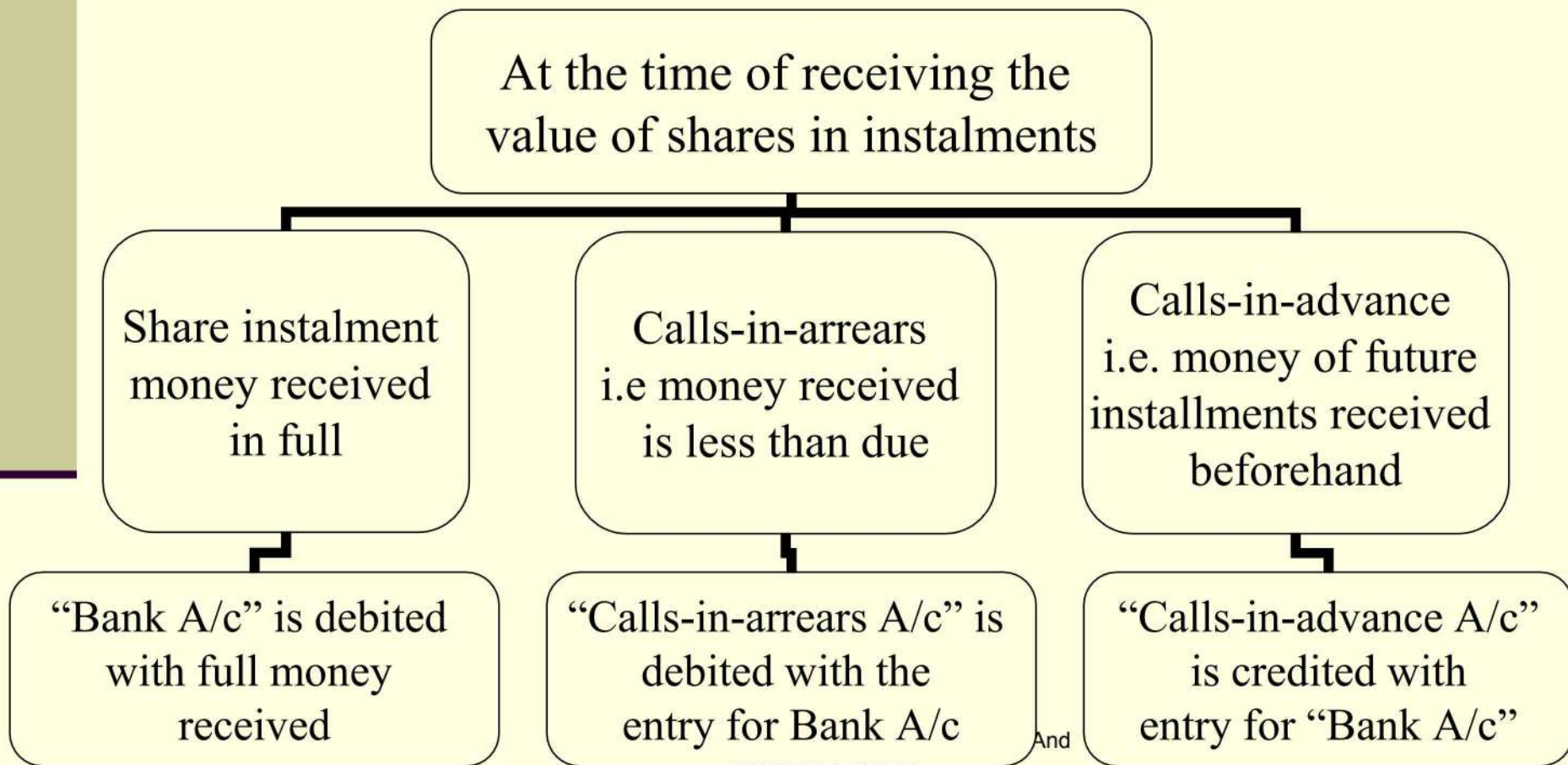


Calls-In-Arrears and Calls-In Advance



CALLS-IN-ARREARS

Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more instalments is known as *Calls-in-Arrears or Unpaid Calls*. Such amount represents the uncollected amount of capital from the shareholders; hence, it is shown by way of deduction from 'called-up capital' to arrive at paid up value of the share capital to be shown in the balance sheet.

Entry

For recording 'Calls-in-Arrears', the following journal entry is recorded :

Calls-in-Arrears A/c	Dr. [Amount of Unpaid Calls]
To Share Allotment A/c	
To Share Calls A/c	

The Articles of Association of a company usually empower the directors to charge interest at a stipulated rate on calls - in-arrears. According to

Table A interest at the rate of 5 per cent per annum is to be charged on unpaid calls for the period intervening between the due date of the call and the time of actual payment.

The Journal entries for calls-in-arrears are as follows:

(i) For interest receivable on calls-in-arrears

Shareholders' A/c	Dr.
To Interest on Calls-in-arrears A/c	

Calls in Advance

(ii) For receipt of interest

Bank A/c

Dr.

