

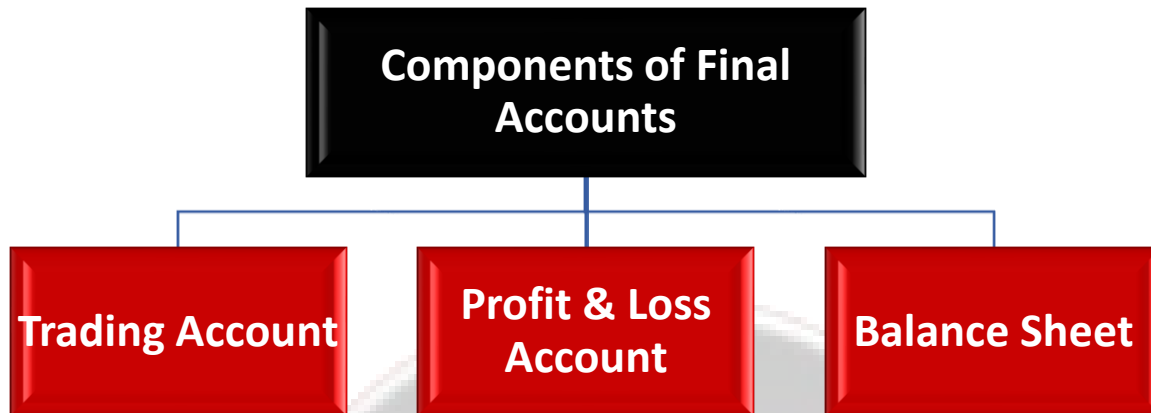
PREPARATION OF FINAL ACCOUNT

FINAL ACCOUNTS

- Final Accounts are the accounts **which are prepared at the end of a fiscal year.**
- It gives a precise idea of the **financial position and performance of the business/organization** to the owners, management, or other interested parties.

OBJECTIVES OF FINAL ACCOUNT PREPARATION

- To determine profit or loss **incurred by a company in a given financial period.**
- To determine the **financial position of the company**
- To act as a source of information to **convey to the users of accounting information about the solvency of the company.**



COMPONENTS OF FINAL ACCOUNTS

TRADING ACCOUNT

- The trading account focuses specifically on the **company's trading activities, primarily related to the purchase and sale of goods.**
- This is an account that summarizes a company's **revenue, cost of goods sold, and gross profit for a specific period.**
- It provides insights into the **company's ability to generate revenue from its core business operations.**

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Trading Account			
(For the year ended...)			
Dr.			Cr.
Particulars	Amount	Particulars	Amount
To Opening stock	Xxx	By Sales	xxx
To Purchases xxx		Less: Return Inwards (xxx)	Xxx
Less: Return Outwards (xxx)	Xxx	By Closing stock	Xxx
To Wages	Xxx	By Gross Loss	Xxx
To Carriage Inwards	Xxx		
To Freight Inwards/cartage	Xxx		
To Gross Profit c/d	Xxx		
	xxx		xxx

IMPORTANT TERMS IN TRADING ACCOUNT

Opening Stock

Unsold closing stock of the last financial year is appeared in debit side of the Trading Account as **“To Opening Stock “of the current financial year.**

Purchases

Net purchases including cash purchase and credit purchase of traded goods during the current financial year appeared as **“To Purchases” in the debit side of Trading Account.**

Direct Expenses

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Direct expenses are costs that can be **directly attributed to the production or acquisition of goods** or services such as **Freight charges, Wages, and power.**

Sales

- **Net Sale** of the traded goods **including cash and credit sales** will appear at outer column of the **credit side of Trading Account as By Sales.**
- Sales should be on **net releasable value** excluding **Central Sales Tax, Vat, Custom, and Excise Duty.**

Closing Stock

Total Value of **unsold stock** of the **current financial year** is called as **closing stock** and will appear at the credit side of Trading Account.

Gross Profit = Sales - Cost of Goods Sold

CASE STUDY ON GROSS PROFIT CALCULATION

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Q: 1 Company X is a small manufacturing business that operates in the consumer goods sector. The company primarily focuses on producing and selling household items. Below are the financial details for Company X during the financial year 2022-23. Calculate gross Profit or loss of Company X.

Particulars	Amount ()
Sales	55,000
Purchases	25,000
Carriage Inward	20,000
Wages	10,000
Opening Stock	10000
Closing Stock	9,000
Sales Return	5000
Purchase Return	1000

a) 5000 Gross Profit

- b) 5000 Gross Loss
- c) 7000 Gross Profit
- d) 7000 Gross Loss

SOLUTION

COGS = Opening Stock + Net Purchases + Direct Expenses - Closing Stock

Gross profit = Net sales - Cost of goods sold

PROFIT AND LOSS ACCOUNT

- It is an account that summarizes the **revenues, expenses, and resulting net profit or loss of a business** over a specific period of time.
- The main purpose of a **Profit and Loss Account** is to show the **profitability of a business**.

PREPARATION OF PROFIT AND LOSS ACCOUNT

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- It is prepared after the trading account to ascertain the net profit or net loss.
- This is 2nd stage of financial accounts.
- It is prepared at the end of the particular accounting period.
- It is prepared as per the accrual basis of accountancy.
- Matching concept is used to record expenses and incomes.

ABC Company			
Profit and Loss Account			
For the year ended 31st Dec.			
	\$		\$
Gross Loss (Transferred from Trading A/c)	xxxx	Gross Profit (Transferred from Trading A/c)	xxxx
Office and Administration Expenses:		Commission Received	xxxx
Salaries	xxxx	Rent Received	xxxx
Rent, Rates and Taxes	xxxx	Interest received	xxxx
Postage and Telegram	xxxx	Discount received	xxxx
Telephone Charges	xxxx	Discount from Creditors	xxxx
Printing and Stationery	xxxx	Discount on Purchases	xxxx
Office Electricity	xxxx	Dividend Received	xxxx
Insurance	xxxx	Interest on Drawings	xxxx
Legal Charges	xxxx	Reserve for Discount on Creditors	xxxx
Marketing and Selling Expenses		Interest on Renewal of bills	xxxx
Carriage outwards	xxxx	Bad Debts Recovered	xxxx
Freight Outwards	xxxx	Provision for Bad Debts (Cr.)	xxxx
Sales Salaries	xxxx	Royalty Received	xxxx
Advertisement	xxxx	Apprentice Premium	xxxx
Godown Rent	xxxx	Miscellaneous Income	xxxx
Commissions	xxxx	Sundry Income	xxxx
Discount Allowed	xxxx		
Bad Debts	xxxx		
Financial and Other Expenses:			
Bank Charges	xxxx		
Interest	xxxx		
Depreciation	xxxx		
Repairs and Maintenance	xxxx		
Audit Fees	xxxx		
Loss by Theft, Accident and Fire	xxxx		
Miscellaneous and Sundry Expenses	xxxx		
Net Profit Transferred to Capital	xxxx	Net Loss (Transferred to Capital)	xxxx

CASE STUDY ON CALCULATION OF NET PROFIT OR LOSS

Q: 1 Company ABC is a small manufacturing business operating in the electronic gadgets sector, focusing on producing and selling consumer electronics. Below are the financial details for the fiscal year 2022-23: Calculate Net Profit or loss of Company X.

