

Chapter 7 · Accounting for Share Capital

CBSE Class 12 Accountancy (055) · Part A · Unit 2 = 24 marks · Ultimate Revision Sheet

SYLLABUS ALERT Interest on calls in advance and calls in arrears is **EXCLUDED** from the 2026–27 syllabus. Learn the accounts, not the interest calculation.

60-SECOND RECALL

Share capital order	Authorised → Issued → Subscribed → Called-up → Paid-up
Max premium	No limit. Securities Premium is a capital reserve, shown under Reserves & Surplus .
Calls in advance	A LIABILITY — Other Current Liabilities. Never added to paid-up capital.
Calls in arrears	Deducted from Subscribed & Fully Paid capital in the notes.
Forfeiture	Debit Share Capital by CALLED-UP value. Credit Forfeiture by amount RECEIVED .
Max discount on reissue	Cannot exceed the amount forfeited on those shares.
After reissue	Balance in Forfeiture A/c → Capital Reserve .

1. Types of Share Capital

Term	Meaning
Authorised / Nominal	Maximum capital the company is authorised to issue, stated in the Memorandum of Association
Issued	The part of authorised capital offered to the public
Subscribed	The part of issued capital applied for by the public
Called-up	The part of subscribed capital the company has demand
Paid-up	Called-up capital actually received = Called-up – Calls in arrears
Reserve capital	Part of uncalled capital callable only at winding up (special resolution)

Basis	EQUITY shares	PREFERENCE shares
Dividend	Fluctuating, paid after preference	Fixed rate, paid first
Repayment	Repaid last at winding up	Repaid before equity
Voting rights	Yes , on all matters	Only on matters affecting them

2. Issue of Shares — the journal chain

THE FIVE ENTRIES — IN ORDER

Particulars	Dr	Cr
1. Bank A/c Dr. To Share Application A/c		...
2. Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c To Share Allotment A/c (<i>excess adjusted</i>) To Bank A/c (<i>excess refunded</i>)		...
3. Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c		...

4. Bank A/c Dr. Calls in Arrears A/c Dr. To Share Allotment A/c	...	...
5. Share First & Final Call A/c Dr. To Share Capital A/c → then Bank A/c Dr. To Call A/c	...	...

Securities Premium is recorded at ALLOTMENT unless the question says otherwise.

3. Over-subscription — the three treatments

Treatment	What happens
Full allotment	Applicant gets all shares applied for
Pro-rata allotment	Shares allotted in a ratio; excess money adjusted against allotment , balance refunded
Rejection	Application money fully refunded

PRO-RATA — THE CALCULATION MOST LOSE Applied 60,000 shares, allotted 40,000, i.e. ratio 3 : 2.
Application ₹3, allotment ₹5.

A applied for 600 shares → allotted $600 \times \frac{2}{3} = 400$ shares

Money received on application = $600 \times 3 = ₹1,800$

Required on application = $400 \times 3 = ₹1,200$

Excess carried to allotment = ₹600

Allotment due = $400 \times 5 = ₹2,000 - 600 = ₹1,400$ to be received

Always compute in this order: shares allotted → money received → money required → excess → net allotment due.

4. Forfeiture of Shares

THE RULE — three amounts Debit Share Capital A/c with the **CALLED-UP** value
Credit Share Forfeiture A/c with the amount **RECEIVED**
Credit Calls in Arrears (or the unpaid call accounts) with the amount **NOT RECEIVED**

ENTRY — premium ALREADY received

Particulars	Dr	Cr
Share Capital A/c Dr. (called-up value)		...
To Share Forfeiture A/c (amount received)		
To Calls in Arrears A/c (amount unpaid)		

Securities Premium is NOT touched — it was already received.

ENTRY — premium NOT received

Particulars	Dr	Cr
Share Capital A/c Dr. (called-up)		...
Securities Premium A/c Dr. (unreceived premium)		
To Share Forfeiture A/c		
To Calls in Arrears A/c		

THE DECIDING QUESTION Ask: *was the premium actually received?*

- Received → Securities Premium **untouched**
- Not received → Securities Premium **DEBITED** (cancelled)

This single check decides the entry. Premium is usually called at allotment, so if allotment money was not received, the premium was not received either.

