ISSUE OF SHARES

❖ MEANING OF A COMPANY

A Company is an artificial person existing in the eyes of law and distinct from its members. It has a share capital divided into share, the owners of which are known as members or shareholders. Insolvency or death of a member has no effect on the life of the company.

❖ KINDS OF JOINT STOCK COMPANIES

A company may be incorporated as a private company or a public company.

Private Company: A Private Company is one which has a minimum paid up share capital of Rs. 1,00,000 or such higher paid up share capital as may be prescribed by its Articles of Association:

(a) Restricts the right to transfer its shares, if any.

(b) Limits the number of its members to 50 not including its present or past employee members.

(c) Prevents the public from subscribing for any shares or debentures of the company.

(d) Prohibits any invitation or acceptance of deposits from persons other than its' members and Directors or their relatives.

Public Company: A Public Company means a company which

(a) is not a private company;

(b) has a minimum paid up capital of Rs. 5,00,000 or such higher paid - up capital as may be prescribed;

(c) is a private company, being a subsidiary of a company which is not a private company.

The name of a Public Company ends with the word 'Limited'.

Distinction between a Private Company and a Public Company

BASIC	PRIVATE COMPANY	PUBLIC COMPANY
1. Number of Members	Minimum number of members is 2 and the maximum 50, excluding its present or past employee members.	Minimum number of members is 7 and is no limit as to maximum numbers.
2. Transfer of Shares	Shares can be transferred with the consent of directors.	Transfer of shares is usually without any restriction.
3. Paid – up Capital	Minimum paid – up capital should be as prescribed by the companies act, presently it is Rs. 1,00,000.	Minimum paid – up capital should be as prescribed by the Companies Act, presently it is Rs. 5,00,000.
4. Prospectu	Prospectus need not be	Prospectus must be issued to

s	issued.	invite general public to subscribe for shares, if not, a Statement in Lieu of Prospectus is filed with the Registrar Companies.
5. Bye-laws or Articles	Special Articles of Association are necessary.	Special Articles of Association need not be prepared. Table given in the Companies Act will then apply.
6. Number of Directors	A Private company must have at least 2 Directors.	A public company must have at least 3 Directors.
7. Commencement of Business	Business may be commenced as soon as the certificated of incorporation is issued.	In addition to the Certificate of Incorporation, Certificate for Commencement of Business must also be obtained.
8. Allotment of Shares	Shares may be allotment as the Directors wish.	Shares may be allotted only if shares equal to the minimum subscription have been applied for.
9. Name	The words 'Private Limited' must be used as part of the name.	The word 'Limited' must be used as part of the name.

❖ SHARE CAPITAL OF A COMPANY

Capital means a particular amount of money use in business for the purpose of earning revenue. Share capital is that part of capital of a company which is represented by total nominal value of shares which it has issued. Total capital of a company is divided in to No. of small units of fixed amount, each such unit is called share. The amount fixed for his share is called nominal or par or face value of the share.

The term share capital is used in the following different senses

- ❖ **Nominal or Authorized Capital :** It means the face value of the shares which a company is authorized to issue by its memorandum. It puts a limit on the amount of capital which a company is authorizes to raise during its life time.

- ❖ **Issued Capital :** It is that part of the Authorized capital which is issued to the public for subscriptions and allotment. Such capital is issued by the company for cash or for consideration other than cash (To Promoter or others) .

- ❖ **Subscribed Capital:** It is that part of issued capital which is which has been subscribed by the public or taken by the public.

- ❖ **Called up capital:** It is that part of subscribed capital which the directors have called up in order to carry on the business of the company.,

- ❖ **Un-called Capital:** Amount which is not called up by the directors of a company is called uncalled capital. It is the difference between subscribed and called up capital.

- **Paid up capital:** It is that part of called up capital which is actually received in cash by the company. Amount which is not received is calls in arrears.

- **Reserved Capital :** A limited company may by a special resolution determine that any portion of its share capital which has not been called up shall not be called up except in the event and for the purpose of winding of the company. Such un called portion of share capital is called reserved capital.

- **Shares :** The Act defines a share as share in share capital of a company and includes stock. Each share is given a specific number. Shares are classified as moveable property, transferable in the manner specified in the articles.

- **Share Certificate :** A certificate is issued by the company under the common seal of the company to its share holders which is the evidence of their title to the shares specified there in and it is called share certificate.

- **Stock :** It is the aggregate of fully paid shares legally consolidated and portion of which may be split up and transferred into fraction of any amount without regard to the nominal amount of shares.

- **Kinds of Shares :** Under the Companies Act 1956, shares can be of two classes only.

  (a) Preference Shares **(b)** Equity Shares

  (a) Preference Shares : Those shares which satisfies the two conditions **(i)** As regards dividends they carry a preferential right to fixed amount of dividend **(ii)** As regards capital they carry a preferential right over other share holders to be paid first in case of binding a public company.

TYPES OF PREFERENCES SHARES

- **Cumulative Preference Shares:** In respect of such shares if profits of the company are not sufficient to pay dividend on such shares then dividend on such shares accumulates unless it is paid in full. Arrears of dividend are shown below balance sheet as a contingent liability. In case dividends remain in arrears for period of two years, holder of such shares will entitled to take part and vote on every resolution on every matter in general meeting of shares holders.

- **None Cumulative preferences:** In respect of such shares dividend is only payable out of net profit of each year and show dividend on such shares do not accumulate. Show holder of such shares is not entitled to arrears of dividend in future. If the dividend remains unpaid for two years or an aggregate of three years in six years ending with the expiry of financial year, holders of such shares will be entitled to take part and vote on every resolution at every meeting of the share holders.

Note: A preference share is always cumulative unless stated otherwise.

- **Participating preferences:** Those shares which are entitled to fixed rate of dividend and in addition enjoy a right to participate in the surplus profits alongwith equity share holders, after paying dividend to equity shares holders at a certain rate. Further in the event of winding up of a company if there is any surplus left after paying equity share holders and preference share holder then such share holders are entitled to get a portion of surplus.

- **Non-participating preferences shares:** A share the holder of which gets only the fixed percentage of dividend and return of capital at the time of winding up of the company is known as non-participating preference share.

<u>Note:</u> **Unless clearly specified preference shares are generally non-participating.**

- **Redeemable and non-redeemable preference shares**: Redeemable shares are those the capital of Non-redeemable preference shares those the capital of which cannot be refunded before winding up of a company.

<u>Note:</u> **No company can issue non-redeemable preference shares or such shares which are redeemable after 20 years from the date of their issue.**

- **Convertible and non-convertible preference shares:** Holder of such preference shares has the right to convert his shares into equity shares according to terms of issue.

  When the holder has no such right then such shares are called non-convertible Preference shares.

<u>Note:</u> **Preference shares are non-convertible unless specified.**

- **<u>Equity Shares:</u>** Those shares which are not preference shares are equity shares it is risk capital of business. They don't enjoy any preferential right in the matter of dividend or repayment of capital. Rate of dividend on equity shares is recommended by board of directors and may vary from years to year. These shares carry voting rights.

<u>Special points in respect of issue of such shares and minimum subscription</u>

- Application money cannot be less than 5% of face value of shares .
- A company cannot allot shares unless minimum subscription stated in prospectus is received by the company. Such minimum subscription is the amount which according to the directors must be raised in cash by issue of shares. Such amount is required for preliminary expenses, commission payable on issue of shares, for purchase of fixed assets and for working capital etc.
- As per SEBI minimum 90% subscription must be received by the company out of entire issue. If the company does receive minimum subscription of 90% then entire subscription shall be refunded to the applicants within 42 days from the date of closer issue.
- Shares issued are made fully paid up within twelve months of the date of allotment. If the size of issue is upto 500 corers.
- Allotment of shares shall be made within 30 days of closer of public issue. The company is liable to pay interest @ 15% if the refund order have not been dispatched to the applicants within 30 days from the closer of issue.

- **Uses of share premium by company under section 78 of companies act.**

(i) To issue bonus shares.
(ii) To write off preliminary expenses.
(iii) To write of expenses or commission on issue of shares and debentures.
(iv) To write off discount on issue of shares.
(v) To pay premium on redemption of preference shares or debentures of the company.

- **Condition for issue of shares at discount:**

- ❖ Such shares should be of a class already issued. So a new company cannot issued at a discount and also a new class shares cannot be issued at discount.
- ❖ Such issue is authorized by an ordinary resolution passed by the company at its general meeting and sanctioned by company law board.
- ❖ Rate of discount must not exceed 10% of nominal value of shares. In special cases company law board may permit a higher percentage of discount .
- ❖ Rate of discount must not exceed 10% of nominal value of shares. In special cases company law board may permit a higher percentage of discount.
- ❖ At least one year must have elapsed since the company was entitled to commence the business.
- ❖ The shares are to be issued within 2 months from the date of receiving from company law board.

