



# Collegedunia NCERT Notes

NCERT Class 12 Accountancy Notes – Part 2 Chapter 1 Accounting for Share Capital

## Part 2 Chapter 1: Accounting for Share Capital

**What this chapter covers:** features of a company, kinds of companies, classes of share capital (authorised, issued, subscribed, called-up, paid-up, reserve), preference and equity shares, the share issue procedure (application, allotment, calls), accounting treatment under full subscription, calls-in-arrears and calls-in-advance, over-subscription with pro-rata allotment, under-subscription, shares issued at a premium and the use of the Securities Premium Account under Section 52 of the Companies Act 2013, shares issued for consideration other than cash (asset purchase and promoter services), forfeiture of shares for non-payment of calls, and reissue of forfeited shares. Session 2026-27.

Also see for this chapter: [NCERT Solutions](#) | [Formula Sheet](#)

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## 1 Joint Stock Company – Form of Business Organisation

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A **joint stock company** is an artificial person created by law. Its capital is contributed by a large number of persons called **shareholders**, who are the real owners but who appoint a Board of Directors to manage the company's affairs. Companies in India are governed by the **Companies Act, 2013**.

Chief Justice Marshall famously defined a company as "a person, artificial, invisible, intangible and existing only in the eyes of law." A company raises its capital primarily through two routes: **share capital** (equity / preference shares) and **debt capital** (debentures). Part 2 Chapter 1 deals exclusively with share capital; debentures are covered in Part 2 Chapter 2.

## 1.1 Distinctive features of a company

### Seven Distinguishing Features

1. **Body Corporate.** Formed and registered under the Companies Act 2013 (or earlier Acts / a separate Act in case of banking and insurance).
2. **Separate Legal Entity.** A company is distinct from its members. It can own property, enter contracts, sue and be sued in its own name.
3. **Limited Liability.** A shareholder's liability is limited to the unpaid amount on the shares he or she holds.
4. **Perpetual Succession.** "Members may come and go but the company goes on." Death, insolvency or change of any member does not affect its existence.
5. **Common Seal.** The official signature of the company (now optional under the 2015 amendment, but still common in practice).
6. **Transferability of Shares.** Shares of a public limited company are freely transferable; private companies restrict transfer through their Articles.
7. **May Sue or Be Sued.** Being a legal person, the company can sue and be sued in its own name.

## 1.2 Kinds of companies

Companies are classified on two bases – liability of members and number of members.

Basis	Category	Key feature
Liability	Limited by shares	Liability up to unpaid value of shares
Liability	Limited by guarantee	Liability up to guaranteed amount, payable on winding up
Liability	Unlimited	No cap on member liability
Members	Public company	Not a private company; min 7 members
Members	Private company	Restricts transfer; max 200 members; min 2
Members	One Person Company (OPC)	Single member, only Indian-resident natural person

### Quick Tip

OPC rules (Sec 2(62) + Rule 3, Companies (Incorporation) Rules 2014): only a natural-person resident-Indian citizen; cannot do non-banking financial investment; paid-up capital  $\leq$  Rs. 50 lakh; average turnover (3 yrs)  $\leq$  Rs. 2 crore.

These boundary numbers are favourite 1-mark MCQ targets.

### Real-World Application

In India, listed-issuer IPOs (Reliance Power 2008, Coal India 2010, LIC 2022) routinely see applications running into multi-times of the offered shares. SEBI mandates electronic pro-rata allotment so retail investors get a fair fraction of what they applied for. The five-into-four pro-rata example you study here is exactly how the back-office software splits a 6× over-subscribed IPO across lakhs of retail bids.

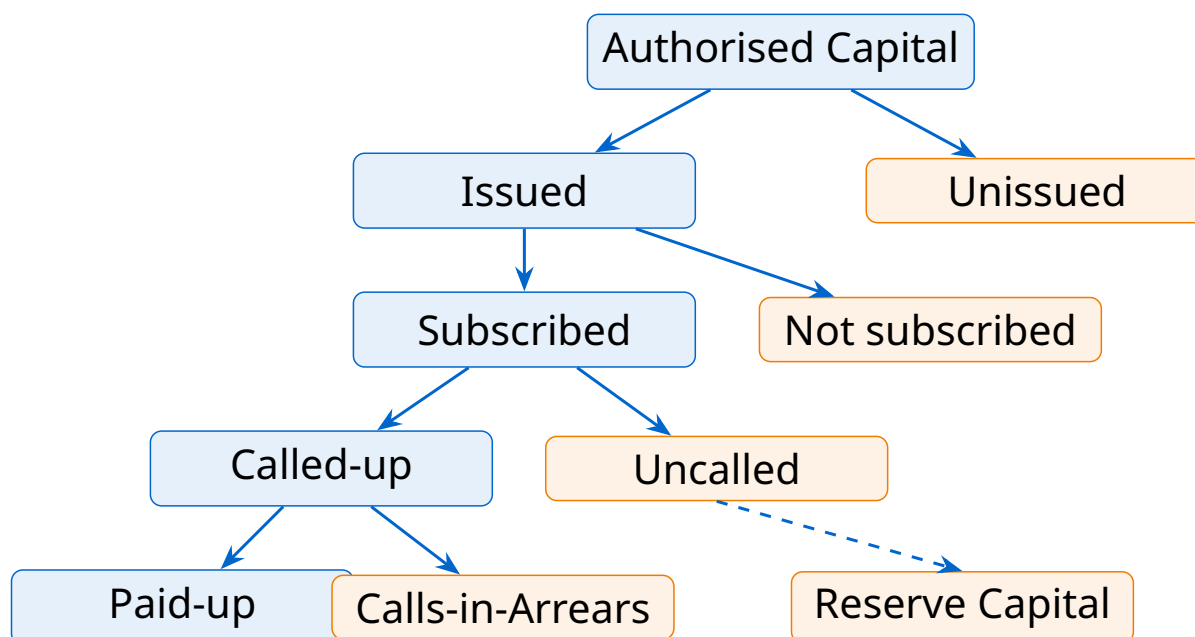
## 2 Share Capital of a Company – Six Categories

**Share capital** is the total capital a company raises by issuing shares. Because the number of shareholders is very large, instead of maintaining a capital account for each, the company maintains a single **Share Capital Account**.

### 2.1 The six categories of share capital

#### Six Layers of Share Capital

1. **Authorised / Nominal / Registered Capital.** The maximum amount the company is permitted to raise as per its Memorandum of Association.
2. **Issued Capital.** The portion of authorised capital actually offered to the public for subscription.
3. **Subscribed Capital.** The portion of issued capital actually applied for by the public. (If under-subscribed, < issued; if over-subscribed, capped at issued.)
4. **Called-up Capital.** The portion of subscribed capital the company has demanded from shareholders so far.
5. **Paid-up Capital.** The portion of called-up capital actually received. *Paid-up = Called-up – Calls-in-Arrears.*
6. **Reserve Capital.** A portion of uncalled capital that the company resolves to call only on winding up (Sec 65, Companies Act 2013).



Flow of share-capital categories.  $\text{Subscribed} = \text{Called-up} + \text{Uncalled}$ .  $\text{Called-up} = \text{Paid-up} + \text{Calls-in-Arrears}$ . Reserve Capital is a sealed-off portion of Uncalled.

### Common Mistake

#### Reserve Capital vs Capital Reserve are NOT the same.

- **Reserve Capital** = uncalled capital set aside for winding up (a share-capital concept).
- **Capital Reserve** = a reserve created out of capital profits (e.g., profit on forfeiture, profit on revaluation). It is a balance-sheet equity item under "Reserves and Surplus".