Particulars	Amount (₹)
Gross Profit	50,000
Rent Received	10,000
Profit on Sale of Machinery	10,000
Interest Paid on Loan	(5,000)
Donation	(2,000)
Stationery	(5,000)

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Salaries and Wages	(20,000)
Carriage Inward	20,000
Wages	10,000
Net Profit or Loss	?

- a) 40000 losses
- b) 35000 profits
- c) 35000 losses
- d) 38000 profits

PROFIT AND LOSS APPROPRIATION ACCOUNT

- To show how **net profit** from the P&L account **being distributed among the partners.**
- It is a **nominal Account.**
- Net profit, as arrived at in the P&L A/c, is utilised by the company, for providing **dividend distribution, tax,**

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adjustments to income tax and transfer to reserves etc. This is done through the profit and Loss **Appropriation account.**

- The net profit is transferred to the **credit side of profit and loss appropriation account.**

Credit Side:

- Balance of surplus brought forward from previous year.
- Net Profit for the year.
- Amount withdrawn from general reserve or any other reserve.
- Income tax provision no longer required or excess of provision.

Debit Side:

- Transfer to reserve/ general reserve.
- Debenture redemption account.
- Transfer to dividend/ interim dividend/ proposed dividend.
- Dividend Distribution Tax.
- Income tax for previous year not provided for.
- Surplus transfer to balance sheet.

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Particulars	Debit Amount (\$)	Particulars	Credit Amount (\$)
Transfer to Reserves	-	Net Profit (P&L)	75000
Interest on Capital (WN 1)		Interest on drawings (WN 3)	
- Partner A	5000	- Partner A	1000
- Partner B	5000	- Partner B	2000
Salary to Partner			
- Partner A	12000		
- Partner B	18000		
Commission to Partner B (WN 2)	3750		
Net Profit Transferred to Partner's Account (WN 4)			
- Partner A	17125		
- Partner B	17125		
Total	78000	Total	78000



BALANCE SHEET

- This is a financial statement that shows the **company's financial position at a specific point in time.**

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- It presents the company's **assets, liabilities, and shareholders' equity,**

COMPONENTS

Shareholder Funds

- It represents the **portion of the company's value that belongs to the shareholders or owners.**
- It represents the ownership interest or the **net worth of the company.**

Components of Share Holder Fund

- **Share capital:** - Authorized Share Capital, Issued Share Capital, Subscribed Capital, Called-Up Capital, Paid-Up Capital
- **Reserves and Surplus:** - General reserve, Revaluation reserve, capital reserve.
- **Money received against share warrants.**

Share Application Pending Allotment.

Share application pending allotment" refers to a situation where **individuals or entities have applied to purchase shares of a company but have not yet received an allotment of those shares.**

Noncurrent liabilities

These liabilities can be defined as those **financial obligations that are generally expected to be paid after a year.**

Components of Non-current Liabilities

- **Long term borrowings:** -Debentures, Bank loan
- **Long term provisions:** - Gratuity, provident funds
- **Deferred tax liabilities:** -Depreciation method
- **Other long-term liabilities:** -Machinery purchased on instalment.

Current liabilities

Current liabilities are obligations that are expected **to be settled within one year or the operating cycle.**

- **Short term borrowings:** - working capital loans, Bank overdraft.
- **Trade payables:** - Creditors and Bills payable
- **Short term provisions:** -Provision for tax and doubtful debts
- **Other current liabilities:** - Advance from customers,

Non-current assets

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These are long-term assets that are expected to **provide economic benefits for more than one year.**

- **Fixed assets:** - Tangible Assets, Intangible assets, Capital work in progress, intangible assets under development
- **Non-Current investments:** - Investment in Bonds and Stocks,
- **Long term loans and advances:** - Loans and advances to employees, officers, and directors
- **Deferred tax assets**
- **Other non-current assets**

Current Assets

Current assets are expected to be **converted into cash or used up within one year or the operating cycle**, whichever is longer.

- **Current investments:** - Money market mutual funds, short term securities
- **Inventories:** - Raw material, Finished Goods, Work in progress
- **Trade receivable:** -Debtors and Bills receivable
- **Cash and cash equivalents:** -Cash in hand and Bank balance
- **Other current assets**

IMPORTANT NOTES

- Liabilities have Credit balance and Assets have Debit balance.
- Net Worth and Long-term liabilities are also called long term sources of funds.
- Current Liabilities are also known as Short-term sources of funds.
- **Long term liabilities & short-term liabilities are also called Outside liabilities.**
- Current Assets are Short-term use of funds.
- Assets other than Current Assets are Long-time use of funds.

BALANCE SHEET EQUATION

BALANCE SHEET EQUATION

- It represents the **relationship** between a **company's assets, liabilities, and equity.**

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- According to this equation **Assets of the business should always equal to the Equity and liabilities.**

$$\text{Assets} = \text{Liabilities} + \text{Equity}$$

COMPONENT OF THE BALANCE SHEET EQUATION

Assets

- Assets are **economic resources owned or controlled by a company** that has measurable value and **can provide future benefits.**
- They can be categorized **into current assets and non-current assets.**

Liabilities

- These are **obligations or debts** owed by a company to **external parties, such as creditors or suppliers.**
- They can be classified as **current liabilities and non-current liabilities.**

Equity

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- It represents the **portion of the company's value** that **belongs to the shareholders or owners**.
- It represents the ownership interest or the **net worth of the company**.

Rohan Started a business Rohan Mills with 50000 and purchases goods worth 20000 on credit and deposited 10000 in the bank account. What is the balance sheet equation of this company?

Q:1 Which of these accounts are prepared to show gross profit of the organization?

- a) Profit and loss account
- b) Balance sheet
- c) Trading account
- d) None of the above

Q:2 Which of the following statements does not accurately describe the trading account?

- a) The trading account focuses on a company's trading activities, specifically related to the purchase and sale of goods.
- b) It summarizes a company's revenue, cost of goods sold, and gross profit or gross loss for a specific period.
- c) The trading account provides insights into the company's ability to generate revenue from its core business operations.
- d) The trading account primarily highlights a company's long-term investments and capital gains.

