

CUET · ACCOUNTANCY · CLASS XII · CODE 301

Accounting for Share Capital

CUET unit: Company Accounts → Accounting for Share Capital

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Snapshot

- Defines a company as an artificial person under the Companies Act, 2013, with features such as separate legal entity, limited liability, perpetual succession, common seal, and transferability of shares.
- Classifies companies on the basis of liability (limited by shares, limited by guarantee, unlimited) and on the basis of members (public, private, OPC).
- Lays down seven categories of share capital — Authorised, Issued, Subscribed, Called-up, Paid-up, Uncalled and Reserve — and the two classes of shares (preference and equity).
- Covers the full life cycle of an equity issue: prospectus → application → allotment → calls, including the accounting for premium, over/under-subscription, pro-rata allotment, calls in arrears (Table F interest @ 10% p.a.) and calls in advance (Table F interest @ 12% p.a.).
- Develops forfeiture and reissue of forfeited shares, with the rule that reissue discount cannot exceed the amount forfeited and the residual balance in Share Forfeiture A/c on reissued shares is transferred to Capital Reserve.

Detailed Notes

2.1 Core concepts

- A company is "a person, artificial, invisible, intangible and existing only in the eyes of law" (Chief Justice Marshall). A company is incorporated/registered under the Companies Act, 2013 or earlier Companies Acts. (NCERT §1.1, p. 1–2)
- Features of a company: Body Corporate, Separate Legal Entity, Limited Liability (limited to unpaid amount on shares), Perpetual Succession, Common Seal (official signature), Transferability of Shares (free in public company), and May Sue or Be Sued. (NCERT §1.1, p. 2)
- On the basis of liability companies are of three kinds — (i) Limited by Shares (liability limited to nominal value of shares held), (ii) Limited by Guarantee (liability limited to the amount guaranteed, arises only on winding up), and (iii) Unlimited Companies (no limit; private property can be claimed). (NCERT §1.2, p. 2–3)
- On the basis of members: (i) Public Company, (ii) Private Company — restricts transfer of shares, requires at least 2 persons (except OPC), and caps members at 200 excluding employees, and (iii) One Person Company (OPC) under Sec 2(62) —

- only one member, must be an Indian citizen resident in India, cannot do non-banking financial investment, paid-up capital not more than Rs. 50 lakh, average annual turnover of three years not exceeding Rs. 2 crore. (NCERT §1.2, p. 3)
- Categories of share capital — Authorised (also called Nominal/Registered, fixed by Memorandum), Issued (part of authorised offered for subscription), Subscribed (part actually subscribed by public), Called-up (portion of subscribed which company has called), Paid-up (called-up minus calls in arrears), Uncalled (subscribed but not yet called), and Reserve Capital (uncalled portion reserved by a special resolution to be called only on winding up, available solely for creditors). (NCERT §1.3.1, p. 4–5)
 - Shares are the units into which the total share capital is divided. As per the Companies Act, a company can issue only two types of shares — (1) Preference shares (Sec 43), which carry preferential right both to dividend and to repayment of capital on winding up; preference shares may be cumulative/non-cumulative, participating/non-participating, redeemable/irredeemable, and (2) Equity (ordinary) shares — any share which is not a preference share; dividend is not fixed and varies with profits. Equity capital may be with voting rights or with differential rights. (NCERT §1.4–1.4.2, p. 6–7)
 - Procedure of share issue — Issue of Prospectus, Receipt of Applications (deposited with a scheduled bank, minimum subscription must be received within 120 days; else refund within 130 days), and Allotment of Shares (only after minimum subscription, results in a valid contract). (NCERT §1.5, p. 7–8)
 - Minimum subscription cannot be less than 90% of the issued amount per SEBI (DIP) Guidelines, 2000; if not met, the entire subscription must be refunded, with interest @ 15% p.a. [Sec 73(2)] for any delay beyond 8 days. (NCERT §1.5 box, p. 8)
 - Application money must be at least 5% of the face value of the share. Calls must not exceed 25% of face value, with at least one month between two calls (Table A), 14 days' notice to shareholders, and made uniformly on all shares of the same class. (NCERT §1.6 box, p. 12)
 - Calls in Arrears — unpaid amount on allotment/calls; Table F permits interest at a rate not exceeding 10% p.a. on calls in arrears. (NCERT §1.6.1, p. 16)
 - Calls in Advance — amount received before being called; it is a liability of the company shown under "Other current liabilities", not added to paid-up capital. Table F provides interest on calls in advance at a rate not exceeding 12% p.a. (NCERT §1.6.2, p. 18)
 - Over Subscription — applications exceed shares offered. Three options: (i) reject excess applications outright, (ii) make pro-rata allotment to all (excess application money adjusted to allotment), or (iii) combination — reject some outright and pro-rata for the rest. Excess application money on pro-rata allottees is adjusted first to allotment, then to calls in advance, balance refunded. (NCERT §1.6.3, p. 24–26)