Note: **Such discount is shown on the asset side of the balance sheet under miscellaneous expenditure and is written off against profit and loss account of share premium account over a number of years.**

- ❖ **Calls in Arrears:** It refers to that portion of capital, which was been called up but not yet paid by the share holders. Interest on such arrears may be charged by directors from share holders @ 5% per annum from the date upto the date of actual payment.
- ❖ **Calls in Advance:** It generally arised when there is an over subscription of shares. Here the excess application money received is adjusted against the amount due on allotment or calls. The excess application money after adjustment for allotment is transferred to special account called 'Calls in Advance' account. Interest may be paid on calls in advance @ 6% p.a.

PRACTICAL QUESTIONS

Q.1. Issue of Shares at Par; Fully Subscribed. X Co. Ltd. invited applications for Rs. 10,000 shares of the value of Rs. 10 each. The amount is payable as Rs. 3 on application and Rs. 4 on allotment and balance Rs. 3 on first and final call. The whole of the above issue was applied for and cash duly received. Give the Journal entries for the above transactions.

Q.2. Issue of Shares of Premium, Fully Subscribed. Y Ltd. issued 10,000 shares of Rs. 10 each at a premium of Rs. 2 per share payable as follows:

Rs. 3 On application, Rs. 6 on allotment and Rs. 3 on first and final call.

All the shares were applied for and duly allotted. Pass the necessary Journal entries.

Q.3. XYZ Ltd, was incorporated with a capital of Rs. 50,00,000 divided into shares of Rs. 100 each. It invited application for 10,000 shares at a discount of 4% payable as:

Rs. 20 on application, Rs. 30 on allotment and Rs. 46 on first and final call.

Applications were received for 9,000 shares and all of these were accepted. All money due was received. Give the Journal entries and the Balance Sheet.

[Balance Sheet Total - Rs. 9,00,000]

Q.4. Wye Ltd. registered with a capital of Rs. 5,00,000 divided into 20,000 shares of Rs. l25 each, payable as: Rs. 2.50 per share on application, Rs. 7.50 per share on allotment and the balance in two calls of Rs. 7.50 per share each. The company offered to the public for subscription 10,000 on application but was allotted only 200 shares. B applied for 800 shares, paid the full amount Rs. 20,000 of his share money on application but was allotted only 500 shares and the surplus money was returned to him. C applied for 1,000 shares, paid his application and allotment money in order, paid Rs. 2,000 on first call but did not pay for the second call at all. Make the Journal entries to record the above transactions.

Q.5. X Company issued Rs. 10,00,000 new capital divided into shares of Rs. 100 each at a premium of Rs. 20 per share payable thus:

Rs. 10 per share on application.
Rs. 40 per share and Rs. 10 premium on allotment and
Rs. 50 per share and Rs. 10 premium on final payment.

Over - payments on application were to be applied towards sums due on allotment and overpayments on application were to be applied towards sums due on allotment were to be returned. Where no allotment was made, money was to be returned in full. The issue was oversubscribed to the extent of 13,000 shares. Application for 12,000 shares were allotted only 1,000 shares and applications for 2,000 shares were sent letters of regret and application deposits were returned to them. All the money due on allotment and final call was duly received. Make the necessary entries in the company's books to record the above transactions.

[Balance Sheet Total - Rs. 12,00,00]

Q.6. Ranjan Ltd. purchased assets from Geeta & Co. for Rs. 5,00,000. A sum of Rs. 1,00,000 was paid by means of a bank draft and for the balance due Ranjan Ltd. issue equity shares of Rs. 10 each at a premium of 25%.

Q.7. Various Cases for Shares issued for Consideration other than Cash. X Ltd. purchased the business of Ram Bros. for Rs. 1,80,000 payable in fully paid equity shares of Rs. 100 each. What entries will be made in the books of X Ltd. if such issue is (i) at par, (ii) at premium of 20% and (iii) at a discount of 10%?

Q.8. Ram & Co. purchased machinery from Mona & Co. for Rs. 4,00,000. A sum of Rs. 1,75,000 was paid by means of a bank draft and for the balance due Ram & Co. issued equity shares of Rs. 10 each at a discount of 10%.

Journalize the above transactions in the books of the company.

Q.9. X Ltd. forfeited 900 equity shares of Rs. 100 each for the non - payment of allotment money of Rs. 30 per share and the first call of Rs. 20 per share. The second and final call of Rs. 25 per share has not been made. The forfeited shares were reissued for Rs. 90 per share, Rs. 75 paid - up. ***[Capital Reserve - Rs. 22,500]***

Q.10. Super Star Ltd. make an issue of 10,000 Rs. 10 equity shares, payable as :

On application and allotment	Rs. 50
On first call	Rs. 25
On second call	Rs. 25

Members holding 400 shares did not pay the second call and the shares are duly forfeited, 200 of which are reissued as fully paid at Rs. 50 per share.
Pass the Journal entries in the book of the company.

[Capital Reserve - Rs. 5,000]

Q.11. Tata Ltd. having an authorized capital of Rs. 20,00,000 in shares of Rs. 100 each invited applications for 10,000 shares payable as:

On application	Rs. 20
On allotment	Rs. 30
On first call	Rs. 25
On final call	Rs. 25

The Company received applications for 12,000 shares. Applications for 10,000 shares were accepted in full and the money on the applications rejected was returned.
All money due as stated above was received with the exception of the final call of 250 shares.
Half of these shares were forfeited and reissued as fully paid at Rs. 90 per share.
Pass the necessary Journal entries and show how the Share Capital Account will stand in the Balance Sheet.

[Capital Reserve - Rs. 8,125, Balance Sheet Total - Rs. 10,05,000]

Q.12. A company issued 10,000 equity shares of Rs. 10 each at a premium of Rs. 3 per share payable Rs. 5 on application, Rs. 5 (including premium) on allotment and the balance on first call. All the shares offered were applied for and allotted. All the money due on allotment was received except on 200 shares. Call was made. All the amount due thereon was received except on 300 shares. Directors forfeited 200 shares on which both allotment and call money was not received.

Pass the necessary Journal entries to record the above.

[Forfeited Shares A/c Rs. 1,000]

Q.13. Reissue of forfeited Shares Original issued at Discount. Ram Limited invited applications for 10,000 equity shares of Rs. 100 each at a discount of Rs. 4 per equity share payable as follows:

Rs. 20 on applications;
Rs. 30 on allotment; and
Rs. 46 on first and final call.

The applications received were for 9,000 equity shares and all of these were accepted. All amount due was received except the first and final call on 400 equity shares. These shares were forfeited, 200 of these shares were reissued as fully paid for a payment of Rs. 80 per equity share. Assuming that all requirements of the law were complied with, pass entries in the Cash Book and the Journal of the Company. Also, show the Balance Sheet of the company.

[Ans. Capital Reserve - 68,000]

Q.14. When all Forfeited Shares are not Reissued. A Limited Company invites applications for 50,000 equity shares of Rs. 10 each, at a maximum discount permitted by the Companies Act, payable as follows:

On application Rs. 3; On allotment Rs. 3; On first call Rs. 2; On final call the balance.

Applications were received for 55,000 Shares. Allotments were made on the following basis:

(i) To applicants for 35,000 shares - in full.
(ii) To applicants for 20,000 shares - 15,000 shares.

Excess money paid on application was utilized towards allotment money.

A shareholder who was allotted 1,500 shares out of the group applying for 20,000 shares failed to pay allotment money and money due on calls. These shares were forfeited. 1,000 forfeited shares were reissued as fully paid on receipt of Rs. 8 per share.

Show the Journal entries in the books of the company and the Balance Sheet.

[Ans. Capital Reserve 3000, BIS 5,00,000]

Q.15. XY Ltd. invited applications for issuing 50,000 equity shares of Rs. 10 each. The amount was payable as:

On application	Rs. 3 per share
On allotment	Rs. 4 per share
On first and final call	Rs. 3 per share

Application was received for 75,000 shares and pro rata allotment was made as:
Applicants for 40,000 shares were allotted 30,000 shares on pro rata basis.
Applicants for 35,000 shares were allotted 20,000 shares on pro rata basis.
Ramu, to whom 1,200 shares were allotted out of the group applying for 40,000 shares, failed to pay the allotment money. His shares were forfeited immediately after allotment.
Shamu, who had applied for 700 shares out of the group applying for 35,000 shares, failed to pay the first and final call. His shares were also forfeited. Out of the forfeited shares, 1,000 shares were reissued @ Rs. 8 per shares fully paid - up. The reissued included all the forfeited shares of Shanmu.
Pass the necessary Journal entries to record the above transactions.

