

Ch-07 : Company Accounts- Accounting for Share Capital

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. The fixed value of a share, printed on the share certificate, is called nominal/ par / face value of a share. However, a company can issue shares at a price different from the face value of a share.

Fundamentals of Accounting: Issue; Forfeiture And Re-issue of Shares.

As per SEBI guidelines, a company is free to price its issue, if it has a three years track record of consistent profitability and in case of new company, if it is promoted by a company with a five years track record of consistent profitability.

1. Authorised Share Capital.
2. Issued Share Capital.
3. Subscribed Share Capital.
4. Called-up Share Capital.
5. Paid-up Share Capital.
6. Reserve Share Capital.

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refers to those reserves which are not available for declaration of dividend.

Types of Shares

Share issued by a company can be divided into following categories:

- (i) Preference Shares They enjoy preferential rights in the matter of:
- (a) Payment of dividend, and
 - (b) Repayment of capital.

Types of Preference Shares

Preference shares can be of various types, which are as follows:

- (a) Cumulative Preference Shares.
- (b) Non-cumulative Preference Shares.
- (c) Participating Preference Shares.
- (d) Non-participating Preference Shares.
- (e) Redeemable Preference Shares.
- (f) Non-redeemable Preference Shares.
- (g) Convertible Preference Shares.
- (h) Non-convertible Preference Shares Equity Shares.

The shares can be issued by a company either For cash or For consideration other than cash.

A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.

As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription.

Against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public.

The minimum application money to be paid by an applicant along with the application money shall not be less than 25% of the issue price. Companies (Amendment) Bill, 2003 require application money to be not less than 25% of the nominal value of security. Thus, the issue price of shares is generally received by the company in instalments and these instalments are known as under:

JOURNAL ENTRIES FOR ISSUE OF SHARES FOR CASH

Upon the issue of share capital by a company, the under mentioned entries are made in the financial books:

(i) On receipt of the application money

Bank Account Dr. (with the actual amount received)
 To Shares Application Account

(ii) On allotment of share

Share Allotment Account Dr. (With the amount due on allotment)
Share Application Account Dr. (With the application amount received on allotted shares.)
 To Share Capital (With the amount due Account on allotment and application).

(iii) On receipt of allotment money

Bank Account Dr. (with the amount actually received on allotment.)
 To Share Allotment Account

Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.

(iv) On a call being made

Share Call Account Dr. (with the amount due on the call.)
 To Share Capital Account

(v) On receipt of call money

Bank Account Dr. (with the due amount actually received on call)
 To Share Call Account

When shares are issued at a premium, the premium amount is credited to a separate account called "Securities Premium Account" because it is not a part of share capital.

(ii) Share Application A/c Dr. [No. of Shares Applied for x Application Amount per share]
 To Securities Premium A/c [No. of Shares allotted x Premium Amount per share]
 To Share capital A/c [No. of Shares allotted x per share for capital]

(b) Premium Amount called with Allotment Money

(i) Share Allotment A/c Dr. [No. of Shares Allotted x Allotted and Premium Money per share]
 To Share Capital A/c [No. of Shares Allotted x Allotment Amount per share]
 To Securities Premium A/c [No. of Share Allotted x Premium Amount per share]

(Amount due on allotment of Shares @ ₹ per share including premium)

(ii) Bank A/c Dr.

 To Share Allotment A/c (Money received including premium consequent upon allotment)

Kinds of Companies

(i) Private companies According to Section 2 (68) of the Companies Act, 2013, it is a company with minimum paid-up share capital of 1,00,000 or such higher amount as may be prescribed in the

Companies Act, 2013 and which by its Articles of Association

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

(b) Except in one person company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them. If any share is held jointly by two or more persons, they shall be treated as a single member.

(c) Prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is two. The name of a private company ends with the words, 'Private Limited'.

(ii) Public company As per Section 2 (7) of Companies Act, 2013, public company is a company which
(a) *is not a private company.*

(b) *has minimum capital of Rs 5 lakh or such higher paid-up capital as may be prescribed.*

(c) *is a private company, which is a subsidiary of a public company. Minimum requirement of a public company is seven persons.*

(iii) One person company is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation)

5. Types of Shares:-

Preference shares According to Section 43 (b) of the Companies Act, 2013, preference shares are the shares which carry the following two preferential rights:

Preferential right of dividend to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income tax.

Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called preference shareholders.

Equity shares According to Section 43(a) of the Companies Act 2013, equity share is that share which is not a preference share. Equity shares are the most commonly issued class of shares which carry the maximum 'risks and rewards' of the business. The risks being losing part or all of the value of shares if the business incurs losses, the rewards being payment of higher dividends and appreciation in the market value.

6. Share Capital It is that part of the capital of a company, which is represented by the total nominal value of shares, which it has issued.

7. Kinds of Share Capital

(i) Authorised share capital According to Section 2(8) of Companies Act, 2013, 'authorised capital' or 'nominal capital' means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company.

(ii) Issued capital According to Section 2(50) of the Companies Act, 2013, issued capital means such capital as the company issues from time to time for subscription.

Subscribed capital According to Section 2(86) of the Companies Act, 2013, 'subscribed capital' means such part of the capital which is for the time being subscribed by the members of a company.

(a) Subscribed and fully paid-up Shares are said to be 'subscribed and fully paid-up' when the entire nominal (face) value is called and also paid-up by the shareholders.

(b) Subscribed but not fully paid-up Shares are said to be 'subscribed but not fully paid-up' when

- the company has called-up the entire nominal (face) value of the share but has not received it.
- the company has not called-up the entire nominal (face) value of share.

A reference has been made two terms

- Called-up capital According to Section 2(15) of the Companies Act, 2013, 'called-up capital' means such part of the capital, which has been called for payment. Thus, it means the amount of nominal (face) value called-up by the company to be paid by the shareholders towards the share capital.
- Paid-up share capital According to Section 2(64) of the Companies Act, 2013, 'paid-up share capital' or 'share capital paid-up' means the amount that the shareholder has paid and the company has received against the amount 'called up' against the shares towards share capital.

8. Reserve Capital It is that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up.

9. Capital Reserve 'Capital reserve' is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company. Reserves which are created out of capital profits are not readily available for distribution as dividend among the shareholders, e.g. premium on issue of shares of debentures, profits on re-issue of shares, profits prior to incorporation, premium on redemption of debentures.

10. Minimum Subscription It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instruments, security cannot be allotted.

11. Presentation of Share Capital in Company's Balance Sheet.

As per Schedule III of Companies Act, 2013, share capital is to be disclosed in company's balance sheet in the following manner.

Comprehensive Question

Himalaya Company Limited issued for public subscription of 1, 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as under:

With Application	₹ 3 per share
On allotment (including premium)	₹ 5 per share
On First call	₹ 2 per share
On Second and Final call	₹ 2 per share

Applications were received for 1, 60,000 shares. Allotment was made on pro-rata basis. Excess money on application was adjusted against the amount due on allotment.

Rohan, whom 4,800 shares were allotted, failed to pay for the two calls. These shares were subsequently forfeited after the second call was made. All the shares forfeited were reissued to Teena as fully paid at ₹ 7 per share.

Record journal entries in the books of the company to record these transactions relating to share capital. Also show the company's balance sheet.

Sol.

Journal Entries

Date	Particulars	L.F	Debit (₹)	Credit (₹)
	Bank A/c	Dr.	4,80,000	
	To Share Application A/c			4,80,000

	(Share Application money received for 1,60,000shares @ ₹ 3 per share)			
	Share Application A/c	Dr.	4,80,000	
	To Equity Share Capital A/c			3,60,000
	To Share Allotment A/c			1,20,000
	(Share Application for 1,20,000 shares @ ₹ 3 pershare transferred to Share Capital Account and remaining amount adjusted to Allotment)			
	Share Allotment A/c	Dr.	6,00,000	
	To Equity Share Capital A/c			3,60,000
	To Securities Premium			2,40,000
	(Share Allotment due on 1,20,000 shares @ ₹ 5per share including ₹ 2 Securities Premium)			
	Bank A/c	Dr.	4,80,000	
	To Share Allotment A/c			4,80,000
	(Share allotment for 1,20,000 shares @ ₹ 5 pershare received)			
	Share First Call A/c	Dr.	2,40,000	
	To Equity Share Capital A/c			2,40,000
	(Share First Call due on 1,20,000 shares @ ₹ 2per share)			
	Bank A/c	Dr.	2,30,400	
	To Share First Call A/c			2,30,400
	(Share First Call received on 1,15,200 shares @ ₹ 2 per share and 4,800 shares failed to pay)			
	Share Final Call A/c	Dr.	2,40,000	
	To Equity Share Capital A/c			2,40,000
	(Share Final call due on 1,20,000 shares @ ₹ 2per share)			

