

Competitive Exams Commerce Study Material: Issuing share

Accounting Treatment of Issue of Share for Purchasing an Fixed Asset

In the situation when company want to buy any fixed asset, then company can issue shares to supplier of fixed asset.

At this time company pass the following journal entries:

- For purchasing fixed on credit
- Fixed asset account debit xxx
- Creditor account credit xxx
- For issue of shares
- Creditor account Debit xxx
- Share Capital Account credit xxx
- In case if company issue in premium or on discount to the suppliers of fixed asset. Then we first calculate the number of shares for doing any accounting treatment for this
- In case of issue at premium
- Numbers of shares
- Value of Fixed asset
- = _____
- Value of per share Face value + premium
- In case if issue of shares at discount
- Numbers of shares
- Value of Fixed asset
- = _____
- Value of per share Face value Discount per share
- After this the following journal entry will pass

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- Suppose xy company purchase the machinery of RS. 90000 by issue of shares at discount of shares of 10% if face value of share is RS. 10
- Journal entries
- Machinery account debit 90000
- Creditor account credit 90000
- 2 for issue shares to creditors at discount
- No. Of shares = $90000/9 = 10000$
- Amount of discount = RS. 10000
- Creditor account Debit 90000
- Discount on issue of share account debit 10000
- Share capital account credit 100000
- Suppose xy company purchase the machinery of RS. 120000 by issue of shares at Premium of shares of 20% if face value of share is RS. 10
- Journal entries
- Machinery account debit 120000
- Creditor account credit 120000
- 2 for issue shares to creditors at discount
- No. Of shares = $120000/12 = 10000$
- Amount of Premium = RS. 20000
- Creditor account Debit 120000
- Share capital account credit 100000
- Security premium account credit 20000

Adjustment in Company's Balance Sheet for Call in Arrear

When a company makes the balance sheet after first time issue of shares. There may be the case of call in arrear.

In my earlier article, I have already explained call in arrear and call in advance. In this article, I want to explain, how you will do the adjustment in balance sheet for call in arrear. Call in arrear must be deduct from Called up capital

Called up Capital = Capital demanded at the time of Application + Allotment + and calls money

Less call in arrear = at the time of allotment and due date of call money

After deducting, it we can easily calculate paid up capital

Accounting Treatment of Call in Arrear and Call in Advance

Call in Arrear

Call in arrear means company has demanded his due amount of allotment or call money but. But if shareholder does not pay his allotment money on due date it deems as call in arrear, this is the asset of company and it must deduct from call up capital for calculation paid up capital. If there is no any rule the company has right to get 5% interest on call in arrear.

Journal Entries for call in arrear in the books of company

- 1st journal entry will write at the time of due but not received the allotment money from share holder
- Call in Arrear Account Debit xxxx
- To Share Allotment Account xxxx
- 2nd When call in Arrear received from shareholder
- Bank Account Debit xxxx
- To Call in arrear Account xxxx
- 3rd journal entry is related to company's interest received on due amount of call in arrear. This is the income of company:
- Bank Account Debit xxxx
- To Interest on Call in Arrear xxxx

Call in Advance

Call in advance means that company did not call the allotment or calls but shareholder gives the call money in advance form. So this is the liability of company. Company is liable to pay 6% interest on call in advance to shareholder

Journal Entry for call in Advance

- 1st journal entry will pass for adjustment of advance money of allotment received at the time of application
- Share Allotment Account Debit xxxx
- To Call in Advance xxxx
- 2nd Journal entry will pass for when the amount of allotment due
- Call in Advance Account Debit xxxx

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- To Share Allotment Account xxxx
- 3rd Journal Entry for paying the interest on call in advance to shareholder
- Interest on call in advance Account Dr. Xxxx
- To Bank Account xxxx

Definition of Share Forfeitures

Share forfeitures means cancel the power of share holder if he does not pay his call money when company demands for this. Company will give 14 days notice, after 14 days if shareholder did not pay then company will forfeit his shares and cut off his name from the register of shareholder. Company will not pay his received fund from shareholder.