To Shareholders' A/c

CALLS-IN-ADVANCE

Some shareholders may sometimes pay a part, or whole of the amount not yet called up, such amount is known as Calls-in-advance. According to Table A, interest at the rate of 6 percent is to be paid on such advance call money.

Bank A/c

Dr.

To Call-in-Advance A/c

When calls become actually due, calls-in-advance account is adjusted at the time of the call. For this the following journal entry is recorded:

Calls-in-Advance A/c

Dr. [Call amount
due]

The balance in Calls-in-Advance account is shown as a separate item on the liabilities side of the company's balance sheet under the heading

‘Share Capital’ but is not added to the amount of paid-up capital.

The accounting treatment of interest on Calls-in-Advance is as follows:

(i) Interest Due

Interest on Calls-in

Advance A/c

Dr. [Amount of interest
due for payment

To Shareholder’s A/c

(ii) Payment of Interest

Shareholder's A/c

Dr. [Amount of interest
paid

To Bank A/c

(Interest paid on calls-in-advance)

Forfeiture of shares which were issued at par

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. Allotment or Calls Account will be credited with the amount due but not paid by the shareholder(s). (Alternatively, Calls-in-Arrears Account can be credited for all amount due, if it was transferred to Calls-in-Arrears Account). *Forfeited Shares Account or Shares Forfeiture*

To Share Allotment Account

[If amount due,
but not paid]

To Share First Call Account

[If amount due,
but not paid]

To Share Final Call Account

[If amount due,
but not paid]

Where all amounts due on allotment, first call and final call have been transferred to Calls-in-Arrears

Account, the entry will be :
Share Capital Account Dr.

[No. of Shares o
called-up value
per share

To Calls-in-Arrear
Account

[Total amount
due, but not paid

To Forfeited Shares
Account

[Amount received

Illustration

A Ltd forfeited 300 equity shares of Rs.10 fully called-up, held by Mr. X for non-payment of final call @ Rs. 4 each. However, he paid application money @ Rs. 2 per share and allotment money @ Rs. 4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

Solution

In the books of A Ltd.

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (300 x Rs.10) To Equity Share Final Call A/c (300 x Rs. 4) To Forfeited Shares A/c (300 x Rs. 6) (Being the forfeiture of 300 equity shares of Rs. 10 each fully called-up for non-payment of final call money @ Rs. 4 each as per Board's Resolution No.....dated.....)	Dr.	3,000	1,200 1,800

Illustration

X Ltd forfeited 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each. Application money @ Rs. 2 per share and allotment money @ Rs. 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

Solution

In the books of X Ltd.

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (200 x Rs. 8) To Calls-in-Arrears A/c (200 x Rs. 2) To Forfeited Shares A/c (200 x Rs. 6) (Being the forfeiture of 200 equity shares of Rs. 10 each, Rs. 8 called-up for non-payment of first call money @ Rs. 2 each as per Board's Resolution No.....dated.....)	Dr.	1,600	400 1,200

Forfeiture of shares which were issued at a Discount

In this case also Share Capital Account will be debited with the called-up value of shares forfeited, Allotment or Calls Account will be credited with the amount due but not paid by the shareholder(s). (Alternatively, Calls-in-Arrears Account can be credited). Forfeited Shares Account will be credited with the amount already received in respect of those shares.

Entry

When shares are issued at a discount, the Discount Account is debited. Therefore, at the time of forfeiture of such share, Discount Account will be credited to cancel it.

Share Capital Account	Dr.	[No. of shares x called-up per value share]
To Share Allotment Account		[if amount due, but not paid]

To Share First Call Account

[If amount due,
but not paid

To Share Final Call Account

[If amount due,
but not paid]

To Forfeited Shares Account

[Amount
received on
forfeited shares]

To Discount on Issue of
Shares Account

[No. of shares x
discount per
share]

Illustration

H.P. Ltd. forfeited 200 equity shares of Rs. 10 each fully called-up for non-payment of final call @ Rs. 2 per share. These shares were originally issued at a discount of 10%. Application, allotment and first call money per share @ Rs. 2, Rs. 3 and Rs. 2 respectively were received in time. Give Journal Entry for the forfeiture.

Forfeiture of shares which were issued at a premium

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. If the premium on such shares has not been paid by the shareholder, the Securities Premium Account will be debited to cancel it (if it was credited earlier). Allotment, Calls and Forfeited Accounts will be credited in the usual manner.

Note

If the premium has already received by the company, it cannot be cancelled even if the shares are forfeited in the future

Illustration

X Ltd. Forfeited 500 equity shares of Rs. 10 each fully called-up which were issued at a premium of 20%. Amount payable on shares were: on application Rs. 2; on allotment Rs. 5 (including premium) on First and Final call Rs. 5. Only application money was paid by the shareholders in respect of these shares. Pass Journal Entries for the forfeiture.

Solution

In the books of X Ltd.

Date	Journal Particulars		Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (500 x Rs. 10) Securities Premium A/c (See Note) To Equity Share Allotment A/c (500 x Rs. 2) To Equity Share First and Final Call A/c (500 x Rs. 5) To forfeited Shares A/c (500 x Rs. 2)	Dr. Dr.	5,000 1,000	2,500 2,500 1,000