This 1-mark distinction appears almost every alternate year.

## 2.2 Showing share capital in the Balance Sheet – worked example

Sunrise Co. Ltd. registered Rs. 40,00,000 (4,00,000 shares of Rs. 10). It offered 2,00,000 shares to public at Rs. 2 on application, Rs. 3 on allotment, Rs. 3 on first call, and Rs. 2 on final call (final call not yet made). All money received except on 2,000 shares (final call not made; calls-in-arrears on first call Rs. 3 each  $\times$  2,000 = Rs. 6,000).

Share Capital - Notes to Accounts (Rs.)		
Authorised: 4,00,000 shares of Rs. 10		40,00,000
Issued: 2,00,000 shares of Rs. 10		20,00,000
Subscribed but not fully paid up:		
2,00,000 shares of Rs. 10, Rs. 8 called up	16,00,000	
Less: Calls in Arrears	(6,000)	15,94,000

### 3 Nature and Classes of Shares

A **share** is the smallest fractional unit into which the share capital of a company is divided. Per Section 43 of the Companies Act 2013, a company may issue **two classes of shares**: preference shares and equity shares.

#### 3.1 Preference shares (Sec 43, Companies Act 2013)

A preference share satisfies **both** of these tests:

1. It carries a **preferential right to dividend** – either a fixed amount, or a fixed rate of the nominal value, before any dividend is paid to equity shareholders.
2. On winding up, it carries a **preferential right to repayment of capital** before any payment to equity shareholders.

**Sub-classes of preference shares** (three opposite-pair groupings):

- *Cumulative vs Non-cumulative.* Cumulative: unpaid dividend carries forward (ar-rears) to future years.
- *Participating vs Non-participating.* Participating: shares in surplus profits beyond fixed dividend.
- *Convertible vs Non-convertible.* Convertible: can be turned into equity after a stated period.
- *Redeemable vs Irredeemable.* Redeemable: repayable on a stated date. (Since 1988 Indian companies cannot issue irredeemable preference shares; max redemption term = 20 years, or 30 years for infrastructure projects.)

#### 3.2 Equity shares

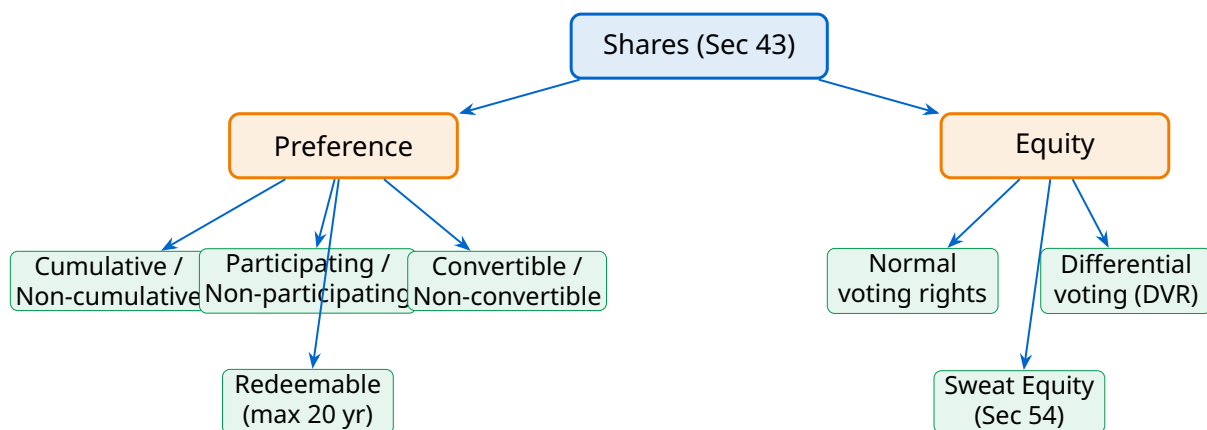
An equity share is one which is **not** a preference share. Equity shareholders receive dividend only after preference dividend is paid, and only out of distributable profits – the dividend rate is therefore not fixed and varies year to year. Equity may be issued either (i) with normal voting rights or (ii) with differential rights as to voting, dividend or otherwise (DVR shares).

#### 3.3 Preference vs equity at a glance

Aspect	Preference Shares	Equity Shares
Dividend rate	Fixed (rate or amount)	Variable, recommended by Board
Order of dividend	Paid first	Paid after preference
Order on winding up	Capital repaid first	Repaid after preference
Voting rights	Limited (only on resolutions affecting them)	Full
Type of return	Quasi-debt	True ownership / residual claim
Right to surplus	Only if participating	Always (residual owners)

**Memory Aid**

**C-P-C-R for preference share sub-types:** Cumulative, Participating, Convertible, Redeemable – and each has its non-opposite. Memorise as 4 pairs.



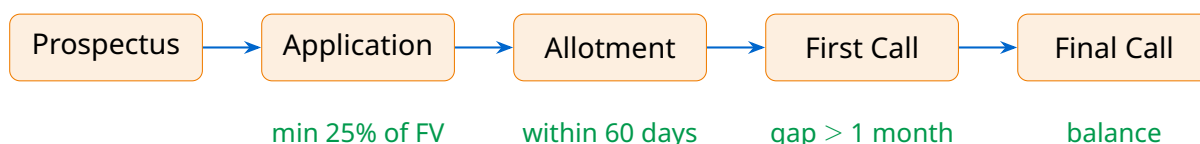
Sec 43 splits share capital into two classes. Preference shares carry four sub-type pairs; equity sub-divides into normal-voting, DVR and sweat-equity variants.

## 4 Issue of Shares – the Three-Stage Procedure

A company may collect the issue price of a share in instalments. The standard flow is: **Application** → **Allotment** → **Calls**. The first call, second call and so on are named in sequence; the last call is called the *final call*.

### 4.1 Procedural steps

1. **Issue of Prospectus.** A formal invitation to the public; describes the company, the issue size, and the instalment schedule.
2. **Receipt of Applications.** Investors submit applications with the application money to a scheduled bank. As per SEBI rules, the minimum application money is at least 25% of face value, and the bank holds the money until allotment is finalised.
3. **Allotment.** The Board (subject to SEBI/Stock Exchange minimum-subscription rules of 90% of issued capital) allots shares. If under-subscribed below 90%, the entire amount is refunded. Allotment is a contractual offer accepted by the applicant.
4. **Calls.** The remaining instalments (first call, second call, ..., final call) are requested through a Board resolution and notified to shareholders.



Standard timeline of share-issue collections. SEBI prescribes the minimum application money (25%) and the gap between successive calls (at least one month, max amount of each call not exceeding 25% of face value).

## 5 Accounting Treatment – Journal Entries on Issue of Shares

The accounting recognises every instalment as a separate phase. The Share Capital A/c is credited only with the *face value* part of every instalment (premium is credited to the Securities Premium A/c separately).

