

Chapter 9

JOINT STOCK COMPANY-II ISSUANCE OF SHARES AND DEBENTURES

مشترکہ سرمایہ کی انجمن - II (حصص اور تمسکات کا اجراء)

Shares: حصص

The registered capital of a company is divided into fixed number of units. Each of these units is known as a Share. The company issues these shares in order to raise its capital.

تفویض شدہ سرمایہ کو مقررہ اکائیوں میں تقسیم کیا جاتا ہے ہر ایک اکائی کو حصہ کہا جاتا ہے۔ کمپنی سرمایہ کے حصول کے لئے ان حصص کو جاری کرتی ہے۔

Kinds of Shares: حصص کی اقسام

The shares of a company are of the following types:

کمپنی کے حصص کی درج ذیل اقسام ہیں:

- | | | |
|-------|-------------------|-------------|
| (i) | Ordinary Shares | عام حصص |
| (ii) | Preference Shares | ترجیحی حصص |
| (iii) | Deferred Shares. | التوائی حصص |

(i) Ordinary or Common or Equity Shares: عام معمولی یا مالیتی حصص

Ordinary shares are those the holder of which does not enjoy a fixed rate of dividend. They get dividend after preference share-holders are satisfied. They do not get any dividend if no surplus of profit is left after the preference share-holders are paid off. Ordinary shares are also called Common Shares or Equity Shares.

عام حصص سے مراد وہ حصص ہیں جن پر کوئی مقررہ شرح منافع نہیں ہوتا۔ ان کو ترجیحی حصص کے منافع کی ادائیگی کے بعد منافع دیا جاتا ہے۔ ترجیحی حصص کو منافع دینے کے بعد باقی منافع نہ بچنے کی صورت میں یہ کسی منافع کے حق دار نہیں ہوتے ان حصص کو عام حصص یا مالیتی حصص بھی کہا جاتا ہے۔

(ii) Preference Shares: ترجیحی حصص

Preference shares are those the holders of which enjoy a fixed 'dividend'. They enjoy the preference in the receipt of dividend and repayment of capital. They get dividend

before the ordinary share-holders are paid any dividend.

ترجیحی حصص سے مراد وہ حصہ داران ہیں جن کو ایک مقررہ منافع دیا جاتا ہے۔ ان کو منافع اور سرمایہ کی واپسی کے لیے دیگر حصہ داران پر ترجیح دی جاتی ہے۔ عام حصہ داران کو منافع ادا کرنے سے پہلے ان کا مقررہ منافع ادا کیا جاتا ہے۔

Preference shares are divided into the following classes:

- (a) Cumulative preference shares
- (b) Non-cumulative preference shares
- (c) Participating preference shares
- (d) Redeemable preference shares
- (e) Irredeemable preference shares.

(a) **Cumulative Preference Shares:** مجموعی ترجیحی حصص

These are the shares on which a fixed rate of dividend for each year is payable out of current or future profit. If the profit in any one year or a series of years is not sufficient to pay, such dividend accumulates and must be paid out of profit available in any succeeding year before the other share-holders can rank for dividend.

ان حصص پر مقررہ شرح منافع سالانہ کی بنیاد پر واجب الادا ہوتا ہے خواہ اسے موجودہ یا آنے والے سالوں کے منافع سے ادا کیا جائے۔ اگر کسی سال یا کئی سالوں میں ہونے والا منافع ناکافی ہو تا ہے یہ اس کی ادائیگی اکٹھی ہوتی رہتی ہے جسے مستقبل کے منافع میں سے ہر حال میں دیگر حصہ داران سے پہلے ادا کرنا ضروری ہوتا ہے۔

(b) **Non-cumulative Preference Shares:** غیر مجموعی ترجیحی حصص

The shares on which a fixed rate of dividend is payable only out of the profit of each year are known as non-cumulative preference shares. If the profit of any year is insufficient to pay the dividend no arrears of dividend is carried forward to the succeeding year.

ایسے حصص جن پر مقررہ شرح منافع سالانہ منافع میں سے ادا کرنا ہوتا ہے بشرطیکہ کمپنی نے قابل ادائیگی منافع کیا ہو۔ اگر کسی سال منافع ہونے کی وجہ سے ان حصہ داران میں منافع تقسیم نہ کیا گیا ہو تو آنے والے سالوں میں اس کی ادائیگی کی ذمہ داری نہیں ہوتی دوسرے لفظوں میں کسی سال بھٹایا / سابقہ منافع ادا نہیں کیا جاتا۔

(c) **Participating Preference Shares:** شریک ترجیحی حصص

Participating preference shares are those which give the holders in addition to fixed dividend a right to share in the surplus profits after all other share-holders have — received a specified rate of dividend.

یہ ایسے حصص ہوتے ہیں جن کو مقررہ شرح منافع کے علاوہ تمام دیگر حصہ داران کو منافع ادا کرنے کے بعد بچ جانے والے منافع میں بھی حصہ دیا جاتا ہے۔

(d) **Redeemable Preference Shares:** قابل واپسی ترجیحی حصص

The holders of these shares are, at the option of the company or after a fixed period, paid back the entire capital contributed by them.

یہ ایسے حصہ داران ہوتے ہیں جن کو ان کا تمام سرمایہ ایک مقررہ مدت یا کمپنی کی خواہش کے مطابق واپس کیا جاسکتا ہے۔

(e) **Irredeemable Preference Shares:** ناقابل واپسی ترجیحی حصص

The amount of these shares is not paid during the existence of the company. It means that these shares are only redeemable after the winding up of the company.

ان حصص میں لگایا گیا سرمایہ کمپنی کے ختم ہونے سے پہلے واپس نہیں کیا جاتا۔

(iii) **Deferred Shares:** اخراجی حصص

These shares are generally issued to the founders/promoters of the company in consideration of the services rendered by them. These shares are called deferred shares because the dividend on these shares is paid after all other classes of shareholders have been fully satisfied. These shares are also termed as founders' shares.

یہ حصص عموماً بانی ممبران کی خدمات کے صلے میں جاری کیے جاتے ہیں۔ ان حصص داران کو دیگر تمام حصص داران کو منافع ادا کرنے کے بعد ہی منافع دیا جاتا ہے۔ انہیں بانی حصص بھی کہا جاتا ہے۔

According to Section-90, Sub-section (1) of Pakistan Companies Ordinance, 1984; a company limited by shares shall have only ordinary share capital which may be sub-divided into different classes.

Provided that this Sub-section shall not apply to preference shares issued before the commencement of Companies Ordinance.

PROCEDURE FOR ISSUE OF SHARES

حصص کے اجراء کا طریقہ

The directors on behalf of the company take necessary steps to raise the capital as soon as the company gets the certificate of incorporation. These steps, are briefly, described below:

کمپنی کے کاروبار شروع کرنے کے سرٹیفکیٹ کے حصول کے فوراً بعد کمپنی کے نمائندہ کے طور پر کمپنی کے ڈائریکٹرز سرمایہ کے حصول کے لئے ضروری اقدام اٹھاتے ہیں ان اقدام کو مختصر آئین کیا جاتا ہے۔

1. The directors of a public limited company issue prospectus inviting the public to apply for the purchase of the shares of the company.

کمپنی کے ڈائریکٹرز عام پبلک کو کمپنی کے حصص کی خریداری کے لئے مدعو کرتے ہوئے ان سے درخواستیں وصول کرتے ہیں۔

2. The prospective share-holders apply for the purchase of shares on the prescribed form.

متوقع حصص داران کمپنی کے مطلوبہ فارم پر حصص کی خریداری کے لئے درخواستیں گزارتے ہیں۔

3. The applications alongwith a specified amount are submitted to the company's banker by the prescribed date. After the closing date the banker sends these applications to the directors of the company.

معیّن رقم کے ساتھ / معیّن تاریخ تک کمپنی کے بینک میں درخواستیں جمع کروائی جاتی ہیں۔ اختتامی تاریخ کے بعد بینک ان درخواستوں کو ڈائریکٹرز کمپنی کے پاس بھیج دیتا ہے۔

ڈائریکٹرز ان درخواستوں کی چھانٹ چک کے بعد اگر درخواستیں جاری کردہ سرمایہ کی مالیت تک ہوتی ہیں تو ڈائریکٹرز تمام درخواست دہندوں کو حصص بخش کر دیتے ہیں۔

4. The directors scrutinize the applications. If the subscription is within the issued capital, the directors allot shares to all the applicants. The applicants are informed about the allotment of the shares by the letter called as; "allotment letter". The applicants become the share-holders of the company as soon as they get letter of allotment from the directors of the company.

ڈائریکٹر تفویض شدہ خط کے ذریعے درخواست دہندوں کے حصص تفویض کرنے کی اطلاع کرتا ہے۔ کمپنی کی طرف سے جاری کردہ حصص کی تفویض کرنے کے بارے میں خط کی وصولی کے فوراً بعد درخواست دہندہ حصہ دار بن جاتے ہیں۔ اگر درخواستیں جاری شدہ سرمایہ سے زیادہ وصول ہو جاتی ہیں تو زائد رقم قوانین کمپنی میں درج شدہ طریقہ کار کے مطابق واپس کر دی جاتی ہے۔

5. The directors may reject some applications. In that case the company issues letters of regret to those applicants. The bank is directed to return the money to these applicants. According to the Companies Ordinance, 1984, the money should be refunded within ten days of the date of decision regarding rejection of shares.

ڈائریکٹر درخواستیں مسترد بھی کر سکتے ہیں اس صورت میں کمپنی کی طرف سے درخواست دہندوں کو معذرت کا خط لکھا جاتا ہے۔ اور بینک کو رقم کی واپسی کی ہدایت جاری کر دی جاتی ہے۔ کمپنی آرڈیننس 1984 کے مطابق مسترد کی جانے والی درخواستوں کی رقم اس فیصلہ کے دس دن کے اندر واپس کرنا ہوتی ہے۔

6. If the directors of the company do not want to take the risk of issuing shares, then they transfer the risk to specialized persons known as under-writers. The under-writers in exchange of certain commission take the responsibility of issuing or taking up themselves the shares which can not be sold in the market.

اگر کمپنی کے ڈائریکٹر کمپنی کے حصص کے اجراء کا خطرہ مول نہیں لینا چاہتے تو اس صورت میں ضامنوں کو یہ Risk ٹرانسفر کر دیا جاتا ہے۔ ضامن کمیشن کے بدلے میں حصص کی فروخت کی ذمہ داری قبول کرتے ہیں اور مارکیٹ میں فروخت نہ ہونے والے حصص خود خرید لیتے ہیں۔

Sale Price of Shares: حصص کی قیمت فروخت

Shares can be issued at the following three prices:

حصص کو درج ذیل 3 قیمتوں پر جاری کیا جاسکتا ہے۔

- (a) At Par. (درج شدہ قیمت)

If the shares are issued at price equal to the nominal value or face value of the shares, it is called issue of shares at par. For instance a share of Rs. 10/- is issued at Rs. 10/-.

اگر حصص کو نامیاتی قیمت یا اس پر درج شدہ قیمت پر جاری کیا جائے تو اسے Share At Par کا اجراء کہتے ہیں۔ مثلاً 10 روپے کا حصہ 10 میں ہی فروخت کیا جاتا ہے۔

- (b) At Premium: منافع پر

If the shares are issued at price above the nominal value or face value of the shares; it is called issue of shares at premium. For example a share of Rs. 10 issued at Rs. 12/-, Rs. 2/- is premium on the issue of shares.

