Accounting for Share Capital

Standard difficulty · 20 questions · 40 marks · Time: 44 minutes

Name: _____ Date: _____ Score: ____ / 40

Show your working for Sections B and C. Answers are on the last page — try every question first!

Section A — Choose the correct answer — 8 × 1 = 8 marks

1. The maximum amount of share capital a company is allowed to raise is its:

(a) subscribed capital **(b)** paid-up capital
(c) issued capital **(d)** authorised capital

2. What is meant by “called-up capital”?

(a) the part of subscribed capital the company has asked shareholders to pay
(b) allotting shares to applicants in proportion to the shares they applied for
(c) the amount received over the face value of shares
(d) uncalled capital that a company resolves to call only on winding up

3. Securities premium may be used for:

(a) meeting day-to-day expenses
(b) paying salaries
(c) paying dividends
(d) providing for premium on redemption of debentures

4. Unlike preference shares, equity shares:

(a) have a dividend that varies with profit
(b) are repaid before equity shares on winding up
(c) usually have a fixed rate of dividend
(d) carry a preferential right to dividend

5. Riverstone Ltd issued 75,000 equity shares of ₹10 each, payable ₹2 on application, ₹8 on allotment (including premium of ₹3) and ₹3 on first and final call. All the shares were applied for and allotted. What amount is due on allotment?

(a) ₹7,50,000 **(b)** ₹3,75,000 **(c)** ₹1,50,000 **(d)** ₹6,00,000

6. Silverline Ltd issued shares of ₹10 each, payable ₹3 on application, ₹7 on allotment (including premium of ₹3) and ₹3 on first and final call. A shareholder holding 200 shares paid the application money but not the allotment or the call, and the shares were forfeited. What amount is credited to Share Forfeiture Account?

(a) ₹1,400 **(b)** ₹600 **(c)** ₹2,000 **(d)** ₹601

7. 2,900 shares of ₹10 each, on which ₹4 per share had been paid, were forfeited. 400 of them were reissued at ₹7 per share, fully paid. What amount is transferred to Capital Reserve?

(a) ₹400 **(b)** ₹10,400 **(c)** ₹1,600 **(d)** ₹1,200

8. Riverstone Ltd offered 82,000 shares of ₹10 each, payable ₹2 on application, ₹3 on allotment and ₹5 on first and final call. Applications were received for 102,500 shares and allotment was made pro rata. How much excess application money is adjusted towards allotment?

(a) ₹20,500 **(b)** ₹1,64,000 **(c)** ₹41,000 **(d)** ₹2,05,000

Section B — Short answer — 8 × 2 = 16 marks

9. Give two features of a company.

10. Explain each term: (a) securities premium (b) calls in advance

11. Brightway Ltd issued 28,000 shares of ₹10 each, payable ₹2 on application, ₹5 on allotment (including premium of ₹2) and ₹5 on first and final call. All money was received except the call on 2,900 shares. Find (a) the calls in arrears (b) the paid-up capital.

12. Bluebell Ltd received applications for 90,000 equity shares of ₹10 each with ₹2 per share on application, and allotted all of them. Pass the journal entries for receiving the application money and transferring it to share capital.

13. Shares of ₹10 each were issued, payable ₹2 on application, ₹9 on allotment (including premium of ₹5) and ₹4 on first and final call. A holder of 2,300 shares paid only the application money; all money was called up and the shares were forfeited. Pass the journal entry for the forfeiture.

14. 2,800 equity shares of ₹10 each, on which ₹4 per share had been paid, were forfeited. 900 of these shares were reissued at ₹10 per share as fully paid. Pass the journal entries for the reissue and the transfer to Capital Reserve.

15. Sunrise Ltd offered 29,000 shares of ₹10 each, payable ₹2 on application, ₹8 on allotment (including premium of ₹5) and ₹5 on first and final call. Applications for 43,500 shares were received and all applicants were allotted pro rata. Find the cash received on allotment.

16. Greenleaf Ltd made the first and final call of ₹5 per share on 43,000 shares. The holder of 1,800 shares did not pay. How much was received on the call, and what are the calls in arrears?

Section C — Word problems — 4 × 4 = 16 marks

17. Explain the different categories of share capital shown in a company's balance sheet.

18. Brightway Ltd issued 65,000 equity shares of ₹10 each, payable ₹4 on application, ₹4 on allotment and ₹2 on first and final call. All shares were applied for and allotted, and all money was received. Pass the journal entries.

19. Silverline Ltd issued shares of ₹10 each, payable ₹2 on application, ₹3 on allotment and ₹5 on first and final call. A holder of 1,600 shares paid only the application money, and the shares were forfeited after the call. 900 of them were reissued at ₹9 per share, fully paid. Pass the journal entries for the forfeiture, the reissue and the transfer to Capital Reserve.