### 5.1 Standard journal entries (issue at par, full subscription)

#### The Six Core Entries

**(1) Receipt of application money**

Dr. Bank A/c  
Cr. Share Application A/c

**(2) Application → Capital on allotment**

Dr. Share Application A/c  
Cr. Share Capital A/c  
Cr. Bank A/c (refund of rejected applicants, if any)

**(3) Allotment money due**

Dr. Share Allotment A/c  
Cr. Share Capital A/c

**(4) Receipt of allotment money**

Dr. Bank A/c  
Cr. Share Allotment A/c

**(5) First call money due**

Dr. Share First Call A/c  
Cr. Share Capital A/c

**(6) Receipt of first call**

Dr. Bank A/c  
Cr. Share First Call A/c

**(Repeat 5–6 for second/third/final call.)**

**Worked Illustration.** Eastern Co. Ltd. issued 10,000 equity shares of Rs. 10 at par, payable Rs. 3 on application, Rs. 3 on allotment, Rs. 2 on first call and Rs. 2 on final call. All shares fully subscribed and all amounts received. Pass the journal entries.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Bank A/c Dr. To Share Application A/c	30,000	30,000
Share Application A/c Dr. To Share Capital A/c	30,000	30,000
Share Allotment A/c Dr. To Share Capital A/c	30,000	30,000
Bank A/c Dr. To Share Allotment A/c	30,000	30,000
Share First Call A/c Dr. To Share Capital A/c	20,000	20,000
Bank A/c Dr. To Share First Call A/c	20,000	20,000
Share Final Call A/c Dr. To Share Capital A/c	20,000	20,000
Bank A/c Dr. To Share Final Call A/c	20,000	20,000

### Quick Tip

The Share Capital A/c always receives credits at face value only. Even at premium issues, the Share Capital A/c is credited with the face-value portion; the premium goes to a separate Securities Premium A/c.

## 5.2 Calls in Arrears

When a shareholder fails to pay an allotment or call instalment on the due date, the unpaid amount is called **Calls in Arrears**. Two recording methods are used:

**Method 1 – No separate account.** The unpaid Allotment / Call A/c is left with a debit balance equal to the arrear; shown as a deduction from Subscribed Capital in the balance sheet.

**Method 2 – Calls-in-Arrears A/c opened (preferred).** The arrear is transferred from the Allotment / Call A/c so the latter is fully closed:

- Dr. Calls in Arrears A/c
- Cr. Share Allotment / Call A/c

On the balance-sheet date, Calls in Arrears appears as a deduction from Subscribed Capital under Note "Share Capital".

**Interest on Calls-in-Arrears.** As per Table F of Schedule I to the Companies Act 2013, interest is chargeable at up to **10% p.a.** from the due date until payment. (The Articles may prescribe a different rate.)

- Interest due: Dr. Sundry Member A/c; Cr. Interest on Calls-in-Arrears A/c.
- Interest received: Dr. Bank; Cr. Sundry Member A/c.

## 5.3 Calls in Advance

When a shareholder pays an instalment *before* it is called, the excess is credited to **Calls in Advance A/c** (a current liability, NOT share capital, until the call is made).

**Entry on receipt of advance:** Dr. Bank; Cr. Calls in Advance A/c.

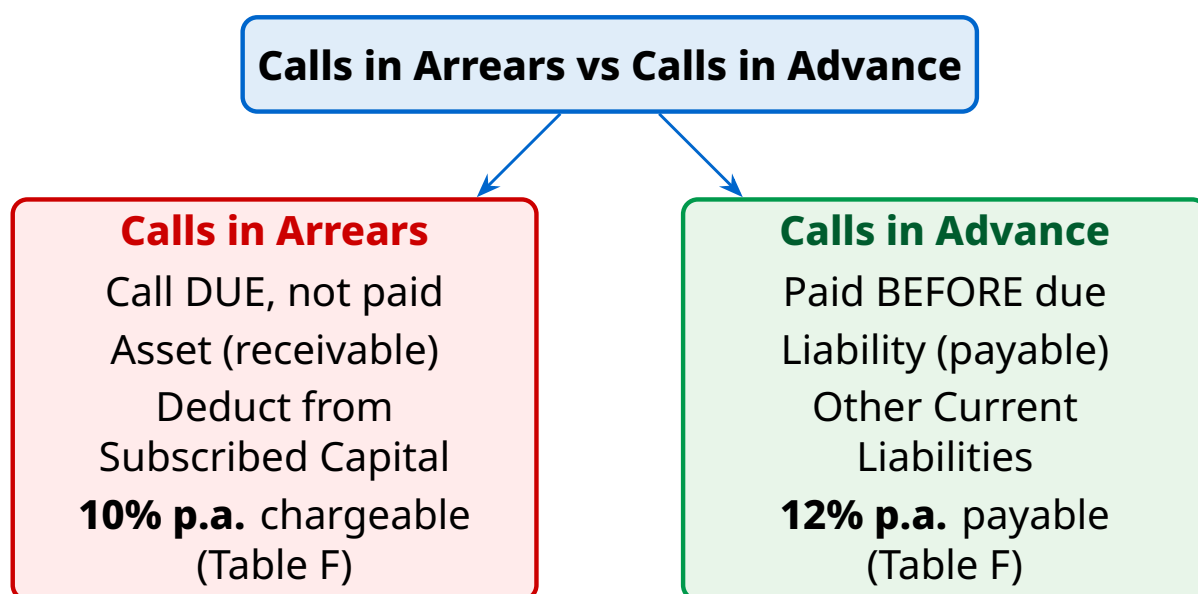
**When the call is later made:** Dr. Calls in Advance; Cr. Share First/Second Call A/c.

**Interest on Calls-in-Advance.** Table F rate is up to **12% p.a.** (payable BY the company TO the shareholder), running from the date of receipt to the date the call is due.

Aspect	Calls in Arrears	Calls in Advance
Meaning	Call due but unpaid	Call paid before due
Nature	Asset of company (receivable)	Liability of company (payable)
Balance-sheet placement	Deduction from Subscribed Capital	Under "Other Current Liabilities"
Interest rate (Table F)	Up to 10% p.a. chargeable	Up to 12% p.a. payable
Cash direction	Company will RECEIVE	Company will ADJUST against future call
Voting / dividend	No voting on arrears; no dividend on unpaid portion	No dividend on advance until adjusted

### Common Mistake

The interest rates are asymmetric – **10% on arrears, 12% on advance**. The company is more lenient when paying out than when receiving (it has to incentivise prepayment). Students very often invert these.



*The two opposite mistakes on call timing: one delays payment, the other pre-pays. The asymmetric Table F interest rates (10% vs 12%) are a perennial exam test.*

## 6 Over-Subscription – Pro-Rata Allotment

When the company receives applications for **more shares than it offered**, the issue is over-subscribed. Three treatment options:

1. **Reject excess applications and refund.** Money refunded by the company; only original allotment proceeds with the rest.
2. **Pro-rata allotment.** Excess application money is retained and adjusted against subsequent calls (typically allotment). No refund needed.
3. **Combination.** Some applications fully rejected, others allotted on pro-rata basis.

### 6.1 Pro-rata allotment – the mechanics

#### Pro-Rata Allotment Worked Through

**Setup.** Company offers  $N$  shares. Receives applications for  $M$  shares ( $M > N$ ). Decides to allot pro-rata.

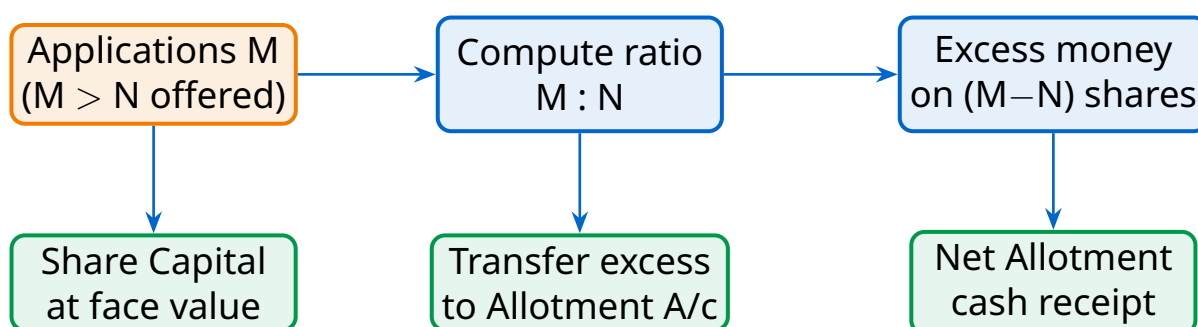
**Step 1.** Determine the ratio  $M : N$ . If  $M = 1,25,000$  and  $N = 1,00,000$ , ratio is  $5 : 4$  (every 5 applied get 4 allotted).