[Money not paid by Ramu on Allotment - Rs. 3,600; Money Actually Received on Allotment - Rs. 1,21,400 and Amount transferred to Capital Reserve - Rs. 3,200]

Q.16. A company issued for public subscription 40,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as:

On application	Rs. 2 per share
On allotment	Rs. 5 per share (including premium)
On first call	Rs. 2 per share
On second call	Rs. 3 per share

Application were received for 60,000 shares. Allotment was made pro rata to the applicants for 48,000 shares, the remaining applications being refused. Money overpaid on application was utilized towards sum due on allotment. Ram to whom 1,600 shares were allotted failed to pay the allotment money and Shyam to whom 2,000 shares were allotted failed to pay the two calls. These shares were subsequently forfeited after the second call was made. All the forfeited shares were reissued as fully paid at Rs. 8 per share.
Give the necessary Journal entries for the above transactions.

[Capital Reserve - Rs. 6,640]

MULTIPLE CHOICE QUESTION

1. A company is an association registered under –
- **(a)** The Co-operative Societies Act
- **(b)** The Societies Registration Act
- **(c)** The Indian Partnership Act
- **(d)** The Companies Act

2. Common Seal means the office signature of –
- **(a)** The Company
- **(b)** The Director
- **(c)** They Members
- **(d)** The Employees

3. An authorized capital refers to –
- **(a)** Paid up value of all shares allotted
- **(b)** Called up value of all shares allotted
- **(c)** Nominal value of all shares offered to public
- **(d)** That amount which is stated in the capital of the Memorandum of

Association as the share Capital.

4. A company is a person created by —

(a) God **(b)** Human being

(c) Law **(d)** None of these

5. Reserve Capital refers to –

(a) Capital reserve

(b) That portion of called up share capital which shall not be capable of being called up except in the event and for the purpose of the company being would up.

(c) That portion of uncalled share capital which cannot be called up when the company is being wound up.

(d) None of the above.

6. Issued capital Includes —

(a) Nominal value of shares offered to the public

(b) Nominal value of shares applied by the public

(c) Nominal value of shares allotted to the public

(d) None of these

7. X Ltd. was formed with a capital of Rs. 10,00,000 divided into shares of Rs. 10 each. It offered 90% shares called up 40% on application and 20% on allotment. The subscribers paid Rs. 3,40,000 on application and Rs. 1,69,000 on allotment. The subscribed capital is —

(a) Rs. 10,00,000 **(b)** Rs. 5,10,000

(c) Rs. 5,09,000 **(d)** Rs. 3,40,000

8. X Ltd. was formed with a capital of Rs. 1,00,000 divided into shares of Rs. 10 each. Out of these 2,000 shares were issued to the vendors as fully paid as purchased consideration. 6,500 shares was offered to the public and of these 6,000 share were applied for an allotted the directors called Rs. 6 per share and received the entire amount except a call of Rs. 2 per share on 500 share. The amount of issued capital is

(a) Rs. 20,000 **(b)** Rs. 65,000

(c) Rs. 85,000 **(d)** Rs. 80,000

(e) Rs. 55,000

9. The excess price received over the par value of shares, should be credited to

(a) Calls-in-advance account **(b)** Share Capital account

(c) Reserve Capital account **(d)** Share premium account

10. An applicable of shares is ——

(a) An acceptance of an offer to take shares made by the company in its prospectus

(b) An offer to take shares made by an applicant

(c) An invitation to make an offer to take shares

(d) None of these

11. Cumulative Preference Share is one on which—

(a) Arrears of dividend accumulate

(b) Arrears of dividend do not accumulate

(c) Arrears of redeemable share capital accumulate

(d) None of these

12. Prospectus of a company is ——

(a) An application for shares / debentures

(b) An offer by the company to the public to sell its shares of debentures

(c) An invitation to make on offer to subscribe the shares of debentures of

the company
(d) All of above

13. Equity Shares can be issued ——
(a) With proportionate voting rights only
(b) With differential voting rights only
(c) With differential right as to dividend and voting
(d) None of these

14. Which is not to be disclosed in the Balance Sheet of a Company?
(a) Authorized Capital **(b)** Issued Capital
(c) Subscribed Capital **(d)** Reserve Capital

15. Convertible Preference Share is one which carries –
(a) A right to receive arrears of dividend
(b) A right to participate in the surplus profits and surplus assets
(c) A right to participate in the surplus profits or surplus assets or both
(d) A right of conversion into equity share

16. X who applied for 100 shares was allotted 80 shares. The amount of demanded was Rs. 2 on application. Rs. 2 on allotment, Rs. 2 as first call and Rs. 3 on second call. He did not pay anything after application. The amount of calls-in-arrears is —
(a) Rs. 400 **(b)** Rs. 640
(c) Rs. 600 **(d)** Rs. 520

17. As per the Companies Act, only preference shares, which are redeemable within –
(a) 24 years **(b)** 22 years
(c) 30 years **(d)** 20 years

18. If shares are forfeited, Forfeited Shares Account –
(a) Debited with the amount received (excluding securities premium)
(b) Debited with the called up amount on shares
(c) Credited with the paid up amount on shares
(d) Credited with the amount received (excluding securities premium)

19. If shares are forfeited, share capital account is debited with –
(a) The face value of shares. **(b)** The called up value of shares.
(c) The paid up value of shares. **(d)** None of the above.

20. On approval from the Central Government, the rate of discount on issue of shares can be _________ percent of the nominal value of the shares.
(a) 5 **(b)** 10
(c) 20 **(d)** None of three

21. Maximum amount that can be collected as premium as a percentage of face value = ?
(a) 20% **(b)** 30%
(c) 40% **(d)** Unlimited

22. Which of the following signifies the difference between par value and an issue price below par?
(a) Securities premium **(b)** Discount on issue of shares
(c) Calls in arrear **(d)** Calls in advance

23. As per Schedule VI of the Companies Act, 1956, under which of the following heads is Premium on issue of preference Shares' shown in the Balance Sheet of a company?
(a) Miscellaneous expenditure **(b)** Debenture
(c) Reserves and surplus **(d)** Current liabilities and provisions

24. If articles are silent regarding interest on calls in advances, the minimum rate of interest which can be allowed on calls-in-advance is ———
(a) 5% p.m. **(b)** 6% p.a.
(c) 5% p.a. **(d)** None of these

25. As per SEBI Guidelines, the amount payable on application on each share must be at lease —
(a) 5% of the nominal amount of share
(b) 25% of the nominal amount of share
(c) 25% of the called amount of share
(d) 5% of the called amount of share

26. Securities Premium can be demanded –
(a) Only on application **(b)** Only on allotment
(c) Only on call
(d) In lumpsum or installments on application & or allotment & or call

27. A company can issue shares at premium –
(a) If the Articles authorities the company to do so
(b) Even in the absence any express authority in its article
(c) If the Memorandum authorize the company to do so
(d) None of these

28. X Ltd's authorized capital is Rs. 10,00,000 and has already issued 60,000 equity shares of Rs. 10 each. It now desires to issue preference share of Rs. 10 each at 10% discount after passing the ordinary resolution. The number of such perforce shares which can be issued by X Ltd are –
(a) 1,00,000 **(b)** 60,000
(c) 40,000 **(d)** None of these

29. The balance of Securities Premium Account can be utilized—
(a) To issue fully paid bonus shares to creditors.
(b) To write off development expenditure.
(c) To provide for the premium payable on the buy-back of equity shares.
(d) None of the above

30. If articles are silent regarding interest on calls-in-arrears, the minimum rate of interest which can be charged on calls-in-arrears is –
(a) 6% p.m. **(b)** 5% p.a.
(c) 6% p.a. **(d)** None of the these

31. Which of the following statements is false?
(a) The forfeited shares should not be issued at a premium
(b) At the time of forfeiture of shares , share premium should not be debited with the amount of premium already received.
(c) Shares can be issued at a discount only after one year from the commencement of business
(d) Share premium cannot be utilized to redeem preference shares.

32. When shares are issued to promoters for the services offered by them, the account that will be debited with the nominal value of shares is ——

(a) Preliminary expenses **(b)** Goodwill
(c) Asset account **(d)** Share capital

33. Which type of the following shares have the right to receive dividends unpaid in prior years, whenever earnings become adequate?
(a) Cumulative preference shares **(b)** Participating preference shares
(c) Convertible preference shares **(d)** Callable preference shares

34. Which of the following statements is false?
(a) Interest on calls-in-advance is paid from the date of receipt of advance to the date of relevant call
(b) Interest on calls-in-advance is paid from the date of receipt of advance to the date of appropriation to the relevant call
(c) Interest on calls-in-advance is paid at the rate of 6% p.a.
(d) Payment of interest on calls-in-advance is at the discretion of the company.

