Class Notes

Class: XII	Topic: Accounting for Share Capital
Subject: ACCOUNTANCY	

Meaning of Share

According to Section 2(84) of the Companies Act, 2013, "Share means a share in the capital of a company and include stock." The capital of the company is divided into small units. Each of these small units is called a share. It gives their holder a right of ownership, voting rights and right to share profit of the company.

Nature of share

As per Section 44 of the Companies Act, 2013, shares or debentures or other interest of any member in a company shall be movable property, transferable in the manner provided by the article of the company.

According to Sale of goods Act, 1930, "Goods means any kind of movable property other than actionable claims and money, and include stock and share. So, it can be concluded that shares are basically goods which can be bought, sold or gifted.

Types of Shares

According to Section 43 of the Companies Act, 2013, shares are mainly classified into two categories.

1. Preference Shares
2. Equity Shares

1. Preference Shares [Section 43(B)]:
   Preference shares are the shares that carry the following two rights.
   a. A right to receive dividends at a stipulated rate or a fixed amount before any dividend is paid on equity shares.
   b. Return of capital on the winding up of the company

Types of Preference Shares:

On the basis of Payment of Dividend:

a) Cumulative Preference Shares: These are those shares which carry the right to receive arrears of dividend before dividend is paid to the equity shareholders.
b) Non-Cumulative Preference Shares: These are those preference shares which do not carry the right to receive arrears of dividend.

On the basis of Convertibility:

a) Convertible Preference Shares: These shares give the right to the holder to get them converted into equity shares, at their opinion, according to the terms and conditions of their issue.
b) Non-Convertible Preference Shares: When the holder of a preference shares does not have the right to get his holding converted into equity shares.

On the basis of Redemption:

a) Redeemable Preference Shares: When shares are re paid after some specified time in accordance with the terms of issue, they are called redeemable preference shares.
b) Irredeemable preference shares: These shares are those preference shares, the amount of which can be returned by the company to the holders of such shares at the time of its winding up only. The Companies Act, 2013 does not permit issue of irredeemable preference shares.

On the basis of Profits:

a) Participating Preference Shares: When a preference share holder enjoys the right to participate in the surplus profit (in addition to the fixed rate of dividend) that is left after the payment of dividend to the equity share-holders. These types of shares are known as participating preference shares.
b) Non-participating Preference Shares: When a preference shareholder receives only a fixed rate of dividend every year and does not enjoy the additional right to participate in the surplus profit. This type of share is known as non-participating preference share.

2. **EQUITY SHARES:** [Section 43 (a)]: These are those shares which are not preference shares. Thus, this share does not carry any preferential right. In other words, equity share is one which is entitled to dividend and repayment of capital after the claim of preference share is satisfied. The holder of Equity Shares are real owners of the company. They get voting right in the company.

Share Capital

It is the amount that a company can raise or has raised by issue of shares. It is that part of the capital of a company, which is represented by the total nominal value of shares, it has issued.

1. Authorized Capital: It is that part of share capital that a company is authorized to raise as stating in MOA. It is the maximum amount of share capital that a company can raise. It is also known as Nominal Capital and Registered Capital.

2. Issued Capital: It is that part of authorized capital which the company has issued for subscription. Issued capital cannot exceed the authorized capital.

3. Subscribed Capital: It is that part of issued/offered capital which has been accepted by the applicants/general public. However as per SEBI guidelines, the subscribed capital should not be less than 90% of the issued capital.

It is shown under the two heads:
(i) Subscribed and Fully Paid Up: When Company called up the entire face value of shares and it is also paid by all the shareholders, it is called subscribed and fully paid up.

(ii) Subscribed Not Fully Paid Up:
It is divided under two categories:
(a) When company has not called up the full-face value of shares.
(b) When company has called up full face value of shares but there are calls in arrears.

* Calls in Arrears: It refers to the amount not paid by the shareholders against the amount called by

the company. It is shown as deduction from subscribed but not fully paid up share capital

* Share Forfeiture: If shareholder fails to pays the amount called on Shares, Company can forfeit these Share. The amount paid by the shareholders on such shares is forfeited and it is added to share capital.