- Under Subscription — applications received are less than shares offered; allotment is restricted to applications received, provided minimum subscription is met. (NCERT §1.6.4, p. 30)
- Issue at Premium — when issue price exceeds face value. The excess is credited to Securities Premium Reserve A/c, shown under "Reserves and Surplus". It can be used only for (a) issuing fully paid bonus shares, (b) writing off preliminary expenses, (c) writing off expenses/commission/discount on securities issue, (d) paying premium on redemption of preference shares/debentures, and (e) buy-back of shares. (NCERT §1.6.5, p. 30–31)
- Issue at Discount — a company cannot ordinarily issue shares at a discount. It can do so only in the case of reissue of forfeited shares and issue of sweat equity shares. (NCERT §1.6.6, p. 33)
- Issue of Shares for Consideration other than Cash — number of shares = Amount Payable ÷ Issue Price; may be issued at par, at premium or at discount to vendors of assets. (NCERT §1.6.7, p. 33–34)
- Forfeiture of Shares — for non-payment of allotment money and/or calls, the company cancels the allotment and treats amount already received as forfeited. On forfeiture, Share Capital A/c is debited with the called-up amount; Share Forfeiture A/c is credited with paid-up amount; unpaid calls/allotment are credited. If premium has not been received, Securities Premium Reserve A/c is also debited. Balance of Share Forfeiture A/c is added to paid-up capital under "Share Capital" until shares are reissued. (NCERT §1.7, p. 37–40)
- Reissue of Forfeited Shares — may be reissued at par, premium or discount. Maximum discount on reissue cannot exceed the amount forfeited (already received). Discount on reissue is debited to Share Forfeiture A/c; the balance left in Share Forfeiture A/c relating to reissued shares is capital profit and is transferred to Capital Reserve. Only the proportionate balance relating to shares actually reissued is transferred. (NCERT §1.7.1, p. 49–50)
- ESOP — option granted to employees/employee directors to subscribe to shares at lower than market/fair value at a future date; falls under sweat equity; requires special resolution, completion of at least one year since commencement of business and SEBI compliance if listed. Key terms — Grant, Grant Date, Vesting, Vesting Period, Exercise Price, Value of Option. (NCERT §1.6.7 box, p. 36–37)
- Buy-back of Shares — Sec 68 of Companies Act, 2013 permits a company to buy back its own shares (from existing shareholders proportionately/open market/odd-lot/employees) out of free reserves, securities premium or proceeds of any shares; must not exceed 25% of paid-up capital and free reserves; debt-equity ratio not more than 2:1 after buy-back; shares bought back must be fully paid; completed within 12 months of special resolution. (NCERT §1.7.1 box, p. 55)