5. Re-issue of Forfeited Shares

ENTRY

Particulars	Dr	Cr
Bank A/c Dr. (amount received on reissue)		...
Share Forfeiture A/c Dr. (discount allowed)		...
To Share Capital A/c (paid-up value)		
Then transfer the surplus:		...
Share Forfeiture A/c Dr.		
To Capital Reserve A/c		

CAPITAL RESERVE — THE THREE-STEP CALCULATION

1. Amount forfeited on the shares reissued = Total forfeited × (Shares reissued / Shares forfeited)

2. Less: discount allowed on reissue

3. = Amount transferred to Capital Reserve

Example: 1,000 shares forfeited, ₹6,000 forfeited in total. 600 reissued at ₹8 (face ₹10, fully paid).

Forfeited on 600 = $6,000 \times 600/1000 = ₹3,600$

Discount = $600 \times ₹2 = ₹1,200$

Capital Reserve = $3,600 - 1,200 = ₹2,400$

The remaining ₹2,400 (on the 400 not reissued) stays in Share Forfeiture A/c and is shown under **Share Capital** in the balance sheet.

TRAP Maximum discount on reissue = amount forfeited on those shares. The company can never reissue at a bigger loss than it gained on forfeiture. If a question implies otherwise, recheck your forfeited figure.

6. Other Concepts (1-markers)

Term	Meaning
Private Placement	Offer of securities to a select group of persons (not more than 200 in a financial year), not to the public
ESOP	Employee Stock Option Plan — option given to employees/directors to buy shares at a pre-determined price
Sweat Equity	Shares issued to employees or directors at a discount or for consideration other than cash, for know-how or value additions
Shares for consideration other than cash	Issued to vendors for assets, or to promoters for services

SHARES ISSUED TO A VENDOR

1. Sundry Assets A/c Dr. To Vendor A/c
2. Vendor A/c Dr. To Share Capital A/c To Securities Premium A/c

Number of shares = Purchase consideration ÷ Issue price (face value + premium)

7. Balance Sheet Presentation (Schedule III)

NOTES TO ACCOUNTS — SHARE CAPITAL

Authorised Capital: ... shares of ₹10 each	...
Issued Capital: ... shares of ₹10 each	...
Subscribed and Fully Paid: ... shares of ₹10 each	...
Subscribed but not Fully Paid: ... shares	...
Less: Calls in Arrears	(...)
Add: Share Forfeiture A/c (shares not yet reissued)	...
	XXX

Securities Premium → Reserves & Surplus. Calls in Advance → Other Current Liabilities.

8. Question Triggers

what the wording is really asking

If the question says...	Do this
"applications received for more shares than issued"	Over-subscription → pro-rata working
"allotted in the ratio 3:2"	Pro-rata — carry excess to allotment
"X failed to pay the allotment money"	Calls in Arrears; premium likely not received
"shares were forfeited"	Debit Capital by called-up , credit Forfeiture by received
"premium had not been received"	Debit Securities Premium in the forfeiture entry
"reissued at ₹8 fully paid (face ₹10)"	Discount ₹2 per share → Debit Forfeiture
"calculate the amount transferred to Capital Reserve"	Three-step: proportion → less discount → balance
"some shares were not reissued"	That part stays in Forfeiture A/c → added to Share Capital
"paid the call money in advance"	Calls in Advance — a liability, not capital
"purchased machinery from a vendor, paid in shares"	Assets Dr. → Vendor; Vendor Dr. → Capital + Premium
"issued to employees at a discount for services"	Sweat equity
"offered to fewer than 200 selected persons"	Private placement

MOST-ASKED BOARD QUESTIONS

1. [6M] Pass journal entries for issue, over-subscription, forfeiture and reissue.
2. [4M] Calculate the amount transferred to Capital Reserve.
3. [3-4M] Prepare the Share Capital note as per Schedule III.
4. [1M] Where is Securities Premium shown? → **Reserves & Surplus**
5. [1M] Maximum discount allowed on reissue? → **Amount forfeited on those shares**
6. [1M] What is reserve capital? → **Uncalled capital callable only at winding up**

THE HABIT THAT SCORES — For every forfeiture question write three numbers first: **called-up, received, not received**. The entry falls out of them. And always ask the deciding question — **was the premium received?** — before writing a single line.