

1. Details of Module and its structure

Module Detail	
Subject Name	Accountancy
Course Name	Accountancy 04 (Class XII, Semester – 2)
Module Name/Title	Accounting for Share Capital – Over Subscription with Calls-in-Arrear & Calls-in Advance – Part 3
Module Id	leac_20103
Pre-requisites	Knowledge of Procedure of Recording Issue of Shares in case of Full Subscription and Under Subscription
Objectives	After going through this lesson, the learners will be able to: <ul style="list-style-type: none">• Record Calls-in-Arrears, Calls-in-Advance;• Understand how to record shares issued in case of Over Subscription;• Make accounting treatment in case of Pro-rata allotment.
Keywords	Over Subscription; Pro-rata Allotment; Calls in Arrears, Calls in Advance.

2. Development Team

Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Prof. Shipra Vaidya	DESS, NCERT New Delhi
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Mr. T. S. Bedi	New Era Public School Maya Puri
Review Team	Mr. Vinay Kumar Setia	Formerly at Indraprastha World School, New Delhi
Technical Team	Mr. Shobit Saxena	CIET, NCERT, New Delhi

Table of Content

1. Calls in Arrears
2. Calls in Advance
3. Over Subscription

1. Calls in Arrears

It may happen that shareholders do not pay the call amount on due date. When any shareholder fails to pay the amount due on allotment or on any of the calls, such amount is known as 'Calls-in-Arrears' / 'Unpaid Calls'. Calls-in-Arrears represent the debit balance of all the calls account. Such amount shall appear as 'Note to Accounts'.

However, where a company maintains 'Calls-in-Arrears' Account, it needs to pass the following additional journal entry:

JOURANL

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Calls in Arrears A/c Dr. To Share First Call Account A/c (Calls in arrears recorded.)			
	Calls in Arrears A/c Dr. To Share Second and Final Call Account A/c (Calls in arrears recorded.)			

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

If the articles are silent in this regard, the rule contained in Table F shall be applicable which states that the interest at a rate not exceeding 10% p.a. shall have to be paid on all unpaid amounts on shares for the period intervening between the day fixed for payment and the time of actual payment thereof.

If Articles are silent on this account, Table F is applicable which provides for interest on calls in advance at a rate not exceeding 10% percent when the shareholder makes the payment of calls-in-arrears together with interest, the entry will be as follows:

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Calls-in-Arrears A/c To Interest A/c (Calls-in-arrears received with interest)			

Note: If nothing is specified, there is no need to take the interest on calls-in-arrears account

Illustration 1

Cronic Limited issued 10,000 equity shares of Rs. 10 each payable at Rs. 2.50 on application, Rs. 3 on allotment, Rs. 2 on first call, and the balance of Rs. 2.50 on the final call.

All the shares were fully subscribed and paid except of a shareholder having 100 shares who could not pay for the final call.

Give journal entries to record these transactions.

Solution:

Books of Cronic Limited

Journal

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Money received on applications for 10,000 shares @ Rs. 2.50 per share.)		25,000	25,000
	Equity Share Application A/c Dr. To Share Capital A/c (Transfer of application money on 10,000 shares to share capital.)		25,000	25,000
	Equity Share Allotment A/c Dr. To Share Capital A/c (Amount due on the allotment of 10,000 shares @ Rs. 3 per share.)		30,000	30,000
	Bank A/c Dr. To Share Allotment A/c (Allotment money received)		30,000	30,000
	Share First Call A/c Dr. To Share Capital A/c (First call money due on 10,000 shares @ Rs. 2 per share)		20,000	20,000
	Bank A/c Dr. To Share First Call A/c (First call money received)		20,000	20,000
	Share Second and Final Call A/c Dr. To Share Capital A/c (Final call money due)		25,000	25,000
	Bank A/c Dr. Call-in-Arrears A/c Dr. To Share Second and Final Call A/c (Final call money received except that of 100 shares)		24,750 250	25,000

2. Calls in Advance

Sometimes some shareholders pay a part or the whole of the amount of the calls not yet made. The amount so received from the shareholders is known as “Call-in- Advance”.

- The amount received in advance is a liability of the company and should be credited to ‘Call-in-Advance Account.’

The amount received will be adjusted towards the payment of calls as and when they become due. Table F of the Companies Act provides for the payment of interest on calls in advance at a rate not exceeding 12% per annum.

The following journal entry is recorded for the amount of calls received in advance.

