# Company Accounts – Issue of Shares

## I. Basic concepts:

1. *What is a Company?*

   A company is an artificial person created by law having separate legal entity with a perpetual succession and a common seal.

2. *What are the different types of companies?*

   a) *Private company:*
      - Minimum 2 members are required to form a Private company.
      - The name of the company ends with the word 'Private Limited'. Ex: ABC Private Limited.
      - Private company cannot offer its shares to public.

   b) *Public company:*
      - Minimum 7 members are required to form a Public company.
      - The name of the company ends with the word 'Limited'. Ex: Indian Oil Corporation Limited.
      - Public company can offer its shares to public by issuing prospectus.

   c) *One Person Company (OPC):*

      OPC has only 1 member / shareholder.

3. *What are the steps to incorporate a company?*

   a) *Promotion:* A group of people decide to start a new company. They are known as 'Promoters'.

   b) *Incorporation / Registration:* A new company should be incorporated / registered as per the procedure mentioned in the Companies Act, 2013 and 'Certification of Incorporation' should be obtained.

   c) *Commencement of Business:* Next, a company should 'Commencement of Business' certificate.

4. *What do you mean by Preliminary Expenses?*

   It means expenses incurred for incorporating the company. Ex: registration fee, legal expenses, etc.

5. *What is a Prospectus?*

   It is document issued by a Public Company to the general public inviting them to subscribe or invest in the company's shares.

6. *What is Share Capital?*

| Organisation Type | Capital | Explanation |
|---|---|---|
| Sole proprietor | Proprietor's capital | Amount brought in by the proprietor to commence his business. |
| Partnership firm | Partner's capital | Amount brought in by the partners to start a business. |
| Public Company | Share capital | Amount collected by a company from public to fund the new business. *Ex: A company needs Rs. 10,00,000 capital. It can divide this amount into 10,000 shares with a face value of Rs. 100 each.* |

7. *What are the different classes of Shares as per the Companies Act, 2013?*
   a) Preference Shares
   b) Equity Shares

   Preference Shares have the following 2 rights over Equity shares:
   - Right to receive dividend before the Equity shares.
   - Right to repayment of capital at the time of winding up before paying to Equity Shares.

8. *What are the different classification of Share Capital from accounting point of view?*

   ***a) Authorised / Nominal / Registered share capital:***
   This is the maximum capital a company can raise from the public for subscription. *Ex: Rs. 10,00,000 divided into 10,000 shares of Rs. 100 each.*

   ***b) Issued share capital:***
   It is that part of the Authorised share capital that has been issued to the public for subscription. *Ex: Out of the authorised capital, the company has issued 5,000 shares of Rs. 100 each and invited the public for subscription.*

   ***c) Subscribed share capital:***
   It is that part of the Issued share capital that has been actually subscribed by the general public. *Ex: Out of the issued capital, the public has subscribed to only 3,000 shares of Rs. 100 each, by filling the application form and paying the application money.*

   Note:
   Say, you are subscribing to 1 share of this company, you will not pay Rs.100 immediately. First, you will be asked to pay only Rs.25 as Application money. Once your application is accepted, 1 share will be allotted to your name. At that time, company will ask you to pay another Rs.25 as Allotment money. The balance Rs.50 will be collected by the company later on as and when it needs the money.

*d) Called-up share capital:*

It is that part of the Subscribed share capital that has been called-up for payment by the company. *Ex: Out the balance Rs.50, the company may need Rs.25. So, it will call-up this money from you.*

*e) Paid-up share capital:*

Paid-up share capital represents the actual amount paid by the investors / shareholders to the company. *Ex: Out of Rs.100, you have so far paid Rs.75, i.e., Application money Rs.25, Allotment money Rs.25 & First call money Rs.25. So, only Rs.25 balance money remains to be paid and will be paid when the company calls for it.*

*f) Calls-in-Arrears:*

Calls-in-Arrears means the amount not received by the company and it is due from the shareholders. *Ex: Now, the company makes the 2nd and Final Call and asks you to pay Rs.15 and you have not paid it yet, this will be treated as Calls-in-Arrears.*

*g) Reserve Capital:*

It is that part of the Subscribed Capital which is reserved for use at the time of winding up of the company. So, the company will not ask the shareholders for this amount until the time of winding up. *Ex: You have so far paid Rs.75 & will be paying Rs.15 as part of 2nd and Final Call also. Total amount you would pay comes to Rs.85. So, out of Rs.100, you would have paid Rs.85 and the remaining Rs.15, company will ask you to pay only at the time of winding up.*

9. *What do you mean by Capital Reserve?*

That reserve which is created out of capital profits is called 'Capital Reserve'. It is similar to 'General Reserve'. While General Reserve can be used for distribution as dividend, Capital Reserve cannot be used for distribution.