35. The maximum amount beyond which a company is not allowed to raise funds, by issue of shares is its'_____
(a) Issued Capital **(b)** Reserve Capital
(c) Nominal Capital **(d)** Subscribed Capital

36. Dividends are usually paid as a percentage of ____
(a) Authorized share capital **(b)** Net profit
(c) Paid-up capital **(d)** Called-up capital

37. O Ltd. issued 10,000 equity shares of Rs. 10 each at a premium of 20% payable Rs. 4 on application (including premium), Rs. 5 on allotment and the balance on first and final call. The company received applications for 15,000 shares and allotment was made pro-rata. P, to whom 3,000 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to Q at par. Assuming the no other bank transactions took place, the bank balance of the company after effecting the above transaction = ?
(a) Rs. 1,14,000 **(b)** Rs. 1,32,000
(c) Rs. 1,20,000 **(d)** Rs. 1,00,000

38. The interest on calls-in-advance is paid for the periods from the __
(a) Date of receipt of application money to the date of appropriation
(b) Date of receipt of allotment money to the date of appropriation
(c) Date of receipt of advance to the date of appropriation
(d) Date of appropriation to the date of dividend payment.

39. D Ltd. issued 5,000 equity, shares of Rs. 20 each at a premium of 20% payable Rs. 8 on application (including premium), Rs. 10 on allotment and the balance on first and final call. The company received applications for 7,500 shares and allotment was made pro-rata. E, to whom 1,500 shares were allotted, failed to pay the amount due on allotment. All her shares were forfeited after the call was made. The forfeited shares were reissued to F at par. Assuming that no other bank transactions took place, the bank balance of the company after affecting the above transactions = ?
(a) Rs. 1,14,000 **(b)** Rs. 1,32,000
(c) Rs. 1,20,000 **(d)** Rs. 1,00,000

40. G Ltd acquired assets worth Rs. 7,50,000 from H Ltd by issue of shares of Rs. 100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle the purchases consideration?
(a) 6,000 shares **(b)** 7,500 shares
(c) 9,375 shares **(d)** 5,625 shares

41. A company forfeited 2,000 shares of Rs. 10 each (which were issued at par) held by Mr. John for non-payment of allotment money of Rs. 4 per share. The called-up value per share was Rs. 9. On forfeiture, the amount debited to share capital=?

(a)	Rs. 10,000	**(b)**	Rs. 8,000
(c)	Rs. 2,000	**(d)**	Rs. 18,000

42. E Ltd. has allotted 10,000 shares to the applicants of 14,000 shares on pro rata basis. The amount payable on application is Rs. 2. F applied for 420 shares. The number of shares allotted and the amount carried forward for adjustment against allotment money due from F = ?

(a)	60 Shares ; Rs. 120	**(b)**	340 shares ; Rs. 160
(c)	320 shares ; Rs. 200	**(d)**	300 shares ; Rs. 240

43. The directors of B Ltd. made the final call of Rs. 30 per share on January 15, 2004 including the last date of payment of call money to be January 31,2004. Mr. C, holding 7,500 shares paid the call money on March 15,2004.
If the company adopts Table A, of the Companies Act the amount of interest on calls-in-arrear to be paid by Mr. C = ?

(a)	Rs. 937,50	**(b)**	Rs. 1,406.25
(c)	Rs. 1,125.00	**(d)**	Rs. 1,687.50

44. B Ltd., a listed company, proposed to issue 1,00,000 equity shares of Rs. 10 each at par by way of private placement. The maximum amount of brokerage that can be paid by the company=?

(a)	Rs. 5,000	**(b)**	Rs. 10,000
(c)	Rs. 50,000	**(d)**	Rs. 25,000

45. Consider the following data pertaining to W Ltd. as on March 31, 2006

Share Capital	
Issued, Subscribed Called-up (20,000 shares Rs. 100 each)	Rs. 20,00,000
Calls in arrear	Rs. 10,000
Profit and loss account (Cr.) as on April 01, 2005	Rs. 67,000
Profit for the year	Rs. 1,90,610

❖ The company want to create a Debenture Redemption Reserve and to transfer Rs. 50,000 every year out of profits to redeem the debentures.

❖ The company declared 10% dividends.

I. The amount of dividend declared = ?

(a)	Rs. 1,00,700	**(b)**	Rs. 2,25,761
(c)	Rs. 1,99,000	**(d)**	Rs. 2,00,000

II. The balance of Profit and Loss Appropriate account transferred to Balance Sheet after effecting the above transactions = ?

(a)	Rs. 6,000	**(b)**	Rs. 68,100
(c)	Rs. 8,610	**(d)**	Rs. 6,810

III. If the forfeited shares are issued at a premium, the amount of the premium shall be credited to

(a)	Profit and loss account	**(b)**	Capital reserve account
(c)	Share forfeiture account	**(d)**	Share premium account

IV. IJK Ltd. Issued 20,000 shares of Rs. 10 each at a premium of 20% on May 01, 2004, payable as follows:

On application	Rs. 4.50 (inclusive of premium)
On allotment	Rs. 2.50
On first and final call	Rs. 5.00

Mrs. M, to whom 1,000 shares were allotted, has paid Rs. 5,000 on June 01, 2004. At the time of remitting the allotment money, she indicated that the excess money should be adjusted towards the call money. The directors of the company made the first and final call on October 31, 2004. The company has a policy of paying interest on calls-in-advance. The amount of interest paid to Mrs. M on calls-in-advance = ?

(a) Rs. 62.50 **(b)** Rs. 52.08
(c) Rs. 125.00 **(d)** Rs. 150.00

46. Z Ltd. Issued 10,000 shares of Rs. 10 each. The called up value per share was Rs. 8. The company forfeited 200 shares of Mr. A for non-payment of 1st call money of Rs. 2 per share. He paid Rs. 6 for application and allotment money. On forfeiture, the share capital account will be __

(a) Debited by Rs. 2,000 **(b)** Debited by Rs. 1,600
(c) Credited by Rs. 1,600 **(d)** Debited by Rs. 1,200

47. B Ltd. issued shares of Rs. 10 each at a discount of 10% Mr. C purchased 30 shares and paid Rs. 2 on application but did not pay the allotment money of Rs. 3. If the company forfeited his entire shares, the forfeiture account will be credited by __

(a) Rs. 90 **(b)** Rs. 81
(c) Rs. 60 **(d)** Rs. 54

48. The following information pertains to X Ltd.

i. Equity share capital called up Rs. 5,00,000
ii. Calls in arrear Rs. 40,000
iii. Calls in advance Rs. 25,000
iv. Proposed dividend 15%

The amount of dividend payable = ?

(a) Rs. 75,000 **(b)** Rs. 72,750
(c) Rs. 71,250 **(d)** Rs. 69,000

49. T Ltd. proposed to issue 6,000 equity shares of Rs. 100 each at a premium of 40%. The minimum amount of application money to be collected per share = ?

(a) Rs. 5.00 **(b)** Rs. 6.00
(c) Rs. 7.00 **(d)** Rs. 8.40

50. The director of E Ltd. made the final call of Rs. 30 per share on May 15, 2004 indicating the last date of payment of call money to be May 31, 2004. Mr. F, holding 5,000 shares paid the call money on July 15, 2004.

If the company adopts Table A, the amount of interest on calls-in-arrear to be paid by Mr. F = ?

(a) Rs. 625.00 **(b)** Rs. 937.50
(c) Rs. 750.00 **(d)** Rs. 1,125.00

51. If a shareholder does not pay his dues on allotment, for the amount due, there will be a —

(a) Credit balance in the share allotment account.
(b) Debited balance in the share forfeiture account
(c) Credit balance in the share forfeiture account
(d) Debit balance in the share allotment account

52. On issue of shares, the application money must not be less than

(a) 2.5% of the nominal value of shares
(b) 2.5% of the issue price of shares
(c) 5.0% of the nominal value of shares
(d) 5.0% of the issue price of shares

53. The Securities Premium amount may be utilized by a company for ______
- **(a)** Writing off any loss on sale of fixed asset
- **(b)** Writing off any loss of revenue nature
- **(c)** Payment of dividends
- **(d)** Writing off the expenses / discount on the issue of debentures.