اگر حصص کو ان پر درج شدہ قیمت یا نامی قیمت سے زیادہ قیمت پر جاری کیا جاتا ہے تو اسے حصص کا زیادہ قیمت پر اجراء کہتے ہیں۔ مثال کے طور پر 10 روپے قیمت کا حصہ 12 روپے میں بیجا جاتا ہے تو 2 روپے Premium کہلائے گا۔

(c) **At Discount:** (تھمان پر)

If the shares are issued at a price less than the face value, it is called issue of shares at discount. For instance a share of Rs. 10/- issued at Rs. 8/- each, here Rs.2/- is discount.

اگر حصص کو درج شدہ قیمت سے کم قیمت پر بیجا جائے تو اسے حصص کا کم قیمت پر اجراء کہا جائے گا۔ مثال کے طور پر 10 روپے کا حصہ 8 روپے میں فروخت کیا جاتا ہے تو 2 روپے Discount کہلائے گا۔

Payment of Shares: حصص کی ادائیگی

Company Act 2017 does not allow installment payment, all the amount will be payable on receipt of applications.

یعنی ایکٹ 2017 حصص کی ادائیگی میں فروخت کی اجازت نہیں دیتا۔ تمام کی تمام رقم درخواستوں کی وصولی کے ساتھ ہی وصول کی جائے گی۔

Lump-sum Payment: یکمشت ادائیگی

Lump sum payment of shares means 'that the amount payable on application of each share shall be the full nominal amount of the shares.'

According to Sub-Section-4 of Section 68 of Pakistan Companies Act, 2017, the shares can be issued payable in full on application.

یکمشت Share کی ادائیگی سے مراد حصص کی کل رقم درخواستوں کے ساتھ ادائیگی Lump-Sum-Payment کہلاتی ہے۔

پاکستان کمپنی ایکٹ 2017 کے سیکشن 68 کے Sub سیکشن 4 کے مطابق حصص کی رقم کی ادائیگی درخواستوں کے ساتھ لازمی ہے۔

Accounting Entries

A If shares are issued to the directors or under-writers and amount is received in lump sum, the accounting entry would be;

Bank Dr.
Share Capital Cr.

B If the shares are issued to the public after the receipt of application money through bank, the accounting entry would be

(i) **On receipt of applications.**

Bank Dr.
Share application Cr.

(ii) **On allotment of shares.**

Share ApplicationDr.

Share Capital Cr.

C If shares are issued for the services rendered by the promoters for the formation of the company, the Journal entry would be:

Preliminary expenses Dr.

Share CapitalCr.

Illustration No. 1

Moon Sugar Mills Limited was formed with a nominal capital of Rs. 50,000 divided into 5,000 ordinary shares of Rs. 10 each. On 1st April, 2014 it issued 2,000 shares as fully paid to directors and the remaining 3,000 shares were offered to the public for subscription. The amount along with application was paid on 10th April, 2014.

Required: (i) Pass the Journal entries in the books of the company.

(ii) Draft a Balance Sheet.

Solution:

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
2014	Bank		20,000	
April -1	Share capital (Issued 2,000 shares to directors)			20,000
April -10	Bank		30,000	
	Share application (Received applications for 3,000 shares)			30,000
	Shares application Share capital (Allotted 3,000 shares)		30,000	30,000

MOON SUGAR MILLS LIMITED
Balance Sheet as 10th April 2014

Assets	Amount	Equities	Amount
Current Assets:			
Bank	50,000	Registered capital: 5,000 shares of Rs. 10 each	50,000
		Issued and subscribed capital 5,000 shares of Rs. 10 each	50,000
		paid-up capital: 5,000 shares of Rs. 10 each.	50,000
	50,000		50,000

Illustration No. 2

A limited company was registered with a capital of Rs. 30,00,000 divided into 30,000 shares of Rs. 100 each. On 1st September, 2014, 3,000 shares were issued to promoters in connection with their services, the remaining shares were offered to the general public for subscription. Applications were received for 20,000 shares on 10th September, 2014. These shares were allotted on 18th September, 2014.

Required: Record the journal entries and prepare the Balance Sheet.

Solution:

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
2014	Preliminary expenses		30,000	
Sep -1	Share capital (3,000 shares issued to promoters)			30,000
Sep- 10	Bank Share application (Received applications for 20,000 shares)		200,000	200,000
Setp-18	Shares application Share capital (Allotted 20,000 shares).		200,000	200,000

Balance Sheet as at 18th September 2014

Assets	Amount	Equities	Amount
Current Assets:		Registered capital:	
Bank	20,00,000	30,000 shares of Rs.100 each	30,00,000
Preliminary expenses	3,00,000	Issued and subscribed capital	
		3000 shares issued for consideration other than cash	3,00,000
		20,000 shares of Rs. 10 each for cash	2,00,000
		Called up and paid-up capital:	
		3,000 shares of Rs. 10 each.	
		Issued as fully paid for consideration other than cash	3,00,000
		20,000 shares of Rs. 10 each issued for cash	20,00,000
	23,00,000		23,00,000

Illustration No. 3

Aziz Corporation Limited was formed with a Capital of 10,000 shares of Rs. 50 each. It issued 2,500 shares as fully paid to the directors on 10th March, 2014. The remaining 7,500 shares were offered to the public. The full amount was called with application. The applications were received for 7,000 shares on 14th April. These shares were allotted on 26th April, 2006. The remaining shares were taken by the under-writers on 28th April.

Required: Make the necessary Journal entries in the book of the corporation.

Solution:

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
2014	Bank		1,25,000	
March- 10	Share capital (Issued 2,500 shares to directors)			1,25,000
April - 14	Bank Share application (Applications received for 7,000 shares)		3,50,000	3,50,000
April - 26	Shares application Share capital (Share allotted to public)		3,50,000	3,50,000
April - 28	Bank Share capital (500 shares issued to under-writers)		25,000	25,000

OVER SUBSCRIPTION OF SHARES

If shares are applied for more than the issued, the shares are said to be over-subscribed. The amount of over-subscription will be refunded in full:

The accounting entry for refund will be:

Share application Dr.

Bank Cr.

Illustration No. 4

Moon Textile Mills Limited was formed with a nominal capital of Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each. On 1st January, 2014 it offered 6,000 shares as fully paid for subscription. Applications were received for 7,500 shares on 10th January 2014. The directors refunded the oversubscribed money and issued letter of allotment on 14th January.

Required: (i) Pass the Journal Entries in the books of the company.

(ii) Draft a Balance sheet.

Solution:

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
2014	Bank		7,50,000	
Jan - 10	Share application (Received applications for 7500 shares)			7,50,000
Jan. -14	Share application • Bank (Refunded over-subscribed money)		1,50,000	1,50,000

Shares application Share capital (Allotted 6,000 shares)	600,000	600,000
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MOON TEXTILE MILLS LTD
Balance Sheet as at 14th January 2014

Assets	Amount	Equities	Amount
Bank	6,00,000	Registered capital:	
		10,000 shares of Rs. 100 each	1,000,000
		Issued and subscribed capital	
		6,000 shares of Rs. 100 each	6,00,000
		Called up & paid up capital	
		6,000 shares of Rs. 100 each	6,00,000
	6,00,000		6,00,000

Subsequent Issuance of Shares

First time company issue share to raise its capital to met the least limit of maximum subscription in order to get the certificate of commencement of business. After, obtaining the certificate of commencement of business for registrar of joint stock company, the company is said to be in business and director came into confidence. After that when company needs more money, he may issue subsequent shares:

- (1) At par
- (2) At premium
- (3) At discount

ISSUE OF SHARES AT A PREMIUM

حصص کا منافع پر اجراء

Sometimes a company issues its shares at a premium, that is to say, at a higher price than the face value, provided there is a public demand for such shares at a higher value. The premium received on issue of shares must not be mixed with the share capital, but must be credited to separate account called "Share Premium Account" and shown as separate item on the liability side of the Balance Sheet.

بعض اوقات کمپنی حصص کو درج شدہ قیمت سے حصص کو زائد قیمت پر بیچتی ہے۔ بشرطیکہ پبلک کی طرف سے زائد قیمت پر خریدنے کی طلب موجود ہو۔ حصص کی فروخت پر پریمیم سے حاصل ہونے والی رقم کو Share Capital میں شامل نہیں کیا جاتا ہے۔ بلکہ اسے ایک علیحدہ (Share Premium Account) (Account) میں Credit کیا جاتا ہے جو Balance Sheet میں Liability کے طور پر ظاہر کیا جائے گا۔

Accounting Entries:

- A If shares are issued to the directors or underwriters at a premium and amount is received in lump sum.

Bank Dr.
Share capital Cr.
Share premium Cr.

B If shares are issued at a premium to the public after the receipt of application money through bank:

(i) On receipt of applications:

Bank Dr.
Share application Cr.

(ii) On allotment of shares:

Share application Dr.
Share capital Cr.
Share premium Cr.

Illustration No. 5:

Ali Chemical Limited having an authorised capital of Rs. 5,00,000 divided into 50000 shares of Rs. 10 each, issued 15000 shares to the directors and 25000 shares to the general public at a premium of Re. 2/- per share. Subscription were received in full and these shares were allotted.

Required: Give Journal entries and Balance Sheet of the company.

Solution:

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
	Bank		1,80,000	
	Share capital			1,50,000
	Share premium			30,000
	(15000 shares to directors at a premium)			
	Bank		3,00,000	
	Share application			3,00,000
	(Received applications for 25000 shares)			
	Shares application		3,00,000	
	Share capital			2,50,000
	Share premium			50,000
	(Shares allotted at premium)			

Ali CHEMICAL LIMITED
Balance Sheet as on _____

Assets	Amount	Equities	Amount
Bank	4,80,000	Registered capital:	
		50000 shares of Rs. 10 each	5,00,000
		subscribed and paid up capital	
		15000 shares of Rs. 10 each	150000
		Issued to directions:	
		25000 shares to public	250,000
		Share premium	80,000
	4,80,000		4,80,000

ISSUE OF SHARES AT A DISCOUNT

حصص کا نقصان پر اجراء

The shares may also be issued at a discount, that is to say at a price less than the face value. According to Section-84 of the Pakistan Companies Act, 2017, it shall be lawful for a company to issue shares at a discount, provided that:

حصص کو Discount پر بھی فروخت کیا جاسکتا ہے۔ جس کا مطلب حصہ پر درج شدہ قیمت سے کم قیمت پر فروخت کرنا ہے۔ کمپنی ایکٹ 2017 کی شق 84 کے مطابق کمپنی قانونی طور پر حصص کو کم قیمت پر فروخت کرنے کی مجاز ہوتی ہے بشرطیکہ:

(a) The issue of the shares at a discount must be authorised by resolution passed in the general meeting of the company and must be sanctioned by the authority;

کمپنی کے جنرل اجلاس میں اسے کم قیمت پر حصص فروخت کرنے کی اجازت دی جائے اور مجاز اتھارٹی اس کی منظوری دے۔

(b) The resolution must specify the maximum rate of discount, not exceeding 10 percent or a higher rate fixed by the authority, at which shares are to be issued:

قرارداد میں زیادہ سے زیادہ شرح Discount واضح ہونا چاہیے جو کہ 10 فی صد یا مجاز اتھارٹی کی طے شدہ شرح سے زائد نہیں ہونا چاہیے۔

(c) Not less than one year must at the date of issue have elapsed since the date on which the company was entitled to commence business, and;

اس تاریخ سے جس دن کمپنی کو کاروبار کرنے کی اجازت دی گئی تھی حصص کے اجراء کی تاریخ کو گزرے ہوئے ایک سال سے کم کا عرصہ نہ ہوا ہو۔

(d) The shares to be issued at a discount must be issued within sixty days after the date on which the issue is sanctioned by the authority or within such extended time as the authority may allow;

مجاز اتھارٹی کی طرف سے حصص کو Discount پر بیچنے کی منظوری کے 60 دن یا اتھارٹی کی طرف سے توسیع شدہ تاریخ کے اندر اندر حصص کو Discount پر جاری ہونا چاہیے۔

Discount on issue of shares should not be mixed with the share capital, but should be debited to a separate account called "Share Discount Account" and shown as separate item on the asset side of the Balance Sheet.