**Note:** Students should not confuse 'Captial Reserve' with 'Reserve Capital'. Both are different concepts.

10. *What do you mean by Annual Report?*

Every year, the company will prepare and submit a report to the shareholders called 'Annual Report'. It contains the financial statements, i.e., P&L Account, Balance Sheet, Notes to Account (gives break-up of the amounts shown in the financials), etc.

11. *What do you mean by preliminary expenses?*

Expenses incurred to form a new company is known as preliminary expenses. It includes amount paid to promoters of a company for their services.

12. *What is minimum subscription?*

SEBI prescribes a minimum subscription of 90% of the shares issued.

13. *What is underwriting?*

    It is the process where the underwriter takes the responsibility to subscribe to unsubscribed shares so that the company can successfully achieve full subscription of shares issued. For this, the company will pay a commission to the underwriter, which may be in the form of cash or shares. This helps the company to meet the minimum subscription set by SEBI and make the public issue of shares successful.

    *Ex: XYZ Limited is a public company issuing 10,000 of Rs. 10 each, i.e. Rs.1,00,000. They appoint an underwriter for some commission. Assume that only 6,000 shares are subscribed by the public, the remaining 4,000 shares will be subscribed by the underwriter.*

14. *What is forfeiture of shares?*

    It means cancellation of shares allotted to shareholder due to non-payment of call money.

15. *What is meant by re-issue of forfeited shares?*

    It means that the forfeited shares are sold to other shareholders / new investors. It can be re-issued at par, premium or discount.

# Company Accounts – Issue of Shares

## II. Types of problems & its treatment:

*The following are the types of problems in Company Accounts:*

1. Disclosure of share capital in Balance Sheet & Notes to Accounts
2. Issue of shares for cash
   i. In lump sum
   ii. In instalments
3. Issue of shares for consideration other than cash
   i. On purchase of Assets
   ii. On purchase of Business
   iii. Issue of shares to Promoters
   iv. Issue of shares to Underwriters
4. Issue of shares at
   i. Par
   ii. Premium
5. Over-subscription of shares
   i. *Rejection* of excess application money
   ii. *Pro-rata* allotment
6. Under-subscription of shares
7. Preparation of Cash Book
8. Issue of two classes of shares
9. Calls-in-Arrears
10. Calls-in-Advance
11. Forfeiture of shares
    i. Regular allotment
    ii. Pro-rata allotment
12. Re-issue of forfeited shares

1. *Disclosure of Share Capital in a Company's Balance Sheet*

BALANCE SHEET OF ...

as at ...

| Particulars | Note No. | Rs. |
|---|---|---|
| I. EQUITY AND LIABILITIES<br>Shareholders' Funds<br>Share Capital | <br><br>1 | <br><br>... |

Notes to Accounts

| 1. Share Capital | Rs. | Rs. |
|---|---|---|
| *Authorised Capital* | | |
| ... Equity Shares of Rs... each | | ... |
| ... Preference Shares of Rs... each | | ... |
| | | ... |
| *Issued Capital* | | |
| ... Equity Shares of Rs... each | | ... |
| ... Preference Shares of Rs... each | | ... |
| | | ... |
| *Subscribed Capital* | | |
| Subscribed and Fully Paid-up | | |
| ... Equity Shares of Rs... each | | |
| ... Preference Shares of Rs... each | | |
| Subscribed and Fully Paid-up | | |
| ... Equity Shares of Rs... each, Rs... called up | ... | |
| Less: Calls-in Arrears | ... | ... |
| ... Preference Shares of Rs... each, Rs... called up | ... | |
| Less: Calls-in-Arrears | ... | ... |
| Forfeited Shares Account | | ... |
| Amount to be shown in the Balance Sheet against Share Capital | | ... |

2. *Issue of shares for cash:*

i. *Lump Sum:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| For receiving share application and allotment money | Bank A/c ...Dr<br>To Share Application and Allotment A/c<br>(Application and allotment money received) | Amount received |
| For allotment of shares | Share Application and Allotment A/c ... Dr<br>To Share Capital A/c<br>To Securities Premium A/c<br>(Shares allotted against money received) | <br>Nominal value<br>Premium amount |

ii. *Instalments:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| Application money received | Bank A/c ...Dr<br>To Share Application A/c | Amount received towards application |
| Allotment of shares | Share Application A/c ... Dr<br>To Share Capital A/c | Application money allotted |
| Amount due on allotment | Share Allotment A/c ... Dr<br>To Share Capital A/c | Allotment money due |
| Allotment money received | Bank A/c ... Dr<br>To Share Allotment A/c | Amount received towards allotment |
| First call due | Shares First Call A/c ... Dr<br>To Share Capital A/c | First call money due |
| First call money received | Bank A/c ...Dr<br>To Share First Call A/c | Amount received towards first call |