**Step 2.** Excess application money on  $(M - N)$  shares is to be transferred to Allotment A/c.

**Step 3.** The journal entry on allotment:

- Dr. Share Application A/c (face-value portion on  $M$  shares)
- Cr. Share Capital A/c (face-value portion on  $N$  shares allotted at application)
- Cr. Share Allotment A/c (excess money applied toward allotment dues)
- Cr. Bank A/c (cash actually refunded, if any)

**Step 4.** On the allotment due date: the allotment-due entry is reduced by the excess already adjusted, and only the net balance is received in cash.



*Pro-rata allotment flow: excess application money on rejected shares is never refunded in cash; it is carried over and credited against the allotment instalment due on the allotted shares.*

**Illustration.** Company issued 1,00,000 shares of Rs. 10 at par; application money Rs. 3, allotment Rs. 3, first call Rs. 2, final call Rs. 2. Received applications for 1,25,000 shares. Allotted pro-rata (5 applied : 4 allotted) to all.

- Application money received =  $1,25,000 \times 3 = \text{Rs. } 3,75,000$ .
- Application money required (1,00,000 shares  $\times$  Rs. 3) = Rs. 3,00,000.
- Excess on application =  $25,000 \times 3 = \text{Rs. } 75,000 \rightarrow$  transferred to Allotment.
- Allotment money due (1,00,000 shares  $\times$  Rs. 3) = Rs. 3,00,000.
- Allotment money to be received in cash =  $3,00,000 - 75,000 = \text{Rs. } 2,25,000$ .

### Journal Entry on Allotment.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c	3,75,000	3,00,000 75,000
Share Allotment A/c Dr. To Share Capital A/c	3,00,000	3,00,000
Bank A/c Dr. To Share Allotment A/c	2,25,000	2,25,000

#### Quick Tip

**Test of arithmetic.** Total credits to Share Capital after all entries = number of shares allotted  $\times$  face value. In this case  $1,00,000 \times \text{Rs. } 10 = \text{Rs. } 10,00,000$ . If your trial doesn't sum to this, recheck.

## 6.2 Under-Subscription

If applications received are less than what was offered, two cases:

- **Subscription  $\geq$  90% of issued (minimum subscription threshold).** Proceed with allotment for the lower number actually subscribed. No refund of rejected applications because none rejected.
- **Subscription  $<$  90%.** Per SEBI / Sec 39, allotment cannot proceed; the entire application money is refunded.

## 7 Issue of Shares at a Premium (Sec 52, Companies Act 2013)

A company issues shares at a **premium** when the issue price exceeds the face value. The premium is credited to the **Securities Premium Account** (a reserve under Reserves & Surplus).

## 7.1 Standard journal entry

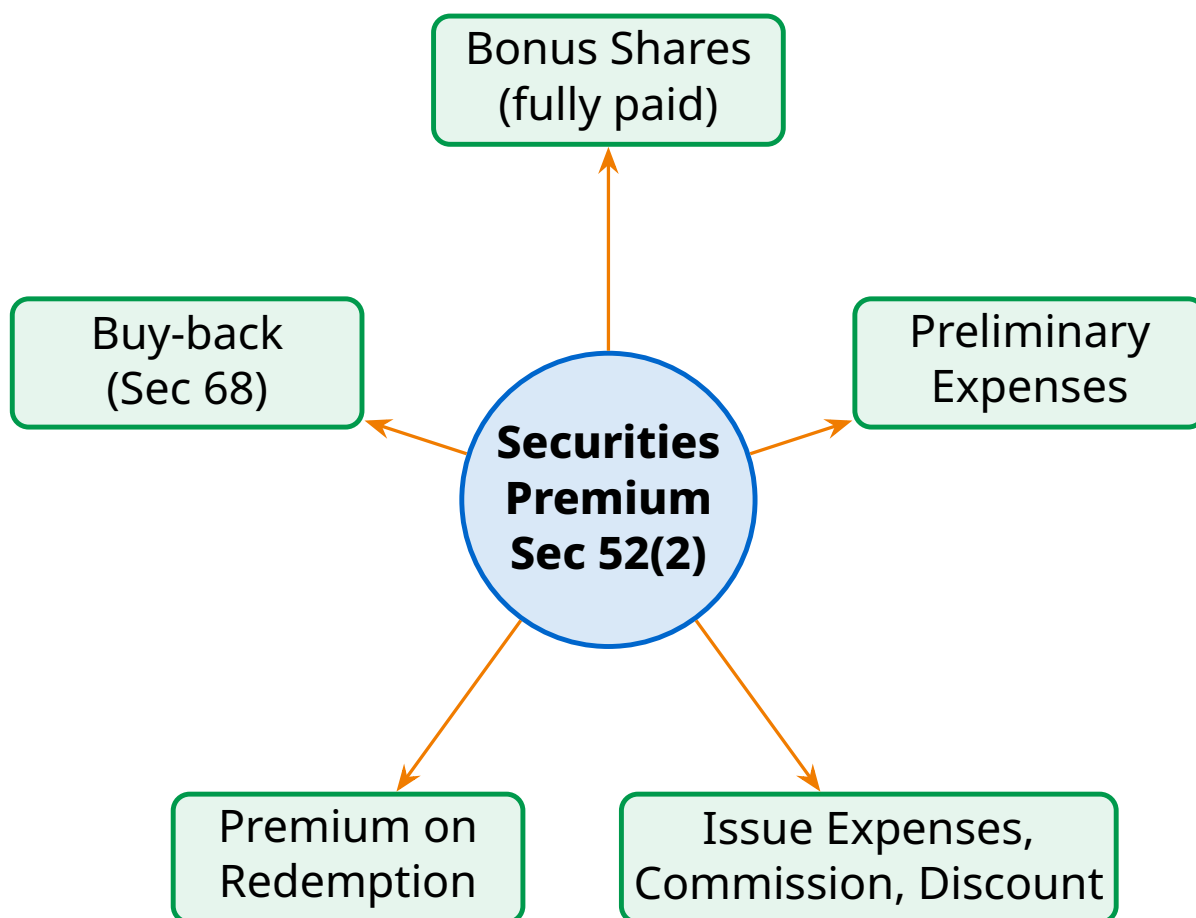
**Entry on receipt of premium (assume premium with allotment, common practice):**

- Dr. Share Allotment A/c (face value + premium)
- Cr. Share Capital A/c (face value only)
- Cr. Securities Premium A/c (premium portion)

## 7.2 Permissible uses of Securities Premium (Sec 52(2), Companies Act 2013)

### Sec 52(2) – the Five Uses

1. **Issue of fully-paid bonus shares.**
2. **Writing off preliminary expenses** of the company.
3. **Writing off the expenses of, or commission paid or discount allowed on,** the issue of any shares or debentures.
4. **Providing for the premium payable on redemption** of redeemable preference shares or debentures.
5. **Buy-back** of its own shares or other securities under Sec 68.