حصص کا Discount پر اجراء Share Capital کے ساتھ شامل نہیں ہونا چاہیے بلکہ اسے علیحدہ اکاؤنٹ "Share Discount Account" کے تحت ظاہر کیا جانا چاہئے۔

Discount Account "Debit کر کے Balance Sheet میں Assets سائڈ پر ایک علیحدہ عنوان "Discount on Shares" کے تحت ظاہر کیا جانا چاہئے۔

Accounting Entries:

(a) If shares are issued to the directors or under-writers at a discount.

Bank Dr.

Discount on shares Dr.

Share Capital Cr.

(Shares issued at discount to the directors/underwriters)

(b) If shares are issued at a discount to the general public.

(i) On receipt of applications

Bank Dr.

Share application Cr.

(money received on application)

(ii) *On allotment of shares*

Share application.....Dr.

Discount on shares.....Dr.

Share capital..... Cr.

(Application amount transferred to share capital.)

(c) If shares are issued at a discount to the promoters in consideration of their services:

Preliminary expenses.....Dr.

Discount on shares.....Dr.

Share capital..... Cr.

(Shares issued to promoters for services)

Illustration No. 6

Zahid Limited with an authorised capital of Rs. 4,00,000 divided into 4,000 shares of Rs. 100 each has taken necessary steps to issue 3,000 shares at discount of 10%, out of these 500 shares were issued to directors on 25th March, 2014 and 2,500 to the general public. Applications were received for 2,000 shares on 1st April, 2014. The directors allotted these shares on 10th April, 2014.

Required: Record the Journal entries and prepare the Balance Sheet.

Solution:-

Journal Entries

Date	Description	PR.	Amount	
			Dr.	Cr.
2014				
March -25	Bank Discount on share Share capital (Issued 500 shares to directors at a discount)		45000 5000	50000
April - 1	Bank Share application (Received applications for 2000 shares)		180000	18000
April - 10	Shares application Discount on shares Share capital (Allotted 2000 shares to public)		180000 20000	20000

ALL CHEMICAL LIMITED

Balance Sheet as at 10th April 2014

Assets	Amount	Equities	Amount
Bank	2,25,000	Registered capital:	
Discount on shares (2500 + 10,000)	25,000	4000 shares of Rs. 100 each	4,00,000
		Issued capital:	
		3000 shares of Rs. 100 each	3,00,000
		Subscribed capital:	

	2500 shares of Rs. 100 each	2,50,000
	Paid-up capital:	
	2500 shares of Rs. 100 each	2,50,000
2,50,000		2,50,000

PURCHASING A RUNNING BUSINESS

چلتے ہوئے کاروبار کی خرید

Sometimes a running business is purchased by the corporation. Following terms are used in this connection.

بعض اوقات مشترکہ سرمایہ کی انجمن کسی چلتے ہوئے کاروبار کو خرید کرتی ہے اس سلسلہ میں درج ذیل اصطلاحات استعمال ہوتی ہیں۔

(i) **Vendor:** The person who sells the business is called the vendor.

جو شخص کاروبار کو فروخت کرتا ہے اسے Vendor کہا جاتا ہے۔

(ii) **Purchase consideration:** The amount paid for the purchase of the business is called as "Purchase Consideration". The purchase consideration is paid partly in cash and partly in shares.

کاروبار کے خریدنے کے بدلے میں دی جانے والی مالیت یا رقم کو Purchase Consideration کہتے ہیں جسے جزوی طور پر نقدی اور حصص کی شکل میں ادا کیا جاتا ہے۔

(iii) **Good-will:** The excess amount of the purchase consideration over the agreed value of the net assets acquired to be considered as good-will.

Capital profit/Capital reserves: If the purchase consideration is less than the agreed net value of the assets acquired it will be considered as "Capital Profit/Capital Reserve". For example the agreed value of assets is Rs.45,000 and liabilities Rs. 15,000. The net value of assets, therefore is Rs. 30,000. If the purchase consideration is Rs. 40,000, the excess of Rs. 10,000 will be considered as Good-will. If on the other hand the purchase consideration is Rs. 25,000, the difference i.e.5000 will be considered as Capital Profit or Capital Reserve.

Purchase Consideration کی رقم خالص اثاثہ جات کی طے شدہ رقم سے جتنی زیادہ ہوگی وہ Goodwill تصور کی جائے گی اور اگر خالص اثاثہ جات کی طے شدہ رقم سے Purchase Consideration کم ہو تو اس کی Capital Profit یا Capital Reserve تصور کیا جائے گا۔

مثال کے طور پر اثاثہ جات کی طے شدہ رقم 45,000 ادا لگیاں 15,000 ہوں تو اثاثہ جات کی خالص مالیت 30,000 ہوگی۔ اگر کاروبار کو 40,000 میں خرید کیا جائے تو جو = 10,000 / زائد رقم ہے اسے Goodwill کہا جائے گا۔ اگر کاروبار کی قیمت 25,000 ہو تو 5000 کی کمی کو Capital Profit یا Capital Reserve تصور کیا جائے گا۔

(v) **Net worth:** net worth means the net value of business. It is calculated by deducting the liabilities from assets taken over.

Net worth may be calculated with the help of the following formula

networth = assets taken over-liabilities accepted.

کاروبار کی اصل مالیت کا کاروبار کی Net Worth کہلاتی ہے اسے اثاثہ جات میں سے ادا لگیوں کو منہا کر کے معلوم کیا جاتا ہے۔ درج ذیل طریقے سے معلوم کی جاسکتی ہے۔

Net Worth = قابل قبول ادا لگیوں کی مالیت - خرید کردہ اثاثہ جات

Entries in the Books of the Purchasing Corporation:

The following entries are passed in the books of the purchasing corporation.

All assets..... Dr.	With agreed value of assets.
All liabilities..... Cr.	With agreed values of liabilities
Share capital Cr.	With purchase consideration.

Explanatory Note

- (i) If the purchase consideration is more than the value of net assets the difference will be debited to good-will.
- (ii) If the purchase consideration is less than the value of net assets the difference will be credited to capital reserve.

Issue of Shares for Consideration of Purchase Price:

The directors of the company may issue some shares in consideration of purchase price. In such case the entry would be:

Vendors..... Dr.	
Share Capital..... Cr.	

Sometimes the purchase consideration is paid partly in cash and partly in the shape of shares. In such cases the entry would be:

Vendors..... Dr.	
Share Capital..... Cr.	
Cash..... Cr.	

Illustration No. 7

Habib Corporation Limited purchased building worth Rs. 80,000 and machinery Rs. 30,000 from Noor & Company. Habib Corporation paid a cheque of Rs. 10,000 and the balance in 1,000 shares of Rs. 100 each fully paid. Record the journal entry in the books of Habib Corporation.

Solution:**Journal Entries**

Date	Description	Amount	
		Dr.	Cr.
	Building Machinery Vendors (Noor & Co.) (Building and machinery purchased from Noor & Co.)	80,000 30,000	1,10,000
	Vendors (Noor & Co.) Share capital Bank (Payment made to Noor & Co.)	1,10,000	1,00,000 10,000

Illustration No. 8

Sohrab Corporation Limited acquired the running business of Rustam & Sons on the basis of the following balance sheet.:

Assets	Amount	Equities	Amount
Accounts receivable	10,000	Accounts payable	12,000

Furniture	24,000	Bank loan	19,000
Plant	25,000	Capital	35,000
Cash at bank	7,000		
	66,000		65,000

The vendors were to be paid Rs. 40,000 in full satisfaction of the purchase price in 2,000 shares of Rs. 15 each and the balance in the form of cheque.

Required: Pass the entries in the books of the corporation assuming that the purchase price was paid in full.

Solution:

Journal Entries

Date	Description	Amount	
		Dr.	Cr.
	Accounts receivable	10,000	
	Furniture	24,000	
	Plant	25,000	
	Cash at bank	7,000	
	Goodwill (w-1)	5,000	
	Accounts payable		12,000
	Bank Loan		19,000
	Vendors' (Rustam & Sons)		40,000
	(Being the various assets and liabilities taken over)		
	Vendors (Rustam & Sons)	40,000	
	Share capital		30,000
	Bank		10,000
	(Being the discharge of the purchase price as per agreement)		

Working (w-1) Calculation of Goodwill

Purchase price	= Rs. 40,000
Less: Capital of vendor	= <u>Rs. 35,000</u>
Good will	<u>Rs. 15,000</u>

Illustration No. 9

Kalim Corporation Limited, acquired pipe business of Fida & Sons. The agreed value of the assets and liabilities which are acquired by Kalim Corporation Limited was as under:

Assets	Amount	Equities	Amount
Building	80,000	Bank overdraft	25,000
Furniture	30,000	Account payable	10,000
Plant	20,000		
Good-will	20,000		

Kalim Corporation Limited issued 10,000 shares of Rs. 10 each in full settlement of purchase consideration.

Required: Make Journal entries in the books of Kalim Corporation.

Solution:

Date	Description	Debit	Credit
	Building	80,000	
	Furniture	30,000	
	Plant	20,000	
	Good-will	20,000	
	Bank overdraft		25,000
	Account Payable:		10,000
	Vendors (Fida and Sons) (w-1)		1,15,000
	(Purchased business of Fida and Sons)		
	Vendors (Fida and Sons)	1,15,000	
	Share Capital		100,000
	Share Premium (w-2)		15,000
	(Shares issued at a premium for purchase consideration)		

Working

(w-1) Calculation of purchase price

Assets taken over

Building	Rs. 80,000	
Furniture	Rs. 30,000	
Plant	Rs. 20,000	
Good-Will	Rs. 20,000	
Total assets taken over		Rs. 1,50,000
Less: Liabilities taken over		
Bank overdraft	Rs. 25,000	
Accounts payable	Rs. 10,000	
Total liabilities taken over		Rs. 35,000
Purchase price		<u>Rs. 1,15,000</u>

(w-2) Calculation of Premium

$$\begin{aligned} \text{Purchase Price} &= \text{Rs. 1,15,000 (w-1)} \\ &\quad \text{Rs. 1,00,000 (100 \times 10)} \\ &\quad \text{15,000} \end{aligned}$$

Less: 10,000 shares of Rs10 issued to vender Rs.100,000

Share Premium Rs.15,000

Illustration No. 10:

Madina Flour Mills Limited purchased the business of Ahmed and Bros. at the book value as under:

Assets	Amount	Equities	Amount
Plant and machinery	35,000	Notes payable	5,000
Accounts receivable	15,000	Bank loan	5,000
Furniture	12,000	Capital Reserve	2,000
Land	7,000		

Madina Flour Mills Limited paid cash Rs. 7,000 and issued 550 shares of Rs. 100 each for full satisfaction of the purchase consideration.

Required: Pass Journal entries in the books of Madina Flour Mills Limited.