2.2 Definitions to memorise

Term	Definition	Page
Authorised Capital	The amount of share capital which a company is authorised to issue by its Memorandum of Association; also called Nominal or Registered capital.	4
Issued Capital	That part of authorised capital actually issued to the public for subscription, including shares allotted to vendors and signatories.	4
Subscribed Capital	That part of issued capital actually subscribed by the public.	4
Called-up Capital	That part of subscribed capital which the company has called on the shares.	4
Paid-up Capital	Called-up capital minus Calls in Arrears — portion actually received from shareholders.	4
Reserve Capital	Uncalled capital that the company decides shall be called only in the event of winding up; available solely for creditors.	5
Preference Share (Sec 43)	A share carrying preferential rights to dividend (fixed amount or fixed rate) and to repayment of capital on winding up.	6
Equity Share (Sec 43)	A share which is not a preference share.	6
Securities Premium	Amount received in excess of the face/nominal value of shares; credited to Securities Premium Reserve.	30
Calls in Arrears	Amount due on allotment/calls remaining unpaid by shareholders; interest @ not exceeding 10% p.a. under Table F.	16
Calls in Advance	Amount received from shareholders in respect of calls not yet made; a liability; interest @ not exceeding 12% p.a. under Table F.	18
Pro-rata Allotment	Proportionate allotment in case of over-subscription; excess application money is adjusted toward allotment/calls in advance.	25
Forfeiture	Cancellation of allotment for non-payment of allotment/call money; amount received is forfeited to the company.	37
OPC (Sec 2(62))	One Person Company — a company with only one member, an Indian citizen resident in India, with paid-up capital up to Rs. 50 lakh and turnover up to Rs. 2 crore.	3
Minimum Subscription	At least 90% of the issued amount per SEBI (DIP) Guidelines, 2000.	8

2.3 Diagrams / processes to remember

- Exhibit 1.1 — pyramid showing Authorised Capital → Issued + Unissued → Subscribed → Subscribed and Fully Paid up + Subscribed but not Fully Paid up. (p. 5)

- Three-alternative scheme for handling over-subscription: outright rejection / pro-rata / combination (refer journal entries in Illustration 7). (p. 24–29)
- Step diagram for share issue: Prospectus → Application + Application Money to Scheduled Bank → Minimum Subscription within 120 days → Allotment → Calls (interval 1 month, \leq 25% face value). (p. 7–8, 12)
- Forfeiture entry skeleton: Share Capital A/c Dr. (called-up) [+ Securities Premium Reserve Dr. if not received] / To Calls in Arrears (or Allotment + Call A/cs) / To Share Forfeiture A/c (amount received). (p. 37–40)
- Reissue entry skeleton: Bank A/c Dr. + Share Forfeiture A/c Dr. (discount) / To Share Capital A/c; then Share Forfeiture A/c Dr. / To Capital Reserve A/c (residual proportional gain). (p. 49–50)

2.4 Common confusions / NTA trap points

- Reserve Capital vs Capital Reserve — Reserve Capital is uncalled capital callable only on winding up; Capital Reserve is created from capital profits (e.g. gain on reissue of forfeited shares). Distractors swap the two.
- Interest rates under Table F — 10% p.a. on Calls in Arrears, 12% p.a. on Calls in Advance. NTA loves to flip these.
- Application money on rejected applications is fully refunded; excess money under pro-rata allotment is adjusted to allotment / calls in advance (not refunded immediately).
- On forfeiture of shares originally issued at a premium, Securities Premium Reserve A/c is debited only if the premium has NOT been received; if already received, it is not reversed.
- Maximum discount on reissue of forfeited shares = amount already forfeited (per share). The residual gain on reissued shares only (not all forfeited shares) goes to Capital Reserve.
- Issue of shares at a discount is generally NOT allowed under the Companies Act; permitted only for reissue of forfeited shares and sweat equity.
- Forfeiture vs Surrender — Forfeiture is initiated by the company; Surrender is by the shareholder. NCERT focuses only on forfeiture (NCERT §1.7, p. 37).
- Pro-rata applicants vs all applicants — Excess application money on rejected applications is refunded; on pro-rata applicants it is adjusted to allotment / calls in advance (NCERT §1.6.3, p. 26).
- ESOP grant vs vesting — Grant is the offer; Vesting is the date the option becomes exercisable; Exercise is when the employee actually buys (NCERT box, p. 36–37).

2.5 Journal entry templates

The full life cycle of an equity share issue requires roughly fifteen distinct journal entries. The templates below cover the most-tested patterns.