54. At the time of forfeitures of shares which were originally issued at a discount, the accounting entry involves__

- **i.** A debit to Share capital account with the called-up value of shares forfeited
- **ii.** A credit to Share forfeiture account with the amount received on forfeited shares
- **iii.** A credit to discount on issue of shares with the amount of discount allowed on forfeited shares.
- **iv.** A credit to Calls-in-arrears with the amount due but not on forfeited shares

- **(a)** Both (I) and (IV) above
- **(b)** Both (IV) and (III) above
- **(c)** Both (I) and (II) above
- **(d)** (I), (II), (III) and (IV) above

55. The following statements apply to equity / preference shareholder. Which one of them applies only to Preference Shareholders?
- **(a)** Shareholders bear risk of the loss of investment
- **(b)** Shareholders bear the risk of no dividends in the event of losses
- **(c)** Shareholders usually have the right to vote
- **(d)** Dividends are usually a fixed amount in every financial year

56. When shares are issued to promoters for the services offered by them, the account that will be debited with the nominal value of shares is ____
- **(a)** Preliminary expenses
- **(b)** Goodwill
- **(c)** Asset account
- **(d)** Share capital

57. As per Schedule VI of the Companies Act, 1956, Forfeited Shares Account will be ___
- **(a)** Added to paid up capital
- **(b)** Deducted from paid-up capital
- **(c)** Shown as a capital reserve
- **(d)** Shown as a revenue reserve

58. If forfeited shares (which were original issued at a discount) are reissued at a premium, the amount of such premium will be credited to ____
- **(a)** Share Forfeiture Account
- **(b)** Securities Premium Account
- **(c)** Capital Reserve Account
- **(d)** Discount on issue of shares account

59. The maximum amount beyond which company is not allowed to raise funds, by issue of shares is known as ___
- **(a)** Issues capital
- **(b)** Reserve capital
- **(c)** Nominal capital
- **(d)** Subscribed capital

60. Which of the following statement is false?
- **(a)** Interest on calls-in-advance is paid from the date of receipts of advance to the date of relevant call
- **(b)** Interest on calls-in-advance is paid from the date of receipt of advance to the date of appropriation to the relevant call
- **(c)** Interest on calls-in-advance is paid at the rate of 6% p.a.
- **(d)** Payment of interest on calls-in-advance is at the discretion of the company

61. Which of the following statements is true?
- **(a)** Rights shares are those shares which are offered to the promoters
- **(b)** Rights share are offered in lieu of dividends

(c) Rights shares are offered to the existing shareholders in proportion to the equity shares held by them
(d) Rights shares are first offered to employees

62. Which of the following is not correct?
(a) Nominal capital is the maximum amount that a company is authorized to issue to the public without altering the memorandum of association
(b) Subscribed capital is that part of nominal capital that is offered to he public for subscription
(c) Subscribed capital will be equal to the issued capital, when all the shares offered to the public are taken up by the public
(d) Called up capital is that part of the subscribed capital, that has been called up.

63. Which of the following statements is false?
(a) Shares can be issued for cash or any other consideration.
(b) In the event of over subscription excess amount has to be refunded or a pro rata allotment is to be made.
(c) SEBI guidelines are applicable not only for the first issue of shares but also to subsequent issue of shares
(d) The share application money is automatically converted to share capital

64. Which of the following does not appear under the head 'share capital' of a balance sheet?
(a) Preference share capital **(b)** Calls in arrears
(c) Equity share capital **(d)** Capital Reserve account

65. Which of the following is not a condition for issue of shares at a discount
(a) The Memorandum of Association must authorize the company for issue of shares at a discount
(b) The issue must be authorized by passing on ordinary resolution in General Meeting and must be confirmed by the Central Government
(c) The shares must be of a class of shares already issued
(d) At least one year must have elapsed since the company was entitled to commence business.

66. As per Schedule VI of the Companies Act, 1956, under which of the following heads is 'Premium on issue Shres' shown in the balance sheet of a company?
(a) Miscellaneous expenditure **(b)** Debentures
(c) Reserves and surplus **(d)** Current liabilities and provisions

67. C Ltd. forfeited 50 shares of RS. 100 each issued at 10% premium on which allotment money of Rs. 30 per share (including premium) and first call of Rs. 30 per share were not received, the second & final call of Rs. 20 per share was not yet called. If 20 of these shares were reissued as Rs. 80 paid-up for Rs. 70 per share, the profit on reissue is —
(a) Rs. 1,5000 **(b)** Rs. 1,300
(c) Rs. 900 **(d)** Rs. 600
(e) Rs. 400 **(f)** None of these

68. Y Ltd. forfeited 50 shares of Rs. 100 each issued at 10% premium on which allotment money of Rs. 30 per share (including premium) and first call of Rs. 30 per share were not received and the second and final call of Rs. 20 per share was not yet called. 20 of these share as Rs. 80 paid up for Rs. 70 per share.
On re-issue, the Forfeited Shares Account will be —
(a) Debited with Rs. 500 **(b)** Credited with Rs. 400
(c) Debited with Rs. 200 **(d)** Credited with Rs. 500

69. A Ltd. forfeited 50 shares of Rs. 100 each issued at 10% premium on which allotment money of Rs. 30 per share (including premium) and first call of Rs. 30 per share were not received, the second & final call of Rs. 20 per share was not yet called. If 20 of these shares were re-issued as Rs. 80 paid-up for Rs. 90 per share, the Profit on re-issue is —

(a) Rs. 1,500 **(b)** Rs. 1,300
(c) Rs. 900 **(d)** Rs. 600
(e) Rs. 400 **(f)** None of these

70. Y Ltd. forfeited 50 shares of Rs. 100 each issued at 10% premium on which allotment money of Rs. 30 per share (including premium) and first call of Rs. 30 per share were not received and the second and final call of Rs. 20 per share was not yet called. 20 of these shares were re-issued as Rs. 80 paid up for Rs. 70 per share.
On forfeiture, the Share Capital Account will be —

(a) Debited with Rs. 1,600 **(b)** Credited with Rs. 1,600
(c) Debited with Rs. 4,000 **(d)** Credited with Rs. 1400

71. AH Ltd. forfeited 500 shares of RS. 10 each on which first call of Rs. 3 per share was not received, the second and final call of Rs. 2 per share has not yet been called. Out of these 125 shares were re-issued to I as Rs. 8 paid-up for Rs. 7 per share. The Profit on re-issue is —

(a) Rs. 2,500 **(b)** Rs. 2,375
(c) Rs. 500 **(d)** None of these

72. The directions of N Ltd. resolved that 1,000 equity shares of Rs. 10 each, Rs. 7.50 called up be forfeited for nonpayment of first call of Rs. 2.50. 90% of these shares re-issued as fully paid for Rs. 6 per share. The Profit on re-issued is —

(a) Rs. 7,500 **(b)** Rs. 3,900
(c) Rs. 900 **(d)** None of these

73. 50 Shares of Rs. 10 each issued at a premium of Rs. 5 each payable with allotment were forfeited for the nonpayment of allotment money of Rs. 9 per share including premium. The first and final call on these shares at Rs. 3 per share were not made .the forfeited shares were re-issued @ Rs. 12 per share fully paid up. The profit on re-issue is —

(a) Rs. 150 **(b)** Rs. 100
(c) Rs. 50 **(d)** None of these

74. The directors of M Ltd, resolved that 2,000 equity shares of Rs. 10 each Rs. 7.50 paid be forfeited for non-payment of final call of Rs. 2.50. 1,800 of these shares were re-issued as fully paid for Rs. 6 per share. The profit on re-issue is ——

(a) Rs. 15,000 **(b)** Rs. 7,800
(c) Rs. 6,300 **(d)** None of these

75. Y Ltd. forfeited 40 shares of Rs. 10 each issued at a premium of 40% to Mr. Ramesh who had applied for 48 shares. After having paid Rs. 6 (including Rs. 2 premium), he did not pay allotment money of Rs. 2 (including Re 1 premium) and on his subsequent failure to pay the first call of Rs. 3 (including Re 1 premium) his shares were forfeited. The amount to be credited to Forfeited Shares Account is —

(a) Rs. 288 **(b)** Rs. 200
(c) Rs. 192 **(d)** Rs. 160

76. Y Ltd, forfeited 100 shares of Rs. 100 each issued at 20% premium (to be paid at the time of allotment) for non-payment of a first call of Rs. 30 per share and a second &

final call of Rs. 20 per share. Out of these 40 shares were re-issued as fully paid up for Rs. 90 per share. The profit on re-issue is –

(a) Rs. 7,000 **(b)** Rs. 5,000
(c) Rs. 1,600 **(d)** None of these

77. UG Ltd. forfeited 40 shares of Rs. 10 each, issued at a discount of 10% for non-payment of a final call of Rs. 2 per share. Out of these 10 shares were re-issued as fully paid for Rs. 8.50 per share. The profit on re-issue is –

(a) Rs. 280 **(b)** Rs. 265
(c) Rs. 65 **(d)** None of these

78. ABC Ltd. forfeited 3,200 shares of Rs. 100 each issued at 10% premium for nonpayment of allotment money of Rs. 40 per share (including premium) and first call of Rs. 30 per share. The second and final call of Rs. 20 has not yet been called. Out of these 1,280 shares were re-issued as Rs. 80 paid-up for Rs. 70 per share. The Profit on re-issue is —