*The five permitted uses radiate from the Securities Premium Account. Anything outside these spokes (such as paying dividend or operating losses) is not allowed.*

#### Common Mistake

Securities Premium **cannot** be used to pay equity dividend, write off operating losses, or finance day-to-day expenses. It is restricted to the five capital-nature uses above. A common 1-mark trap is “Can securities premium be used to pay equity dividend?” (Answer: No.)

**Illustration.** Aurora Ltd. issued 50,000 equity shares of Rs. 10 at a premium of Rs. 2 (issue price Rs. 12). Payable Rs. 3 on application, Rs. 5 (incl. Rs. 2 premium) on allotment, Rs. 2 first call, Rs. 2 final call. All money received.

#### Allotment entry:

- Dr. Share Allotment A/c Rs. 2,50,000
- Cr. Share Capital A/c Rs. 1,50,000 (50,000 × Rs. 3 face)
- Cr. Securities Premium A/c Rs. 1,00,000 (50,000 × Rs. 2)

### 7.3 Issue of shares at a discount

Under **Section 53 of the Companies Act 2013**, issue of shares at a discount is **prohibited** (with one narrow exception: **sweat equity shares** under Sec 54 may

be issued at a discount). Any issue contrary to Sec 53 is void.

### Quick Tip

Under the old Companies Act 1956, Sec 79 permitted discount issues subject to conditions. The 2013 Act tightened this – any question asking “Can a company issue equity at 10% discount today?” has answer **No, prohibited by Sec 53.**

Solve the NCERT Exercises □

## 8 Issue of Shares for Consideration Other Than Cash

A company may issue shares to vendors or promoters as payment for assets purchased or services rendered, instead of cash. The accounting routes the consideration through a Vendors A/c or directly recognises the asset / expense.

### 8.1 Issue to vendors for purchase of assets

#### Steps:

1. Record purchase of asset: Dr. Sundry Assets A/c; Cr. Vendors A/c (at agreed purchase price).
2. Settle vendor by issue of shares: Dr. Vendors A/c; Cr. Share Capital A/c (face) [+ Cr. Securities Premium if at premium] [or Dr. Discount on Issue if at discount, only where permitted].

**Number of shares to issue** = Purchase consideration ÷ Issue price per share.

**Illustration.** Bharat Ltd. buys plant from Rana & Co. for Rs. 6,00,000 and settles by issuing equity shares of Rs. 10 at a premium of Rs. 2 (i.e., issue price Rs. 12).

Number of shares to issue =  $6,00,000 \div 12 = 50,000$  shares.

#### Entries:

- |                              |                                |              |
|------------------------------|--------------------------------|--------------|
| • Dr. Plant A/c              |                                | Rs. 6,00,000 |
| • Cr. Rana & Co. A/c         |                                | Rs. 6,00,000 |
| • Dr. Rana & Co. A/c         |                                | Rs. 6,00,000 |
| • Cr. Share Capital A/c      | Rs. 5,00,000 (50,000 × Rs. 10) |              |
| • Cr. Securities Premium A/c | Rs. 1,00,000 (50,000 × Rs. 2)  |              |

### 8.2 Issue to promoters for services rendered

When shares are issued to promoters in lieu of cash payment for incorporation services, the consideration is debited to **Goodwill A/c** (an intangible asset).

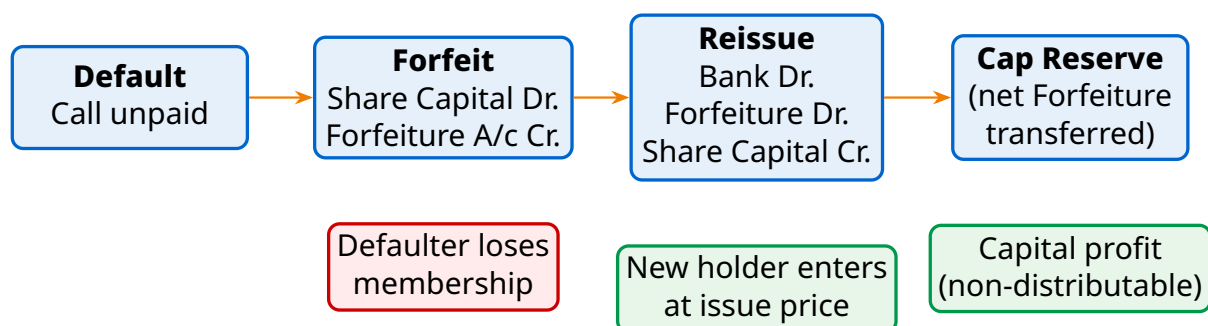
- Dr. Goodwill A/c
- Cr. Share Capital A/c (and Securities Premium, if at premium)

### Real-World Application

This is how Indian startup founders are typically issued “founder equity” on incorporation: a small Goodwill / formation-expense entry is set up against share-capital credit, even though no cash changes hands. The pattern shows up directly in private-company opening balance sheets.

## 9 Forfeiture of Shares

When a shareholder fails to pay allotment or any call after due notice, the directors may **forfeit** those shares – i.e., cancel the share-holder’s title and re-claim the shares for the company. The Articles must authorise forfeiture (Table F, Reg 28–34 of the Companies Act 2013, applies by default).



*Four stages of a forfeiture-and-reissue cycle. The Forfeiture A/c rises on default and is squeezed by the reissue discount; the residual is transferred to Capital Reserve.*

### 9.1 Effect of forfeiture

- Membership of the defaulting shareholder ends.
- Amount already received (application + allotment + earlier calls, if any) is **not refunded** – it is the company’s gain.
- The shares are available for re-issue (at the discretion of directors).

## 9.2 Journal entry for forfeiture

### Forfeiture – The Master Entry

#### Case A. Shares issued at par.

- Dr. Share Capital A/c (face value  $\times$  number of shares forfeited, i.e., called-up amount)
- Cr. Share Forfeiture A/c (amount already paid by defaulter)
- Cr. Calls-in-Arrears A/c (or specific Allotment / Call A/cs) (amount unpaid)

#### Case B. Shares issued at premium, premium already received.

- Dr. Share Capital A/c (called-up face value)
- Cr. Share Forfeiture A/c (amount paid, including the premium portion which is NOT reversed because already received)
- Cr. Calls in Arrears A/c (amount unpaid)

#### Case C. Shares issued at premium, premium NOT yet received.

- Dr. Share Capital A/c (called-up face value)
- Dr. Securities Premium A/c (premium amount, REVERSED)
- Cr. Share Forfeiture A/c (amount actually paid)
- Cr. Calls in Arrears A/c (amount unpaid)

### Common Mistake

**The premium reversal rule:** if the Securities Premium A/c was credited but the cash for premium was never received, you must Dr. Securities Premium A/c on forfeiture to reverse it. If the premium WAS received before default, do NOT touch the Securities Premium A/c. Examiners love testing this distinction.

**Illustration – Forfeiture at par.** Sundaram Ltd. forfeited 200 shares of Rs. 10 (Rs. 10 called up) for non-payment of final call of Rs. 2 per share. (Application + allotment + first call = Rs. 8 already received.)

- |                            |                                 |
|----------------------------|---------------------------------|
| • Dr. Share Capital A/c    | Rs. 2,000 (200 $\times$ Rs. 10) |
| • Cr. Share Forfeiture A/c | Rs. 1,600 (200 $\times$ Rs. 8)  |
| • Cr. Calls in Arrears A/c | Rs. 400 (200 $\times$ Rs. 2)    |

## 9.3 Forfeiture under pro-rata allotment – the trickier case

When forfeited shares were originally allotted on a pro-rata basis, the defaulter had **already paid excess application money** which was adjusted toward allotment. So when computing what was paid by him on allotment, you must reverse-engineer: amount applied  $\times$  application-price MINUS face-value-on-application allocation = excess applied toward allotment.