(a) Receipt of application money (NCERT § 1.5)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 1	Bank A/cDr.		5,00,000	
	To Share Application A/c			5,00,000
	(Being application money received on 2,50,000 shares @ ₹2 each)			

(b) Transfer of application money on allotted shares to Share Capital (NCERT § 1.5)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 10	Share Application A/cDr.		4,00,000	
	To Share Capital A/c			4,00,000
	(Being application money on 2,00,000 allotted shares transferred to Share Capital)			

(c) Allotment money due, with premium (NCERT § 1.6.5, p. 30)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 15	Share Allotment A/cDr.		10,00,000	
	To Share Capital A/c			6,00,000
	To Securities Premium Reserve A/c			4,00,000
	(Being allotment of ₹5 (incl. ₹2 premium) due on 2,00,000 shares)			

(d) Calls in Advance — Table F @ 12% p.a. (NCERT § 1.6.2, p. 18)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Apr 20	Bank A/cDr.		1,00,000	
	To Calls in Advance A/c			1,00,000
	(Being amount received before being called; shown under Other Current Liabilities)			

(e) Forfeiture of shares — premium not received (NCERT § 1.7, p. 39)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jul 1	Share Capital A/cDr.		1,00,000	
	Securities Premium Reserve A/cDr.		20,000	
	To Share Allotment A/c			60,000
	To Share Forfeiture A/c			60,000
	(Being 1,000 shares forfeited; premium ₹20 per share NOT received → debited)			

(f) Forfeiture of shares — premium already received (NCERT Illus. 11, p. 40)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Jul 1	Share Capital A/cDr.		1,00,000	
	To Final Call A/c			20,000
	To Share Forfeiture A/c			80,000
	(Being 1,000 shares forfeited; premium already received — not reversed)			

(g) Reissue of forfeited shares at a discount (NCERT § 1.7.1, p. 49)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Aug 1	Bank A/cDr.		9,000	
	Share Forfeiture A/cDr.		6,000	
	To Share Capital A/c			15,000
	(Being 150 shares of ₹100 reissued at ₹60 per share)			

(h) Transfer of residual Share Forfeiture balance to Capital Reserve (NCERT § 1.7.1, p. 50)

Date	Particulars	L.F.	Dr. (₹)	Cr. (₹)
Aug 1	Share Forfeiture A/cDr.		4,500	
	To Capital Reserve A/c			4,500
	(Being residual gain on 150 reissued shares — $150 \times ₹70$ forfeited — $150 \times ₹40$ reissue discount — transferred to Capital Reserve)			

Practice MCQs

Q1. According to Chief Justice Marshal, a company is "a person, artificial, invisible, intangible and existing only in the eyes of law." Which feature of a company is BEST captured by this description?

- A. Limited liability
- B. Common seal
- C. Separate legal entity / artificial person
- D. Perpetual succession

Q2. Under Section 2(62) of the Companies Act, 2013, an OPC must satisfy all of the following EXCEPT:

- A. Paid-up share capital not more than Rs. 50 lakh
- B. Average annual turnover of three years not exceeding Rs. 2 crore
- C. Member must be an Indian citizen resident in India
- D. Minimum of two members other than the nominee

Q3. The maximum number of members in a private company (excluding employees) as per the Companies Act, 2013 is:

- A. 50
- B. 100
- C. 200
- D. Unlimited

 **15 more MCQs + answer key**

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PYQ Alignment

This chapter is among the highest-yielding in CUET Accountancy — typically 15–20 MCQs per year, drawn equally from theory (features/kinds of companies, categories of share

capital, types of shares, premium use, Table F rates) and numerical scenarios (pro-rata allotment with calls in advance, forfeiture amounts, capital reserve on reissue). Expect short numerical MCQs requiring forfeiture/reissue computations identical in structure to Illustrations 10, 11, 13, 14, 16, 17 and 20 of the NCERT.

CUET 2025 — Actual PYQs from this chapter

Q.5 (CUET 2025) Directors of Priya Polymer Ltd. forfeited 200 shares of ₹100 each for non-payment of ₹30 per share. Out of these 150 shares were reissued at ₹60 per share. Amount of capital reserve:

- A) ₹4,000 B) ₹4,500 C) ₹5,500 D) ₹5,000 **Tests:** §6 Forfeiture and Reissue of shares — Capital Reserve on reissue of forfeited shares. **Answer:** Not in extracted key

Q.28 (CUET 2025) Minimum subscription relates to: (A) Price of property purchased out of issue proceeds (B) Preliminary expenses payable (C) Working capital (D) Any expenditure required to carry business operations

- A) A & B only B) A, B & C only C) A, B, C & D D) B & C only **Tests:** §3 Minimum Subscription — purposes specified in the prospectus. **Answer:** Not in extracted key

Q.29 (CUET 2025) While issuing share capital without Articles of Association: (A) One month gap between calls (B) Call not exceeding 25% of face value (C) Minimum 7 days notice (D) Calls made uniformly

