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DEPARTMENT OF COMMERCE

JANTA KOSHI COLLEGE BIRAUL, DARBHANGA

For – LNMU B. Com part -2 ,PAPER -IV CORPORATE ACCOUNTING (Hons.)

Lecture 2



Unit -1

Accounting for share capital and Debentures

Easy to Understand the concept

Q. What is meant by Forfeiture of Shares? Explain the Accounting

Treatment of Forfeiture of Shares and their Reissue?

Ans.: Forfeiture of Shares: Forfeiture of shares means the cancellation of allotment to defaulting shareholders (who has fail to pay one or more installment) and to treat the amount already received on such shares as forfeited.

Accounting Entries on Forfeiture of Shares:

Condition	Journal Entries	Amount
1. Forfeiture of shares issued at par	Share Capital A/c Dr To Share Allotment A/c To Share First Call A/c To Share Second Call A/c To Share Forfeited A/c	Called up amount Arrears on allotment Arrears on I call Arrears on II call Amount received on these shares
2. Forfeiture of shares issued at premium which also remains unpaid	Share Capital A/c Dr Securities Premium A/C Dr To Share Allotment To Share First Call A/c To Share ...Call A/c To Share Forfeited	Called up amount for capital Called up amount for premium Arrears on Allotment Arrears on I call Arrears on Final call Amount received on these share

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Condition	Journal Entries	Amount
Forfeiture of shares issued at premium which is received	Share Capital A/c Dr To Share Allotment A/c To Share First Call A/c To Share Second Call A/c To Share Forfeited A/c	Amount called up Arrears on I Allotment Arrears on I call Arrears on final call Amount received on shares forfeited excluding premium
Forfeiture of shares issued at discount	Share Capital A/c Dr To Discount on Issue of Share To Shares Allotment To Shares First call A/c To Shares Second call A/c To Share Forfeiture A/c	Amount called up with discount Amount of Discount Arrears on Allotment Arrears on I call Arrears on II call Amount received on shares forfeited.

❖ **Reissue of Forfeited Shares** : A company can reissue the forfeited shares (being the property of the company) in accordance with the provisions Contained in the articles of company. The maximum amount of discount

Which may be allowed on reissue is as :-

- (i) **When shares were originally issued at par or at premium** –the Amount credited to forfeited shares account.
- (ii) **When shares were originally issued at discount:-** amount credited

To forfeited share account plus the amount of original discount.

Entries for Reissue of Forfeited Shares:

Condition	Journal Entries	Amount
Reissue at par	Bank A/c. Dr To Share Capital A/c	Actual amount received Called up amount
Reissue at premium	Bank A/c Dr To Share Capital A/c To Securities Premium A/c	Total amount received Amount credited as paid up Amount of premium
Reissue at discount originally issued at par or at premium	Bank A/c. Dr Share Forfeited A/c. Dr To Share Capital A/	Amount received Discount on reissue Amount credited as paid

Q.6 Write short notes on the following :-

- (1) Use of amount of premium**
- (2) Over-subscription of shares**
- (3) Under subscription of shares**

Ans.: (1) Use of amount of premium : According to section 52 of the Companies Act, 2013 :-

- (i) To issue fully paid-up bonus shares to its existing shareholders. However, you cannot exceed the limit of the unissued share capital of the company.**
- (ii) Securities Premium Account can be used for writing off any preliminary expenses of the company.**
- (iii) To write off expenses of issue of shares and debentures, such as commission paid or discount given on the issue of shares.**
- (iv) The balance can also be used to provide for the premium that is payable on the redemption of debentures or of preference shares of the company.**

- (v) And finally, it can be utilized by the company to buy back its own shares.

(2) Over Subscription of shares: Shares are said to be over-subscribed

When the number of shares applied for is more than the shares Offered for the issue. Board of directors may make the allotment of Shares as under in case of over-subscription:-

- (i) Pro-rata or proportional allotment to all the applications. Excess money received is not refunded but retained and of Adjusted towards sums due for allotment.
- (ii) Some of the applicants may be rejected fully while Remaining applicants be allotted shares in full. In such a Case, the application money to non allottees is refunded Along with a letter of regret.

(3) Under Subscription:- Share are said to be under-subscribed when The number of share applied for is less than the number of shares Offered.

Issue of Debentures

Q.1 Define the meaning of Debentures and its various types.

Ans.: Debentures: A debenture is written acknowledgement of debt by a Company under its common seal, generally secured by floating charge on Company's assets. Interest is paid to debenture holders at a fixed rate at Regular intervals.

Types of Debentures:

- (a)Registered Debentures:** Debentures which are transferable only by Transfer deed.
- (b) Bearer Debentures:** Debentures which are transferred by mere Delivery and the company does not keep the record of debenture Holders.
- (c)Redeemable Debentures:** Debentures which are redeemed after Specified period of time.

(d) Irredeemable Debentures: Such debentures are payable after a Long period of time (not pre decided) or on winding up of the Company.

(e) Convertible Debentures: Debentures which are convertible into Shares or new debentures.

(f) Non-Convertible Debentures: Debentures which can not be Converted into shares or new debentures.

(g) Secured or Mortgage Debentures: Debentures which are secured On particular assets or on general assets of the company.

(h) Unsecured or Naked Debentures: The debentures which are not Secured on any asset.

(i) Zero Interest Debentures: Debentures on which no interest is paid By the company. Such debentures are either issued at heavy Discount or such debentures are converted into equity shares Offered at low rate.

Q.2 Explain the issue of Debentures as Collateral Security.

Ans.: A collateral security is an additional or secondary but contingent security For the performance of an obligation. Sometime, a company deposits its Debentures as additional security to secure loan from the bank. So the Debentures are deposited to provide security for the loan. There are two Methods of dealing with such debentures in the books of accounts of the Company:-

First :

In this method no entry need to passed, entry is passed only for Taking a loan and on liabilities side of balance sheet a note is given below The loan that the loan is secured by the issue of debentures.

Second :

- (i) On issuing the debentures as collateral security –
Debentures suspense A/c Dr.
To % Debentures A/c

- (ii) On repayment of loan –
Debenture A/c Dr.
To Debenture Suspense A/c