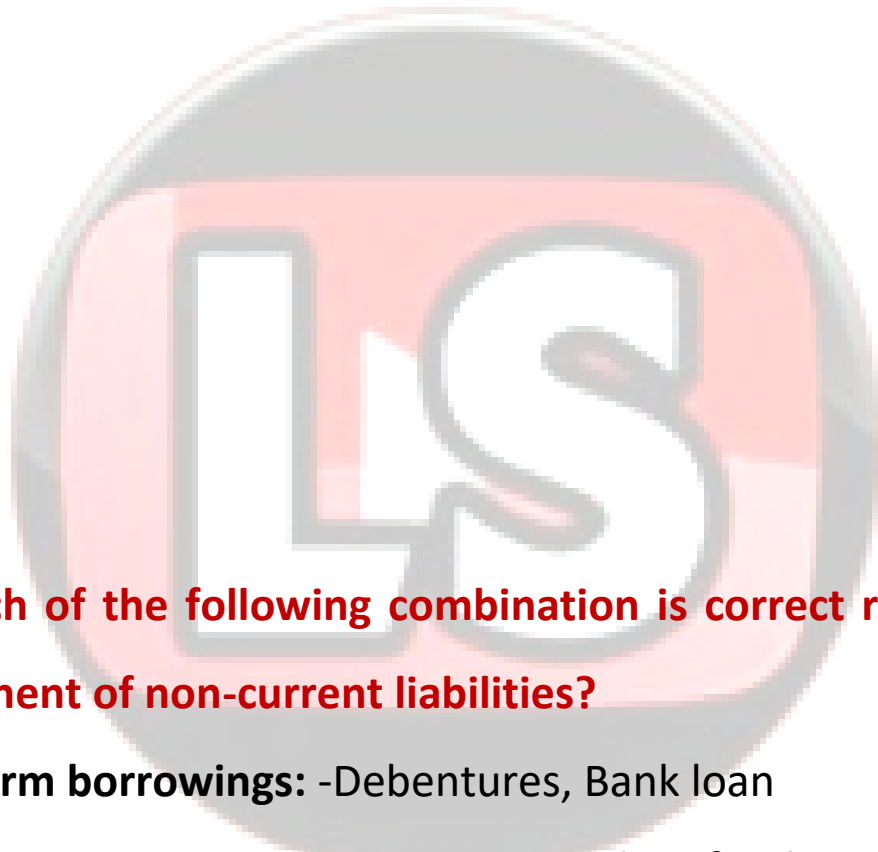
Q:3 Gross profit arises from the company's core business operations, specifically from the sale of goods or services. How is the gross profit calculated in the Trading Account?

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- a) Gross Profit = Net Sales - Opening Stock
- b) Gross Profit = Net Sales - Direct Expenses
- c) Gross Profit = Net Sales - Closing Stock
- d) Gross Profit = Net Sales - Cost of Goods Sold

Q:4 A balance sheet is a financial statement that shows the company's financial position at a specific point in time. Which of these is a component of Balance sheet?

- I. Revenue Expenditure
 - II. Shareholder Fund
 - III. Liability
 - IV. Assets
- a) I, III, IV
 - b) II, III, IV
 - c) I, II, III
 - d) I, II, III, IV



Q:5 Which of the following combination is correct regarding component of non-current liabilities?

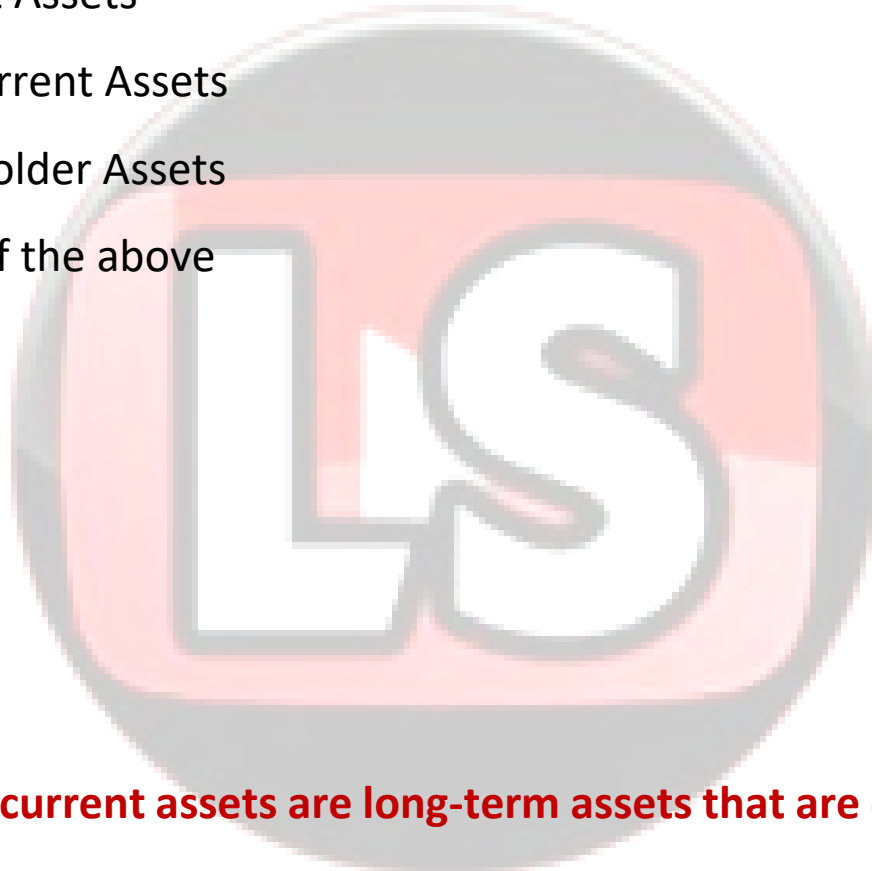
- a) **Long term borrowings:** -Debentures, Bank loan
- b) **Long term provisions:** - Gratuity, provident funds
- c) **Other long-term liabilities:** Machinery purchased on instalment.
- d) All of the above

Q:6 Current liabilities are obligations that are expected to be settled within one year or the operating cycle. Which of the following is not considered a current liability on a balance sheet?

- a) Accounts payable
- b) Provision for tax
- c) Outstanding wages
- d) Debentures

Q:7 Resources owned by the company that are expected to provide future economic benefits is known as assets. Which of these is not a type of assets.

- a) Current Assets
- b) Non-current Assets
- c) Shareholder Assets
- d) None of the above



Q:8 Non-current assets are long-term assets that are expected to provide economic benefits for more than one year. Components of non-current assets include_____

- I. Fixed assets
- II. Non-Current investments
- III. Long term loans and advances

IV. Deferred tax assets

- a) I, III, IV
- b) II, III, IV
- c) I, II, III
- d) I, II, III, IV



Q:9 On balance sheet Inventories, cash and equivalents, and accounts receivables are listed under which category.