Solution:

Date	Description	Debit	Credit
	Plant and machinery	35,000	
	Account Receivable	15,000	
	Furniture	12,000	
	Land	7,000	
	Capital Reserve		2,000
	Notes payable		5,000
	Bank Loan		5,000
	Vendors (Ahmed and Bros.)		57,000
	(Purchase business of Ahmed and Bros)		
	Vendors (Ahmed and Bros)	57,000	
	Discount on shares (w-1)	5,000	
	Cash		7,000
	Share Capital		55,000
	(Being the discharge of Purchase Consideration as per agreement)		

(W-1) Calculation of discount on shares issued

Purchase Price	=Rs.57000
Less: Cash Paid	=Rs.7000
	=Rs.50000
Discount Less: Shares Issued (550 × 100)	=Rs.55000
	=Rs.5000

Illustration No. 11

The Lahore Trading Corporation Limited, acquired the business of M/s. Nadim and sons, whose Balance Sheet stood as follows:

Assets	Amount	Equities	Amount
Cash at bank	7,500	Bank loan	6,500
Accounts receivable	7,500	Notes payable	6,400
Machinery	80,000	Capital	1,32,100
Merchandise inventory	25,000		
Building	25,000		
	1,45,000		1,45,000

The purchase price was agreed upon at Rs. 1,44,100. The Corporation took machinery at book value less 10% and merchandise inventory and building at 20% more than the book value. The liabilities will be discharged by the Corporation. The purchase price was to be paid Rs. 1,30,000 in fully paid ordinary shares, and the balance by cheque.

Required: Give Journal entries to record the above transactions.

Solution:**Journal Entries**

Date	Description	Amount	
		Dr.	Cr.
	Cash at bank	7,500	
	Accounts receivable	7,500	
	Machinery	72,000	
	Merchandise inventory	30,000	
	Building	30,000	
	Goodwill (w-1)	10,000	
	Bank loan		6,500
	Notes payable		6,400
	Vendors (Nadim & Sons)		144,100
	(Being the various assets and liabilities taken over)		
	Vendors (Nadim & Sons)	1,44,100	
	Ordinary share capital		1,30,000
	Bank		14,100
	(Being the discharge of the purchase consideration).		

Working (w-1) Calculation of good will

Purchase price		Rs. 1,44,100
Add: Liabilities taken over:		
Bank Loan		6,500
Notes payable		<u>6,400</u>
		1,57,000
Less: Assets taken over:		
Cash at bank	Rs. 7,500	
Accounts receivable	Rs. 7,500	
Machinery (8000 10%)	Rs. 72,000	
Merchandise inventory	Rs. 30,000	
(25000 + 20%)		
Building (2500 + 20%)	Rs. 30,000	1,47,000
Good will		<u>Rs. 10,000</u>

ISSUE OF SHARES TO CAPITALISE UN-DISTRIBUTED PROFIT

The undistributed profit of the company or corporation is transferred to Profit and Loss appropriation account or retained earning. If the directors decided that out of the profit of the corporation a portion may be divided among the share-holders, the accounting entry would be:

Profit & Loss appropriation/Retained earning.....Dr.

Dividend PayableCr.

In order to retain cash in the business the directors may decide to issue shares to the share-holders in payment of dividend to them. The shares thus, issued, are known as bonus shares. In this way share-holders will get the additional shares without making any further payment. The issue of bonus shares in payment of dividend is called as "Capitalisation of Un-distributed Profit". The accounting entry for the issue of bonus shares would be:

Dividend PayableDr.

Share CapitalCr.

If bonus shares are issued at premium, the accounting entry would be:

Dividend PayableDr.

Share CapitalCr.

Premium on shares..... Cr.

Illustration No. 12

Delight Corporation Limited shows a retained earning balance of Rs. 1,85,000. The directors decided to capitalise Rs. 75,000.

Give Journal entries under each of the following assumptions separately.

- (i) If 7500 shares are issued at Rs. 10 each
- (ii) If 6000 shares are issued at Rs. 12.50 each.

Required: Journal entries in the books of Delight Corporation.

Solution:

Journal Entries

Date	Description	Amount	
		Dr.	Cr.
	Profit and loss appropriation A/c. Dividend payable (Being the amount of profit to be capitalised).	75,000	75,000
	Dividend Payable Share Capital (Issued 7500 bonus share at par value)	75,000	75,000
	Dividend Payable Share Capital Premium on shares (6000 × 2.50) (Issued 6000 bonus shares at premium)	15,000	60,000 15,000

(ii) SHARES PAYABLE BY INSTALMENTS

Before the commencement of Companies Ordinance, 1984, companies usually used to issue the shares payable by instalments. These instalments were Application, Allotment, First Call, Second Call and Final Call. If there was only one call, it will not be named as First Call. The word first, second and final were only used when there was more than one call.

When shares are issued payable by instalments, the amount due for each

instalment may be debited to share-holders account, but by doing so no distinction will be made between the various instalments. Therefore a separate account is opened for each instalment, when it becomes due, e.g. Application, Allotment, First Call, Second Call and Final Call.

The students should keep in mind that these accounts replace the share-holders account.

According to Section 68, Sub-section (4) of Pakistan Companies Ordinance, 1984, the amount payable on application on each share shall be the full nominal amount of the shares, therefore, accounting entries for issue of shares, when payable by instalments have not been explained _____.

DEBENTURES OR BONDS

تمسکات

A corporation or company generally borrows money by means of issuing debentures. A debenture is a written acknowledgement by a company or corporation of a loan made to it. It is issued to money lenders under the seal of the corporation. It contains a contract for the repayment of the principal sum at a specified date and the payment of interest at a fixed rate until the principal sum is repaid.

مشترکہ سرمایہ کی انجمن عموماً تسمکات کے اجراء کے ذریعے ادھار حاصل کرتی ہے۔ تسمکات ایک تحریری دستاویز ہوتی ہے جس میں کمپنی حاصل کئے گئے قرض کی تصدیق کرتی ہے۔ یہ ہر شدہ دستاویز قرض خواہ کو کمپنی کی طرف سے جاری کی جاتی ہے۔ یہ ایک معاہدہ ہے جس میں کمپنی اصل زر کی ایک مقررہ تاریخ پر واپسی بمعہ مقررہ شرح سود پر ادائیگی کی ذمہ دار ہوتی ہے۔

Kinds of Debentures or Bonds: تسمکات کی اقسام

The following are the various kinds of debentures that may be issued by a corporation.

تسمکات کی درج ذیل اقسام ہیں۔

(A)

(i) Simple Naked Debentures or Bonds: سادہ تسمکات

Simple debentures are those which carry no security as to payment of interest or repayment of principal sum. The holders of these are considered insecure, so these are not popular in present days. Simple debentures are also called as naked debentures or debentures

یہ ایسے تسمکات ہوتے ہیں جن پر سرمایہ کی واپسی اور سرمایہ پر سود کی ادائیگی کی ضمانت نہیں دی جاتی۔ یہ تسمکات غیر محفوظ تسمکات ہوتے ہیں لہذا دور جدید میں انہیں پسند نہیں کیا جاتا۔ ان تسمکات کو غیر محفوظ تسمکات بھی کہا جاتا ہے۔

(ii) Mortgage Debentures or Bonds:

Mortgage debentures are those which are secured by a charge on the assets of the corporation, such as plant, machinery equipment, land and building. Mortgage debentures are of the following two types:

یہ ایسے تسمکات ہوتے ہیں جن کی ادائیگی کے بدلہ میں کمپنی کا کوئی اثاثہ مثلاً پلانٹ، مشینری، Building, Land & equipment کروڑی رکھا جاتا ہے۔ ان کی دو اقسام ہیں۔

- First mortgage debentures
- Second mortgage debentures

(a) **First Mortgage Debentures**

First, mortgage debentures are those the holders of which have first claim on the assets charged.

First Mortgage Debentures سے مراد وہ تسکات ہوتے ہیں جن کے رکھنے والوں کو رہن رکھے گئے اثاثہ جات پر

پہلا حق ہوتا ہے۔

(b) **Second Mortgage Debentures:**

Second mortgage debentures are those the holders, of which have a second claim on the assets charged.

Second Mortgage Debentures سے مراد وہ تسکات ہوتے ہیں جن کے رکھنے والوں کو رہن کے رکھے گئے اثاثہ

جات پر دوسرا حق ہوتا ہے۔

(B)

(i) **Bearer Debentures or Bonds:** حامل حذا تسکات

The debentures which are payable to bearer are called **bear debentures**. These are negotiable instruments and are transferable by mere delivery.

جن تسکات کی ادائیگی حامل حذا کو کی جاسکتی ہے Bearer Debenture کہلاتے ہیں۔ یہ قابل منتقلی دستاویزات ہوتے ہیں۔

محض قبضہ کی منتقلی سے دوسرے بندے کو منتقل ہو جاتے ہیں۔

(ii) **Registered Debentures or Bonds:**

If the name and address of these debenture holders are recorded in the books of the corporation, the debentures are called registered debentures. Transfer of these debentures must be recorded in the books of the corporation

اس قسم کے تسکات رکھنے والوں کے نام اور پتہ جات کمپنی کی کتابوں میں درج ہوتے ہیں۔ ان تسکات کی منتقلی کا اندراج کمپنی

کی کتابوں میں کیا جاتا ہے۔

(C)

(i) **Redeemable Debentures or Bonds:**

The debentures which are repayable at the end of a specified period are called redeemable debentures. These debentures are very common now-a-days.

ایسے تسکات جن پر حاصل کیا گیا قرضہ مقررہ مدت کے بعد واپس کر دیا جاتا ہے آجکل یہ تسکات عام ہیں۔

(ii) **Irredeemable Debentures or Bonds:**

The debentures which are not repayable during the existence of the corporation

ان تسکات کو کمپنی کی زندگی کے اندر واپس نہیں کیا جاتا۔

(D)

(i) **Convertible Debentures or Bonds:**

The debentures which called irredeemable debentures are may be converted into shares or of the company are called convertible debentures. The option is given to debenture holder for conversion.

Convertible Debentures سے مراد ایسے تسکات ہیں جنہیں کمپنی کے حصص میں تبدیل کیا جاسکتا ہے۔ تبدیلی کا

اختیار تسکات رکھنے والوں کے پاس ہوتا ہے۔

(ii) **Convertible Debentures or Bonds:**

The debentures which called irredeemable debentures are may be converted into shares or of the company are called convertible debentures. The option is given to debenture holder for conversion.

Convertible Debentures سے مراد ایسے تمسکات ہیں جنہیں کمپنی کے حصص میں تبدیل کیا جاسکتا ہے۔ تبدیلی کا

اختیار تمسکات رکھنے والوں کے پاس ہوتا ہے۔

ISSUE OF DEBENTURES OR BONDS

تمسکات کا اجراء

Debentures are issued in the same manner as shares. Debentures are always issued on lump sum basis. The debentures may be issued at par, at discount or at a premium. Usually it is practice to prefix 'debenture' with the rate of interest. Thus, if the rate of interest is ten percent, the name given will be "10% debentures".

تمسکات کا اجراء بھی حصص کی طرح ہی کیا جاتا ہے تمسکات ہمیشہ یکمشت ادائیگی پر جاری کئے جاتے ہیں جنہیں درج شدہ قیمت اس سے کم یا زیادہ پر بھی جاری کیا جاسکتا ہے۔ عموماً تمسکات کے ساتھ شرح سود درج کی جاتی ہے۔ لہذا اگر شرح سود 10 فی صد ہو تو تمسکات کو 10 فی صد تمسکات کہا جائے گا۔

Accounting Entries for the Issue of Debentures/Bonds

Following entries are passed at the time of issue of debentures or debentures pay able.