**Illustration.** Suresh held 200 shares allotted at 5 : 4 ratio. He paid the application money of Rs. 3 but failed on allotment of Rs. 5 (incl. Rs. 2 premium).

- Number of shares he originally applied for =  $200 \times (5/4) = 250$ .
- Application money paid =  $250 \times 3 = \text{Rs. } 750$ .
- Application money required (200 shares  $\times$  Rs. 3) = Rs. 600.
- Excess application money on hand =  $750 - 600 = \text{Rs. } 150$ . Already credited to allotment.
- Allotment due ( $200 \times \text{Rs. } 5$ ) = Rs. 1,000. Less adjustment Rs. 150. Net Allotment unpaid = Rs. 850.

## 10 Reissue of Forfeited Shares

After forfeiture, the directors may reissue the shares to a new buyer. The Companies Act allows reissue at par, at a premium or at a discount. **The discount on reissue cannot exceed the amount earlier received from the original defaulter** (i.e., the Forfeiture A/c balance attached to those shares).

### 10.1 Standard reissue entries

#### Case A. Reissue at par or at premium.

- Dr. Bank A/c (amount received from new buyer)
- Cr. Share Capital A/c (face value of shares reissued)
- Cr. Securities Premium (if reissued at premium)

#### Case B. Reissue at a discount (discount $\leq$ forfeiture amount).

- Dr. Bank A/c (received amount)
- Dr. Share Forfeiture A/c (discount = face value – received per share)
- Cr. Share Capital A/c (face value of reissued shares)

### 10.2 Transfer of remaining balance to Capital Reserve

After reissue, the **balance in Share Forfeiture A/c** attributable to the reissued shares is transferred to **Capital Reserve** (a capital profit):

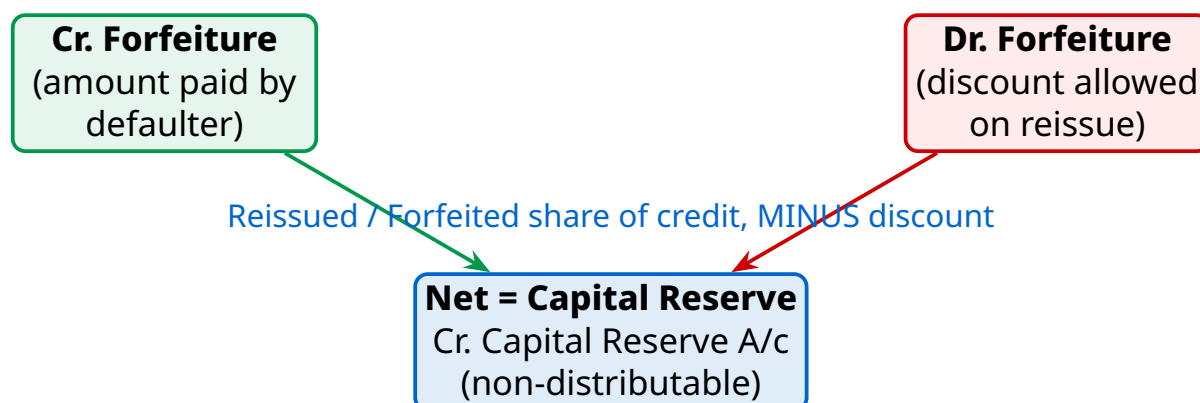
- Dr. Share Forfeiture A/c
- Cr. Capital Reserve A/c

#### The Two-Step Mental Model

**(1) On forfeiture**, Share Forfeiture A/c is CREDITED with what the defaulter had paid.

**(2) On reissue**, Share Forfeiture A/c is DEBITED with the discount on reissue.

**(3) Net (Cr. - Dr.) is a capital profit** → transferred to **Capital Reserve**.  
**Critical guard:** discount on reissue  $\leq$  original forfeiture amount per share.  
 Otherwise the company would be reissuing at a real loss, which is not allowed.



*Capital Reserve on reissue: the residue of the Share Forfeiture A/c attributable to reissued shares, after absorbing the discount allowed on reissue.*

### 10.3 Worked illustration – complete forfeiture-and-reissue cycle

Pioneer Ltd. issued 1,000 shares of Rs. 10 at par. Payable Rs. 3 application, Rs. 3 allotment, Rs. 2 first call, Rs. 2 final call. Anand, holder of 100 shares, paid application and allotment but failed on first call (Rs. 2) and final call (Rs. 2). Directors forfeited his 100 shares. Later, 60 of these shares were reissued to Bina at Rs. 7 per share, fully paid.

#### Step 1: Forfeiture of 100 shares.

- Money paid by Anand =  $100 \times \text{Rs. } 6 = \text{Rs. } 600$ . (Application + Allotment)
- Money unpaid =  $100 \times \text{Rs. } 4 = \text{Rs. } 400$ . (First + Final Call)
- Dr. Share Capital A/c Rs. 1,000 (100 × Rs. 10)
- Cr. Share Forfeiture A/c Rs. 600
- Cr. Calls in Arrears A/c Rs. 400

#### Step 2: Reissue of 60 shares at Rs. 7, fully paid.

- Discount on reissue =  $60 \times (10 - 7) = \text{Rs. } 180$ . **Check: per-share discount Rs. 3  $\leq$  forfeiture Rs. 6 per share. OK.**
- Dr. Bank A/c Rs. 420 (60 × Rs. 7)
- Dr. Share Forfeiture A/c Rs. 180
- Cr. Share Capital A/c Rs. 600 (60 × Rs. 10)

#### Step 3: Transfer the realised capital profit on the reissued 60 shares to Capital Reserve.

- Forfeiture balance attached to 60 reissued shares originally credited =  $(60/100) \times 600 = \text{Rs. } 360$ .
- Discount on reissue absorbed against forfeiture = Rs. 180.
- Capital Reserve =  $360 - 180 = \text{Rs. } 180$ .
- Dr. Share Forfeiture A/c Rs. 180
- Cr. Capital Reserve A/c Rs. 180

#### Step 4: Remaining balance.

- 40 shares still in “forfeited shares not yet reissued” state.
- Forfeiture balance retained =  $(40/100) \times 600 = \text{Rs. } 240$ . Continues on the Cr. side of Share Forfeiture A/c until those 40 are also reissued or eventually cancelled.

#### Quick Tip

#### Capital Reserve formula (after partial reissue):

$$\text{Cap. Reserve} = \left( \frac{\text{Reissued shares}}{\text{Forfeited shares}} \right) \times \text{Forfeiture credit} - \text{Discount on reissue.}$$

Memorise this; it appears in every full-mark forfeiture-reissue question.

#### Memory Aid

**A-I-S-C-P-R, the six layers of share capital.** Authorised → Issued → Subscribed → Called-up → Paid-up; with Reserve Capital carved out of un-called. Recite the chain top-down and every multi-part disclosure question becomes a fill-in-the-blanks.

#### Real-World Application

Forfeiture and reissue is increasingly rare with DEMAT-era SEBI rules (ASBA blocks the application money in the applicant’s bank account directly), but it remains a core 6-mark CBSE question because it tests integration of multiple concepts – arrears, premium handling, capital-reserve computation – in one problem.

## 11 Disclosure in the Balance Sheet

As required by Schedule III of the Companies Act 2013, the Notes to Accounts for “Share Capital” disclose:

- Authorised capital (number, face value, total).
- Issued, subscribed and fully paid up shares.
- Subscribed but not fully paid up shares (showing Calls in Arrears separately).
- Forfeited shares – amount already received (Share Forfeiture A/c balance).