JOURNAL

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Calls-in-Advance A/c (Amount received on call-in-advance)			
	On the due date of the calls : Calls-in-Advance A/c Dr. To Particular Call A/c (Calls-in-advance adjusted with the call money due)			

The balance in ‘Calls-in-Advance’ account is shown as a separate item under the title Equity and Liabilities in the company’s Balance Sheet under the head ‘Current Liabilities’, as sub-head ‘Others Current Liabilities’. It is not added to the amount of Paid-Up Capital.

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

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
1.	For Payment of Interest Interest on Calls in Advance A/c Dr. To Bank A/c (Interest paid on Calls in Advance)			
2.(a)	Or For Interest due Interest on Calls in Advance A/c Dr. To Sundry Shareholder’s A/c (Interest paid on Calls in Advance)			
2.(b)	For Interest Paid Sundry Shareholder’s A/c Dr. To Bank A/c			

Illustration 2

K.Limited registered with an authorised equity capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, issued for subscription of 1,000 shares payable at Rs. 25 per share on application, Rs. 30 per share on allotment, Rs. 20 per share on first call and the balance as and when required.

Application money on 1,000 shares was duly received and allotment was made to them. The allotment amount was received in full, but when the first call was made, one shareholder failed to pay the amount on 100 shares held by him and another shareholder with 50 shares, paid the entire amount on his shares.

The company did not make any other call. Give the necessary journal entries in the books of the company to record these share capital transactions.

Solution:

Books of K. Limited

Journal

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Equity Share Application A/c (Money received on application for 1,000 shares @ Rs. 25 per share)		25,000	25,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 1,000 shares to share capital)		25,000	25,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,000 shares @ Rs. 30 per share)		30,000	30,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		30,000	30,000
	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 1,000 shares @ Rs. 20 per share)		20,000	20,000
	Bank A/c Dr. Calls in Arrears A/c Dr. To Equity Share First Call A/c To Calls in Advance A/c 1,250 (First call money received on 900 shares, calls in arrears for 100 shares @ Rs.20 per share and calls in advance for 50 shares @ Rs.25 per share.)		19,250 2,000	20,000

3. Over Subscription

There are instances when applications for more shares of a company are received than the number offered to the public for subscription.

- This usually happens in respect of shares issue of well-managed and financially strong companies and is said to be a case of ‘Over Subscription’.

In such a condition, three alternatives are available to the directors to deal with the situation:

- They can accept some applications in full and totally reject the others;**
- They can make a pro-rata allotment to all; and**
- They can adopt a combination of the above two alternatives which happens to be the most common course adopted in practice.**

The problem of over subscription is resolved with the allotment of shares. Therefore, from the accounting point of view, it is better to place the situation of over subscription within the total frame of application and allotment, i.e. receipt of application amount, amount due on allotment and its receipt from the shareholders, and the same has been observed in the pattern of entries.

First alternative:

When the directors decide to fully accept some applications and totally reject the others, the application money received on rejected applications is fully refunded.

For example, a company invited applications for 50,000 shares and received the applications for 85,000 shares. Directors rejected the applications for 35,000 shares which are in excess of the required number and refunded their application money in full.

In this case, the journal entries on application and allotment will be as follows:

JOURNAL

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Money received on application for 85,000 shares @ Rs. _ per share)			
	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Transfer of application for money 50,000 for shares allotted and money refunded on applications for 35,000 shares rejected)			
	Share Allotment A/c Dr. To Share Capital A/c			

	(Amount due on the allotment of 50,000 shares @ Rs. _ per share)			
	Bank A/c Dr. To Share Allotment A/c (Allotment money received)			

SECOND ALTERNATIVE:

When the directors opt to make a proportionate allotment to all applicants (called 'pro-rata' allotment), the excess application money received is normally adjusted towards the amount due on allotment. In case, the excess application money received is more than the amount due on allotment of shares, such excess amount may either be refunded or credited to calls in advance.

For example, in the event of applications for 20,000 shares being invited and those received are for 25,000 shares.

It is decided to allot shares in the ratio of 4:5 to all applicants. It is a case of pro-rata allotment and the excess application money received on 5,000 shares would be adjusted towards the amount due on the allotment of 20,000 shares. In this case, the journal entries on application and allotment will be as follows.

JOURNAL

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Money received on application for 25,000 shares @ Rs. _ per share.)			
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c (Transfer of application money to share capital and the excess application money on 5,000 shares credited to share allotment account.)			
	Share Allotment A/c Dr. To Share Capital A/c (Amount due on allotment of 20,000 share @ Rs. _ per share.)			
	Bank A/c Dr. To Share Allotment A/c (Allotment money received after adjusting the amount already received as excess application money.)			