(i) **When debentures/Bonds are issued at par.**

Bank	Dr.	
Debentures	Cr.	Cr

(ii) **When debentures/Bonds are issued at premium**

Bank	Dr.	
Debentures	Dr.	
Premium on issues of debentures		Cr
debentures		

(iii) **When debentures/Bonds are issued at discount.**

Bank	Dr.	
Discount of issue of debentures	Dr.	
Debentures		Cr

Illustration No.13: A corporation issued 1000 – 10% debentures of Rs.100 each, payable after 5 years. Pass journal entries under each of the following cases:

- Debentures are issued at par.
- Debentures are issued at 10% premium
- Debentures are issued at 5% discount

General Journal

Date	Description	Amount	
		Dr. Rs.	Cr. Rs.
1.	Bank 10% Debenture Debenture issued at par	1,00,000	1,00,000

2.	Bank	1,10,000	1,00,000
	10% Debenture		10,000
	Premium on issue of debentures		
	Debentures are issued at 10% premium		
3.	Bank	9,5,000	
	Discount on issue of debentures	5,000	
	10% Debenture		1,00,000
	Debenture are issued at 5% discount		

Accounting Entries FROM REDEMPTION POINT OF VIEW.

1. Debentures issued at Par and redeemable at Par.

(a) At the time of issue:

Bank.....	...Dr.		(with the nominal Value of debenture)
Debenture	Cr.		

(b) At the time of redemption:

Debenture	...Dr.		(with the nominal Value of debenture)
Bank.....	Cr.		

2. Debentures issued at discount and redeemable at par.

(a) At the time of issue:

Bank	...Dr.		With the amount actually received. With the amount of discount.
Discount on issue of debentures	Dr.	...Dr.	
Debenture	Cr.		With the nominal value of debentures.

(b) At the time of Redemption:

Debenture	Dr.		With the nominal value of debentures.
Bank.....	Cr.		

3. Debentures issued at premium and redeemable at Par:

(a) At the time of issue:

Bank.....	 Dr.		With the amount actually received.
Debenture.....	 Cr.		With the nominal value of debentures.
Premium on issue of debenture...	 Cr.		With the amount of premium received.

(b) At the time of Redemption:

Debenture	Dr.		With the nominal value of debentures.
Bank.....	Cr.		

4. **Debentures issued at par and redeemable at premium:**

(a) *At the time of Issue:*

Bank.....	Dr.		With the nominal value of debentures.
Debentures		Cr.	

(b) *At the time of Redemption:*

Debentures	Dr.		With the nominal value of debentures.
Premium on redemption of debentures.....	Dr.		With the amount of premium.
Bank.....		...Cr.	With the total amount paid.

5. **Debentures issued at par and redeemable at discount:**

(a) *At the time of Issue:*

Bank.....	..Dr.		With the nominal value of debentures.
Debentures.....		Cr.	

(b) *At the time of Redemption:*

Debenture	..Dr.		With the nominal value of debentures.
Bank.....		Cr.	With the amount of actual paid
Discount on redemption of debentures.....		Cr.	With the amount of discount earned.

6. **Debentures issued at discount and redeemable at discount.**

(a) *At the time of issue:*

Bank.....	..DR		with the amount actually received
Discount on issue of debentures	..DR		with the amount discount
Debentures		CR	With the nominal value of debentures

(b) *At the time of redemption*

Debentures	...DR		With the nominal value of debentures
Cash.....		...CR	With the amount paid
Profit on redemption of debentures		...CR	with the amount discount

7. **payment of debentures interest:**

Debenture Interest expenses.....	Dr.		
Bank.....		...Cr.	

8. Closing the debenture interest expense:

At the end of the financial year, the debenture interest expenses are closed. The accounting entry would be:

Profit and loss account	Dr.		
Debenture interest expense		...Cr.	

Illustration No. 14:

A Corporation issued 500, 8% debentures payable after 5 years on 1st June, 2010. The par value of bond is Rs. 1000 each.

Required: Give General Journal entries for issue and redemption of debentures under each of the following cases separately:

- Debentures are issued at par and redeemable at par.
- Debentures are issued at discount of 5% and redeemable at par.
- Debentures are issued at premium of 5% and redeemable at par.
- Debentures are issued at discount of 5% and redeemable at 5% premium.
- Debentures are issued at par and redeemable at premium of 5%.
- Debentures are issued at discount of 5% and redeemable at discount 5%

Solution

Journal Entries

Date	Description	PR	Amount	
			Dr.	Cr.
Case - a				
2010	Bank (1000 × 500)		5,00,000	
June- 1	8% - debentures payable (Issued 500 - 8% debentures at par)			5,00,000
2015	8% - Debentures payable (1000 × 500)		5,00,000	
June -1	Bank (Redemption of 500 - 8% debentures)			5,00,000
Case - b				
2010	Bank		4,75,000	
June- 1	Discount on issue of debentures $(500,000 \times \frac{5}{100})$		25,000	
	8% - Debentures payable (1000 × 500) (Issued 500 - 8% debentures at 5% discount)			5,00,000
2015	8% - Debentures payable		5,00,000	
June -1	Bank (Redemption of 500 - 8% debentures)			5,00,000
Case - c				
2010	Bank		5,25,000	
June -1	8% - Debentures payable (1000 × 500)			5,00,000
	Premium on issue of debentures $(500,000 \times \frac{5}{100})$ (500 - 8% - debentures issued at premium)			25,000

2015	8% - Bond payable (1000 x 500)	5,00,000	
June -1	Bank		5,00,000
	(Redemption of 8% debentures at par)		
	Case - d		
2010	Bank A/c	4,75,000	
June -1	Discount on issue of debentures	25,000	
	8% - Debentures payable		500,000
2015	8% - Debentures payable	500,000	
June -1	Premium on Redemption of debentures	25,000	
	Bank		5,25,000
	(Redemption of 500 - 8% bond at premium)		
	Case - e		
2010	Bank A/c	5,00,000	
June -1	8% - Debentures payable		5,00,000
	500 - 8% debentures issued at bar.		
2015	8 % Debentures payable	5,00,000	
June -1	Premium on redemption of Bond	25,000	
	Bank		5,25,000
	8% Debentures redeemed at premium		

	Case - f		
2010	Bank	4,75,000	
June-1	Discount on issue of debentures	25,000	
	8% Debentures Payable		5,00,000
	Debentures issued at discount of 5%		
2015	Debentures payable	500,000	
June-1	Bank		4,75,000
	Profit on redemption of debentures		25,000
	Redemption of debentures 5% discount		

Illustration No. 18

Pass the Journal entries of debentures in each case (Lahore board 2012)

- Debentures issued at Rs. 100 and Redeemable at Rs. 100.
- Debentures issued at Rs. 90 and Redeemable at Rs. 100
- Debentures issued at Rs. 110 and Redeemable at Rs. 100
- Debentures issued at Rs. 100 and Redeemable at Rs. 110
- Debentures issued at Rs. 90 and Redeemable at Rs. 100

Solution:

- | | |
|-------------------------------|-----|
| Bank account | 100 |
| Debentures account | 100 |
| (issued debenture at Rs. 100) | |
- | | |
|---------------------------|-----|
| Bank account | 90 |
| Lesson Issue of debenture | 20 |
| Debenture account | 100 |

	Debenture account	10
	(Issue debenture at 90 but redeemable)	110
(3)	Bank account	110
	Debenture account	100
	Premium on Debenture account	10
	(Issue debenture at 100 but redeemable at Rs. 110)	
(4)	Bank Account	90
	Lesson Issue of Debenture	10
	Debenture account	100
	(Debenture Issue at discount redeemable at for)	

Illustration No. 16

A company issued 13000 shares of Rs. 10/- each. Pass journal entries in all cases (Gujranwala Board 2012)

- Issued at per for Rs. 10 each
- Issued at discount of 10%
- Issued at premium of 10%

Solution:

(a)	Bank	130,000	
	(i)	Share application	130,000
		(Being the money received on application)	
	(ii)	Share Application	130,000
		Share capital	130,000
		(Amount transferred to Capital account)	
(b)	Bank	117,000	
	(i)	Share application	117,000
		(Being the amount received on 13000 share of Rs. 9 per share)	
		Share application	117,000
	(ii)	Direct on issue of shares	13,000
		Share Capital	130,000
		(Being application money transferred to share Capital and discount on share brought in to account)	
(c)	Bank	143000	
	(i)	Share applications	143000
		Application Money received	
		Share application	143,000
	(ii)	Share capital	130,000
		Share Premium	13,000
		(Being amount transferred to capital and premium)	

Illustration No. 17

Star Limited having authorized capital of Rs. 50,00,000 divided into shares of Rs. 100 each. Issued 20,000 shares to public at a premium of Rs. 10. All the shares were applied for and allotted pass journal entries and prepare Balance sheet. (Lahore 2013)

Solution:

Date	Description	P.R	Debit	Credit
	Bank Share Application (Application Money received)		22,00,000	22,00,000
	Share application Share capital Share premium (Being the amount transferred to share premium account)		22,00,000	20,00,000 2,00,000

Balance Sheet

As on _____

Assets	Amount	Liabilities	Amount
Cash at Bank	22,00,000	Authorized Capital 50,000 shares of Rs. 100 each	50,00,000
		Issued and subscribed capital 20,000 shares of Rs. 100 each	20,00,000
		share Premium	20,00,000
	22,00,000		22,00,000

Illustration No. 18

A company issued 1000 6% debentures of Rs. 100 each. Give journal entries in each of the following cases.

- The debentures are issued at par and redeemable at par.
- The debentures are issued at 5% discount and redeemable at par.
- The debentures are issued at 5% premium and redeemable at par.
- The debentures are issued at 4% discount and redeemable at 5% premium.

Solution:

Date	Descriptions	P.R	Debit	Credit
(i)	Bank account 6% debentures account (Issue of 1000 6% debenture of Rs. 100 each)		100,000	100,000
(ii)	Bank account Discount on issue of debenture a/c 6% debenture. (Issue 1,000 6% debenture at 5% discount)		95,000 5000	100,000
(iii)	Bank account 6% debentures account premium on 6% debenture a/c Issue 1000 6% debenture of Rs. 100 each at Rs. 105)		105,000	100,000 5000
(iv)	Bank account Loss on Issue of 6% Debenture a/c 6% debenture account Premium of Redemption of debenture a/c (Issue at discount redeemable at premium 6% debenture)		96,000 9000	100,000 5000

Illustration No. 19

Give journal entries and their effect in balance sheet under the following conditions.

- (i) 2000 debentures issue at par.
- (ii) 2000 debentures issued at 20% discount.
- (iii) 3000 debentures issued at 30% Premium.

Consider the par value of each debenture as Rs. 100

Solution:

Date	Descriptions	P.R.	Debit	Credit
(i)	Bank account Debentures account (2000 debenture issued at Rs. 100 each)		200,000	200,000
(ii)	Bank account Loss on issue of Debenture account Debenture account (2000 debenture issued at @ Rs. 100 each issued 200/ Discount)		160,000 40,000	200,000
(iii)	Bank account Debenture account Premium account (3000 debenture issued @ Rs. 100 each at 30% Premium)		390,000	3,00,000 90,000

Bank Sheet

As on _____

Assets	Amount	Liabilities	Amount
Cash at Bank	200,000	Debentures	200,000
Cash at Bank	160,000	Debentures	200,000
Loss on Issue of debenture	40,000		
	200,000		200,000
Cash at Bank	390,000	Debenture	3,00,000
		Premium	90,000
	390,000		390,000

Illustration No. 20

Gives Journal-entries for the issue and redemption of the debentures for the following transactions:

- A The issue of 5,000 8% debentures of Rs. 100 each at Par and repayable at a premium of 5% after 5 years.
- B The issue of 5,000 8% debentures of Rs. 100 each at a premium of 5% repayable at Par after 5 years.
- C The issue of 5,000 8% debentures of Rs. 100 each at a discount of 5% repayable at Par after 5 years.
- D The issue of 5,000 8% debentures of 100 each at Par and redeemable at Par after 5 years.
- E The issue of 5,000 8% debentures of Rs. 100 each at discount of 5% and redeemable at premium of 5% after 5 years.

