**On Issue of Debentures**				
	Bank A/c	...Dr.		10,00,000	
	To Debentures Application and Allotment A/c				10,00,000
	(Being the amount received on 10,000; 9% Debentures @ ₹ 100 each)				
	Debentures Application and Allotment A/c	...Dr.		10,00,000	
	Loss on Issue of Debentures A/c	...Dr.		50,000	
	To 9% Debentures A/c				10,00,000
	To Premium on Redemption of Debentures A/c				50,000
	(Being the allotment of 10,000; 9% Debentures of ₹ 100 each at par redeemable at a premium of 5%)				
2015					
March 31	Statement of Profit and Loss	...Dr.		50,000	
	To Loss on Issue of Debentures A/c				50,000
	(Being the Loss on Issue of Debentures written off from Statement of Profit and Loss)				
2018					
March 31	**On Creation of DRR**				
	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		2,50,000	
	To Debentures Redemption Reserve A/c				2,50,000
	(Being the transfer of profit to DRR equivalent to 25% of the nominal value of outstanding debentures)				
April 1	**On Investment being made**				
	Debentures Redemption Investment A/c	...Dr.		1,50,000	
	To Bank A/c				1,50,000
	(Being the amount equal to 15% of the value of debentures invested, earning interest @ 6% p.a.)				
2019	**On Redemption of Debentures**				
March 31	Bank A/c	...Dr.		1,59,000	
	To Debentures Redemption Investment A/c				1,50,000
	To Interest Earned A/c				9,000
	(Being the investment bearing interest @ 6% p.a. encashed on redemption of debentures)				

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
	9% Debentures A/c	...Dr.		10,00,000	
	Premium on Redemption of Debentures A/c	...Dr.		50,000	
	To Debentureholders' A/c				10,50,000
	(Being the amount payable on redemption, transferred to Debentureholders' Account)				
	Debentureholders' A/c	...Dr.		10,50,000	
	To Bank A/c				10,50,000
	(Being the amount paid to debentureholders on redemption)				
	Debentures Redemption Reserve A/c	...Dr.		2,50,000	
	To General Reserve A/c				2,50,000
	(Being the transfer of Debentures Redemption Reserve to General Reserve after redemption of debentures)				
	Interest Earned A/c	...Dr.		9,000	
	To Statement of Profit and Loss (Other Income)				9,000
	(Being the interest earned transferred)				

Illustration 2.

Pragati Ltd. has 50,000; 8% Debentures of ₹ 100 each due for redemption in four equal instalments starting from 31st March, 2016. Debentures Redemption Reserve has a balance of ₹ 9,00,000 on that date. The company deducted tax @ 10% on interest payment and deposits in Government Account on due date.

Pass Journal entries for investment, redemption of debentures and payment of interest on debentures. The company made investment in fixed deposit with bank earning interest @ 10% p.a. Bank deducted TDS @ 10%.

Solution:

JOURNAL OF PRAGATI LTD.

Date	Particulars		L.F.	Dr. (₹)	Cr. (₹)
2015					
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c	...Dr.		3,50,000	
	To Debentures Redemption Reserve A/c				3,50,000
	(Being the transfer of profits to Debentures Redemption Reserve) (WN 2)				
April 1	Debentures Redemption Investment A/c	...Dr.		1,87,500	
	To Bank A/c				1,87,500
	(Being the fixed deposit placed with Bank for 15% nominal value of debentures to be redeemed)				
2016					
March 31	Interest on Debentures A/c (WN 1)	...Dr.		4,00,000	
	To Debentureholders' A/c				3,60,000
	To TDS Payable A/c				40,000
	(Being the interest on debentures due and tax deducted @ 10%)				
March 31	Debentureholders' A/c	...Dr.		3,60,000	
	To Bank A/c				3,60,000
	(Being the payment of debentures' interest)				