	Bank A/c	Dr.	2,30,400	
	To Share Final Call A/c			2,30,400
	(Share Final Call received on 1,15,200 shares @ ₹ 2 per share and 4,800 shares failed to pay)			
	Equity Share Capital A/c (4,800×10)	Dr.	48,000	
	To Share First Call A/c (4,800×2)			9,600
	To Share Final Call A/c (4,800×2)			9,600
	To Share Forfeiture A/c (4,800×6)			28,800
	(4,800 shares forfeited for the non-payment of First Call and Final Call)			
	Bank A/c	Dr.	33,600	
	Share Forfeiture A/c	Dr.	14,400	
	To Equity Share Capital			48,000
	(4,800 shares reissued @ ₹ 7 per share, fully paid-up)			
	Share Forfeiture A/c	Dr.	14,400	
	To Capital Reserve A/c			14,400
	(Share forfeiture balance of 4,800 shares transferred to Capital Reserve Account)			
Balance Sheet				
Particulars		Note No.	Amount (₹)	
I. Equity and Liabilities				
1. Shareholders' Funds				
a. Share Capital		1	12,00,000	
b. Reserves and Surplus		2	2,54,400	
2. Non-Current Liabilities				
3. Current Liabilities				
Total			14,54,400	
II. Assets				
1. Non-Current Assets				
2. Current Assets				

a. Cash and Cash Equivalents	3	14,54,400
Total		14,54,400

Notes to Accounts:-

Note No.	Particulars	Amt. (₹)
1	Share Capital	
	Authorised Share Capital	
 shares of ₹ 10 each	—
	Issued Share Capital	
	1,20,000 shares of ₹ 10 each	12,00,000
	Subscribed, Called-up and Paid-up Share Capital	
	1,20,000 shares of ₹ 10 each	12,00,000
2	Reserves and Surplus	
	Securities Premium	2,40,000
	Capital Reserve	14,400
		2,54,400
3	Cash and Cash Equivalents	
	Cash at Bank	

Practical unsolved Questions

1. Prince Limited issued a prospectus inviting applications for 20,000 equity shares of ₹. 10 each at a premium of ₹. 3 per share payable as follows:

With Application	₹. 2
On Allotment (including premium)	₹. 5
On First Call	₹. 3
On Second Call	₹. 3

Applications were received for 30,000 shares and allotment was made on pro-rata basis. Money overpaid on applications was adjusted to the amount due on allotment.

Mr. Mohit whom 400 shares were allotted, failed to pay the allotment money and the first call, and his shares were forfeited after the first call. Mr. Joly, whom 600 shares were allotted, failed to pay for the two calls and hence, his shares were forfeited.

Of the shares forfeited, 800 shares were reissued to Supriya as fully paid for ₹. 9 per share, the whole of Mr. Mohit's shares being included.

Record journal entries in the books of the Company and prepare the Balance Sheet.

2. Journalise the following transactions in the books Bhushan Oil Ltd.:

200 shares of ₹. 100 each issued at a premium of ₹. 10 were forfeited for the non-payment of allotment money of ₹. 60 per share. The first and final call of ₹. 20 per share on these shares were not made. The forfeited shares were reissued at ₹. 70 per share as fully paid-up.

150 shares of ₹. 10 each issued at a premium of ₹. 4 per share payable with allotment were forfeited for non-payment of allotment money of ₹. 8 per share including premium. The first and final calls of ₹. 4 per share were not made. The forfeited shares were reissued at ₹. 15 per share fully paid-up.

400 shares of ₹. 50 each issued at par were forfeited for non-payment of final call of ₹. 10 per share. These shares were reissued at ₹. 45 per share fully paid-up.

Solved Practice Question (Important)

1. Amisha Ltd inviting application for 40,000 shares of ₹ 100 each at a premium of ₹ 20 per share payable; on application ₹ 40 ; on allotment ₹ 40 (Including premium): on first call ₹ 25 and Second and final call ₹ 15.

Application were received for 50,000 shares and allotment was made on pro-rata basis. Excess money on application was adjusted on sums due on allotment.

