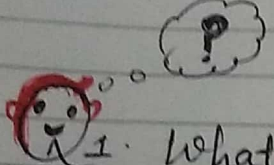
Company Accounts

Issue of shares



Q1. What do you mean by a company?

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

⇓

Characteristics of Company

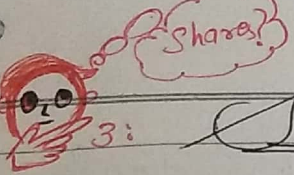
- **Separate Legal Entity** → It is distinct & separate from its members
- **Perpetual Existence** → Shareholders may come, shareholders may go, but the company goes on forever.
- **Common Seal** → The common seal acts as official signature of company
- **Limited Liability** → Liability of shareholder is limited to unpaid value of his share.
- **Transferability of shares** → The shares of company are freely transferable subject to certain conditions.
- **Separation of Management from ownership**

- Separation of management from ownership : Shareholders are the true owner of the company but the company is managed by Board of Directors elected by shareholders.

Q2 → What are the different kinds of a company?

COMPANY

- UNLIMITED COMPANY
  - Company in which there is no limit of liability of its members
- COMPANY LIMITED BY GUARANTEE
  - In such case, the liability of the member is limited to the extent of the guarantee given by them
- COMPANY LIMITED BY SHARES
  - PRIVATE COMPANY
    - They cannot invite the public to subscribe its shares
    - Maximum No. of members can be 50. etc.
    - Minimum 2 members
  - PUBLIC COMPANY
    - It can invite the public to subscribe its shares
    - No limit of maximum members
    - Minimum 7 members



3: SHARES: → हिस्सा

Total capital of the company is divided into units of small denominations. each such unit is called 'Share'

for eg: Total share capital of the company: ₹10,00,000
- Divided into 10000 units of ₹10 each.

↓

So, this each unit of ₹10 will be called a 'share' (of ₹10 each).

•> Nature of share → shares of a company are treated as 'goods' under the 'Sale of goods Act, 1930'. i.e. it can be sold, bought, hypothecated etc.

TYPE OF SHARES

Preference shares

- These are the shares which carry the following two rights –

① Right to Receive dividend @ Fixed Rate before equity shares.

② When the company is wound up, they have a right to return of capital before equity shares

Equity shares

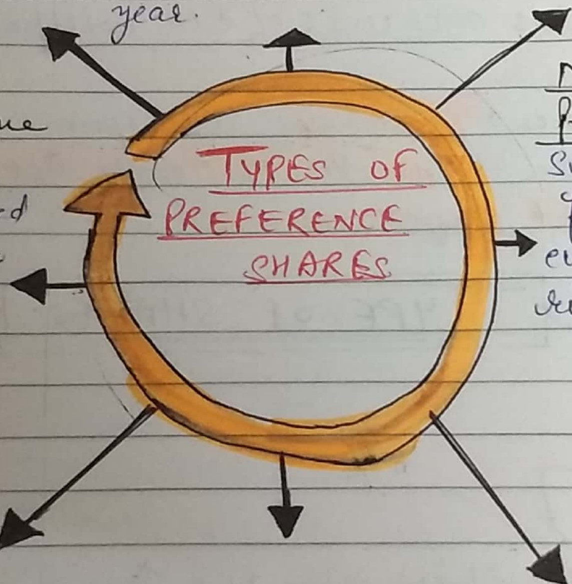
These are the shares which are paid dividend only when profits are left after the payment of Dividend to preference share holders. In other words there is no fixed rate of Dividend on them.

Types of Preference Shares

Comulative Preference Shares: Holder of these shares are entitled to recover arrears of dividend, before any dividend is paid to equity shares.

Non Comulative Prefence Shares
The holders get fixed dividend out the profit of each year. If no dividend is declared due to any reason, they cannot claim unpaid dividend in any subsequent year.

Participating Prefence Shares: These shares in addition to the fixed dividend, they carry a right to participate in surplus ~~dividend~~ profits.



Non Convertible Prefence Shares: When the holders have not conferred the right to getting their shares converted into Equity shares.

Non Participating Prefence Shares:
Such shares get only fixed rate of dividend every year & do not carry any right to participate in surplus profits.

Convertible Prefence shares: Holders of these shares have a right to get their prefence share converted into Equity shares.

Irredemable Prefence Share
The capital of such shares cannot be refunded before winding up.

Reedemable Prefence Shares
Such shares are those which will be repaid by the company within stipulated period of time.

4: What is Share Capital:

Capital raised by the company by issue of shares is known as share capital. since there canbe many shareholders, and company cannot maintained separate Account for each individual - So There is one consolidate capital Account called "Share Capital Account" is maintained.