Solution:

Journal Entries for Issue of Debentures

Date	Description	PR.	Amount	
			Dr.	Cr.
A	Bank		5,00,000	
	Loss on issue of debentures.		25,000	
	8% – Debentures payable			5,00,000
	Premium on redemption			25,000
	(Issued 5000 debentures of Rs. 100 each at Par)			
B	Bank		5,25,000	
	8% – Debentures payable			5,00,000
C	Premium on issue of debentures			25,000
	(Issued 5,000 debentures of Rs. 100 each at a premium of 5%)			
D	Bank		4,75,000	
	Discount on issue of debentures		25,000	
E	8% – Debentures payable			5,00,000
	(Issue of 5,000 debentures of Rs. 100 at a discount of 5%)			
F	Bank		5,00,000	
	8% – Debentures payable			5,00,000
G	(Issued 5,000 debentures of Rs. 100 each at Par)			
	Bank A/c..		4,75,000	
H	Discount on issue of debentures		25,000	
	8% – Debentures payable			5,00,000
I	(Debentures issued at discount and redeemable at premium)			

Journal Entries for Redemption of Debentures after 5 Years

Date	Description	PR.	Amount	
			Dr.	Cr.
A	8% Debentures		5,00,000	
	Premium on redemption of debentures		25,000	
	Bank			5,25,000
B	(Repayment of 5,000 debentures of Rs. 100 each at a premium of 5%)			
	8% Debentures		5,00,000	
	Bank			5,00,000
C	(Repayment of 5000 debentures of Rs. 100 each)			
	8% Debentures		5,00,000	
D	Bank			5,00,000

D	(Repayment of 5000 debentures of Rs. 100 each)		
	8% – Debentures	500,000	500,000
	Bank		
E	(Repayment of Debentures at par)		
	8% – Debentures	5,00,000	
	Premium on redemption of Debentures	25,000	
	Bank		5,25,000
	(Repayment of Debentures at premium)		

AMORTIZATION OF DISCOUNT AND PREMIUM

Amortization of discount and premium means to write off the annual amount of discount and premium at the end of the financial year. In order to find out the annual amount of amortization, total amount of discount and premium on issue of debentures will be divided by the number of years after which the debentures are repayable. For instance on 1st January. Debentures worth Rs. 500,000 are issued at 10% premium, redeemable after 10 years. The annual amount of amortization of premium will be Rs. 5,000 (50,000 + 10).

کسی سال کے اختتام پر Discount یا پریمیم کے بچاؤ کو ختم کر Amortization کہلاتا ہے۔ سالانہ ختم کی جانے والی رقم معلوم کرنے کے لئے Discount یا پریمیم کی ان سالوں کی تعداد پر تقسیم کر دیا جاتا ہے جتنے سالوں کے بعد تسکات واپس کرنے ہوں مثلاً 5,00,000 روپے کے تسکات 10 فی صد پریمیم پر جاری کئے گئے جو دس سال کے بعد واپس کرنے ہیں۔ سالانہ ختم ہونے والا Premium برابر ہوگا۔

$$50,000 \div 10 = 5000$$

Accounting entry for amortization of premium:

Premium on issue of debentures Dr.	With annual amount of premium
Profit and loss account Cr.	

Accounting entry for amortization of discount:

Profit and loss account Dr.	With annual amount of discount.
Discount on issue of debentures Cr.	

Illustration No. 21

- On January 1, 2014 Salim Corporation Limited issued 500 10% debentures of Rs. 100 each repayable at par after 10 years. Interest is paid after 6 months.
- On 1st January, 2014 Pakistan Corporation Limited issued 1000 10% debentures of Rs. 100 each at Rs. 110, redeemable after 5 years. Interest is paid half yearly.
- Moon Corporation Limited issued 5,000 8% debentures of Rs. 500 each on 1st July @ Rs. 450 each, redeemable after 10 years. Interest is paid twice a year, after every 6 months.

Required:

- Journal entries for the issue of debentures.
- Journal entries for the payment of debentures interest upto 31st December.

(iii) Journal entries to close the debenture interest.

(iv) Prepare the Balance Sheet under each of the above cases separately.

Solution:

Journal of Salim Corporation Ltd.

Date	Description	PR.	Amount	
			Dr.	Cr.
2014	Case - A			
Jan. 1	Bank - 10% - Debentures (Issued 500 10% debentures of Rs. 100 each)		50,000	50,000
Jun 30	Debenture interest expense Bank (Payment of 1st half year interest)		2,500	2,500
Dec. 31	Debenture interest expense Bank (Payment of 2nd half year interest)		2,500	2,500
Dec 31	Expenses of revenue summary (2500+2500) Debenture interest expenses (Debenture interest expense transferred to Profit and loss A/c)		5,000	5,000
Case - B Journal of Pakistan Corporation Ltd.				
2014	Bank		1,10,000	
June 1	10% - Debenture Premium on issue of debentures (Issue of 1000 debentures of Rs. 100 each at Rs. 110)			1,00,000 10,000
June 30	Debenture interest expense Bank (Payment of 1st half year interest)		5,000	5,500
Dec. 31	Debentures interest expense Bank (Payment of 2nd half year interest)		5,000	5,000
Dec. 31	Expense & Revenue summary (5,000+5,000) Debenture interest expense (Debenture interest expense transferred to Profit and loss A/c)		10,000	10,000

Case – C Journal of Moon Corporation Ltd.				
July 1	Bank		22,50,000	
	Discount on issue of debentures		2,50,000	
	8% – Debentures			25,00,000
	(Issue of 5000 debentures of Rs. 500 each at Rs. 450)			
Dec. 31	Debentures interest expense		1,00,000	
	Bank			1,00,000
	(Payment of half-year interest)			
Dec. 31	Expense & Revenue summary		1,00,000	
	Debenture interest expenses			1,00,000
	(Debenture interest expenses transferred to expenses and revenue summary)			

Case – A

Salim Corporation Limited
Balance Sheet as at 31st Dec. 2014

Assets	Amount	Liabilities	Amount
Bank	50,000	10% – Debentures	50,000
	50,000		50,000

Case – B

Pakistan Corporation Limited
Balance Sheet as at 31st Dec. 2014

Assets	Amount	Liabilities	Amount
Bank	1,10,000	10% – Debentures	1,00,000
		Premium on issue of debentures	10,000
	1,10,000		1,10,000

Case – C

Moon Enterprise Limited
Balance Sheet as at 31st Dec. 2014

Assets	Amount	Liabilities	Amount
Bank	22,50,000	10% – Debentures	25,00,000
Discount on issue of debentures	2,50,000		
	25,00,000		25,00,000

Illustration No. 22

Nissan Corporation Limited decided to issue 1,00,000 5% debentures redeemable after 10 years. The corporation closes its books annually on 31st December.

2014

Jan. 01 Issued 50,000 5% debentures of Rs- 100 each at Rs. 95.

June 30 Paid half year interest on debentures.

July 01 Issued 50,000 5% debentures of Rs. 100 each at Rs. 105.

Dec. 31 Paid half year interest on debentures.

2015:

June 30 Paid 1st half year interest on debentures.

Dec. 31 Paid 2nd half year interest on debentures.

Required: Record the above transactions in the Journal including the entries for amortization of premium and discount.

Solution:

Journal Entries

Date	Description	Amount	
		Dr.	Cr.
2014			
Jan. 1	Bank Discount on issue of debentures 5% - Debentures (Issued 50,000 10% debentures of Rs. 100 each at Rs. 95)	47,50,000 2,50,000	50,00,000
June 30	Debentures interest expense (w-1) Bank (Payment of half-year interest on debentures)	1,25,000	1,25,000
July 01	Bank 5% - Debentures Premium on issue of debentures (Issue 50,000 5% debentures of Rs. 100 each at Rs. 105)	52,50,000	50,00,000 2,50,000
Dec. 31	Debentures interest expense $(1,00,000 \times \frac{5}{100} \times \frac{6}{12})$ Bank (Payment of half-year interest)	2,50,000	2,50,000
	Profit and loss A/c (1,25,000 + 2,50,000) Debentures interest expense (Debentures interest expense transferred to Profit and loss A/c)	3,75,000	3,75,000
	Profit and loss A/c (E. Note) Discount on issue of debentures (Amortization of discount on issue of debentures)	25,000	25,000
	Premium on issue of debentures (E. Note) Expense & revenue summary (Amortization of premium on issue of debentures)	12,500	12,500

2015 June 30	Debentures interest expense $(1,00,000 \times \frac{5}{100} \times \frac{6}{12})$ Bank (Payment of 1st half-year interest)	2,50,000	2,50,000
Dec. 31	Debentures interest expense $(1,00,000 \times \frac{5}{100} \times \frac{6}{12})$ Bank (Payment of 2nd half-year interest on debentures)	2,50,000	2,50,000
	Profit and loss A/c (2,50,000+2,50,000) Debentures interest expense (Debentures interest expense transferred to Profit and loss A/c)	5,00,000	5,00,000
	Expense & Revenue Summary. (E. Note) Discount on issue of debentures (Amortization of discount on issue of debentures)	25,000	25,000
	Premium on issue of debentures (E. Note) Expense & Revenue Summary 25,000 (Amortization of premium on issue of debentures)	25,000	25,000

Explanatory Note: Debentures are redeemable after ten years, therefore, the discount and premium on issue of debentures will be amortized $\frac{1}{10}$ or 10% annually as under:

Working

(W-1) Calculation of interest on debentures paid on 30th June.

Value of debentures issued = $50,000 \times 100 = 50,00,000$

Rate of interest = 5%

Interest on debentures paid on 30th June = $50,00,000 \times \frac{5}{100} \times \frac{1}{2} = \text{Rs } 12,50,000$

(W-2) calculation of interest on debentures paid on 31st December.