- a) Current liabilities
- b) Current assets
- c) Non-current liabilities
- d) Non-current assets

COMPANY ACCOUNTS

COMPANY

- A company is **legal entity or organization** formed to **carry out business activities**.
- It is a **distinct and separate entity** from its owners or **shareholders**, with its **own legal rights and obligations**.

FEATURES OF A COMPANY

Separate Legal Entity

It is a separate **legal entity** from its owners or shareholders. This means it has its **own legal rights, obligations, and liabilities**, distinct from those of its owners.

Limited Liability

Shareholders or owners are typically **not personally responsible** for the **company's debts and obligations** beyond their investment in the company.

Perpetual Existence

Companies have the ability to **exist indefinitely**, even if **there are changes in ownership or management**. The company's existence is not dependent on the life of its owners or shareholders.

Transferability of shares

Shares in a company are **generally transferable**, allowing shareholders or members to **buy, sell, or transfer their ownership rights**.

Separate Management

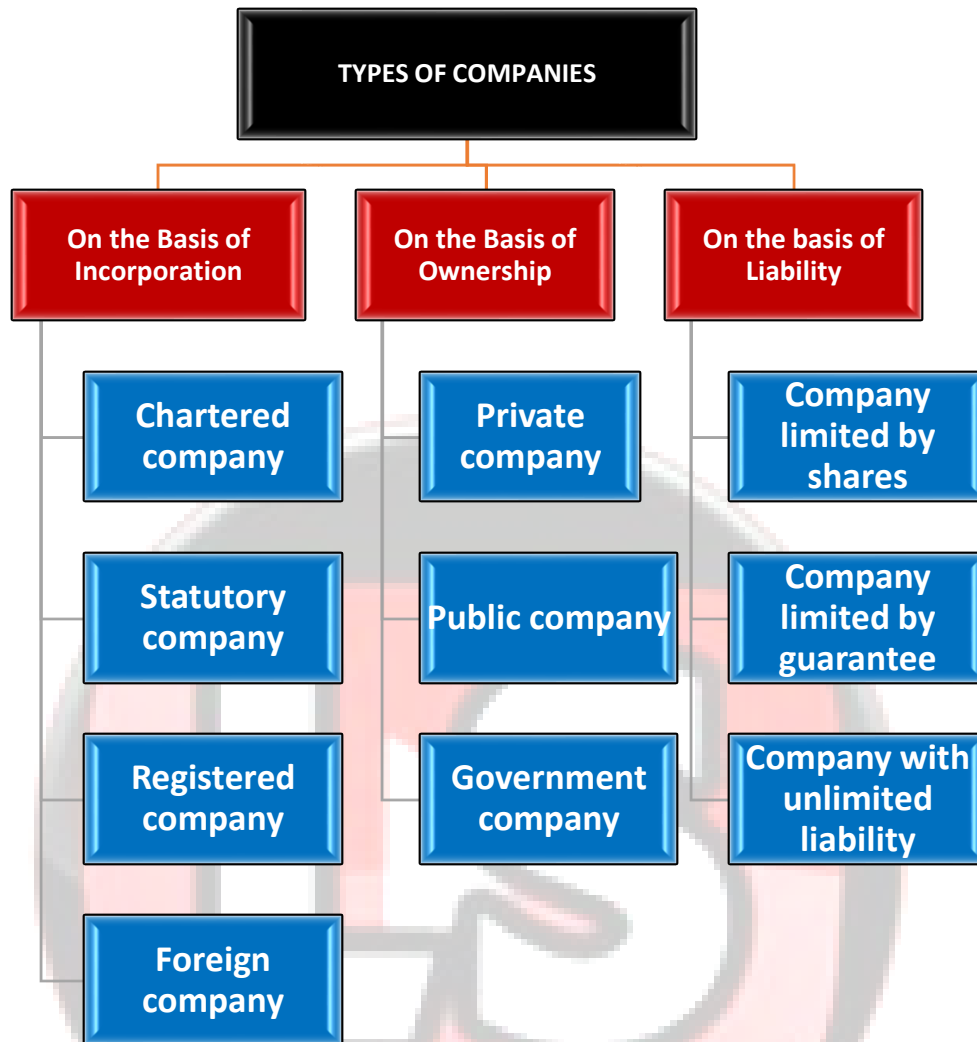
A **company is managed by a board of directors**, **elected by the shareholders**, who oversee the company's affairs and make strategic decisions.

TYPES OF COMPANIES

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ON THE BASIS OF INCORPORATION

Chartered company: A chartered company is **established through a special charter granted by a Head of State**. In India, such companies are not commonly found.

Statutory company: A statutory company is **created or incorporated by a specific Act** passed by the Central or State Legislature. These companies are **owned by the government**.

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Registered company: A registered company is one that is incorporated and **registered under the provisions of the Companies Act**

Foreign company: This is a company that is **incorporated and registered in a country other than** the one in which it conducts its business operations.

ON THE BASIS OF OWNERSHIP

Private company

Section 2(68) of Companies Act, 2013 defines private companies. According to that: -

- A private company can have a **minimum of two members except one Person Company** and a **maximum of up to 200 members.**
- Private companies **cannot freely transfer their shares** to the public like public companies.
- Private companies **cannot issue any security** of the company to the **public to subscribe.**

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- All private companies must include the **words “Private Limited” or “Pvt. Ltd.” in their names.**

Public company

- This is a type of business entity that **offers its shares to the public and is listed on a stock exchange.**
- Public company can have a **minimum of Seven members with no maximum limit.**

Government company Any company in which at **least 51% of the paid-up share capital** is held by the Central Government or by any **State Government or both.**


ON THE BASIS OF LIABILITY

Company limited by shares: In an LLC, the **liability of its members is limited** to the face value of the shares they have purchased.

Company limited by guarantee: This type of company **limits the liability** of its members to a **specific amount that they have guaranteed.**

Company with unlimited liability: It is a company in which the liability of a **member is unlimited**.

DISTINCTION BETWEEN PARTNERSHIP AND COMPANY



BASIS	PARTNERSHIP	COMPANY
Formation	The formation of a partnership firm is relatively easy by way of agreement among partners.	The formation of a limited company is difficult because too many legal formalities are involved
Registration	Registration of a Partnership firm is not compulsory	Registration of a company is compulsory.

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Liability	Liability of partners of a firm is unlimited	Liability of a shareholder is generally limited to the face value of shares held by him
Ownership/ Management	In partnership firm, ownership, and management rest with the partners.	In a company there is a separation of ownership and management
Perpetual succession	partnership does not have a perpetual succession	Limited company enjoys perpetual succession
Regulation	Partnerships in India are primarily regulated by the Indian Partnership Act, 1932	Companies in India are primarily regulated by the Companies Act, 2013.

SHARE CAPITAL

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Share capital is the money a company raises by issuing Equity shares or Preference Shares or both.