- Reconciliation of the number of shares outstanding at start and end of period.
- Rights, preferences and restrictions attaching to each class.
- Shares held by holding/ultimate-holding/subsidiary companies.
- Shareholders holding more than 5% of total shares.

**Share Forfeiture A/c balance** is shown by **adding** to the “Subscribed and Fully Paid up” total under Share Capital – it is not a separate line under Reserves. (After reissue, only the unrealised residue continues to appear.)

### Real-World Application

Read any listed company's annual report (e.g. TCS, ITC, HUL on [bseindia.com](http://bseindia.com)). The “Share Capital” note discloses authorised vs issued vs subscribed-and-fully-paid figures in exactly this template, plus a reconciliation of share movement and a list of  $\geq 5\%$  shareholders. The Schedule III layout you are memorising is the same one a Big Four auditor will tick off in real life.

## 12 Comparative Summary Tables

### 12.1 Issue at par vs at premium vs at discount

Aspect	At par	At premium	At discount
Issue price	= Face value	> Face value	< Face value
Premium A/c	Not used	Cr. to Securities Premium A/c	N/A
Statutory authority	Section 23	Section 52	Prohibited by Sec 53 (except sweat-equity Sec 54)
Disclosure	Share Capital only	Share Capital + Securities Premium under Reserves	Discount on Issue, only via Sec 54

## 12.2 Treatment of unpaid amounts – arrears vs forfeiture

Aspect	Calls in Arrears	Forfeiture
Membership of shareholder	Continues	Ends
Right to vote on shares	Suspended	Lost
Right of company	Sue for the unpaid amount (Sec 50)	Cancel the shares and forfeit money paid
Accounting effect	Calls in Arrears A/c on assets-side	Share Forfeiture A/c balance, capital reserve on reissue
Reversibility	Reversed when shareholder pays	Reissue brings new shareholder

## 12.3 Securities Premium A/c – Section 52(2) at a glance

Use	Purpose
1	Issue of fully-paid <b>bonus shares</b> to existing members
2	Writing off <b>preliminary expenses</b> of the company
3	Writing off <b>expenses / commission / discount</b> on issue of shares or debentures
4	Premium payable on <b>redemption</b> of redeemable preference shares or debentures
5	<b>Buy-back</b> of own securities (Sec 68)

## 13 Past Paper Trends and Strategy

### 13.1 CBSE question distribution (last 5 years)

Question type	Marks	Frequency
Categories of share capital (theory)	1-3	4 of 5
Calls-in-Arrears / Calls-in-Advance distinction	3	3 of 5
Pro-rata allotment journal entries	4-6	4 of 5
Issue of shares for consideration other than cash	3-4	3 of 5
Securities Premium permissible uses (Sec 52)	1-3	5 of 5
Full forfeiture-and-reissue cycle, partial reissue	6-8	5 of 5
Capital Reserve computation on reissue	3-4	4 of 5

### 13.2 Exam-time strategy for the 8-mark forfeiture problem

Allocate roughly 12 minutes for an 8-mark forfeiture + reissue + capital-reserve question:

- 2 min – read carefully; mark amounts paid/unpaid; identify if pro-rata.
- 1 min – reverse-engineer pro-rata to find what the defaulter actually paid on allotment.
- 3 min – pass journal entries up to the call date.
- 2 min – pass the forfeiture entry; check the Cr. side adds up.
- 2 min – pass the reissue entry; check discount  $\leq$  forfeiture per share.
- 1 min – compute Capital Reserve and pass the transfer entry.
- 1 min – write a clean “Share Capital” extract for the balance sheet.

## 14 Common Mistakes to Avoid

- Confusing *Reserve Capital* with *Capital Reserve*.
- Forgetting to REVERSE Securities Premium when premium is unpaid at forfeiture.
- Charging discount  $>$  Share Forfeiture per share at reissue.
- Not adjusting excess application money against allotment in pro-rata cases.
- Treating Securities Premium as a free reserve usable for dividends (it isn't).
- Crediting the full issue price (face + premium) to Share Capital A/c (only face value goes there).
- Forgetting that under SEBI 90% rule, an under-subscribed issue ( $<$  90%) cannot be allotted at all.
- Treating Calls in Advance as Share Capital before the call is made (it is a liability until then).

## 15 Theory Questions with Model Answers

### 15.1 Q1. Distinguish Authorised, Issued and Subscribed Capital.

**Answer.** **Authorised capital** (a.k.a. nominal / registered) is the maximum amount permitted by the Memorandum of Association. **Issued capital** is the part of authorised capital that the company has actually offered to the public for subscription. **Subscribed capital** is the portion of issued capital that the public has actually applied for; it may be less than (under-subscription) or capped at issued capital (over-subscription).

### 15.2 Q2. What is meant by Securities Premium and how can it be used?

**Answer.** Securities Premium is the amount received in excess of the face value of shares issued. It is credited to the Securities Premium A/c, classified under Reserves & Surplus. Per Section 52(2), Companies Act 2013, the amount can be used only for: (i) issuing fully-paid bonus shares; (ii) writing off preliminary expenses; (iii) writing off expenses, commission or discount on share/debenture issue; (iv) premium on redemption of preference shares or debentures; (v) buy-back under Sec 68. It cannot be used for paying dividends or absorbing operating losses.

### 15.3 Q3. State the difference between Calls in Arrears and Calls in Advance.

**Answer.** *Calls in Arrears* is the amount called by the company but not yet paid by the shareholder; it is a receivable, shown as a deduction from Subscribed Capital; chargeable interest up to 10% p.a. (Table F). *Calls in Advance* is the amount paid by the shareholder before the call is made; it is a current liability, shown under Other Current Liabilities; payable interest up to 12% p.a. (Table F). On the next call due date, Calls in Advance is adjusted against the call.

### 15.4 Q4. Explain the accounting treatment of shares issued for consideration other than cash.

**Answer.** When a company acquires assets or services without paying cash, it issues shares to the vendor / promoter in settlement. Steps: (i) Dr. Asset A/c (or Goodwill A/c, for promoter services); Cr. Vendor A/c at agreed value. (ii) Dr. Vendor A/c; Cr. Share Capital A/c at face value, with the excess (if any) credited to Securities Premium A/c. Number of shares to issue =  $\text{Purchase Consideration} \div \text{Issue Price}$ .

### 15.5 Q5. What is forfeiture of shares and what is its effect on the Share Capital A/c?

**Answer.** Forfeiture is the cancellation of a shareholder's title to shares for failure to pay an allotment or call after notice. Effect: (i) Share Capital A/c is debited with the called-up amount on those shares (face value, partial or full per Articles); (ii) Share Forfeiture A/c is credited with the money already received from the defaulter; (iii) Calls in Arrears A/c is credited with the unpaid amount. Membership ends; money received is not refunded. If shares were issued at premium and premium is unpaid, Securities Premium is also debited (reversed).

## 15.6 Q6. Define Capital Reserve and explain how forfeiture-reissue contributes to it.

**Answer.** Capital Reserve is a reserve created out of capital profits (e.g., profit on revaluation, profit on forfeiture, premium on issue of debentures). On reissue of forfeited shares, the Share Forfeiture A/c balance attributable to the reissued shares, after absorbing the discount allowed on reissue, is transferred to Capital Reserve. Formula:  $\text{Capital Reserve} = (\text{Reissued} / \text{Forfeited}) \times \text{Total Forfeiture credit} - \text{Discount allowed on reissue}$ . It cannot be used for dividend.

