

# JOURNAL ENTRIES FOR ISSUE OF SHARES FOR CASH

---

Upon the issue of share capital by a company, the undermentioned entries are made in the financial books:

(1) On receipt of the application money

Bank Account

Dr. (with the actual amount received)

To Shares Application  
Account

---

---

(2) On allotment of share  
Share Allotment Account

Dr. (With the amount  
due on allotment)

Share Application Account

Dr. (With the  
application amount  
received on allotted  
shares.)

To Share Capital  
Account

---

(With the amount due  
on allotment and  
application)

---

(3) On receipt of allotment money

Bank Account

Dr. (with the amount  
actually received  
allotment.)

on

To Share Allotment

Account

**Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed**

---

**through a combined Application and Allotment Account.**

(4) On a call being made

Share Call Account

Dr. (with the amount due on the call.)

To Share Capital Account

---

---

(5) On receipt of call money

Bank Account

Dr. (with the due amount  
actually received on call)

To Share Call Account

---

# Illustration 1

The Delhi Artware Ltd. issued 500 equity shares of Rs. 100 each and 1,000 preference shares of Rs. 100 each. The Share Capital was to be collected as under:

	Equity Shares Rs.	Preference Shares Rs.
On Application	25	20
On Allotment	20	30

---

First Call	30	20
Final Call	25	30

All these shares were subscribed. Prepare the cash book and journalise the remaining transactions in the books of the company.

# Solution

## Delhi Artware Ltd. Cash Book

Dr.	Rs.		Cr. Rs.
To Equity Shares application & Allotment Account (application money on 500 shares at Rs. 25)	12,500	By Balance c/d	1,44,400



To Preference Share Application & Allotment A/c (application money on 1,000 shares at Rs. 20)	20,000		
To Equity Share Applications & Allotment A/c (allotment money on 1,000 shares at Rs. 20)	10,000		
To Preference Share Application & Allotment A/c (allotment money on 1,000 shares at Rs. 30)	30,000		

To Equity Shares First Call A/c (Rs. 30 on 500 shares)	15,000		
To Preference Share First Call A/c (Rs.20 on 1,000 shares)	20,000		
To Equity Shares Final Call A/c (Rs.25 on 420 shares)	10,500		
To Preference Share Final A/c (Rs. 30 on 880 shares)	26,400		
To Balance b/d	<u>1,44,400</u>		
	1,44,000		1,44,000

# Journal

		Dr. Rs.	Cr. Rs.
Equity Share Application & Allotment A/c	Dr.	22,500	
To Equity Share Capital A/c			22,500
Preference Share Application & Allotment A/c	Dr.	50,000	
To Preference Share Capital A/c			50,000

Equity Share First Call A/c To Equity Share Capital A/c	Dr.	15,000	15,000
Preference Share First Call A/c To Preference Share Capital A/c	Dr.	20,000	20,000
Equity Share Final Call A/c To Equity Share Capital A/c	Dr.	12,500	12,500
Preference Share Final Call A/c To Preference Share Capital A/c	Dr.	30,000	30,000

# Section 79

---

According to Section 79, a company is permitted to issue shares at a discount provided the following conditions are satisfied:

(a) The issue of shares at a discount is authorised by an ordinary resolution passed by the company at its general meeting and sanctioned by the Company Law Board.

- 
- (b) The resolution must specify the maximum rate of discount at which the shares are to be issued but the rate of discount must not exceed 10 per cent of the nominal value of shares.
  - (c) At least one year must have elapsed since the company was entitled to commence the business.

- 
- (d) The shares are of a class, which has already been issued.
  - (e) The shares are issued within two months from the date of receiving sanction for the same from the Government

Therefore, the journal entry to record discount on the issue of shares is as given below:

# Entry for Discount

---

Share Allotment A/c Dr.

Discount on the issue of Shares A/c Dr.

To Share Capital A/c

(Amount due on allotment of \_\_\_\_\_ Shares  
@ Rs. \_\_\_\_\_ per share and \_\_\_\_\_ discount on  
issue brought into account)



# Section 78

---

When shares are issued at a premium, the premium amount is credited to a separate account called “*Securities Premium Account*” because it is not a part of share capital.

According to Section 78 of the Companies Act, 1956, Securities Premium Account may be used by the company

- (a) In paying up un-issued securities of the company to be issued to members of the company as fully paid bonus securities.