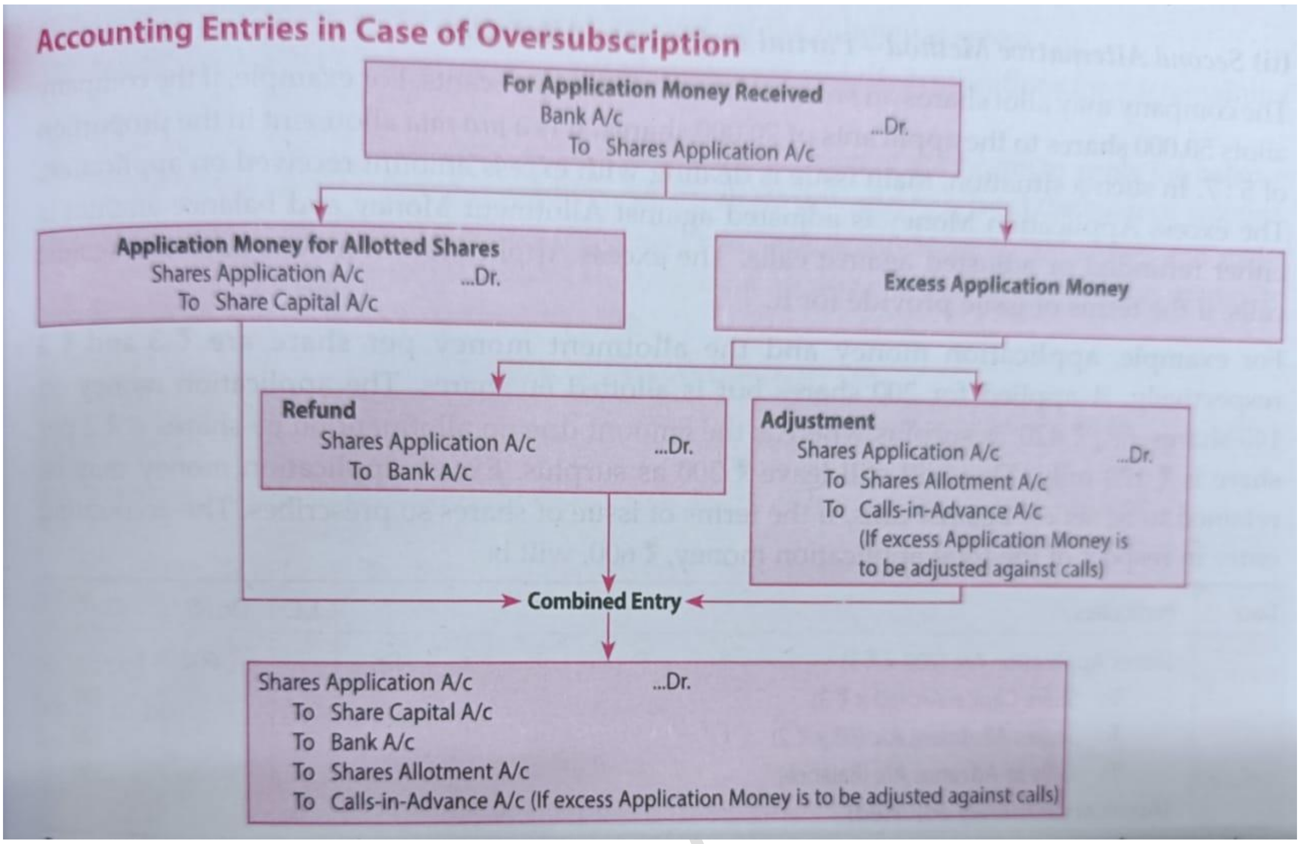
3. *Issue of shares for consideration other than cash:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| i. Purchase of Assets | Sundry Asset A/c (Individually) ... Dr<br>To Vendor A/c<br>.........................<br>Vendor A/c ... Dr<br>To Share Capital A/c<br>To Securities Premium A/c | Purchase price |