Kind of share capital

1. **Authorised, Registered or Nominal Capital**: It is stated in memorandum of Association. This is the maximum Capital for which company is authorised to issue shares during its lifetime.

2: **Issued Capital**: That part of Authorised capital which is actually offered to the public for subscription.

3: **Subscribed Capital**: That part of Issued Capital which has been actually subscribed for by the public.

4: **Called up Capital**: only apart of the face value of a share maybe called by the directors from the shareholders. eg. Director can call ₹ 60 per share on 1200 shares of ₹ 100 each.

5. **Paid up Capital**: It is that portion of called up capital which has been actually received from the shareholder.

6: **Reserve capital**: It is that portion of uncalled capital which shall not be called up by the company except ~~in the event of winding up~~. It is available only for the creditors on the winding up of the company.

Presentation of share capital in Company's Balance Sheet

As per Revised schedule III of the Companies Act 2013, the disclosure is as follows—

Balance sheet of ....
as at ....

Equity and Liabilities	Note No.	₹	₹
Shareholder's fund			
(a) Share Capital*	1		
(b) Reserve & Surplus			
(c) Money received against share warrants			
:			

*As per Revised schedule III, disclosure requirements pertaining to share capital are to be provided in notes to Accounts—

Notes to Accounts:

Particulars	₹	₹
(1). Share Capital		
a) Authorised Capital		
______ shares of ₹ ____ each		
b) Issued Capital		
______ shares of ₹ ____ each		
(c) Subscribed Capital		
______ shares of ₹ ____ each.		
(d) Called up Capital		
______ shares of ₹ ____ each, ₹ ____ per share called up		
2. Paid up capital		
Called up capital (−) calls in Arrear (+) forfeited shares.		

Note: Difference b/w Reserve Capital & Capital Reserve

• Reserve capital is that portion of uncalled capital that cannot be called up, except in the event of winding up of the company.

• Capital Reserve is a "Reserve" which is created out of capital profits. such as Profits on sale of fixed Assets, profit on Revaluation etc. These profits are not earned in the normal course of business.

Issue of shares

Shares can be issued

- For Cash
  - By Private placement
    - Shares are not offered to the public in general through public issue but offered to a selected group of persons.
  - By public subscription.
- For consideration other than cash

Preliminary expenses:

Expenses incurred on formation of company are termed as Preliminary expenses. Such expenses may be written off against security premium. Otherwise may be written off from P&L gradually over some period.

Entries for Issue of shares in the books of Accounts

Four steps for the issue of shares to the public

$\boxed{\text{Step 1: To Issue prospectus}}$ → $\boxed{\text{Step 2: To Receive Application}}$ → $\boxed{\text{Step 3: To make Allotments}}$ → $\boxed{\text{Step 4: To make calls}}$

FIRST STEP: Issue of prospectus → No journal entry in the books of Accounts

1L / ₹10

Second step: To Receive Application

(1) On Amount received on application

Bank A/c Dr.

To Share Application A/c

(Being Application money received on 1L shares at the rate of ₹ ___ per share).

(2) (a) When allotment made, share application money transferred to share Capital A/c.

Share Application A/c Dr.

To Share Capital A/c

(Being Application money on alloted shares transferred to share Capital A/c).

(b) When Allotment not ~~done~~ made to some of the applicants

Share Application A/c Dr.

To Bank A/c

(Being Application money returned on unalloted shares).

2/ — 1 Application
2. Allotment

Step 3: To make Allotments

(a) Share Allotment A/c Dr. 2L
To Share Capital A/c 2L
(Being Amount due on allotment on ____ shares at the rate of ₹ ____ per share).

(b) on Received of Allotment money.

Bank A/c Dr.
To Share Allotment A/c
(Being amount received on allotment on ____ shares at the rate of ₹ ____ per share)

Step 4: To make Calls

(A) Entries for first call ₹1 first

(i) When shareholders are informed to pay the first call.

Share first call A/c Dr. 1L
To Share Capital A/c 1L
(Being first call due on ____ shares at the rate of ₹ ____ per share).

(ii) On Receipt of first call money.

Bank A/c Dr
To Share first call A/c
(Being share first call money Received ____ shares at the rate of ₹ ____ share).

Issue of shares for consideration other than cash

(1) Issue of shares to promoters:

Incorporation cost (or) formation Exp A/c Dr.
    To share Capital A/c
(Being share ~~paid~~ issued to promoters).

(2) Issue of shares for purchase of Asset:

(a) When asset is purchased:

Asset A/c Dr.
    To Vendor's A/c
(Being Asset purchased).

(b) When shares are issued

Vendor's A/c Dr
    To Share Capital A/c
(Being shares issued to Vendor against purchase of Assets).