- 
- (b) To write off preliminary expenses of the company.
  - (c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.
  - (d) To pay premium on the redemption of preference securities or debentures of the company. When shares are issued at a premium, the journal entries are as follows:

# Entry for issue at premium

---

(a) Premium amount called with Application money.

(i) Bank A/c

Dr. [Total Application money  
+Premium Amount]

To Share Application  
A/c

[Amount Received]

[Money received on  
applications for \_\_\_\_\_

Shares @ Rs. \_\_\_\_\_ per  
Share including premium

(ii) Share Application A/c

To Securities Premium A/c

To Share capital A/c

Dr. [No. of Shares  
Applied for x  
Application Amount  
per share]

[No. of Shares  
allotted x Premium  
Amount per share]

[No. of Shares  
allotted x per share  
for capital]

(b) Premium Amount called  
with Allotment Money

(i) Share Allotment A/c Dr.

To Share Capital A/c

To Securities Premium A/c

[ No. of Shares  
Allotted x Allotted and  
Premium Money per  
share]

[No. of Shares  
Allotted x Allotment  
Amount per share]

[No. of Share  
Allotted x Premium  
Amount per share]

(Amount due on allotment of  
Shares @ Rs. \_\_\_\_\_ per share  
including premium)

(ii) Bank A/c Dr.

To Share Allotment A/c

(Money received including  
premium consequent upon  
allotment)

# Illustration 2

---

JHP Limited is a company with an authorised share capital of Rs. 10,00,000 in equity shares of Rs. 10 each, of which 6,00,000 shares had been issued and fully paid on 30<sup>th</sup> June, 2005. The company proposed to make a further issue of 1,00,000 of these Rs. 10 shares at a price of Rs. 14 each, the arrangements for payment being :

- 
- (a) Rs. 2 per share payable on application, to be received by 1<sup>st</sup> July, 2005;
  - (b) Allotment to be made on 10<sup>th</sup> July, 2005 and a further Rs. 5 per share (including the premium to be payable);
  - (c) The final call for the balance to be made, and the money received by 30<sup>th</sup> April, 2006.



---

Applications were received for 3,55,000 shares and were dealt with as follows:

- (i) Applicants for 5,000 shares received allotment in full;
- (ii) Applicants for 30,000 shares received an allotment of one share for every two applied for; no money was returned to these applicants, the surplus on application being used to reduce the amount due on allotment;

- 
- (iii) Applicants for 3,20,000 shares received an allotment of one share for every four applied for; the money due on allotment was retained by the company, the excess being returned to the applicants; and
  - (iv) The money due on final call was received on the due date.

You are required to record these transactions (including cash items) in the Journal of JHP Limited.

# Solution

## Journal of JHP Limited

Date	Particulars		Dr. Rs.	Cr. Rs.
2005				
July 1	Bank A/c (Note 1-Column 3) To Equity Share Application A/c	Dr.	7,10,000	7,10,000
July 10	Equity Share Application A/c To Equity Share Capital A/c To Equity Share Allotment A/c	Dr.	7,10,000	2,00,000 4,30,000

(Note 1 Column 5) To Bank A/c (Note 1-Column 6)			80,000
Equity Share Allotment A/c To Equity Share Capital A/c To Securities Premium A/c	Dr.	5,00,000	1,00,000 4,00,000
Bank A/c (Note 1- Column 8) To Equity Share Allotment A/c	Dr.	70,000	70,000

2006 ?	Equity Share Final Call A/c To Equity Share Capital A/c	Dr.	7,00,000	7,00,000
April 30	Bank A/c To Equity Share Final Call A/c	Dr.	7,00,000	7,00,000

# Working Notes:

## (1) Calculation for Adjust. and Refund

Category	No. of Shares Applied for	No. of Shares Allotted	Amount Received on Application	Amount Required on Application	Amount Adjusted on Allotment	Refund [3-4+5]	Amount due on Allotment	Amount received on Allotment
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(i)	5,000	5,000	10,000	10,000	-	Nil	25,000	25,000
(ii)	30,000	15,000	60,000	30,000	30 k	Nil	75,000	45,000
(iii)	3,20,000	80,000	6,40,000	1.6 lacs	4 lacs	80,000	4 lacs	-
Total	3,55,000	1 lacs	7,10,000	2 lacs	4.3 lacs	80,000	5 lacs	70,000