| Transaction | Journal Entry | Amount |
|---|---|---|
| ii. Purchase of Business | Sundry Assets A/c (Individually) … Dr<br>Goodwill A/c * … Dr<br><br>To Sundry Liabilities (Individually)<br>To Vendor A/c<br>To Capital Reserve A/c **<br>……………………………………………………………………<br>Vendor A/c … Dr<br>To Share Capital A/c<br>To Securities Premium A/c | Agreed assets value<br>* If PC > Net Assets<br><br>Agreed liabilities value<br>Purchase consideration<br>** If PC < Net Assets |
| iii. Issue of shares to Promoters | Incorporation Expenses or Preliminary Expenses A/c …Dr<br>To Promoter's A/c<br>……………………………………………………………………<br>Promoter's A/c …Dr<br>To Share Capital A/c | Amount due to promoters |
| iv. Issue of shares to Underwriters | Underwriting commission A/c …Dr<br>To Underwriter's A/c<br>……………………………………………………………………<br>Underwriter's A/c …Dr<br>To Share Capital A/c | Amount due to underwriters |

4. *Issue of share at Par & at Premium:*
   - For shares issued at Par – Refer point 2 (ii)
   - For shares issued at Premium, additionally, the Securities Premium A/c will be credited at the respective stage for the premium received.

5. *Over-subscription of shares*




6. *Under-subscription of shares:*
   - All the application for shares are accepted and allotment is made to all the applicants.
   - Company may face the problem of 'Minimum Subscription'.

7. *Preparation of Cash Book:*

   When shares are issued for cash, Cash Book may have to be prepared. Thus:
   - cash transactions are recorded in a Cash Book, and
   - non-cash transactions are recorded in Journal.

8. *Issue of two Classes of Shares:*

   While passing the journal entries, use the prefix 'Preference Shares' and 'Equity Shares' respectively.

9. *Calls-in-Arrears:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| i. Non-receipt of call money | Calls-in-Arrears A/c ...Dr<br>To Relevant Call A/c | Amount not received |
| ii. Receipt of call money subsequently | Bank A/c ...Dr<br>To Calls-in-Arrears A/c | Amount received |

10. *Calls-in-Advance:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| i. Call money received in advance | Bank A/c ...Dr<br>To Calls-in-Advance A/c | Amount received in advance |
| ii. On call money due | Calls-in-Advance A/c ...Dr<br>To Relevant Call A/c | Amount due |

11. *Forfeiture of shares*

| Transaction | Journal Entry | Amount |
|---|---|---|
| i. If shares were issued originally at par | Share Capital A/c ...Dr<br>To Calls-in-Arrear A/c<br>To Forfeited Shares A/c | No. of shares x Called-up value<br>Amount due but not received<br>Amount received so far |
| ii. If shares were issued originally at premium | a. Premium is duly received:<br>Share Capital A/c ...Dr<br>To Calls-in-Arrear A/c<br>To Forfeited Shares A/c<br>.............................................................<br>b. Premium is not received:<br>Share Capital A/c ...Dr<br>Securities Premium A/c ...Dr<br>To Calls-in-Arrear A/c<br>To Forfeited Shares A/c | <br>No. of shares x Called-up value<br>Amount due but not received<br>Amount received so far *less* Premium<br>.............................................................................<br><br>No. of shares x Called-up value<br>Premium not received<br>Amount due but not received<br>Amount received so far *less* Premium |

12. *Re-issue of forfeited shares:*

| Transaction | Journal Entry | Amount |
|---|---|---|
| i. Re-issued at par | Bank A/c ...Dr<br>To Share Capital A/c | Amount received on re-issue |
| ii. Re-issued at discount | Bank A/c ...Dr<br>Forfeited shares A/c ...Dr<br>To Share Capital A/c | Amount received<br>Discount allowed<br>Paid-up value |
| iii. Re-issued at premium | Bank A/c ...Dr<br>To Share Capital A/c<br>To Securities Premium A/c | Amount received<br>Paid-up value<br>Excess amount received on re-issue |

| | |
|---|---|
| iv. Transfer entry of balance in Forfeited Shares A/c | a. *All forfeited shares are re-issued*:<br>Forfeited shares A/c ...Dr [Balance left in Forfeited shares A/c]<br>To Capital Reserve A/c<br>(Gain on reissue transferred to Capital Reserve) |
| | b. *All forfeited shares are NOT re-issued*:<br>*Gain (Profit) on reissued shares is calculated as follows:<br>$= \left( \frac{\text{Total amount forfeited}}{\text{No. of shares forfeited}} \times \text{No. of shares reissued} \right) - \left( \text{Amount with which Forfeited Shares Account was debited at the time of reissue of such shares } \textit{Or} \text{ Reissue Discount} \right)$ |