March 31	TDS Payable A/c ...Dr.		40,000	
	To Bank A/c			40,000
	(Being tax deducted at source deposited in Government Account)			
March 31	8% Debentures A/c ...Dr.		12,50,000	
	To Debentureholders' A/c			12,50,000
	(Being the payment due to debentureholders on redemption)			
March 31	Debentureholders' A/c ...Dr.		12,50,000	
	To Bank A/c			12,50,000
	(Being the payment due to debentureholders discharged)			
March 31	Debentures Redemption Reserve A/c ...Dr.		3,12,500	
	To General Reserve A/c			3,12,500
	(Being the amount proportionate to 12,500 debentures redeemed transferred from DRR to General Reserve)			
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		4,00,000	
	To Interest on Debentures A/c			4,00,000
	(Being the interest on debentures transferred)			
2017				
March 31	Interest on Debentures A/c ...Dr.		3,00,000	
	To Debentureholders' A/c (WN 3)			2,70,000
	To TDS Payable A/c			30,000
	(Being the interest due on debentures)			
March 31	Debentureholders' A/c ...Dr.		2,70,000	
	To Bank A/c			2,70,000
	(Being the debentures' interest paid)			
March 31	TDS Payable A/c ...Dr.		30,000	
	To Bank A/c			30,000
	(Being the tax deducted at source deposited in Government Account)			
March 31	8% Debentures A/c ...Dr.		12,50,000	
	To Debentureholders' A/c			12,50,000
	(Being the payment due to debentureholders on redemption)			
March 31	Debentureholders' A/c ...Dr.		12,50,000	
	To Bank A/c			12,50,000
	(Being the payment due to debentureholders discharged)			
March 31	Debentures Redemption Reserve A/c ...Dr.		3,12,500	
	To General Reserve A/c			3,12,500
	(Being the amount proportionate to 12,500 debentures redeemed transferred from DRR to General Reserve)			
March 31	Statement of Profit and Loss (Finance Cost) ...Dr.		3,00,000	
	To Interest on Debentures A/c			3,00,000
	(Being the interest on debentures transferred)			

2018 March 31	Interest on Debentures A/c ...Dr. To Debentureholders' A/c (WN 4) To TDS Payable A/c (Being the debentures' interest due)		2,00,000	 1,80,000 20,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the debentures' interest paid)		1,80,000	 1,80,000
March 31	TDS Payable A/c ...Dr. To Bank A/c (Being tax deducted at source deposited in Government Account)		20,000	 20,000
March 31	8% Debentures A/c ...Dr. To Debentureholders' A/c (Being the payment due to debentureholders on redemption)		12,50,000	 12,50,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment due to debentureholders discharged)		12,50,000	 12,50,000
March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the amount proportionate to 12,500 debentures redeemed transferred from DRR to General Reserve)		3,12,500	 3,12,500
March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Interest on Debentures A/c (Being the interest on debentures transferred)		2,00,000	 2,00,000
2019 March 31	Interest on Debentures A/c ...Dr. To Debentureholders' A/c To TDS Payable A/c (Being the interest due on debentures)		1,00,000	 90,000 10,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the debentures' interest paid)		90,000	 90,000
March 31	8% Debentures A/c ...Dr. To Debentureholders' A/c (Being the payment due to debentureholders on redemption)		12,50,000	 12,50,000
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment due to debentureholders discharged)		12,50,000	 12,50,000
March 31	Bank A/c ...Dr. TDS Collected A/c ...Dr. To Debentures Redemption Investment A/c To Interest Earned A/c (Being the fixed deposit placed on 1st April, 2015 encashed and interest earned on the same @ 10% p.a. but received after deducting tax @ 10% on all debentures having been redeemed)		2,55,000 7,500	 1,87,500 75,000

March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the remaining balance of DRR closed by transferring it to General Reserve)		3,12,500	 3,12,500
March 31	Statement of Profit and Loss (Finance Cost) ...Dr. To Interest on Debentures A/c (Being the interest on debentures transferred)		1,00,000	 1,00,000
March 31	Interest Earned A/c ...Dr. To Statement of Profit and Loss (Other Income) (Being the interest earned transferred)		75,000	 75,000

Working Notes:

		₹
1.	Interest = ₹ 50,00,000 × 8/100	4,00,000
2.	25% of ₹ 50,00,000 (Face value of Debentures)	12,50,000
	Less: Existing Debentures Redemption Reserve (DRR)	9,00,000
	DRR to be created before redemption	3,50,000

3. Remaining Debentures (after 1st lot of Redemption) = ₹ 50,00,000 – ₹ 12,50,000 = ₹ 37,50,000; Interest = ₹ 37,50,000 × 8/100 = ₹ 3,00,000.
4. Interest = (₹ 37,50,000 – ₹ 12,50,000 = ₹ 25,00,000) × 8/100 = ₹ 2,00,000.
5. Investment in fixed deposit in terms of Section 71(4) of the Companies Act, 2013 is assumed to have been encashed on the redemption of last lot of debentures.
6. Interest on Debentures Account is paid annually and shown in Statement of Profit and Loss as 'Finance Costs'.

Illustration 3. Ashoka Ltd. issued 10,000; 8% Debentures of ₹ 100 each on 1st September, 2012 redeemable at a premium of 7% as under:

On 31st March, 2017	5,000 Debentures,
On 31st March, 2018	2,500 Debentures,
On 31st March, 2019	2,500 Debentures.

The company decided to transfer the required amount to Debentures Redemption Reserve (DRR) in four equal annual instalments starting from 31st March, 2013. The company decided to make fresh investment in fixed deposit as required by the Companies Act, 2013 for each redemption.