Value of debentures issued on 1st Jan $50,000 \times 100 = 50,00,000$

Value of debentures issued on 1st Jul $50,000 \times 100 = 50,00,000$

Rate of interest = 5%

Period 1st July to 31st December = 6 months or $\frac{1}{2}$ year

Interest on debentures paid on 31st Dec = $1,00,00,000 \times \frac{5}{100} \times \frac{1}{2} = \text{Rs } 2,50,000$

MULTIPLE CHOICE QUESTIONS

1. **Equity shares is also called:**
 - (i) Ordinary shares
 - (ii) Nominal shares
 - (iii) Preference shares
 - (iv) Ordinary or nominal shares
2. **Ordinary share is entitled for dividend:**
 - (i) At fixed rate
 - (ii) Before preference shares
 - (iii) After preference share
 - (iv) Surplus profit
3. **Fixed rate of dividend is paid to:**
 - (i) Ordinary shares
 - (ii) Preference shares
 - (iii) Deferred shares
 - (iv) All
4. **Payment of dividend is a permanent liability of the company on:**
 - (i) Ordinary shares
 - (ii) Preference shares
 - (iii) Cumulative preference shares
 - (iv) Deferred shares
5. **The share who enjoys fixed rate of dividend as well as additional dividend are:**
 - (i) Participating preference shares
 - (ii) Cumulative preference shares
 - (iii) Preference shares
 - (iv) Re-deemable preference shares
6. **Deferred shares is generally issued to:**
 - (i) Directors
 - (ii) Under-writers
 - (iii) Vendors
 - (iv) Promoters
7. **The minimum par value is of the:**
 - (i) Ordinary shares
 - (ii) Deferred shares
 - (iii) Preference shares
 - (iv) Any one
8. **The dividend is paid at the end to:**
 - (i) Preference shares
 - (ii) Ordinary shares
 - (iii) Deferred shares
 - (iv) Any one
9. **The amount is returned to applicants to whom to share is allotted within:**
 - (i) A week
 - (ii) 10 days
 - (iii) One month
 - (iv) Any time
10. **Share discount is shown in the balance sheet as:**
 - (i) An asset
 - (ii) Deduction from premium
 - (iii) As liability
 - (iv) Deduction from premium

11. The person who guarantees the sale of shares in lieu of commission is called:-
 (i) Commission agent (ii) Directors
 (iii) Promoters (iv) Under-writer
12. The amount invested in the Joint Stock Company can be returned at any time to:
 (i) Preference share (ii) Cumulative preference share
 (iii) Participating preference share
 (iv) Re-deemable preference share
13. A Limited Corporation can issue shares at the maximum rate of discount is:
 (i) 10% (ii) 2%
 (iii) 5% (iv) 7%
14. Naked debentures is an other name to:
 (i) Bearer Debenture (ii) Registered Debenture
 (iii) Mortgage Debenture (iv) Simple Debenture
15. Premium on issue of shares is shown as:
 (i) Balance sheet (ii) Profit and Loss
 (iii) As liability (iv) As expense

ANSWERS

1. (iv)	2. (iii)	3. (ii)	4. (iii)	5. (i)	6. (i)	7. (ii)
8. (iii)	9. (ii)	10. (iv)	11. (iv)	12. (iii)	13. (i)	14. (iv)
15. (iii)						

SHORT QUESTION/ANSWERS

Write short answers to the following questions:

Q. 1. Define share.

Ans. The authorized capital of the Joint Stock Company into smaller units of equal amount. This unit is called share.

مشتکہ سرمایہ کی انجمن کے منظور شدہ سرمایہ کو ایک ہی مالیت کے چھوٹے چھوٹے حصوں میں منقسم کیا جاتا ہے ہر چھوٹا حصہ

Share کہلاتا ہے۔

Q. 2. Write down the different kinds of shares a Joint Stock Company can issue.

Ans. The Joint Stock Company can issue the shares as specified under

مشتکہ سرمایہ کی انجمن درج ذیل اقسام کے حصص جاری کر سکتی ہے:-

1. Equity/ordinary share عام حصص

2. Preference shares ترجیحی حصص

3. Deferred shares استوائی حصص

Q. 3. What is meant by ordinary shares?

Ans. Ordinary shares are the shares which do not enjoy any special right for dividend. They are paid dividend after preference shareholders are satisfied. They do not get any dividend if there is no surplus profit.

عام حصص سے مراد وہ حصص ہیں جنہیں منافع میں کسی قسم کا مخصوص حق نہیں دیا جاتا۔ ترجیحی حصص کو منافع دینے کے بعد بچ جانے والا منافع ان میں تقسیم کیا جاتا ہے۔

Q. 4. What is meant by preference shares?

Ans. These shares have got preference to ordinary shares in the receipt of dividend and payment of capital. A fixed rate of dividend is paid to these shares.

اس قسم کے حصص داران کو منافع کو تقسیم اور سرمایہ کی واپسی میں عام حصص داروں پر ترجیح دی جاتی ہے۔ ان حصص پر مقررہ شرح سے منافع دیا جاتا ہے۔

Q. 5. Write down different types of preference shares.

Ans. The following are the types of preference shares:

ترجیحی حصص کو مندرجہ ذیل اقسام میں تقسیم کیا جاتا ہے۔

1. Cumulative preference shares مجموعی ترجیحی حصص

2. Non-cumulate preference shares

غیر مجموعی (Non Cumulative) ترجیحی حصص

3. participating preference shares

(Participating) ترجیحی حصص (شریک منافع)

4. Redeemable preference shares

قابل واپسی ترجیحی حصص

5. IR-Redeemable preference shares

غیر قابل واپسی ترجیحی حصص

Q. 6. What is meant by cumulate preference shares?

Ans. The payment of fixed rate of dividend on these shares is the liability of the company for each year, if it is not paid it will be cumulated and is to be paid out of profit available in any succeeding year before payment to other shareholders.

ان حصص پر ہر سال مقررہ شرح منافع کی ادائیگی کمپنی کی ذمہ داری ہے۔ کسی سال عدم ادائیگی کی صورت میں آنے والے سالوں میں منافع میں سے ان کو تمام سالوں کا قابل ادائیگی باقی حصہ داران سے پہلے دیا جائے گا۔

Q. 7. What is meant by Non-cumulate preference shares?

Ans. The payment of fixed rate of dividend is the liability of the company for each year, if any year profit is insufficient to pay the dividend it does not create any liability of the company to pay it in the succeeding year.

ان حصص پر منافع میں سے مقررہ شرح منافع کے مطابق منافع کی ادائیگی کمپنی کی ذمہ داری ہے۔ کسی سال منافع نہ ہونے پر کمپنی آنے والے سالوں میں ان کے ہتھ پائے منافع کی ادائیگی کی ذمہ داری نہیں ہوگی۔

Q. 8. What is meant by participating preference shares?

Ans. These shares enjoy the right of fixed dividend alongwith the sharing the surplus profit after the payment of declared rate of dividend to all other shareholders.

اس قسم کے حصہ داروں کو مقررہ شرح منافع کے علاوہ باقی ماندہ حصہ داران کو منافع کی ادائیگی کے بعد اضافی منافع میں سے بھی منافع دیا جاتا ہے۔

Q. 9. What is meant by redeemable preference shares?

Ans. The company has got the option to pay back the capital contributed by these shares after a fixed period or at any time.

کمپنی کے پاس اس حصہ داران کے سرمایہ کو کسی بھی وقت یا مقررہ وقت کے بعد واپس کرنے کا اختیار ہوتا ہے۔

Q. 10. What is meant by IR-redeemable preference shares?

Ans. The capital invested in these shares is not returnable in the life of the company. It will be paid off after the company is wound up.

ان حصہ داران کا سرمایہ کمپنی کے اختتام پر واپس نہیں کیا جاتا ہے۔

Q. 11. What is meant by deferred shares?

Ans. Deferred shares are the shares on which dividend is paid after the payment of dividend to all other classes to their satisfaction.

ان حصہ داران کو ہر قسم کے دوسرے حصہ داران کو منافع تقسیم کرنے کے بعد منافع دیا جاتا ہے۔

Q. 12. What is meant by allotment letter?

Ans. After the scrutinization of the applications the directors allot shares and informs the applicants regarding allotment of shares. The information submitted through the letter is called allotment letter.

درخواستوں کی جانچ پڑتال کے بعد ڈائریکٹرز مختلف درخواست دہندوں کو حصص الاٹ کرتے ہیں۔ جس کی اطلاع ان درخواست دہندوں کو دی جاتی ہے۔ جس خط کے ذریعے یہ اطلاع دی جاتی ہے اسے حصص کی منگوری کا خط کہتے ہیں۔

Q. 13. When the applicants become the shareholders of the company?

Ans. After receiving the allotment letter issued by the directors, the applicants become the shareholders of the company.

حصص کی منگوری کے خط کی وصولی کے بعد یہ درخواست دہندے کمپنی کے حصہ دار بن جاتے ہیں۔

Q. 14. What is meant by letter of regret?

Ans. Directors may reject the applications due to any reason. A letter of regret is issued by directors to those applicants, it is called letter of regret.

درخواستوں کی جانچ پڑتال کے بعد کچھ درخواستیں ڈائریکٹرز کی طرف سے نامستور کر دی جاتی ہیں ان درخواست دہندوں کو ڈائریکٹرز کی لپٹر طرف سے حصص الاٹمنٹ سے معذرت کر لی جاتی ہے۔ جسے Regret کہا جاتا ہے۔

Q. 15. After how many days money is returned after the submission of letter of regret?

Ans. The application money is to be returned within ten days after the issuance of rejection letter.

حصص کی الاٹمنٹ کی معذرت کے لیے جاری کردہ خط کے دس دن کے اندر اندر رقم واپس کرنا ہوتی ہے۔

Q. 16. What is meant by underwriters?

Ans. The under-writers are the persons who take the responsibility of subscription of specified No. of shares or taking up themselves to number of shares which can not sole in the market. For this service they charge commission.

یہ لوگ مقررہ تعداد میں حصص کی فروخت کی ذمہ داری قبول کرتے ہیں ان خدمات کے بدلے میں کمیشن وصول کرتے ہیں۔ مقررہ تعداد میں حصص فروخت نہ ہونے کی صورت میں انہیں خود حصص خرید کرنا ہوتے ہیں۔

Q. 17. What is meant by the face value of share?

Ans. The face value of the share is the value printed on it.

حصص پر درج شدہ حصص کی قیمت (Face Value) کہلاتی ہے۔

Q. 18. Shares issued at par is what?

Ans. The shares issued at the face value of the shares is called issued at par.

حصص کو ان کی درج شدہ قیمت پر بیچنا (Issued at Par) کہلاتا ہے۔

Q. 19. Shares issued at premium is what?

Ans. The shares issued at a price higher than the face value of shares is called shares issued at premium. For example a share of Rs. 10/- is issued at Rs. 12/- Rs. 2/- will be the premium.

حصص کو حصص پر درج شدہ قیمت سے زیادہ قیمت پر بیچنا (Issued at Premium) کہلاتا ہے۔ مثلاً 10 روپے کے

حصہ کو 12 روپے میں بیچنے کی صورت میں 2 روپے پریمیم تصور ہوگا۔

Q. 20. Shares issued at discount is what?

Ans. If the shares of a company issued at a lesser than the face value it is called share issued at discount. For example a share of Rs. 10/= is issued at Rs. 9/= Re. 1/= will be the discount.

حصص کو حصص پر درج شدہ قیمت سے کم قیمت پر بیچنا (Issued at Discount) کہلاتا ہے مثلاً 10 روپے کا حصہ 9 روپے میں بیچنے کی صورت میں ایک روپیہ ڈسکاؤنٹ ہوگا۔

Q. 21. How payment of shares is made?

Ans. Company Act 1984 does not allow the payment of shares in installments. However lum-sum payment is made on submission of application for purchase of shares.

کمپنی ایکٹ 1984ء کے تحت حصص کی قیمت کی ادائیگی اقساط میں نہیں کی جاسکتی حصص کی خریداری کی درخواست جمع کروانے کے ساتھ ہی تمام ادائیگی کرنا ہوتی ہے۔

Q. 22. What is meant by over subscription?

Ans. If the applications are received in excess of issued capital. It is called over subscription.

جاری کردہ سرمایہ سے زائد درخواستوں کی وصولی Over Subscription کہلاتی ہے۔

Q. 23. What is meant by under subscription?

Ans. If applications are received less than the issued capital. It is called under subscription.

جاری کردہ حصص کی تعداد سے کم درخواستوں کی وصولی Under Subscription کہلاتی ہے۔

Q. 24. What journal entry will be passed on receipt of application?

Ans. Bank a/c.

Share application a/c.

(Applications received.)

Q. 25. What journal entry will be passed when shares are allotted?

Ans. Share application a/c.

Share capital a/c.

(Shares are allotted.)

Q. 26. What journal entry will be passed when shares are allotted at premium?

Ans. Share application a/c.

Share capital a/c.

Share premium a/c.

Shares allotted at premium.

Q. 27. What journal entry will be passed when shares are allotted at discount?

Ans. Share application a/c.

- Share premium a/c.
- Discount on share a/c.
- Share capital a/c.
- (Shares allotted on discount.)