Third alternative:

When the application for some shares are rejected outright; and pro-rata allotment is made to the remaining applicants, the money on rejected applications is refunded and the excess application money received from applicants to whom pro-rata allotment has been made is adjusted towards the amount due on the allotment of shares allotted.

For example, a company invited applications for 10,000 shares and received applications for 15,000 shares.

The directors decided to reject the applications for 2,500 shares outright and to make a pro-rata allotment of 10,000 shares to the applicants for the remaining 12,500 shares so that four shares are allotted for every five shares applied.

In this case, the money on applications for 2,500 shares rejected would be refunded fully and that on the remaining 2,500 shares (12,500 shares – 10,000 shares) would be adjusted against the allotment amount due on 10,000 shares allotted and credited to share allotment account, the

Journal entries on application and allotment recorded as follows:

JOURNAL

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Money received on application for 15,000 shares @ Rs. _ per share.)			
	Share Application A/c Dr. To Share Capital A/c To Share Allotment A/c To Bank A/c (Transfer of application money to share capital, and the excess application amount of pro-rata allottees credited to share allotment and the amount on rejected applications refunded.)			
	Share Allotment A/c Dr. To Share Capital A/c (Amount due on the Allotment of ... shares @ Rs. _ per share.)			
	Bank A/c Dr. To Share Allotment A/c (Allotment money received after adjusting the amount already received as excess application money.)			

Illustration 3:

Mona Ltd. decided to issue 12,000 shares of Rs.100 each payable at Rs.30 on application, Rs.40 on allotment, Rs.20 on first call and balance on second and final call. Applications received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money is duly received on all the shares, and all sums due on calls are received except on 200 shares. Record the transactions in the books of Mona Ltd.

Solution:**Books of Mona Limited**

Journal

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money on 13,000 shares @ Rs.30per share received.)		3,90,000	3,90,000
	Share Application A/c Dr. To Share Capital A/c To Bank A/c (Application money transferred to share capital and excess money refunded on 1000 shares)		3,90,000	3,60,000 30,000
	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 12,000 shares @ Rs. 40 per share.)		4,80,000	4,80,000
	Bank A/c Dr. To Share Allotment A/c (Money received on 12,000 shares @ Rs. 40 per share on allotment.)		4,80,000	4,80,000
	Share First Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 20 per share on first Call.)		2,40,000	2,40,000
	Bank A/c Dr. To Share First Call A/c (First call money received.)		2,40,000	2,40,000
	Share Second & Final Call A/c Dr. To Share Capital A/c (Money due on 12,000 shares @ Rs. 10 per share on first Call.)		1,20,000	1,20,000
	Bank A/c Dr. To Share Second & Final Call A/c (Second and final call money received.)		1,20,000	1,20,000

Illustration 4

Oasis Ltd. issued 40,000 shares of Rs. 10 each to the public for the subscription of its share capital, payable at Rs. 4 on application, Rs. 3 on allotment and the balance on first and final call. Applications were received for 40,000 shares. The company made the allotment to the applicants in full. All the amounts due on allotment and first and final call were duly received. Give the journal entries in the books of the company.

Solution:

Books of Oasis Limited

Date	Particulars	L.F	Dr(Rs.)	Cr (Rs.)
	Bank A/c Dr. To Share Application A/c (Application money on 40,000 shares @ Rs.4 per share received.)		1,60,000	1,60,000
	Share Application A/c Dr. To Share Capital A/c (Application money transferred to share capital.)		1,60,000	1,60,000
	Share Allotment A/c Dr. To Share Capital A/c (Money due on allotment of 40,000 shares @ Rs. 3 per share.)		1,20,000	1,20,000
	Bank A/c Dr. To Share Allotment A/c (Money received on 40,000 shares @ Rs. 3 per share on allotment.)		1,20,000	1,20,000
	Share First and Final Call A/c Dr. To Share Capital A/c (Money due on 40,000 shares @ Rs. 3 per share on First and final call.)		1,20,000	1,20,000
	Bank A/c Dr. To Share First and Final Call A/c (First and final call money received.)		1,20,000	1,20,000

Illustration 5

Janta Papers Limited invited applications for 1,00,000 equity shares of Rs. 25 each payable as under:

On Application Rs. 5.00 per share

On Allotment Rs. 7.50 per share

On First Call Rs. 7.50 per share (due two months after allotment)

On Second and Final Call Rs. 5.00 per share (due two months after First Call)

Applications were received for 4,00,000 shares on January 01, 2017 and allotment was made on February 01, 2017.