Authorised capital: The "Memorandum of Association" of a company specifies the capital amount known as the Authorized Capital. This represents the maximum limit up to which the company can raise capital.

Issued capital: Issued capital refers to the portion of the authorized capital that has been issued by the company.

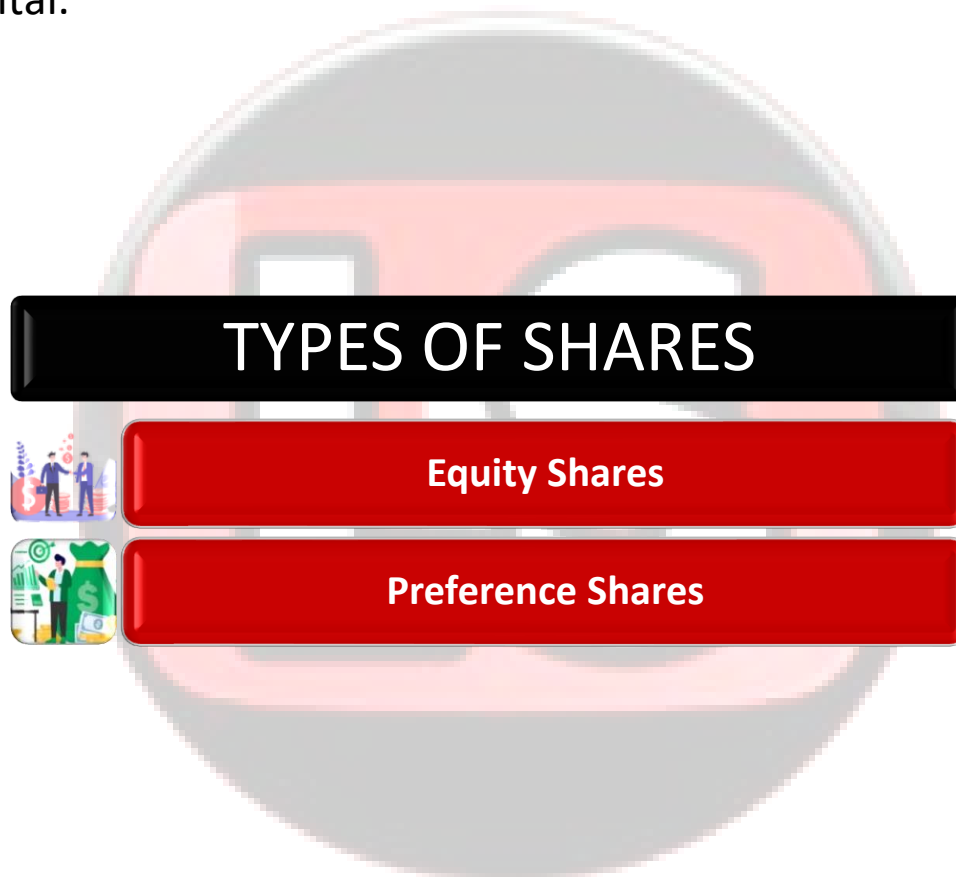
Subscribed capital: Subscribed capital represents the part of the issued capital that has been actually subscribed to by the public.

Called up capital: Called-up capital refers to the amount that the company has requested its shareholders to pay. It represents

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the portion of subscribed capital that shareholders are required to contribute.

Paid-up capital: That **amount of capital** which has actually **been paid by the shareholders**. It can never be more than the called-up capital.



Equity Shares

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- Equity shares also known as **ordinary shares or common shares**. The holders of these shares are the **real owners of the company**.
- Equity shareholders have control **over the working of the company**, and they have **voting rights**.
- The **equity shares** which are issued by the company are **permanent and are non-redeemable**.
- Equity shareholders receive a **dividend on the shares**. The amount of the **dividend depends upon the profit made by the company**.

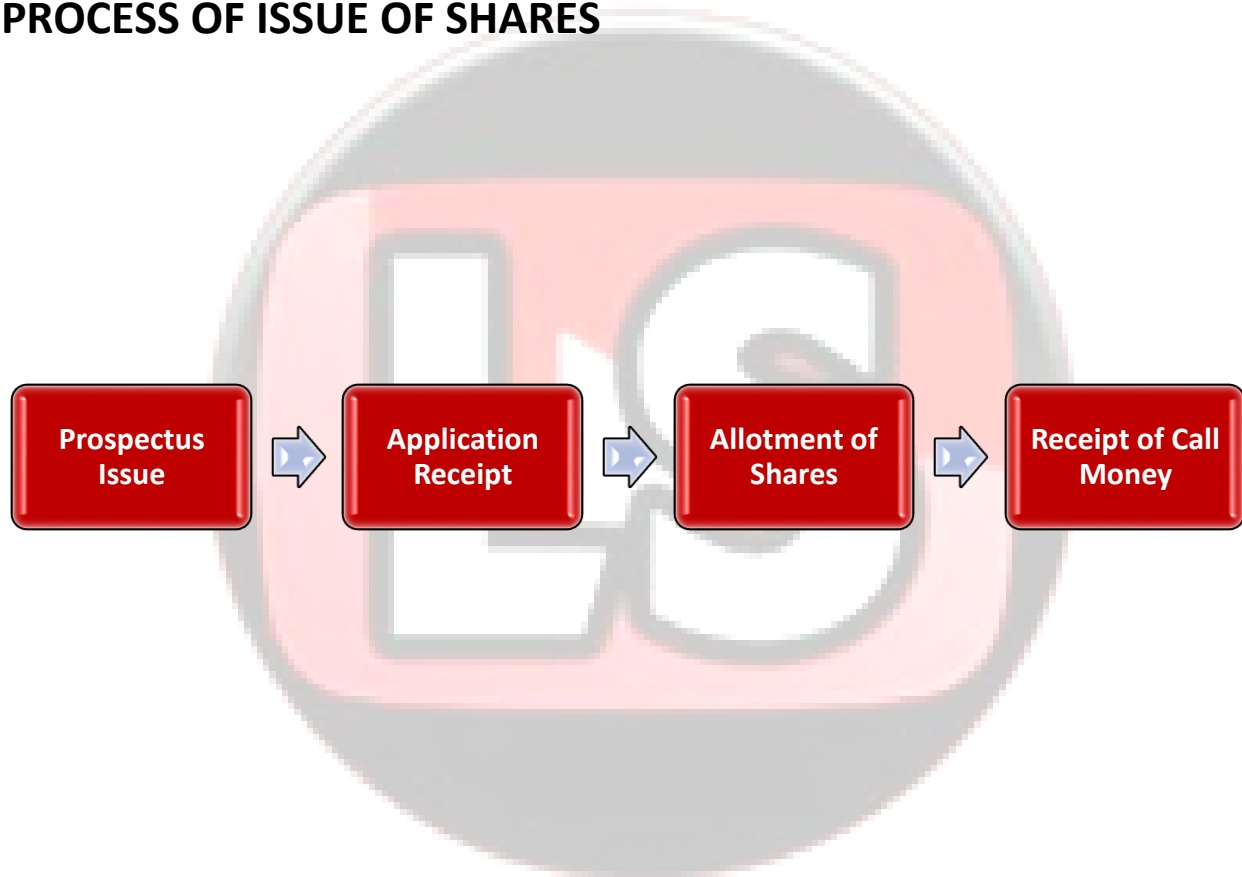
Preference Shares

- Preference shares **represent ownership in a company**. They are **secondary owners of a business**.
- Preference shareholders enjoy the **preference over common shareholders** in the payment of **dividends and capital**.
- **Fixed rate of dividend** is paid to the preference share holder.