(a) Rs. 3,200 **(b)** Rs. 19,200
(c) Rs. 12,800 **(d)** None of these

79. MIG Ltd, forfeited 10 shares of Rs. 10 each (Rs. 6 called up) issued at a discount of 10% to Mr. Y on which he had paid an application money of Rs. 2 per share. Out of these, 8 shares were re-issued to Z as Rs. 8 called up for Rs. 9 per share. The Profit on re-issue is —

(a) Rs. 20 **(b)** Rs. 18
(c) Rs. 16 **(d)** None of these

80. X Ltd. offered 6,00,000 equity of Rs. 10 each Rs. 8 called up. The public applied of 5,00,000 shares, all money was duly received except from Mr. X who holds 4,000 shares has not paid anything after application money of Rs. 2 per share and from Mr. Y who holds 1000 shares has paid only Rs. 6 per share. X's shares were forfeited. The amount of subscribed capital to be disclosed in the Balance Sheet is —

(a) Rs. 39,96,000 **(b)** Rs. 39,74,000
(c) Rs. 49,96,000 **(d)** Rs. 49,74,000

81. The authorized capital of M Ltd. consists of both cumulative preference shares and equity shares. Each 5% cumulative preference share has a per value Rs. 100. Each equity share has a par value Rs. 10. During the year April 01, 2005 to March 31, 2006, the cumulative preference share capital balance was Rs. 2,00,000 and the equity share capital balance was Rs. 5,00,000.

If dividend declarations totaled Rs. 8,000 and Rs. 15,000 in the year 2004-05 and 2005-06 respectively, the dividends allocated to the equity share holders in the year 2005-06 = ?

(a) Rs. 3,000 **(b)** Rs. 5,000
(c) Rs. 10,000 **(d)** Rs. 12,000

82. A company invited applications for 25,000 equity shares of Rs. 10 each and received 30,000 application along with the application money of Rs. 4 per share. Which of the following alternative can be followed?

i. Refund the excess application

ii. Make pro rata allotment to all the applications, and refund the excess application money.

iii. Not to allot any shares to some applicants, full allotment to some of the applicants and pro rata allotment to the rest of the applications.

iv. Not to allot any shares to some applicants and make pro rata allotment to other applicants.

v. Make pro rata allotment to all the applicants and adjust the excess money received towards call money.

(a) Only (ii) above **(b)** Both (i) and (iv)
(c) All (i), (ii), (iii), (iv) and (v) above **(d)** Only (iii) above

83. F Ltd. issued 10,000 equity shares of Rs. 10 each at a premium of 20% payable Rs. 4 on application (including premium), Rs. 5 on allotment and the balance on first and final call. The company received applications for 15,000 shares and allotment was made pro-rata .G, to whom 3,000 shares were allotted, failed to pay the amount due on allotment. All his shares were forfeited after the call was made. The forfeited shares were reissued to H at par. Assuming that no other bank transaction took place, the bank balance of the company after effecting the above transactions = ?

(a) Rs. 1,14,000 **(b)** Rs. 1,32,000
(c) Rs. 1,20,000 **(d)** Rs. 1,00,000

84. Consider the following information pertaining to the issue of share of a company. The company issued shares of Rs. 10 each at a premium of Rs. 2 payable as:

On application	- Rs. 3
ON allotment	-Rs. 4 (including premium)
On first call	-Rs. 3
On second and final call	- Rs. 2

Mr. E who hold 100 shares failed to pay the first call money. The company has forfeited the 100 shares after the first call. On forfeited, the amount debited to share capital account = ?

(a) Rs. 1,200 **(b)** Rs. 1,000
(c) Rs. 800 **(d)** Rs. 700

85. The discount allowed on re-issue of forfeited shares is debited to ____

(a) General reserve account **(b)** Capital reserve account
(c) Revaluation reserve account **(d)** None of these

86. The subscribed share capital of S Ltd. is Rs. 80,00,000 of Rs. 100 each. There were no calls in arrear till the final call was made. The final call made paid on 77,500 shares. The calls in arrear amounted to Rs. 62,500. The final call on share = ?

(a) Rs. 25 **(b)** Rs. 7.80
(c) Rs. 20 **(d)** Rs. 62.50

87. Which of the following is not true?

(a) Loss on reissue of shares cannot be more than the gain on forfeited of those shares

(b) Where all the forfeited shares are not reissued the share forfeited account will show a credit balance equal to gain on forfeited of shares not yet issued.

(c) When the shares are forfeited, share premium is debited along with share capital where premium has not been received.

(d) Where forfeited shares are issued at premium, the amount of such premium is credited to capital reserve account.

ANSWERS

1. (d)	2. (a)	3. (d)	4. (c)	5. (e)	6. (c)	7. (c)
8. (d)	9. (d)	10. (d)	11. (a)	12. (c)	13. (c)	14. (d)
15. (d)	16. (d)	17. (d)	18. (d)	19. (b)	20. (b)	21. (d)
22. (b)	23. (c)	24. (d)	25. (b)	26. (c)	27. (b)	28. (d)
29. (d)	30. (d)	31. (a)	32. (b)	33. (a)	34. (d)	35. (c)
36. (c)	37. (b)	38. (c)	39. (b)	40. (a)	41. (d)	42. (d)
43. (b)	44. (a)	45. (i-c) (ii-c) (iii-d) (iv-a)	46. B	47. (c)	48. (d)	49. (a)
50. (b)	51. (d)	52. (c)	53. (d)	54. (d)	55. (d)	56. (b)
57. (a)	58. (b)	59. (c)	60. (d)	61. (d)	62. (b)	63. (d)
64. (d)	65. (a)	66. (c)	67. (c)	68. (c)	69. (d)	70. (b)
71. (c)	72. (c)	73. (a)	74. (c)	75. (b)	76. (c)	77. (c)
78. (c)	79. (c)	80. (b)	81. (a)	82. (c)	83. (b)	84. (c)
85. (d)	86. (a)	87. (d)				

ISSUE OF DEBENTURES

❖ MEANING OF DEBENTURES

A debenture is an instrument acknowledging a debt issued under the common seal of the company and is a contract for the repayment of the principal sum at a specified date and for the payment of interest (usually half-yearly) at a fixed rate per cent until the principal sum is repaid.

DISTINCTION BETWEEN A SHARE AND A DEBENTURE

BASIS	SHARE	DEBENTURES
Ownership	A share represents a part of capital. Hence, a shareholder is the owner.	A debenture represents a part of debt of a company. Therefore, a debentures holder is a creditor.
Repayment	Normally, the amount of share is not returned during the life time of the company.	Debentures are issued for a definite period. Hence, the amount of debentures is returned after that period.
Restrictions	There are legal restrictions to be fulfilled to issue shares at a discount.	There are no restrictions on the issue of debentures at a discount.
Convertibility	Shares cannot be converted into debentures.	Debentures can be converted into shares.
Purchase	A company can buy back its own shares, but upon fulfillment of stipulated conditions.	A company can purchase its own debentures from the market without any conditions.
Priority as to repayment of principle	At the time of liquidation, payment of share capital is made after the repayment of debentures.	At the time of liquidation, payment of debentures is made before the payment of share capital.
Forfeiture	Shares can be forfeited for non – payment of allotment and call monies.	Debentures cannot be forfeited for non-payment of calls monies.

❖ TYPES OF DEBENTURES

❖ Debentures can be classified on the basis of:

1. Security; 2. Redemption; 3. Records; 4. Coupon Rate; 5. Convertibility.

❖ From Security Point of View

(i) *Mortgage or Secured Debentures* are those debentures which are secured either a fixed charge or a floating charge on the assets of the) company. Are r Mortgage Deed of Trust Deed is entered into between th|* company and f representatives (called Trustees) of the debenture holders.

(ii) *Unsecured Debentures* are those debentures that are not secured by a fixed charge or floating charge on assets.

❖ **From Redemption Point of View**

(i) Redeemable Debentures are those debentures that are repaid by the company at the end of a specified period in lumpsum or in instalment.

(ii) Irredeemable Debentures, on the other hand, are those debentures that are not repayable during the life time of the company and hence will be repaid only when the company goes into liquidation.

❖ **From Records Point of View**

❖ Registered Debentures are those debentures in respect of which the names, addresses and particulars of holdings of the debenture holders are entered in a register kept by the company. The transfer of debentures in this case requires the execution of regular transfer deed.

❖ Bearer Debentures are transferable by mere delivery. The company keeps no record of such debenture holders. Payment of interest is made on the production of coupons attached to the debenture.