Deep accounting treatment is divided in following parts

1st Situation

Simple accounting treatment

In this situation shares issue at part and there is no pro-rata situation. So the following entry will pass

Share capital Account Debit called up amount of forfeited shares

Share forfeited Account Credit Amount received of forfeited shares

Share call in arrear Account Credit Amount did not receive of forfeited shares

2nd Situation

- When shares issue on discount and premium
- Dear friend if shares are issue on premium or on discount, then if we did not receive the premium, then we write in journal entry otherwise we will not show security premium account in share forfeiture journal entry
- Share capital Account Debit called up amount of forfeited shares
- Security premium account Debit If premium is not received from share holder
- Share forfeited Account Credit Amount received of forfeited shares
- Share Allotment Account Credit If allotment money is not received
- Share call in arrear Account Credit Amount did not receive of forfeited shares
- In case shares are issued on discount
- Share Capital Account Debit
- Share Forfeiture Account Credit

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- Share Allotment Account Credit
- Share call in arrear account credit
- Discount on issue of shares account credit

3rd Situation

- When shares issue pro-rata base
- In case there is also difficulty to calculate the net amount of allotment received in case some amount is not received and same person we have adjust some amount of share application.
- Calculate the net amount of allotment received
- Total amount of allotment money due xxxxxx
- Less Adjustment with application
- Money xxxxxx
- _____
- Xxxxxx
- Less Amount not received
- As forfeited shares
- Xxxxxxxx
- Less-xxxx
- Perportion in
- Not received amount
- Of adjusted application
- Money which is
- We received in advance
- Total not receive allotment x Total adjustment of application money/Total Allotment money = Net amount not received
- In the form of allotment xxxxxxxx-xxxx
- Net Amount received in the form of
- Allotment xxxxxx
- The following journal entry will passed

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- Share capital account Debit Called up capital
- Share forfeiture Account Credit Total Amount received of forfeited shares
- Share Allotment Account Credit Net amount not received in the form of allotment, for calculation of this amount you must understand and use above formula
- Share Call in Arrear Credit if you are not received any call money of share forfeited

4th Situation

- When shares fully reissue
- Reissue means sale to any other person after forfeiting from previous share holder.
- In this situation we can reissue of share in discount or premium. For doing this we have to pass the following journal entry
- Bank Account Debit
- Discount on issue of shares Debit
- Share forfeiture account Debit Discount on reissue of shares
- Share capital account Credit Face value of reissue of shares
- Security premium Account Credit If shares reissue at premium
- So difference between amount received from forfeiture and discount on reissue share will go to capital reserve account and following entry will passed
- Share forfeited account Debit
- Capital reserve account credit
- This capital reserve account will show in liability side of balance sheet of company.

5th Situation

- When Shares partly reissue
- It is most difficult situation when you will see the question paper and you found the sum where is pro-rata situation, then share holder did not pay and then these forfeited shares party reissue to another share holder because
- Above 4 situations will cover but in the 4th situation's last journal entry will pass after making forfeiture account in working note because only the amount go to capital reserve which is sold or reissue gain other will go to balance of share forfeiture account upto that date until we reissue all shares.
- Share forfeiture Account

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- Credit Side of this account
- By share capital Account 2000
- Suppose we get 100 shares forfeiture money received
- Rs. 20 per share
- _____
- 2000
- _____
- Debit Side of this account
- To share capital account 250
- Suppose we have reissue of 50 shares at reissue discount Rs. 5
- To capital Reserve account
- We will calculate this amount after deducting the proportion of of this gain according to sold shares
- $2000 \times 50/100 = 1000$
- To balance C/d 1000
- _____
- 2000
- Then following journal entry will pass
- Share forfeiture account Debit 750
- To capital Reserve Account Credit 750