- A) A, B, C B) A, B, D C) A, B, C, D D) B, C, D **Tests:** §4 Calls on shares — Table F rules where AoA is absent. **Answer:** Not in extracted key

Q.30 (CUET 2025) Securities Premium Account can be used for: (A) Issue of bonus shares (B) Buy-back of shares (C) Write-off preliminary expenses (D) Premium on redemption of debentures

- A) A & D only B) A, B, C & D C) B & C only D) A, C & D only **Tests:** §5 Securities Premium — permitted utilisations under §52 of the Companies Act, 2013. **Answer:** Not in extracted key

Q.34 (CUET 2025) Steps in share issue: (A) Prospectus issued (B) Minimum subscription within 120 days (C) Applications received (D) Letters of allotment

- A) (A),(B),(C),(D) B) (A),(C),(B),(D) C) (B),(A),(D),(C) D) (C),(B),(D),(A) **Tests:** §3 Procedure for issue of shares — application → allotment sequence. **Answer:** Not in extracted key

Q.41 (CUET 2025) Minimum subscription refers to the minimum amount required to meet:

- A) Preliminary expenses only B) Purchase of property only C) Working capital requirements D) All of the above **Tests:** §3 Minimum Subscription — combined purposes. **Answer:** Not in extracted key

Q.42 (CUET 2025) In absence of Articles of Association, maximum amount of a call should not exceed:

- A) 10% of face value B) 20% of face value C) 25% of face value D) 50% of face value

Tests: §4 Calls — Table F maximum call percentage. **Answer:** Not in extracted key

Q.43 (CUET 2025) The interval between two calls should be at least:

- A) 7 days B) 14 days C) 1 month D) 3 months

Tests: §4 Calls — minimum gap between successive calls under Table F. **Answer:** Not in extracted key

CUET 2023 — Actual PYQs from this chapter

Q.30 (CUET 2023) Correct sequence of issue of shares: (A) Receipt of applications (B) Issue of prospectus (C) Allotment of shares (D) Making call money due (E) Receiving call money

- A) A, B, C, D, E B) B, A, C, D, E C) B, C, D, A, E D) B, D, A, C, E
- Tests: §3 Procedure for issue of shares — prospectus → application → allotment → call. **Answer:** Not in extracted key

Q.36 (CUET 2023) Match List-I with List-II on share issue thresholds (application money %, max call %, minimum subscription %, interest on calls-in-arrears).

- A) (A)-(IV), (B)-(I), (C)-(II), (D)-(III) B) (A)-(III), (B)-(II), (C)-(IV), (D)-(I) C) (A)-(IV), (B)-(III), (C)-(I), (D)-(II) D) (A)-(III), (B)-(I), (C)-(IV), (D)-(II)
- Tests: §3 / §4 — statutory thresholds and Table F percentages on share issue. **Answer:** Not in extracted key

Q.37 (CUET 2023) Match: (A) Authorised Capital → (II) Maximum capital company can raise; (B) Reserve Capital → (I) Portion of uncalled capital called at winding up; (C) Issued Capital → (III) Capital issued to public; (D) Subscribed but not fully paid → (IV) Amount called up but not fully received.

- A) (A)-(II),(B)-(I),(C)-(III),(D)-(IV) B) (A)-(I),(B)-(IV),(C)-(II),(D)-(III) C) (A)-(IV),(B)-(II),(C)-(I),(D)-(III) D) (A)-(II),(B)-(III),(C)-(I),(D)-(IV)
- Tests: §2 Categories of Share Capital — Authorised/Issued/Subscribed/Called-up/Reserve. **Answer:** Not in extracted key

Q.40 (CUET 2023) Match: (A) Over-subscription → (II) Applications > shares issued; (B) Minimum subscription → (I) Minimum amount to be raised; (C) Under-subscription → (IV) Applications < shares issued; (D) Private placement → (III) Allotment without prospectus.

- A) A-II, B-I, C-IV, D-III B) A-I, B-II, C-IV, D-III C) A-II, B-I, C-III, D-IV D) A-II, B-III, C-I, D-IV

Tests: §3 Over-/Under-subscription, Minimum Subscription, Private Placement.

Answer: Not in extracted key