Q. 28. What is debenture?

Ans. It is a written debt instrument, given under the seal of the company. It may be defined as a certificate issued by a company under its seal acknowledging a debt due by it to its holder.

Q. 20. What are different kinds of debentures?

Ans. The following are the different kinds of debentures:

تمکات کی درج ذیل اقسام ہیں:

- | | |
|------------------------------|---------------------|
| 1. Simple Debentures | سادہ تمکات |
| 2. Mortgage Debentures | رہن شدہ تمکات |
| 3. Bearer Debentures | حامل ہذا تمکات |
| 4. Registered Debentures | رجسٹرڈ تمکات |
| 5. Re-deemable Debentures | قابل واپسی تمکات |
| 6. IR-Re-deemable Debentures | نا قابل واپسی تمکات |
| 7. Convertible Debentures | قابل منتقلی تمکات |

QUESTIONS

1. Describe the different classes of shares into which share capital is usually divided?
2. What is meant by issuing shares and debentures at premium and at a discount?
3. How should such premium and discount be treated in books of a corporation?
4. Name the various classes of debentures and explain each.
5. What entries should be passed under different cases on redemption of debentures/debentures.
6. What entries are passed when a company purchases a running business?

EXERCISES

No. 1. Make Journal entries for each of the following cases separately:

- (i) On 1st August, 2013 Muslim Corporation Limited issued 500 shares of Rs.20 each to promoters in connection with their services.
- (ii) On 10th September, 2013, 5,000 shares of Rs. 20 each were offered to the general public. Applications were received for 4,500 shares on 20th September. These shares were allotted on 30th September. Payment was received in full with applications.
- (iii) 3,000 shares of Rs. 20 each were taken by the under-writers on 10th December.
- (iv) The corporation issued 2,300 shares of Rs. 20 each as fully paid to the directors on 31st December.

No. 2. Pass the Journal entries of the following transactions in the Journal of the corporation.

- (a) A limited company issued 30,000 ordinary shares of Rs. 10 each at Par and payable in full. These shares were fully subscribed and paid-up.
- (b) The company issued 4,000 shares of Rs. 100 each at a premium of 10%. All the shares were fully subscribed and paid-up.
- (c) The company issued 5,000 ordinary shares of Rs. 50 each at a discount of 10%. All of these shares were fully subscribed and paid-up.
- (d) The board of directors issued 500 ordinary shares of Rs. 100 at Rs. 110 to promoters in consideration of services rendered by them.

No. 3. Record the following transactions in the Journal of Sultan Company Limited.

- (i) Purchased building Rs. 50,000, Furniture Rs. 30,000 and machinery Rs.45,000 from Ramzan & Bros. Sultan Company Limited issued 1,250 shares of Rs. 100 each fully paid.
- (ii) Sultan Company Limited purchased land Rs. 80,000, equipment Rs.25,000 and furniture Rs. 15,000 from Aftab & Bros. Sultan & Co. issued 10,000 shares of Rs. 10 each fully paid and the balance in cash.
- (iii) Sultan Company Limited purchased the business of M/s. Nadim & Sons at the book value as under:

Assets	Amount	Liabilities	Amount
Machinery & Equipment	85,000	Accounts payable	15,500
Accounts Receivable	15,000	Bank loan	20,500
Merchandise Inventory	20,000		

Sultan Limited paid cash Rs. 34,000 and issued 500 shares of Rs. 100 each fully paid in full satisfaction of the Purchase Consideration.

- No. 4.**
- (a) 2,500 ordinary shares of Rs. 10 each were issued to promoters in connection with their services at a premium of Rs. 2 per share.
 - (b) 3,000 ordinary shares of Rs. 20 each issued to the public at a premium of Rs. 3 per share. Applications were received for 2,800 shares. These shares were allotted in full and paid-up.
 - (c) The Company allotted 1,300 shares of Rs. 25 each to the directors fully paid at a premium of Rs. 5 per share.
 - (d) 1,900 shares of Rs. 50 each issued to the public at a discount of Rs. 5 per share. Applications were received in full. These shares were allotted in full.

Required: Give journal entries in the books of Madina Company Limited under each of the above cases separately.

No. 5. Kashif Company Limited was incorporated with a registered capital of Rs. 3,00,000 divided into 60,000 shares of Rs. 5 each. It issued 40,000 shares to the public and 10,000 shares to the directors at a premium of Re.1 per share. Subscriptions were received in full and these shares were allotted.

Required: Make Journal entries and show the balance sheet of the company.

Answer: Balance sheet Rs. 3,00,000

No. 6. Adil Company Ltd. with an authorised capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each has taken necessary steps to issue 800 shares at a discount of 10%. Out of these 300 shares were issued to directors and 400 shares to the general public. The public applied for 380 shares. All these shares were allotted.

Required: Record the above transactions in the books of the company and show the Balance Sheet.

Answer: Balance Sheet Rs. 68,000

No. 7. The Pakistan Co. Ltd. acquired the running business of Pakistan Engineering on the basis of the following Balance Sheet.

Assets	Amount	Equities	Amount
Current Assets:			
Mechanised inventory	25,000	Account Payable	11,000
Amount Receivable	5,000	Capital Pakistan engineering	50,000
Furniture	1,000		
Plant	30,000		
	61,000		61,000

The vendors were to be paid Rs. 40,000 in full satisfaction of the purchase price in 1,000 shares of Rs. 10 each valued at the market price of Rs. 12.50 each and the balance in cash.

Required: Show the entries in the books of the Company- relating to the transactions assuming that the purchase price was paid. (D. Corn. S - 84).

No. 8. The Balance Sheet of M/s. Wasim & Salim is as under at December 31, 2013.

Assets	Amount	Equities	Amount
Goodwill	10,000	Accounts payable	20,000
Plant and machinery	30,000	Wasim's Loan	10,000
Premises	35,000	General Reserve	5,000
Merchandise inventory	24,000	Wasim's capital	50,000
Accounts receivable	20,000	Salim's capital	40,000
Investment	5,000		
Bank	1,000		
	1,25,000		1,25,000

On 1st January, 2014 a new company X Ltd. took over the business. It did not take over investment and bank balance. It agreed to assume the liabilities except Wasim's loan. The purchase consideration was fixed at Rs. 1,20,000, to be paid in the form of 8,000 shares of Rs. 10 each issued at Rs. 12 and the balance in cash. The company valued plant

and machinery Rs. 32,000 and premises at Rs. 30,000. The company issued 4,000 shares to public at Rs. 12 each.

Required: Give Journal entries in the books of X Ltd. and balance sheet.

Answer: Balance Sheet Rs. 1,69,000

No. 9. Bright Company Limited shows a retained earning balance of Rs. 65,000. The board of directors decided, to capitalize Rs. 45,000. Give Journal, entries under each of the following assumptions separately.

- (a) If 450 shares of Rs. 100 each are issued at Par.
- (b) If 400 shares of Rs. 100 each are issued at a premium of 121/2%
- (c) If 500 shares of Rs. 100 each are issued at a discount of 10%.

No. 10. The board of directors of Aftab Shahid Corporation Limited decided that out of the profit of the corporation Rs. 35,000 may be divided among the shareholders in the shape of bonus shares.

Required: Give Journal entries of the following cases:

- (i) 3,500 shares of Rs. 10 each are issued at Par.
- (ii) 3,000 shares of Rs. 10 each are issued at Rs. 11 per shares.
- (iii) 4,000 shares of Rs. 10 each are issued at a discount of Rs. 1.25 per share.

No. 11. Pass the necessary journal entries of the following transactions in the corporation record:

- (a) Habico Company Ltd. agreed to purchase from Lutfi and Co. the assets i.e., building Rs. 80,000 plant Rs. 50,000, office furniture Rs. 20,000 and office equipment Rs. 10,000. The company agrees to issue 1,600 ordinary shares of Rs. 100 each fully paid in payment of purchase consideration to Lutfi & Co. who agrees to accept the same.
- (b) The board of directors of Alpha Company decided to issue 250 shares to the founder members against their services. They agreed to accept ordinary shares of Rs. 25,000 against their services (250 shares of Rs. 100 each).
- (c) The retained earning balance of Stars Co. Ltd. is Rs. 12,75,000 The Co's ordinary shares value is Rs. 10 each. The board of directors decided to capitalize Rs. 7,50,000 and company issues 60,000 ordinary shares at Rs. 12.50 each (including Rs. 2.50 as premium).

No.12. Adam Jee Ltd. With an authorized capital of Rs. 100,000/- divided into 1000 shares of Rs. 100 each. The company issued 1100 shares of Rs. 100 each at the discount of 10%. The company received application for 1000 shares. All application were allotted and all money received. During the year company made a Capital profit of Rs. 10,000/-. It was decided to write off the discount of Rs. 8000/- out of this profit.
Required: Pass necessary journal entries and balance sheet.

No.13. Journalise the following transactions in the books of company upto 31st December, 2013.

- (a) On 1st January, 2013-Alam Company Limited issued 1,000 - 8% debentures of Rs. 100 each, redeemable at Par after 10 years. Interest is payable after 6 months on 30th June and 31st December.
- (b) On 1st January, Jhelum Supply Corporation Ltd. issued 100 - 9% debentures of Rs. 100 each, at 10% premium, redeemable after 5 years. Interest is paid half yearly.

- (c) Star Corporation Limited issued 5,000 - 8% debentures of Rs. 100 each on 1st July, 2013 at 10% discount, redeemable after 5 years. Interest is paid twice a year, after every 6 months.

No.14 Pass journal entries for the following:

- (i) A company issued 1,000 - 8% debentures of Rs.100 each at par.
- (ii) A company issued 1000 - 8% debentures of Rs.100 each at discount of 10%
- (iii) A company issued 1000 - 8% debentures of Rs.100 each at premium of 10%
- (iv) 5000 debentures of Rs.100 each issued to bank against security of loan Rs.400,000/-

No. 15. Make journal entries for the issue and redemption of the debentures for the following transactions:

- (i) The issue of 1,000 - 10% debentures of Rs. 100 each at par repayable at Par after 10 years.
- (ii) The issue of 1,000 - 10% debentures of Rs. 100 each at a premium of 5% repayable at Par after 10 years.
- (iii) The issue of 1,000 - 10% debentures of Rs. 100 each at a discount of 5% repayable at Par after 10 years.
- (iv) The issue of 1,000 - 10% debentures of Rs. 100 each at Par repayable at a premium of 5% after 10 years.
- (v) The issue of 1,000 - 10% debentures of Rs. 100 each at 5% discount repayable at a premium of 5% after 10 years.

No. 16. Journalise the following transactions:

1. Issue Rs. 70,000 9% debenture at par redeemable at par.
2. Issue Rs. 70,000 9% debentures at premium of 5% redeemable at par.
3. Issue Rs. 70,000 9% debenture at a 10% discount redeemable at par.
4. Issue Rs. 70,000 9% debenture at par redeemable at premium of 5%.
5. Issue Rs. 70,000 9% debentures at a discount of 5% and redeemable at a premium of 10%.

No. 17. Kohistan Limited decided to issue 10,000 debentures @ 12%, redeemable after 5 years. The company closes its books each year on 31st December.

2013

- Jan. 01 Issue 5,000 debentures of Rs. 100 each at Rs. 95
June 30 Paid half year interest on debentures.
July 01 Issued 5,000 debentures of Rs. 100 each at Rs. 105.
Dec. 31 Paid the half-year interest on debentures.

2014

- June 30 Paid 1st half-year interest on debentures.
Dec. 31 Paid 2nd half-year interest on debentures.

Required: Record the above transactions in the journal including the entries for the amortization of premium and discount.