Some important concepts:

1. Private Placements of Shares:

a) Issue and allotment of shares to a selected group of people privately.
b) It is generally made by private or unlisted companies.
c) A special resolution should be passed to this effect.

SWEAT EQUITY SHARES:

a) According to Section 2(88) of the companies Act, 2013, the sweat equity shares are issued by the company to its directors or employees at a discount.
b) It can be issued by the company with the class of shares already issued by passing a special resolution.
c) The special resolution must specify the number of shares, their current market price, class of shares and the classes of directors or employees to whom such shares are to be issued.
d) A period of one year must have elapsed since the date of the company has commenced business.

EMPLOYEES STOCK OPTION PLAN:

a) It is a plan whereby an option is given by the company to its whole-time directors, officers and employees to purchase shares at a future date at a pre-determined price.
b) The pre-determined price usually remains lower than the market price.
c) The shares allotted under this scheme shall be locked in for a minimum period of one year from the date of allotment.
d) These shares are of the same class of shares already issued.
e) It is authorised by a special resolution passed by the company.
f) The special resolution must specify the number of shares, their current market price, class of shares and the classes of directors or employees to whom such shares are to be issued.
g) A period of one year must have elapsed since the date of the company has commenced business.
h) It is a right but not an obligation granted to an employee to subscribe for the shares of the company.

Accounting Treatment of Issue of Shares for Cash:

1. Shares Payable in Lumpsum: Shares are said to have been issued against lumpsum payment when amount is payable in one instalment.

   Journal Entries:

   For receiving share application money

   Bank A/c Dr.

   To Share Application and Allotment A/c

   (Being application money received)

   For allotment of share/transfer of share application money to share capital (At Par)

Share Application and Allotment A/c

To Share Capital A/c

(Being share application money transferred to share capital)

For allotment of share (At Premium)

Share Application and Allotment A/c

To Share Capital A/c

To Securities Premium Reserve A/c

(Being share application money transferred to share capital and securities premium reserve account)

1. Shares payable in instalments:

For receiving share application money

Bank A/c Dr.

To Share Application (No. of shares applied × App. Rate)

(Being application money received)

For allotment of share/transfer of share application money to share capital

Share Application A/c

To Share Capital A/c (No. of shares allotted × App. Rate)

(Being share application money transferred to share capital)

On making allotment due:

(At Par)

Share Allotment A/c Dr. (With allotment money due)

To Share Capital A/c (No. of shares allotted × allotment Rate)

(Being Share Allotment money due)

(At Premium)

Share Allotment A/c Dr. (With total allotment money due)

To Share Capital A/c

To Securities Premium Reserve A/c (With No. of shares allotted × premium)

(Being share application money transferred to share capital and securities premium reserve account)

On receipt of allotment money

Bank A/c Dr.

To Share Allotment A/c

On making Calls due:

Share Calls A/c Dr.

To Share Capital A/c

On receipt of the call money:

Bank A/c Dr.

To Share Call A/c

Issue of Shares for Consideration other than cash

Case:1 When assets are purchased from the Vendor Co.
Assets A/c Dr.
To Vendor's A/c

Case:2 When other business is purchased
Assets A/c Dr.
Goodwill A/c Dr. (Balancing figure)
To Liabilities A/c
To Vendor's A/c (Purchase consideration)
To Capital Reserve A/c (Balancing figure)

Net worth (Purchase consideration) = Assets – Liabilities
For Example: Assets = 1,00,000; Liabilities= 45,000
Net worth =55,000 (Purchase consideration)
Purchase consideration > Net worth = Goodwill
Purchase consideration < Net worth = Capital Reserve

Entry for issue of shares: (At Par)
Vendor's A/c Dr.
To Share Capital A/c

Entry for issue of shares: (At Premium)
Vendor's A/c Dr.
To Share Capital A/c
To Securities Premium Reserve A/c

Oversubscription of Shares

When number of shares applied for is more than the number of shares offered for subscription, the issue is said to be oversubscribed.
Example: ABC Ltd. Issued 25,000 equity shares of Rs. 10 each and received application for 30,000 shares. Here shares are oversubscribed by 5,000 shares.