❖ **From the Point of View of Coupon Rate**

❖ **Specific Coupon Rate Debentures**: These debentures are issued with a specified rate of interest, which is called the **coupon rate.** The specified rate may either be fixed or floating. The floating interest rate is usually linked with the bank rate. Generally such type of debentures are issued by the companies.

❖ **Zero Coupon Rate Debentures (Bonds):** These debentures do not carry a specific rate of interest. In order to compensate the investors such debentures are issued at a substantial discount. The difference between the face value and the issue price is the total amount of interest related to the duration of the debentures.

❖ **From Convertibility Point of View**

❖ ***Convertible Debentures*** are those debentures the holders of which are given an option of exchanging the whole or a part of the amount of their debentures for shares after a specified Period. Where only a part of the debenture amount is convertible into equity shares, such debentures are known as Partly Convertible Debentures'. When full amount of debentures is convertible into equity shares, such debentures are known as 'Fully Convertible Debentures'.

❖ ***Non-convertible Debentures***, on the other hand, are those the holders of which have no right to convert them into equity shares.

PRACTICAL QUESTION

Q.1. ***(Issue of Debentures at Par)***. *A* Company issued 5,000, 10% Debentures of Rs. 100 each payable Rs. 20 on application and the remaining amount on allotment. The public applied for 4,000 debentures and these debentures were allotted. All money was received. Give Journal entries.

Q.2. ***(Issue of Debentures at a Premium)***. Exe Ltd. issued 10,000 9% Debentures of Rs. 100 each at a premium of 10% payable Rs. 25 on application, Rs. **35** on allotment (including premium) and the balance on first and final call. Applications were received for 15,000 debentures. All allotment was made proportionately, over-subscription bjeing applied to the amount due on allotment. All sums due were received by the company on due dates.

Journalise the jabove transactions in the books of Exe Ltd. Show how the amounts will appear in the Balance Sheet.

Q.3. ***(Issue of Debentures at Discount)**.* Exe Ltd. issued 2,000 9% Debentures of Rs. 100 each at a discount of *4%* payable Rs. 30 on application and the balance on allotment. Give the necessary Journal entries and the resulting Balance Sheet.

Q.4. Give Journal entries in each of the following alternative cases assuming the face value of a debenture being Rs. 100:

(i) A 10% debenture issued at Rs. 100, repayable at Rs. 100.
(ii) A 10% debenture issued at RS. 95, repayable at Rs. 100.
(iii) A 10% debenture issued at Rs. 105, repayable at Rs. 100.
(iv) A 10% debenture issued at Rs. 100, repayable at Rs. 105.
(v) A 10% debentures issued at Rs. 95, repayable at Rs. 105.
(vi) A 10% debenture issued at RS. 105, repayable at Rs. 110.
(vii) A 10% debentures issued at Rs. 90, repayable at Rs. 95.

Q.5. (**Equal Instalment Method**). A Limited Company issues Rs. 20,000 debentures at a discount of 5%, repayable at the end of five years. Show the Discount on issue of Debentures Account in the ledger for the period.

Q.6. Writing off Discount on Debentures when the first redemption falls at the end of second year). A company issued 10% Debentures of Rs. 20,00,000 at 8% discount, redeemable at par. Assume further that debentures are to be redeemed by in the following manner:

Year-end	Amount (Face value) Rs.
2	2,00,000
3	4,00,000
4	6,00,000
5	8,00,000

Pass Journal entry for issue of debentures and ledger account of discount on debentures for 5 years.

Q.7. A limited company has issued Rs. 1,00,000, 9% Debentures at a discount of 6%. These debentures are to be redeemed equally, spread over 5 annual instalments. Show Discount on Issue of Debentures Account for five years.

[Discount: 1st year. 2,000; 2nd year. Rs. 1,600; 3rd year. Rs. 1,200, 4th year. Rs. 800; 5th year. Rs. 400]

Q.8. XYZ Ltd. issued Rs. 1,00,000, 10% debentures of Rs. 100 each at par on 1st April, 2002 repayable by four equal drawings at a premium of 10%. Give Journal entry for the issue of such debentures and loss on issue of debentures account for 4 financial years.

[Amount of loss on issue of debentures to be written off: 2002-03-Rs. 4,000; 2003-04-Rs. 3,000, 2004-05-Rs. 2,000; 2005-06 Rs. 1,000]

MULTIPLE CHOICE QUESTION

1. Debentures can be ——
- **I.** Mortgage Debentures or Simple Debentures.
- **II.** Registered Debentures or Bearer Debentures.
- **III.** Redeemable Debentures or Non-convertible Debentures
- **IV.** Convertible Debentures or Non-convertible Debentures.
- **(a)** Both (I) and (II) above **(b)** Both (I) and (III) above
- **(c)** Both (II) and (III) above **(d)** All of (i), (II), (III) and (IV) above.

2. Which of the following stamens is false?
- **(a)** At maturity, debentures holders get back their money as per the terms and conditions of redemption
- **(b)** Debentures can be forfeited for nonpayment of call money
- **(c)** In company's balance sheet, debentures are shown under secured loans
- **(d)** Interest on debentures is charged against profits

3. Which of the following is / are true with respect to debentures?
- **(a)** They can be issued for cash
- **(b)** They can be issued for consideration other than cash
- **(c)** They cannot be issued as collateral security
- **(d)** Both (a) and (b) above

4. On May 01, 2004 U Ltd. issued 7% 10,000 convertible debentures of Rs. 100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue, the amount of interest expenditure debited to profit and loss account for the year ended March 31, 2005=?
- **(a)** Rs. 70,000 **(b)** Rs. 58,333
- **(c)** Rs. 84,000 **(d)** Rs. 64,167

5. W Ltd. issued 20,000, 8% debentures of Rs. 10 each at par, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year = ?
- **(a)** Rs. 40,000 **(b)** Rs. 10,000
- **(c)** Rs. 20,000 **(d)** Rs. 8,000

6. Loss on issue of debentures is treated as ——
- **(a)** Intangible asset **(b)** Current asset
- **(c)** Current Liability **(d)** miscellaneous expenditure

7. Debenture premium cannot be used to —
- **(a)** Write off the discount on issue of shares or debentures
- **(b)** Write off the premium on redemption of shares or debentures
- **(c)** Pay dividends **(d)** Write off capital loss

8. Debenture Trust Deed must be executed within –
- **(a)** 1 month of the closure of issue **(b)** 3 month of the closure of issue
- **(c)** 6 months of the closure of issue
- **(d)** 1 month before the opening of issue

9. In case of an issue of a debenture of Rs. 100 at Rs. 110, Rs. 10 is to be credited to:
- **(a)** Securities Premium Account **(b)** Debentures Premium Account
- **(c)** Capital Redemption Reserve Account
- **(d)** Debenture Redemption Reserve Account

10. Which of the following is false with respect to debentures?

- **(a)** These can be issued for cash
- **(b)** These can be issued for consideration other than cash
- **(c)** These can be issued as collateral security
- **(d)** These can be issued in lieu of dividends

11. Which of the following statements is false?
- **(a)** A company can issue convertible debentures
- **(b)** Debentures cannot be secured
- **(c)** A company can issue redeemable debentures
- **(d)** Debentures have no right to participate in profits over and above their fixed interest

12. Which of the following statements is false?
- **(a)** At maturity, debenture holders get back their money as per the terms and conditions of redemption
- **(b)** Debentures can be forfeited for nonpayment of call money
- **(c)** In company's balance sheet, debentures are shown under secured loans
- **(d)** Interest on debentures is charged against profits

13. Which of the following is not a characteristic of Bearer Debentures?
- **(a)** They are treated as negotiable instruments
- **(b)** Their transfer requires a deed of transfer
- **(c)** They are transferable by mere delivered
- **(d)** The interest on it is paid to the holder irrespective of identify.