ISSUE OF SHARES

This is a process by which a **company offers its shares to potential investors or shareholders** in exchange for capital or other forms of consideration.

PROCESS OF ISSUE OF SHARES



Prospectus Issue

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An enterprise releases a **prospectus to the public**. Prospectus provides detailed information about the company, its business operations, financials, risk factors, and terms of the share issue.

Application Receipt

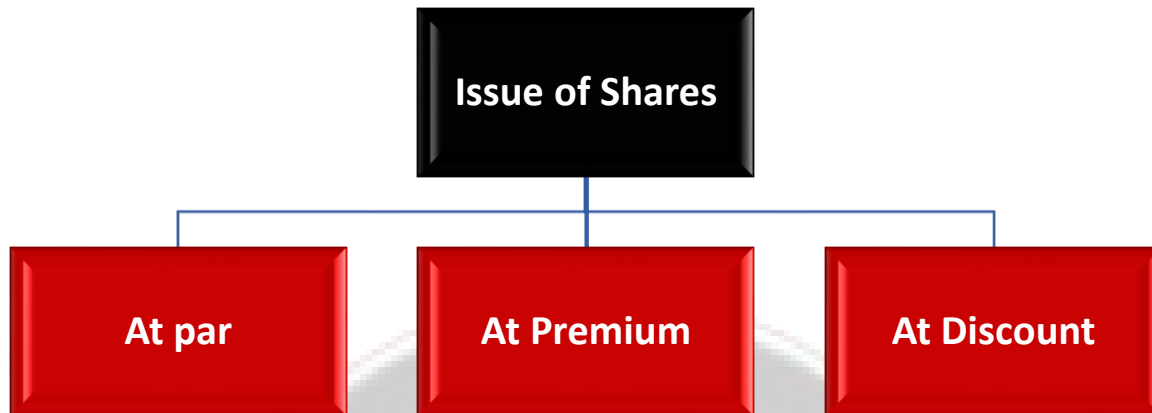
This involves receiving applications from **investors who are interested in purchasing shares of the company.**

Allotment of Shares

This is a process of **assigning shares to the applicants** who have applied for shares during a share issuance.

Receipt of Call Money

After the shares are allotted to the shareholders, the company may issue a notice known as a "call notice" or "call letter" specifying the amount and **due date for the subsequent payments**, which are called "calls."



ISSUE OF SHARES AT PAR

Issue of Shares at Par means to issue the shares for an **amount equal to the face value of shares.**

Journal Entry in case shares issued at par

ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows

Application Rs.4 Allotment Rs. 4 Final call Rs. 2

- For entry is made by the company on receiving the application money

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Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 4) Dr To Share application A/c (20000 x 4)		80000	80000

➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (20000 x 4) Dr To Share Capital A/c (20000 x 4)		80000	80000

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➤ For making allotment for money due

Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000 x 4) Dr To Share capital A/c (20000 x 4)		80000	80000

➤ For receipt of allotment money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 4) Dr To Share allotment (20000 x 4) A/c		80000	80000

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➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
	Share final call A/c (20000 x 2) Dr To Share Capital A/c (20000 x 2)		40000	40000

➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 2) Dr To Share final call A/c (20000 x 2)		40000	40000

ISSUE OF SHARES AT A PREMIUM

- When shares are issued at **higher than the face value of the shares**, they are said to be **issued at a premium**.
- The amount of premium is **decided by the Board of Directors** as per guidelines issued by the SEBI.

JOURNAL ENTRY IN CASE SHARES ISSUED AT PREMIUM

ABC Ltd. Issued 20000 shares of Rs.10 each at Rs.2 Premium payable as follows

Application Rs.4+1 Allotment Rs. 4+1 Final call Rs. 2

- For entry is made by the company on receiving the application money

Date	Particulars	L.F	Dr	CR
------	-------------	-----	----	----

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	Bank A/c (20000 x 5) Dr To Share application A/c (20000 x 5)		100000	100000
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➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (20000 x 5) Dr To Share capital A/c (20000 x 4) To Security Premium A/c (20000 x 1)		100000	80000 20000

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➤ For making allotment for money due

Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000 x 4)		100000	
	Dr			80000
	To Share capital A/c			20000
	(20000 x 4)			
	To Security Premium A/c			
	(20000 x 1)			

➤ For receipt of allotment money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 5)		100000	
	Dr			100000

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	To Share allotment A/c (20000 x 5)			
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➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
	Share final call A/c (20000 x 2)		40000	
	Dr			40000
	To share Capital A/c (20000 x 2)			

➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 2) Dr		40000	

	To Share final call A/c (20000 x 2)			40000
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ISSUE OF SHARES AT A DISCOUNT (Section 53 of Companies Act 2013)

- When shares are issued at **lower than the face value of the shares**, they are said to be issued at a discount.
- Except as provided in **section 54 (issue of sweat equity)**, a company shall **not issue shares at a discount**.

OVERSUBSCRIPTION

- Oversubscription of shares occurs when the **demand for shares in a company exceeds** the number of **shares available for allocation**.
- In the case of over-subscription, it is **not possible for the company to allot shares to every applicant** in the number that he desires.

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The company has the following three alternatives.

- Accept some applications in full and reject the others totally.
- Make Pro-Rata Allotment.
- Adopt a combination of the above two.

ACCEPT SOME APPLICATIONS IN FULL AND REJECT THE OTHERS TOTALLY.

When some applications are **accepted in full** by drawing lots and **some are rejected in full**, the **amount received on applications accepted is transferred to share capital account**. The amount received on **rejected applications is refunded**.

JOURNAL ENTRY

ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows and Application received 30000 shares.