Record journal entries in the books of the company to record these share capital transactions under each of the following circumstances:

1 The directors decide to allot 1,00,000 shares in full to selected applicants and the applications for the remaining 3,00,000 shares were rejected outright.

2 The directors decide to make a pro-rata allotment of 25 per cent of the shares applied for to every applicant; to apply the balance of application money towards amount due on allotment; and to refund the amount remaining thereafter.

3 The directors totally reject applications for 2,00,000 shares, accept full applications for 80,000 shares and make a pro-rata allotment of the 20,000 shares to remaining applicants and the excess application money is to be adjusted towards allotment and calls to be made.

Solution:

Books of Janta Papers Limited

JOURNAL (First Alternative)

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
2017 January 01	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 4,00,000 shares @ Rs. 5 per share)		20,00,000	20,00,000
February 01	Equity Share Application A/c Dr. To Equity Share Capital A/c To Bank A/c (Transfer of application money on 1,00,000 shares to share capital and money refunded on rejected applications)		20,00,000	5,00,000 15,00,000
February 01	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ Rs 7.50 per share)		7,50,000	7,50,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		7,50,000	7,50,000
April 01	Equity Share First Call A/c Dr. To Equity Share Capital A/c (First call money due on 1,00,000 shares @ Rs. 7.50 per share)		7,50,000	7,50,000
April 01	Bank A/c Dr. To Equity Share First Call A/c (First call money received)		7,50,000	7,50,000

June 01	Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Final Call money due on 1,00,000 shares @ Rs. 5 per share)		5,00,000	5,00,000
June 01	Bank A/c Dr. To Equity Share Second and Final Call A/c (Final call money received)		5,00,000	5,00,000

Books of Janta Papers Limited
JOURNAL (Second Alternative)

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
2017 January 01	Second Alternative Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 4,00,000 shares @ Rs. 5 per share)		20,00,000	20,00,000
February 01	Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Bank A/c (Transfer of application money on Shares allotted to share capital, excess application amount credited to allotment account and money refunded on rejected applications)		20,00,000	5,00,000 7,50,000 7,50,000
February 01	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of Rs. 1,00,000 shares @ Rs 7.50 per share)		7,50,000	7,50,000
	<i>Note</i> : The entries regarding the two calls would be the same as given in preceding method.			

Books of Janta Papers Limited
JOURNAL (Second Alternative)

Date	Particulars	L.F	Dr (Rs.)	Cr (Rs.)
2017 January 01	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 4,00,000 shares @ Rs. 5 per share)		20,00,000	20,00,000

February 01		Equity Share Application A/c Dr. To Equity Share Capital A/c To Equity Share Allotment A/c To Calls-in-Advance A/c To Bank A/c (Amount on share application adjusted to share capital, share allotment and calls in advance and the balance refunded including the money on rejected applications)		20,00,000	5,00,000 1,50,000 2,50,000 11,00,000
February 01		Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Transfer of application money on shares allotted to share capital and amount due on the allotment of 1,00,000 shares @ Rs. 7.50 per share)		7,50,000	7,50,000
		Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		6,00,000	6,00,000
April 01		Equity Share First Call A/c Dr. To Equity Share Capital A/c (First Call money due on 1,00,000 shares @ Rs. 7.50 per share)		7,50,000	7,50,000
April 01		Bank A/c Dr. Calls in Advance A/c Dr. To Equity Share First Call A/c (Calls-in-advance adjusted against first call and the balance money on call received)		6,00,000 1,50,000	7,50,000

June 01		Equity Share Second and Final Call A/c Dr. To Equity Share Capital A/c (Final Call money due on 1,00,000 shares @ Rs. 5 per share)		5,00,000	5,00,000
June 01		Bank A/c Dr. Calls in Advance A/c Dr. To Equity Share Second and Final Call A/c (Calls-in-advance adjusted against final call and the balance money on call received)		4,00,000 1,00,000	5,00,000

NOTE: The balance of excess application money as a result of pro-rata distribution in journal entry 3 above is large enough to meet the demands on allotted shares in respect of the allotment and the two call money, as well as to leave an amount to be refunded along with that on the rejected applications.

Working Notes:

	(Rs.)	(Rs.)
Excess Application Money		15,00,000
Less Transfers:		
Share Allotment —		
20,000 shares @ Rs. 7.50	1,50,000	
Share Calls —		
20,000 shares @ Rs. 12.50	<u>2,50,000</u>	4,00,000
Amount to be refunded (including that on 11,00,000 the rejected applications).		