In case of Oversubscription, following three alternatives are available:

a) Rejection of Applications: When company reject applications of few applicants, their application money will be refunded.
Journal Entry:
Share Application A/c Dr.
To Bank A/c

b) Pro-rata/Partial allotment: In this case, all the applicants will get proportionate allotment/ get allotment of less number of shares than actually applied. Here excess application money received is adjusted towards the amount due on allotment or calls.
Journal Entry:
Share Application A/c Dr.
To Share Allotment A/c

To Calls in advance (If adjusted in any call)

c) Combination of Pro-rata allotment and Rejection: In this case, some applications are accepted in full, some applications are rejected and proportionate allotment is made to the remaining.

Journal Entry:

Share Application A/c Dr.

To Share Capital A/c

To Share Allotment A/c

To Bank A/c

Oversubscription- Pro-rata Allotment-Calls in Arrears

(Calculation of Allotment/Call Money when prorate allotment was made and excess application money adjusted in Allotment/Call and there is call in Arrears in allotment/ Calls respectively).
When the above situations are satisfied, the following steps are required:
Calculation of Applied/Allotted shares:

No. of shares applied by the defaulter = (Total No. of shares applied/Total No. of shares allotted) × No. of shares allotted to the defaulter.

No. of shares allotted to the defaulter = (Total No. of shares allotted/Total No. of shares applied) × No. of shares applied by the defaulter.

Calculation of Actual Calls in arrears by the defaulter in Allotment/Call:

Excess Application money paid by the defaulter = (No. of shares applied- No. of shares allotted) × App. rate

Total Amount due in allotment/Call = No. of shares allotted × Allotment/ Call rate	*****
Less: Excess application paid by the defaulter	(****)
Actual amount of calls in arrears from allotment/Call	****

Forfeiture of Shares

Forfeiture means cancellation of shares by the company due to non-payment of allotment/call money. These forfeited shares may or may not be issued by the company.

Accounting treatment of Forfeiture of Share:
* Forfeiture of shares (Which were issued at Par):
Share Capital A/c Dr. (No. of shares forfeited × Called up value)
To Calls in arrears A/c (No. of shares forfeited × Call rate not paid)
To Share Forfeiture A/c (No. of shares forfeited × App./call rate paid)

* Forfeiture of shares (Which were issued at Premium): If Premium paid by the shareholder
Share Capital A/c Dr. (No. of shares forfeited × Called up value)
To Calls in arrears A/c (No. of shares forfeited × Call rate not paid)
To Share Forfeiture A/c (No. of shares forfeited × App./call rate paid)

* Forfeiture of shares (Which were issued at Premium): If Premium not paid by the shareholder
Share Capital A/c Dr. (No. of shares forfeited × Called up value)
Securities Premium Reserve A/c Dr. (No. of shares forfeited × Rate of premium)
To Calls in arrears A/c (No. of shares forfeited × Call rate not paid)
To Share Forfeiture A/c (No. of shares forfeited × App./call rate paid)

Re-issue of Forfeited Shares:

When forfeited shares are re-issued to the public it is known as Re-issue of Shares. The company may re-issue the forfeited shares only if mentioned in the AOA of the company. Forfeited shares can be re-issued at Par, at premium or at discount. The amount of discount can not be more than forfeited amount.

Accounting treatment of Re-issue of shares:

Re-issued at Par	Re-issued at Premium	Re-issued at discount
Bank A/c Dr.	Bank A/c Dr.	Bank A/c Dr.
To Share Capital A/c	To Share Capital A/c	Share Forfeiture A/c Dr.
	To Securities Premium Reserve A/c	To Share Capital A/c

After passing the entry of Reissue of Share, the remaining balance of unused share forfeiture amount will be transferred to Capital Reserve A/c

Share Forfeiture A/c
    To Capital Reserve A/c

Preparation of Cash Book

When it is asked to prepare Cash Book in any question, all entries related to Cash will be recorded in the Cash Book and not in journal. This should be double column Cash Book in which Cash and Bank Column are prepared. In journal it is advised to record the entries only related to the adjustment of application money, allotment due and calls due.

Proforma of Cash Book

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
	To Share Application A/c (App. Money received)				By Share Application A/c (Money refunded)		
	To Share Allotment A/c (Allotment received)				By Balance c/d		
	To Share Calls A/c (Calls money received)						

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