Application Rs.4 Allotment Rs. 4 Final call Rs. 2

➤ For entry is made by the company on receiving the application money

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Date	Particulars	L.F	Dr	CR
	Bank A/c (30000x4) Dr To Share application A/c (30000x4)		120000	120000

➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (30000x4) Dr To Share capital A/c (20000x4) To Bank A/c (10000 x 4)		120000	80000 40000

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➤ For making allotment for money due

Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000x4) Dr To Share capital A/c (20000x4)		80000	80000

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➤ For receipt of allotment money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000x4) Dr To Share allotment A/c (20000x4)		80000	80000

➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
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	Share final call A/c (20000x2) Dr To Share Capital A/c (20000x2)		40000	40000
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➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000x2) Dr To Share final call A/c (20000x2)		40000	40000

PRO RATA ALLOTMENT

- Pro rata allotment refers to the **allocation of shares in proportion** to the number of shares applied for by each investor or shareholder.
- It ensures a **fair distribution of shares** among applicants based on the principle of proportionality.

Example

- ABC Ltd. offers 100000 shares to the public. The issue was heavily oversubscribed. It receives applications for 200000 shares.
- When the company decides to allot the shares at pro-rata basis, then it has to allot 100000 shares to the applicants of 200000 shares. Thus, the ratio will be 200000:100000 i.e. 2:1.

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Hence, an applicant for 2 shares will receive 1 share. This is Pro-rata allotment.

Journal Entry

ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows and Application received 30000 shares and the company decides to allot the shares at pro-rata basis, then it has to allot 20000 shares to the applicants of 30000 shares.

Application Rs.4 Allotment Rs. 4 Final call Rs. 2

➤ For entry is made by the company on receiving the application money

Date	Particulars	L.F	Dr	CR
	Bank A/c (30000x4) Dr		120000	
	To Share application A/c (30000 x 4)			120000

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➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (30000 x 4) Dr		120000	
	To Share Capital A/c (20000 x 4)			80000
	To Share allotment A/c (10000 x 4)			40000

➤ For making allotment for money due

Date	Particulars	L.F	Dr	CR
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	Share allotment A/c (20000 x 4)		80000	
	Dr			80000
	To Share capital A/c (20000 x 4)			

➤ For receipt of allotment money

Date	Particulars	L.F	Dr	CR
	Bank A/c (10000 x 4)		40000	
	Dr			40000
	To Share allotment A/c (10000 x 4)			

➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
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	Share final call A/c (20000 x 2) Dr To Share Capital A/c (20000 x 2)		40000	40000
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➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 2) Dr To Share final call A/c (20000 x 2)		40000	40000

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WHERE SOME APPLICATIONS ARE ACCEPTED IN FULL, SOME REJECTED IN FULL AND THE REMAINING APPLICATIONS ARE ACCEPTED ON A PRO RATA BASIS,

- Application money on **rejected applications is refunded.**
- The **excess amount** paid by the applicants who have been allotted shares on pro-rata basis is **adjusted towards allotment dues.**

Journal Entry

- ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows and Application received 40000 shares.
 - company decides to allot application of 10000 shares are fully accepted and 10000 shares are fully rejected and remaining 10000 shares are allotted on pro rata basis.
 - **Application Rs.4 Allotment Rs. 4 Final call Rs. 2**
- **For entry is made by the company on receiving the application money**

Date	Particulars	L.F	Dr	CR
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	Bank A/c (40000x4) Dr		160000	
	To Share application A/c (40000x4)			160000

➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (40000 x 4) Dr		160000	
	To Share Capital A/c (20000 x 4)			80000
	To Share allotment A/c (10000 x 4)			40000
	To Bank A/c (10000 x 4)			40000

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➤ For making allotment for money due

Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000x4) Dr To Share capital A/c (20000x4)		80000	80000

➤ For receipt of allotment money

Date	Particulars	L.F	Dr	CR
	Bank A/c (10000x4) Dr		40000	40000

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	To Share allotment A/c (10000x4)			
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➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
	Share final call A/c (20000x2) Dr To Share Capital A/c (20000x2)		40000	40000

➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000x2) Dr		40000	40000

	To Share final call A/c (20000x2)			
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FORFEITURE OF SHARES

This is a **process** by which a **company cancels and reacquires the shares** of a shareholder **due to non-payment or non-compliance** with certain obligations or requirements.

Journal entry of forfeiture.

ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows.
Final call is not paid on 1000 shares.

Application Rs.4 Allotment Rs. 4 Final call Rs. 2

➤ For entry is made by the company on receiving the application money

Date	Particulars	L.F	Dr	CR
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	Bank A/c (20000x4) Dr		80000	
	To Share application A/c (20000x4)			80000

➤ For Application money is transferred to Share Capital A/c

Date	Particulars	L.F	Dr	CR
	Share application A/c (20000 x 4) Dr		80000	
	To Share Capital A/c (20000 x 4)			80000

➤ For making allotment for money due

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Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000 x 4) Dr To Share capital A/c (20000 x 4)		80000	80000

➤ **For receipt of allotment money**

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 4) Dr To Share allotment A/c (20000 x 4)		80000	80000

➤ **For entry is passed for call money due**

Date	Particulars	L.F	Dr	CR
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	Share final call A/c (20000 x 2)		40000	
	Dr			40000
	To Share Capital A/c 20000			
	x 2)			

➤ For receipt of call money

Date	Particulars	L.F	Dr	CR
	Bank A/c (19000 x 2)		38000	
	Dr		2000	
	Calls in arrear A/c (1000 x 2)			40000
	Dr			
	To Share final call A/c			
	(20000 x 2)			

➤ The journal entry on forfeiture of shares will be as under

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Date	Particulars	L.F	Dr	CR
	Share capital A/c (1000 x 10)		10000	
	Dr		2000	
	To Calls in arrear A/c (1000 x 2)			8000
	To Share forfeiture A/c (1000 x 8)			

Forfeiture of Shares in case shares are issued at Premium

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ABC Ltd. Issued 20000 shares of Rs.10 each at Rs.2 Premium payable as follows. final call is not paid on 1000 shares.

Application Rs.4+1 Allotment Rs. 4 Final call Rs. 2+1

➤ For entry is passed for call money due

Date	Particulars	L.F	Dr	CR
	Share final call A/c (20000 x 3)		60000	
	Dr			40000
	To Share Capital A/c (20000 x 2)			20000
	To Security Premium A/c (20000 x 1)			

➤ For receipt of call money

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Date	Particulars	L.F	Dr	CR
	Bank A/c (19000 x 3)		57000	
	Dr		3000	
	Calls in arrear A/c (1000 x 3)			60000
	Dr			
	To Share final call A/c (20000 x 3)			

The journal entry on forfeiture of shares will be as under

Date	Particulars	L.F	Dr	CR
	Share capital A/c (1000 x 10)		10000	
	Dr		1000	

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	Security Premium A/c (1000 x 1)			3000
	To Calls in arrear A/c (1000 x 3)			8000
	To Share forfeiture A/c (1000 x 8)			

RE-ISSUE OF SHARES

Forfeited shares can be re-issued by the company at any time. But such shares cannot be re-issued at a price which is lower than the amount in arrears.