14. On May 01, 2003, Y Ltd. issued 7% 40,000 convertible debentures of Rs. 100 each at a premium of 20%. Interest is payable on September 30 and March 31, every year. Assuming that the interest runs from the date of issue, the amount of interest expenditure debited to profit and loss account for the year ended March 31, 2004 = ?
- **(a)** Rs. 2,80,000
- **(b)** Rs. 2,33,333
- **(c)** Rs. 3,36,000
- **(d)** RS. 2,56,667

15. Discount on issue of debentures is a –
- **(a)** Revenue loss to be charged in the year of issue
- **(b)** Capital loss to be written off from capital reserve
- **(c)** Capital loss to be written off over the tenure of the debentures
- **(d)** Capital loss to be shown as goodwill

16. A Ltd. took over the assets of Rs. 6,60,000 and liabilities of Rs. 80,000 of B Ltd. for an agreed purchase consideration of Rs. 6,00,000 payable 10% in cash and the balance by the issue of 15% Debentures of Rs. 100 each at 10% discount.
The number of debentures to be issued is —
- **(a)** 6,600
- **(b)** 6,000
- **(c)** 5,400
- **(d)** 4,500

17. Debenture Redemption Premium Account is a —
- **(a)** Personal Account
- **(b)** Real Account
- **(c)** Nominal Account
- **(d)** None of these

18. In case of an issue of a debenture of Rs. 100 at Rs. 100 but redeemable at Rs. 106. Rs. 6 is to be:
- **(a)** Debited to Debenture Redemption Premium Account
- **(b)** Credited to Loss on Issue of Debenture Account
- **(c)** Debited to Loss on Issue of Debenture Account
- **(d)** Debited to Discount on Issue of Debenture Account

19. In the balance sheet of a company, Debenture Premium Account appears under the head –

(a) Share Capital **(b)** Reserves & Surplus
(c) Secured Loans **(d)** Miscellaneous Expenditure
(e) Unsecured Loans

20. In the Balance Sheet of a company debenture Redemption Premium Account appears under the head —

(a) Share Capital **(b)** Reserves & Surplus
(c) Secured Loans **(d)** Miscellaneous Expenditure
(e) Unsecured Loans

21. P Ltd. issued 5,000, 12% debentures of Rs. 100 each at a premium of 10%, which are redeemable after 10 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year = ?

(a) Rs. 80,000 **(b)** Rs. 40,000
(c) Rs. 10,000 **(d)** Rs. 8,000

22. T Ltd. purchased land and building from U Ltd. for a book value of Rs. 2,00,000. The consideration was paid by issued of 12% Debentures of Rs. 100 each at a discount of 20%. The debentures account is credited with ——

(a) Rs. 2,60,000 **(b)** Rs. 2,50,000
(c) Rs. 2,40,000 **(d)** Rs. 1,60,000

23. As per the Companies Act, "Interest accrued and due on debentures" should be shown

(a) Under Debentures **(b)** As Current Liabilities
(c) As Provisions **(d)** As a reduction of bank balance

24. Which of the following is false with respect to debentures?

(a) They can be issued for cash
(b) They can be issued for consideration other than cash
(c) They can be issued as collateral security
(d) They can be issued in lieu of dividends

25. On 01.4.20X1, X Ltd. Issued Rs. 1,00,000 15% Debentures of Rs. 100 each at 94% redeemable at par as follows:

Year end	Nominal value of Total Debentures to reduced
2	10%
3	20%
4	30%
5	40%

The amount of discount to be written off each year assuming that he company closes its account on financial year basis is —

(a) Rs. 1,500 each year **(b)** Rs. 1,200 each year
(c) Rs. 2,000, Rs. 1,800, Rs. 1,400, Rs. 800 **(d)** None of these

26. On 1.4.20X1, X Ltd. issued Rs. 1,00,000 15% Debentures of Rs. 100 each at 94% redeemable at per as follows:

Year end	Nominal value of Total Debentures to redeemed
2	10%
3	20%
4	30%
5	40%

The amount of discount to be written off each year assuming that the company

closes its accounts on financial year basis is —-
(a) Rs. 2,400, Rs. 1,800, Rs. 1,200, Rs. 600
(b) Rs. 1,500, Rs. 1,500, Rs. 1,350, Rs. 1050, Rs. 600
(c) Rs. 1,200 each year
(d) None of these

27. X Ltd. purchased land and building for Y Ltd. for a book value of Rs. 4,00,000. The consideration was paid by issue of 12% Debentures of Rs. 100 each at a discount of 20%. The debentures accounts is credited with –
(a) Rs. 5,20,000 **(b)** Rs. 5,00,000
(c) Rs. 4,80,000 **(d)** Rs. 3,20,000

28. W Ltd. issued 20,000, 8% debentures of Rs. 10 each at per, which are redeemable after 5 years at a premium of 20%. The amount of loss on redemption of debentures to be written off every year = ?
(a) Rs. 40,000 **(b)** Rs. 10,000
(c) Rs. 20,000 **(d)** Rs. 8,000

29. A Ltd. took over the assets of Rs. 3,00,000 and liabilities of Rs. 10,000 of B Ltd. of B Ltd. for an agreed purchase consideration of Rs. 2,70,000 to be satisfied by the issue of 15% Debentures of Rs. 100 each at 20% premium.
(a) Goodwill A/c is to be debited with Rs. 20,000
(b) Capital Reserve A/c is to be debited with Rs. 20,000
(c) Goodwill A/c is to be credited with Rs. 20,000
(d) Capital Reserve A/c is to be credited with Rs. 20,000.

30. On May 01, 2006 U Ltd. issued 12% 10,000 convertible debentures of Rs .100 each at a premium of 20%. Interest is payable on September 30 and March 31 every year. Assuming that the interest runs from the date of issue, the amount of interest expenditure debited to profit and loss account for the year ended March 31, 2007 = ?
(a) Rs. 50,000 **(b)** Rs. 60,000
(c) Rs. 1,10,00 **(d)** Rs. 1,10,000

31. X Ltd. issued 500, 15% Debentures of Rs. 100 each on 1st May 2006 at a discount of 10% redeemable at a premium of 5% after 4 years. Interest was payable half yearly on 30th June and 31st December. The amount of interest debited to profit & loss Account for the year ended 31st March, 2007 is —
(a) Rs. 1,250 **(b)** Rs. 3,750
(c) Rs. 5,000 **(d)** Rs. 6,875

32. X Ltd. has issued 14% Debentures of Rs. 20,00,000 at a discount of 12% on April 01, 2006 and the company pays interest half – yearly on June 30, and December 31 every year. On March 31, 2007, the amount shown as "interest accrued but not due" in the Balance Sheet will be
(a) Rs. 70,000 shown along with Debentures
(b) Rs. 70,000 under current liabilities
(c) Rs. 1,20,000 shown along with Debentures
(d) Rs. 12,000 under current liabilities

33. X Ltd. issued 500, 15% Debentures of Rs. 100 each on 1st may 2006 at a discount of 10% redeemable at a premium of 5% after 4 years. Interest was payable half yearly on 30th June and 31st December. The amount of Interest accrued but not due to be shown in the balance sheet as at 31.03.2007 is –
(a) Rs. 1,250 **(b)** Rs. 1,875
(c) Rs. 3,750 **(d)** Rs. 5,000

34. X Ltd. issued 500, 15% Debentures of Rs. 100 each at a discount of 10% redeemable at a premium of 5% after 4 year. The amount of annual on Debentures is –

(a) Rs. 6,750 **(b)** Rs. 7,500
(c) Rs. 7,875 **(d)** Rs. 7,125

35. Which of the following is true with regard to 10% Debentures issued at a discount of 20%?

(a) The carrying amount of debentures get reduced each year at a rate of 20%
(b) Issue price and the carrying amount of debenture are equal
(c) At the time of redemption, the debenture holder will be paid the issue price
(d) The carrying amount of debentures remain the same

36. Loss on issue of debentures is treated as –

(a) Intangible asset **(b)** Current asset
(c) Current liability **(d)** Miscellaneous expenditure

37. When debentures are issued as collateral security, the final entry for recording the transaction in the book is —

(a) Credit Debenture A/c and debit Cash A/c
(b) Debit Debenture Suspense A/c and credit Cash A/c
(c) Debit Debenture Suspense A/c and credit Debenture A/c
(d) Debit Cash A/c and credit the loan A/c for which security is given

38. Debenture premium cannot be used to —

(a) Write off the discount on issue of shares or debentures
(b) Write of the premium on redemption of shares or debentures
(c) Pay dividends **(d)** Write off underwriting commission

39. X Ltd. issued 500, 15% Debentures of Rs. 100 each on 1st May 2006 at a discount of 10% redeemable at a premium of 5% after 4 years. Interest was payable half yearly on 30th June and 31st December. The amount of interest paid for the year ended 31st March 2007 is —

(a) Rs. 1,250 **(b)** Rs. 3,750
(c) Rs. 5,000 **(d)** Rs. 6,875

40. Interest of Debenture is calculated on —

(a) Its face value **(b)** Its issue price
(c) Its books value **(d)** Its cost price
(e) Its market value

ANSWERS

1. (d)	2. (b)	3. (d)	4. (d)	5. (d)	6. (d)	7. (c)
8. (c)	9. (a)	10. (d)	11. (b)	12. (d)	13. (b)	14. (d)
15. (c)	16. (b)	17. (c)	18. (d)	19. (d)	20. (c)	21. (c)
22. (b)	23. (a)	24. (d)	25. (c)	26. (b)	27. (b)	28. (d)
29. (d)	30. (c)	31. (d)	32. (b)	33. (b)	34. (b)	35. (d)
36. (d)	37. (c)	38. (c)	39. (c)	40. (a)		