Rohit to whom 600 shares were allotted failed to pay the allotment money and his shares were forfeited after allotment. Ashmita, who applied for 1,000 shares failed to pay the two calls and his shares were forfeited after the second call. Of the shares forfeited, 1,200 shares were sold to Kapil for ₹ 85 per share as fully paid, the whole of Rohit's shares being included.

Record necessary journal entries.

Sol.

Journal Entries

Books of Amisha Ltd.				
Date	Particulars		L. F.	Debit (₹) Credit (₹)
	Bank A/c	Dr.		20,00,000
	To Share Application A/c			20,00,000
	(Share Application money received on 50,000 shares @ 40 per share)			
	Share Application A/c	Dr.		20,00,000
	To Share Capital A/c			16,00,000
	To Share Allotment A/c			4,00,000
	(Share Application money adjusted)			
	Share Allotment A/c	Dr.		16,00,000
	To Share Capital A/c			8,00,000
	To Share Premium A/c			8,00,000
	(Share Allotment money due including premium)			
	Bank A/c	Dr.		11,82,000
	To Share Allotment A/c			11,82,000
	(Share Allotment money received except 600 shares)			

	Share Capital A/c	Dr.	36,000				
	Share premium A/c	Dr.	12,000				
	To Share Allotment A/c			18,000			
	To Share Forfeiture A/c			30,000			
(600 shares forfeited after allotment)							
	Share First Call A/c	Dr.	9,85,000				
	To Share Capital			9,85,000			
(First Call money in due on 39,400 shares)							
	Bank A/c	Dr.	9,65,000				
	To Share First Call A/c			9,65,000			
(First Call money received except 800 shares)							
	Share Second and Final Call A/c	Dr.	5,91,000				
	To Share Capital A/c			5,91,000			
(Second and Final Call money due on 39,400 shares)							
	Bank A/c	Dr.	5,79,000				
	To Share Second and Final Call A/c			5,79,000			
(Second and Final Call money received except 800 shares)							
	Share Capital A/c	Dr.	80,000				
	To Share First Call A/c			20,000			
	To Share Second & Final Call A/c			12,000			
	To Share Forfeiture A/c			48,000			
(800 share forfeited)							
	Bank A/c	Dr.	1,02,000				
	Share Forfeiture A/c	Dr.	18,000				
	To Share Capital A/c			1,20,000			
(Forfeited shares reissued 1,200 @ 85 per share)							
	Share Forfeiture A/c	Dr.	48,000				
	To Capital Reserve A/c			48,000			
(Profit on 1,200 reissued shares are transfer to capital reserve account)							
Cash Book (Bank Column)							
Date	Particulars	J.F.	Amt. (₹)	Date	Particulars	J.F.	Amt. (₹)
	Share Application		20,00,000		Balance c/d		48,28,000

	Share Allotment		11,82,000				
	Share First Call		9,65,000				
	Share Final Call		5,79,000				
	Share Capital		1,02,000				
			48,28,000				48,28,000

Working Notes:

1. Number of shares applied by Rohit

$$= \frac{\text{Total number of applied shares}}{\text{Total number of allotted shares}} \times \text{Number of allotted shares.}$$

$$= \frac{50,000}{40,000} \times 600 = 750 \text{ shares}$$

1. Call in arrears by Rohit on allotment

Money received on Application	(750×40)	=	30,000
Less: Amount adjusted on Application	(600×40)	=	24,000
Amount adjusted on Allotment			6,000
Money due on Allotment	(600×40)	24,000	
Money adjusted		6,000	
Balance due to allotment		18,000	

4. Number of shares allotted to Ashmita

$$= \frac{\text{Total number of allotted shares}}{\text{Total number of applied shares}} \times \text{Number of shares applied}$$

$$= \frac{40,000}{50,000} \times 1,000 = 800 \text{ shares}$$

5. Profit on the forfeiture of 600 share of Rohit = ₹ 30,000

Profit on the forfeiture of 600 share of Ashmita = ₹ 36,000

₹ 48,000 x ₹ 600/800 = ₹ 36,000

Profit on forfeiture of 1200 shares (30,000 + 36,000)	=	66,000
Less: Loss on reissue of shares	=	18,000
Transfer to Capital Reserve	=	48,000

6. Balance in Share Forfeiture Account (₹ 48,000 – ₹ 36,000) = ₹ 12,000