Date	Particulars	L.F	Dr	CR
	Bank A/c (1000 x 9) Dr		9000	
	Share forfeiture A/c (1000 x 1)		1000	
	To Share capital A/c			10000

Forfeiture Amount transferred to Capital Reserve

Date	Particulars	L.F	Dr	CR
	Share forfeiture A/c (1000 x 1)		7000	
	Dr			7000
	To Capital Reserve A/c			

CALLS IN ADVANCE

- Calls in advance" refers to a situation in which a **company requests its shareholders to make payment** for their shares **before the scheduled payment date.**
- The company can pay interest on calls in advance as per the terms of its articles but **cannot pay interest of more than 6% p.a.**

JOURNAL ENTRY

When call in advance is received?

Date	Particulars	L.F	Dr	CR
	Bank A/c Dr		40000	
	To Calls in Advance A/c			40000

When call is made, calls in advance account is adjusted

Date	Particulars	L.F	Dr	CR
	Calls in Advance Dr		40000	
	To Calls A/c			40000

BONUS SHARES

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The company can **issue shares to its existing equity shareholders without consideration**, if the Articles of Association provides, these are called bonus shares.

A company may issue Bonus equity shares if the following conditions are fulfilled, namely:

- The Bonus issue shall be **authorized by Articles of Association**.
- The issue of bonus shares shall be **previously authorized in the General meeting of the Company**.
- The Company **cannot issue bonus shares** to the Shareholders holding **partly paid-up shares**.
- The company has **not defaulted in payment of interest or principal** in respect of fixed deposits or debt securities issued by it.
- **it has not defaulted** in respect of the payment of **statutory dues of the employees**, such as, contribution to provident fund, gratuity, and bonus.
- The bonus shares shall **not be issued in lieu of dividend**.

JOURNAL ENTRY

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Sanction of bonus issue out of various reserves

Date	Particulars	L.F	Dr	CR
	Capital Redemption Reserve A/c		xxx	
	Dr		xxx	
	Securities Premium A/c		xxx	
	Dr			xxx
	General Reserve A/c			
	Dr			
	To Bonus to Shareholders A/c			

Issue of bonus shares – Capitalization of profit

Date	Particulars	L.F	Dr	CR
	Bonus to Shareholders A/c		xxx	
	To Share Capital A/c			

				XXX
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non-voting equity shares. SWEAT EQUITY SHARES

'Sweat Equity' Shares means equity shares issued by the company to employees or directors at a discount or for consideration other than cash.

A company may issue sweat equity shares if the following conditions are fulfilled, namely:

- The issue is authorised by a special resolution passed by the company
- The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- The company must have been in **business for a minimum of one year prior to the issuance of these shares .**

EMPLOYEES STOCK OPTION SCHEME (ESOS)

- ESOS means a scheme under which the company **grants option** (a right but not an obligation) **to an employee to apply for shares** of the company at a **pre-determined price**.
- The SEBI has issued guidelines for ESOS for listed companies.

NON-VOTING SHARES

This is a type of equity shares **that do not carry voting rights**. These shares are **issued by a company to investors or shareholders**, granting them ownership in the company but without the ability to vote on matters related to the company's governance or decision-making processes.

CONDITIONS

- issue should be **authorised by the Articles of Association** of the company and **approved by the shareholders** at their general body meeting by passing a special resolution.
- **Special resolution** must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.

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- Such shareholders are **entitled to all rights and bonus shares** but do not enjoy voting rights.
- **Only 25 per cent of the paid-up capital of the company can be issued as equity shares without voting rights.**
- Only a public company limited by shares can issue
- **No company will be permitted to convert shares with voting rights into shares without voting rights.**

Sr no.	Questions	Answer
1	What is a key feature of a company that distinguishes it from its owners?	Separate entity
2	What term is used to describe the limited personal responsibility of shareholders in a company?	Limited liability
3	What characteristic allows a company to exist indefinitely, irrespective of	Perpetual existence

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	changes in ownership or management?	
4	What is the term for the ability to buy, sell, or transfer ownership rights in a company?	Share transferability
5	Who is responsible for overseeing a company's affairs and making strategic decisions?	Board of directors
6	What type of company is established through a special charter granted by a Head of State?	Chartered company
7	How is a statutory company created or incorporated?	Passing Legislative Act
8	What term is used to describe a company that is incorporated and registered under the provisions of the Companies Act?	Registered company
9	What is a foreign company?	Overseas incorporation

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10	How many minimum members are required for a private company according to the Companies Act, 2013?	2 members
11	How many members are required for a public company?	7 members
12	Share capital represents the money a company raises by issuing equity shares only.	False
13	Authorized capital is the maximum limit up to which a company can raise capital.	True
14	Issued capital refers to the portion of the authorized capital that has been subscribed to by the public.	False
15	Subscribed capital represents the part of the issued capital that has been actually paid by the shareholders.	False

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16	Called-up capital is the amount that the company has requested its shareholders to pay.	True
17	Paid-up capital can be greater than the called-up capital.	False
18	Equity shares provide voting rights to the shareholders.	True
19	Equity shares are non-redeemable and permanent in nature.	True
20	Preference shareholders have preference over common shareholders in the payment of dividends and capital.	True
21	Fixed rate of dividend is paid to the equity shareholders.	False
22	Preference shares are redeemable, meaning they can be repurchased by the company at a predetermined price.	True

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23	Preference shareholders have voting rights in the company	False
24	What is the purpose of issuing shares?	Capital raising
25	What information does a prospectus provide during the issuance of shares?	Company and shares details
26	What is the next step after receiving applications from interested investors?	Review Application
27	What is the process of allotting shares to applicants called?	Share allotment
28	What is the meaning of issuing shares at par?	Face value
29	What does it mean to issue shares at a premium?	Premium issuance
30	Under what circumstances can shares be issued at a discount?	Limited cases
31	What happens when the demand for shares exceeds the available allocation?	Oversubscription

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32	_____ is the process of canceling and reacquiring.	Forfeiture of shares
33	The journal entry for forfeiture involves debiting the shareholder's account and crediting the _____.	forfeited shares account.
34	Forfeited shares can be re-issued by the company, but not at a price lower than the _____.	amount in arrears
35	Calls in advance refer to the situation where shareholders are requested to make payment for their shares before the _____.	scheduled payment date.
36	The company may pay interest on calls in advance, but not exceeding_____.	6% per annum
37	_____ shares are issued to existing equity shareholders without consideration.	Bonus Shares

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38	Bonus shares must be authorized by the Articles of Association and previously authorized in a _____ of the company	General meeting
39	Bonus shares cannot be issued to shareholders holding _____.	Partly paid-up shares.
40	Bonus shares cannot be issued in _____.	lieu of dividend
41	Sweat equity shares are issued to employees or directors at a _____.	Discount
42	Non-voting shares do not carry _____.	Voting rights