20. Northstar Ltd has an authorised capital of ₹19,20,000 in equity shares of ₹10 each. It issued 64,000 shares; all were subscribed and fully called up. A holder of 2,200 shares, who had paid ₹2 per share, failed to pay the rest, and the shares were forfeited (not yet reissued). In the note on share capital, find (a) the issued capital (b) subscribed and fully paid capital (c) the forfeited shares amount (d) the share capital shown in the balance sheet.

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Answer key

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Q	Answer	Working
1	**(d) authorised capital**	—
2	**(a) the part of subscribed capital the company has asked shareholders to pay**	—
3	**(d) providing for premium on redemption of debentures**	—
4	**(a) have a dividend that varies with profit**	—
5	**(d) ₹6,00,000**	75,000 × ₹8
6	**(b) ₹600**	200 × ₹3 (the capital paid)
7	**(a) ₹400**	400 × (₹4 − ₹3)
8	**(c) ₹41,000**	(102,500 − 82,000) × ₹2
9	**Any two: separate legal entity, perpetual succession, limited liability, transferability of shares, common seal, separation of ownership and management.**	—
10	**(a) the amount received over the face value of shares (b) amounts received from shareholders before they are called up**	—
11	**(a) ₹14,500; (b) ₹2,65,500**	(a) 2,900 × ₹5 (b) 28,000 × ₹10 − ₹14,500
12	**(i) Bank A/c Dr. ₹1,80,000** **To Equity Share Application A/c ₹1,80,000** **(ii) Equity Share Application A/c Dr. ₹1,80,000** **To Equity Share Capital A/c ₹1,80,000**	90,000 × ₹2
13	**Equity Share Capital A/c Dr. ₹23,000** **Securities Premium A/c Dr. ₹11,500** **To Equity Share Allotment A/c ₹20,700** **To Equity Share First and Final Call A/c ₹9,200** **To Share Forfeiture A/c ₹4,600**	capital called up 2,300 × ₹10; premium not received 2,300 × ₹5; amount paid 2,300 × ₹2
14	**(i) Bank A/c Dr. ₹9,000** **To Equity Share Capital A/c ₹9,000** **(ii) Share Forfeiture A/c Dr. ₹3,600** **To Capital Reserve A/c ₹3,600**	forfeited on reissued shares 900 × ₹4; discount 900 × ₹0; capital reserve ₹3,600
15	**₹2,03,000**	due 29,000 × ₹8 = ₹2,32,000; less excess application money ₹29,000

Q	Answer	Working
16	**₹2,06,000; ₹9,000**	41,200 × ₹5; 1,800 × ₹5
17	**Authorised, issued, subscribed (fully paid, and subscribed but not fully paid), called-up and paid-up capital, with calls in arrears deducted and forfeited shares added.**	—
18	**(i) Bank A/c Dr. ₹2,60,000** **To Equity Share Application A/c ₹2,60,000** **(ii) Equity Share Application A/c Dr. ₹2,60,000** **To Equity Share Capital A/c ₹2,60,000** **(iii) Equity Share Allotment A/c Dr. ₹2,60,000** **To Equity Share Capital A/c ₹2,60,000** **(iv) Bank A/c Dr. ₹2,60,000** **To Equity Share Allotment A/c ₹2,60,000** **(v) Equity Share First and Final Call A/c Dr. ₹1,30,000** **To Equity Share Capital A/c ₹1,30,000** **(vi) Bank A/c Dr. ₹1,30,000** **To Equity Share First and Final Call A/c ₹1,30,000**	application 65,000 × ₹4; allotment × ₹4; call × ₹2
19	**(i) Equity Share Capital A/c Dr. ₹16,000** **To Equity Share Allotment A/c ₹4,800** **To Equity Share First and Final Call A/c ₹8,000** **To Share Forfeiture A/c ₹3,200** **(ii) Bank A/c Dr. ₹8,100** **Share Forfeiture A/c Dr. ₹900** **To Equity Share Capital A/c ₹9,000** **(iii) Share Forfeiture A/c Dr. ₹900** **To Capital Reserve A/c ₹900**	forfeited ₹3,200; on reissued shares 900 × (₹2 − ₹1) = ₹900 to Capital Reserve; balance ₹1,400 stays in Share Forfeiture
20	**(a) ₹6,40,000; (b) ₹6,18,000; (c) ₹4,400; (d) ₹6,22,400**	(b) 61,800 × ₹10 (c) 2,200 × ₹2 (d) (b) + (c)

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