Pass Journal entries for issue and redemption of debentures and transfer to Debentures Redemption Reserve (Ignore Interest)

Solution:

In the Books of Ashoka Ltd.

JOURNAL

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
2012	**Issue of Debentures**			
Sept. 1	Bank A/c (10,000 × ₹ 100) ...Dr. To Debentures Application and Allotment A/c (Being the debentures application money received on issue of debentures)		10,00,000	 10,00,000
Sept. 1	Debentures Application and Allotment A/c (10,000 × ₹ 100) ...Dr. Loss on Issue of Debentures A/c (₹ 10,00,000 × 7/100) ...Dr. To 8% Debentures A/c To Premium on Redemption of Debentures A/c (Being the issue of 10,000; 8% Debentures at par but redeemable at premium)		10,00,000 70,000	 10,00,000 70,000

2013	**Creation of DRR**		
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c (Note) ...Dr.	62,500	
	To Debentures Redemption Reserve A/c		62,500
	(Being the profit appropriated towards Debentures Redemption Reserve)		
2014			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c (Note) ...Dr.	62,500	
	To Debentures Redemption Reserve A/c		62,500
	(Being the profit appropriated towards Debentures Redemption Reserve)		
2015			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c (Note) ...Dr.	62,500	
	To Debentures Redemption Reserve A/c		62,500
	(Being the profit appropriated towards Debentures Redemption Reserve)		
2016			
March 31	Surplus, *i.e.*, Balance in Statement of Profit and Loss A/c (Note) ...Dr.	62,500	
	To Debentures Redemption Reserve A/c		62,500
	(Being the profit appropriated towards Debentures Redemption Reserve)		
2016			
April 30	Debentures Redemption Investment A/c ...Dr.	75,000	
	To Bank A/c		75,000
	(Being the investment made of amount equal to 15% of nominal value of debentures to be redeemed on 31st March, 2017)		
2017	**Redemption of Debentures**		
March 31	Bank A/c ...Dr.	75,000	
	To Debentures Redemption Investment A/c		75,000
	(Being the fixed deposit encashed on redemption of 5,000 debentures)		
March 31	8% Debentures A/c ...Dr.	5,00,000	
	Premium on Redemption of Debentures A/c ...Dr.	35,000	
	To Debentureholders' A/c		5,35,000
	(Being the amount due to debentureholders on redemption of debentures)		
March 31	Debentureholders' A/c ...Dr.	5,35,000	
	To Bank A/c		5,35,000
	(Being the payment made to debentureholders)		
March 31	Debentures Redemption Reserve A/c ...Dr.	1,25,000	
	To General Reserve A/c		1,25,000
	(Being the amount proportionate to 5,000 debentures redeemed transferred from DRR to General Reserve)		
2017			
April 30	Debentures Redemption Investment A/c ...Dr.	37,500	
	To Bank A/c		37,500
	(Being the investment made of amout equal to 15% of nominal value of debentures to be redeemed on 31st March, 2018)		

2018 March 31	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the fixed deposit encashed on redemption of 2,500 debentures)		37,500	37,500
March 31	8% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders on redemption of debentures)		2,50,000 17,500	2,67,500
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		2,67,500	2,67,500
March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the amount proportionate to 2,500 debentures redeemed transferred from DRR to General Reserve)		62,500	62,500
2018 April 30	Debentures Redemption Investment A/c ...Dr. To Bank A/c (Being the investment made for the amount equal to 15% of nominal value of debentures to be redeemed on 31st March, 2019)		37,500	37,500
2019 March 31	Bank A/c ...Dr. To Debentures Redemption Investment A/c (Being the fixed deposit encashed on 2,500 debentures being reedemed)		37,500	37,500
March 31	8% Debentures A/c ...Dr. Premium on Redemption of Debentures A/c ...Dr. To Debentureholders' A/c (Being the amount due to debentureholders on redemption of debentures)		2,50,000 17,500	2,67,500
March 31	Debentureholders' A/c ...Dr. To Bank A/c (Being the payment made to debentureholders)		2,67,500	2,67,500
March 31	Debentures Redemption Reserve A/c ...Dr. To General Reserve A/c (Being the remaining balance of Debentures Redemption Reserve closed by transferring it to General Reserve)		62,500	62,500

Note: Outstanding amount on debentures = ₹ 10,00,000

DRR, *i.e.*, 25% of ₹ 10,00,000 = ₹ 2,50,000

Four equal annual instalments = 1/4 × ₹ 2,50,000 = ₹ 62,500.

Alternatively, Company may decide to transfer amount of DRR to General Reserve after all the debentures are redeemed, *i.e.*, on 31st March, 2019.