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Sarva Ltd. intends to come out with public issue of shares. The management have considered the possible price at which it can issue these shares, which are:

- (i) Issue Equity Shares of ₹ 100 each at ₹ 200 per share;
- (ii) Issue Equity Shares of ₹ 100 each at ₹ 100 per share;
- (iii) Issue Equity Shares of ₹ 100 each at ₹ 90 per share.

Questions

- (a) Which of the above options is not feasible for Sarva Ltd.? What is the basis of your answer?
- (b) If the company opts for first option, which account will be credited by the difference between the Issue Price and Nominal (Face) Value?
- (c) What is the amount with which Share Capital Account will be credited?

Answer

- (a) Option (iii) is not feasible for Sarva Ltd. because the Companies Act, 2013 (Section 53) prohibits issue of shares to public at a discount. In case, the company issues share of ₹ 100 for ₹ 90, it will be issue of shares at a discount.
- (b) Securities Premium Account will be credited with the difference amount, *i.e.*, ₹ 100.
- (c) Share Capital Account will be credited with ₹ 100 per share.

2

Mother's Recipe Ltd. a newly incorporated company being in need of funds for business had offered 1,00,000 Equity Shares of ₹ 10 each at par to Rakesh on the condition that they will also subscribe ₹ 10,00,000, 7% Debentures of ₹ 100 each at 10% discount. They agreed to the terms and accordingly shares and debentures were allotted to him.

The company also issued 20,000 Equity Shares of ₹ 10 each at a premium of ₹ 30 per share to public payable as follows:

On Application	₹ 15 (including ₹ 10 as premium);
On Allotment	₹ 13 (including ₹ 10 as premium);
On First and Final Call	Balance Amount.

Applications were received for 30,000 Equity Shares. The company decided to reject applications for 6,000 Equity Shares and allot shares to remaining applicants on *pro-rata* basis.

Ramesh to whom 400 Equity Shares were allotted and Achal who had applied for 720 shares did not pay Allotment Money and Shares First and Final Call. Their shares were forfeited and re-issued at ₹ 9 as ₹ 8 called up.

Questions

- (a) How much amount did the company receive from Rakesh for Equity Shares and Debentures?
- (b) How much amount out of Application Money received from public issue of shares was adjusted by the company towards Shares Allotment Account and Securities Premium Account that was payable on allotment?
- (c) How many shares were applied by Ramesh?
- (d) How many shares were allotted to Achal?
- (e) How much amount will be credited to Forfeited Shares Account?
- (f) How will be Forfeited Shares Account dealt after re-issue of forfeited shares?

Answer

- (a) The company received from Rakesh ₹ 19,00,000 (₹ 10,00,000 Equity Share Application and ₹ 9,00,000 as Debentures Application).
- (b) The company has excess Shares Application Money of ₹ 60,000 (4,000 x ₹ 15) and amount due on allotment is ₹ 60,000 (₹ 3 per share as Share Capital and ₹ 10 per share as Premium). Excess Application Money is first adjusted towards Share Capital and balance towards premium. (See Chart below)
- In this case, amount due on allotment towards Share Capital is ₹ 60,000 and excess application money is ₹ 60,000, therefore, it will be adjusted against Share Capital and no amount will be adjusted against Securities Premium.

- (c) Ramesh had applied for 480 shares calculated as follows:

$$400 \times 24,000/20,000 = 480 \text{ shares.}$$

- (d) Achal was allotted 600 shares calculated as follows:

$$720 \times 20,000/24,000 = 600$$

- (e) Forfeited Shares Account will be credited by ₹ 8,000, calculated as follows:

(A) <i>Out of Shares allotted to Ramesh:</i>	₹
Amount received as Application Money (₹ 15 × 480 shares)	7,200
Less: Transferred to Securities Premium	4,000
Balance credited to Share Capital	<u>3,200</u>
(B) <i>Out of Shares allotted to Achal</i>	
Amount received as Application Money (₹ 15 × 720 shares)	10,800
Less: Transferred to Securities Premium	6,000
Balance credited to Share Capital	<u>4,800</u>
Total (A + B)	<u>8,000</u>

Note:

Name	Shares Applied	Shares Allotted	App. Money	Share	Application Adjusted	Money	Allotment Due	Money	Excess Money	Application Adjusted	Share First and Final Call	Amount Credited to Forfeited Shares Account
			₹	Share Capital (₹)	Premium ₹	Balance ₹	Share Capital (₹)	Premium ₹	Share Capital (₹)	Premium (₹)	Share Capital (₹)	₹
Ramesh	480	400 (See Note 1)	7,200 (480 x ₹ 15)	2,000 (400 x ₹ 5)	4,000 (400 x ₹ 10)	1,200	1,200 (400 x ₹ 3)	4,000 (400 x ₹ 10)	1,200	4,000 (Balance)	800 (400 x ₹ 2) (Balance)	3,200
Achal	720	600 (See Note 2)	10,800 (720 x ₹ 15)	3,000 (600 x ₹ 5)	6,000 (600 x ₹ 10)	1,800	1,800 (600 x ₹ 3)	6,000 (600 x ₹ 10)	1,800	6,000 (Balance)	1,200 (600 x ₹ 2) (Balance)	4,800
Total			18,000	5,000	10,000	3,000	3,000	10,000	3,000	10,000	2,000	8,000