## 16 Multi-Step Complete Solved Example

**Question.** Zenith Ltd. invited applications for 10,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. Amount payable: Application Rs. 3, Allotment Rs. 5 (incl. premium Rs. 2), First and Final Call Rs. 4.

Applications were received for 15,000 shares. Allotment was made on pro-rata basis to all applicants. The excess application money was used toward allotment.

Mr. Raghav, who applied for 600 shares, failed to pay the first and final call money. His shares were forfeited. Subsequently 300 of these shares were reissued at Rs. 8 per share fully paid.

Pass the journal entries.

**Solution.**

**(a) Application stage.**

- Money received on application =  $15,000 \times 3 = \text{Rs. } 45,000$ .
- Money required ( $10,000 \times \text{Rs. } 3$ ) = Rs. 30,000.
- Excess = Rs. 15,000 (transferred to Allotment).
- Dr. Bank Rs. 45,000; Cr. Share Application Rs. 45,000.
- Dr. Share Application Rs. 45,000; Cr. Share Capital Rs. 30,000; Cr. Share Allotment Rs. 15,000.

**(b) Allotment stage.**

- Allotment due =  $10,000 \times 5 = \text{Rs. } 50,000$  (face Rs. 3 + premium Rs. 2).
- Allotment due entry: Dr. Share Allotment Rs. 50,000; Cr. Share Capital Rs. 30,000; Cr. Securities Premium Rs. 20,000.
- Cash to be received on allotment =  $50,000 - 15,000 = \text{Rs. } 35,000$ .
- Dr. Bank Rs. 35,000; Cr. Share Allotment Rs. 35,000.

**(c) First and Final Call.**

- Call due ( $10,000 \times \text{Rs. } 4$ ) = Rs. 40,000.
- Pro-rata ratio: 15,000 applied  $\rightarrow$  10,000 allotted, i.e., 3 : 2.
- Raghav applied 600  $\rightarrow$  allotted  $600 \times 2/3 = 400$  shares.

- Raghav's call money due =  $400 \times 4 = \text{Rs. } 1,600$  (unpaid).
- Dr. Share First & Final Call Rs. 40,000; Cr. Share Capital Rs. 40,000.
- Dr. Bank Rs. 38,400; Dr. Calls in Arrears Rs. 1,600; Cr. Share First & Final Call Rs. 40,000.

**(d) Forfeiture of Raghav's 400 shares.**

What had Raghav paid? Computing:

- Application paid =  $600 \times 3 = \text{Rs. } 1,800$ .
- Application requirement on 400 allotted shares =  $400 \times 3 = \text{Rs. } 1,200$ .
- Excess application carried to allotment = Rs. 600.
- Allotment money due on 400 shares =  $400 \times 5 = \text{Rs. } 2,000$ .
- Allotment money paid in cash =  $2,000 - 600 = \text{Rs. } 1,400$ . (Assuming he did pay allotment in cash; he failed only at first & final call.)
- Total paid by Raghav =  $1,800 + 1,400 = \text{Rs. } 3,200$ . Of this, premium portion received =  $400 \times 2 = \text{Rs. } 800$  (premium was paid on allotment); face portion = Rs. 2,400.

Forfeiture entry:

- |                            |   |
|----------------------------|---|
| • Dr. Share Capital A/c    | Rs. 4,000 (400 × Rs. 10 called-up face) |
| • Cr. Share Forfeiture A/c | Rs. 2,400 (face portion paid by Raghav) |
| • Cr. Calls in Arrears A/c | Rs. 1,600                               |

(Note: Securities Premium A/c is NOT debited here because the premium was received – not unpaid at the time of forfeiture.)

**(e) Reissue of 300 shares at Rs. 8, fully paid.**

- Discount per share =  $10 - 8 = \text{Rs. } 2$ .
- Total discount on reissue =  $300 \times 2 = \text{Rs. } 600$ .
- Forfeiture balance attached to those 300 shares =  $(300/400) \times 2,400 = \text{Rs. } 1,800$ .
- Discount Rs. 2 per share  $\leq$  forfeiture per share Rs. 6 ( $2,400/400$ ). OK.
- Reissue entry: Dr. Bank Rs. 2,400; Dr. Share Forfeiture Rs. 600; Cr. Share Capital Rs. 3,000.

**(f) Transfer to Capital Reserve.**

- Capital Reserve =  $\text{Rs. } 1,800 - \text{Rs. } 600 = \text{Rs. } 1,200$ .
- Dr. Share Forfeiture A/c Rs. 1,200; Cr. Capital Reserve A/c Rs. 1,200.

**(g) Residual Share Forfeiture A/c balance.**

- Remaining 100 shares' forfeiture balance =  $(100/400) \times 2,400 = \text{Rs. } 600$ . Continues on Cr. side until those 100 are also reissued.

## 17 Quick Reference Summary

### 17.1 All key numbers and rates

Concept	Limit / Rate
Minimum application money (SEBI)	25% of face value
Minimum subscription	90% of issued capital
Min refund window (under-sub.)	Within 15 days of issue close
Maximum redemption period for preference shares	20 years (30 for infrastructure)
Interest on Calls in Arrears (Table F)	Up to 10% p.a.
Interest on Calls in Advance (Table F)	Up to 12% p.a.
OPC paid-up capital limit	Rs. 50 lakh
OPC turnover (3-yr avg) limit	Rs. 2 crore
Max members in private company	200
Min members in public company	7
Min members in private company	2 (1 in OPC)

### 17.2 Key formulas

#### Memorise These

1. **Paid-up Capital** = Called-up Capital – Calls in Arrears.
2. **Number of shares to issue for non-cash consideration** = Purchase Consideration / Issue Price.
3. **Pro-rata adjustment** – excess application  $\times$  (1 per applied share) = excess to be transferred to allotment.
4. **Money owed by pro-rata defaulter on allotment** = Allotment due on allotted shares – Excess application money carried over.
5. **Capital Reserve on partial reissue** = (Reissued / Forfeited)  $\times$  Total Share Forfeiture credit – Discount allowed on reissue.
6. **Max permissible discount on reissue** = Amount per share already credited to Share Forfeiture A/c at the time of forfeiture.

### 17.3 Key sections of the Companies Act 2013

Section	What it covers
2(62)	Definition of One Person Company
23	Power to issue securities (private placement, public offer, rights, bonus)
39	Allotment of securities and minimum subscription
43	Kinds of share capital – equity and preference
50	Company to accept unpaid share capital, although not called up
52	Application of securities premium
53	Prohibition on issue of shares at a discount
54	Issue of sweat-equity shares (exception to Sec 53)
55	Issue and redemption of preference shares
62	Further issue of share capital (rights issue)
63	Issue of bonus shares
65	Unlimited co. to provide for reserve share capital on conversion
68	Power of company to purchase its own securities (buy-back)

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## 18 Connection with Other Chapters

- **Chapter 4 (Dissolution of Partnership Firm).** When a firm converts into a company, the partners settle through a Realisation A/c and receive shares of the new company – the share-capital entries learnt here pick up exactly where dissolution leaves off.
- **Part 2 Chapter 2 (Issue and Redemption of Debentures).** Debentures are the debt-capital counterpart of shares. Many entries (issue at par/premium/discount, security premium application) mirror this chapter.
- **Part 2 Chapter 3 (Financial Statements of a Company).** The Share Capital note in Schedule III draws directly on the categories and movements developed here.
- **Part 2 Chapter 4 (Analysis of Financial Statements).** Capital structure ratios (debt-equity, gearing) need a precise read of share capital, securities premium and reserves – all introduced in this chapter.

**End of Notes – Class 12 Accountancy Part 2 Chapter 1, Session 2026-27**