Note (for 'c' and 'd' above):

- When Shares Allotted are given, Shares Applied is calculated by the following formula:

$$\frac{\text{Total Number of Shares Applied} \times \text{Number of Shares Allotted}}{\text{Total Number of Shares Allotted}}$$
 - When Shares Applied are given, Shares Allotted is calculated by the following formula:

$$\frac{\text{Total Number of Shares Allotted} \times \text{Number of Shares Applied}}{\text{Total Number of Shares Applied}}$$
- (f) Total amount in the credit of Forfeited Shares Account, i.e., ₹ 8,000 will be transferred to Capital Reserve, since the forfeited shares have been issued at a premium of ₹ 1 (₹ 9 – ₹ 8). ₹ 1,000 will be credited to Securities Premium Account.

Emaar Ltd. is registered with authorised capital of ₹ 10,00,000, Equity Share Capital being 1,00,000 shares of ₹ 10 each.

The promoters of the company had undertaken to subscribe 2,000 Equity Shares at the time of company being incorporated and paid the due amount, i.e., ₹ 20,000.

The promoters were issued 2,000 Equity Shares of ₹ 10 each at a premium of ₹ 10 per share for the time and effort put in by them in the project besides expenses.

On 15th March, 2022, the company offered to public 50,000 Equity Shares at a premium of ₹ 50 per share for subscription, amount being payable along with application. Shares were over-subscribed by 20%. Allotment was made to the applicants on 5th April, 2022.

The company is to prepare Balance Sheet as at 31st March, 2022.

The accountant was preparing the financial statements of the company showing the above as follows:

Particulars	Note No.	₹
I. Shareholders' Funds		
Share Capital	1	6,40,000
Reserves and Surplus	2	30,02,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
Issued Capital	
54,000 Equity Shares of ₹ 10 each	5,40,000
Subscribed Capital	
Subscribed and Fully Paid-up	
64,000 Equity Shares of ₹ 10 each	6,40,000
2. Reserves and Surplus	
Securities Premium	30,02,000

Identify the errors committed by the Accountant in preparing the Balance Sheet of Emaar Ltd. and its correct disclosure in the Balance Sheet and Notes to Accounts.

Answer

The Accountant has committed following errors in preparing the Balance Sheet:

- The Accountant has overlooked the date of allotment of shares which is 5th April, 2022 whereas the Balance Sheet is as at 31st March, 2022.
- He has shown Subscribed and Fully Paid up shares as 64,000 Equity Shares whereas Issued Share Capital is 54,000 Equity Shares, which is total of 2,000 Shares subscribed by the Promoters, 2,000 Equity Shares issued to Promoters for their services and 50,000 Equity Shares issued for subscription. He has ignored the fact that Subscribed Share Capital cannot exceed the Issued Share Capital.
- Shares issued to promoters for their services should have been disclosed. Thus, under Shares Subscribed and Fully Paid up, a note to the effect that "Out of the above Equity shares, 2,000 Equity shares have been issued for consideration other than cash".
- The Accountant has shown the shares applied as shares subscribed whereas shares were yet to be allotted as on the date of Balance Sheet. As on the date of Balance Sheet, i.e., 31st March, 2022, total number of shares subscribed are 4,000 Equity Shares of ₹ 10 each. Hence, under Subscribed Share Capital, 4,000 Equity Shares of ₹ 10 each should be shown as 'Shares Subscribed and Fully Paid-up'.
- Against the share applications of 60,000 Equity Shares, 50,000 Equity Shares can be allotted. It means Application Money received on 10,000 Shares, i.e., ₹ 6,00,000 (10,000 x ₹ 60) will have to be refunded. Thus, in the Balance Sheet as at 31st March, 2022, it will be shown as Current Liability.

- (f) As on the Balance Sheet Date, i.e., 31st March, 2022, allotment of shares is not yet made meaning allotment is pending. Hence, it should not have been shown under Shares Subscribed and Fully Paid up but should have shown under the head Shares Application Money Pending Allotment as ₹ 30,00,000 (50,000 × ₹ 60).
- (g) Since, shares are not allotted as on 31st March, 2022, amount received towards Securities Premium should not have been shown separately but should have been shown under the head "Share Application Money Pending Allotment".

Correct disclosure will be as follows:

Particulars	Note No.	₹
I. Shareholders' Funds		
Share Capital	1	40,000
Reserves and Surplus	2	20,000
II. Application Money Pending Allotment (50,000 × ₹ 60)		30,00,000
III. Current Liabilities		
Other Current Liabilities (Application Money Refundable) (10,000 × ₹ 60)	3	6,00,000

Notes to Accounts

Particulars	₹
1. Share Capital	
Authorised Capital	
1,00,000 Equity Shares of ₹ 10 each	10,00,000
Issued Capital	
54,000 Equity Shares of ₹ 10 each	5,40,000
Subscribed Capital	
Subscribed and Fully Paid-up	
4,000 Equity Shares of ₹ 10 each	40,000
(Out of the above, 2,000 Equity Shares have been issued for consideration other than cash)	
2. Reserves and Surplus	
Securities Premium	20,000
3. Current Liabilities	
Other Current Liabilities	
Share Application Money (10,000 × ₹ 60)	6,00,000