CBSE Quick Revision Notes and Chapter Summary

Class-12 Accountancy

Chapter 7 – Share Capital

Introduction

A company is an Artificial Person created by law, it is invisible & Intangible and not affected by any change in its members. In India companies are formed and Registered by the Indian companies Act 1956. A company is a Separate Legal entity and not affected by the death or insolvency of its members.

Companies registered under the Indian companies' act 1956 have a common seal which should be stamped on each and every document of the company.

Companies Act 1956 defines company as :

(i) "company" means a company formed and registered under this Act or an existing company as defined in clause (ii):

(ii) "existing company" means a company formed and registered under any of the previous companies laws

According to **Lord Justice Lindley,** " It is an association of persons who contribute money or money's worth to a common stock and employ it for some common purpose."

According to **Justice Marshall,** "A corporation is an artificial being invisible, intangible and existing only in the contemplation of law."

"A company is an artificial person, created by law, having separate entity with perpetual succession and a common seal." **-- L.H.Haney**

"A limited company is an entity in the eyes of the law and can sue and be sued, hold property, deal with property , etc., in its own name." **-- J.R.Batliboi**

Features/Elements/Characteristics of a company

1. **Incorporated Association:** In India a company can be created under the Companies Act 1956. A company is treated as an artificial legal person in the eyes of the law. Therefore registration of company is compulsory under the companies Act.

2. **Separate Legal Entity and Perpetual Existence :** A company has a distinct legal entity, separate from its members. Any change in the members or Death or Insolvency of its

members will not affect the working of the company. As an legal artificial person a company can act in its own name i.e. company can contract, acquire property in its own name, sue others and can be sued by others.

3. **Limited Liability:** Every shareholder has limited liability only up to the amount he has contributed for the shares allotted to him. A shareholder having fully paid up shares no longer has any liability. In simple words, no shareholder of the company is liable to be called upon to contribute any sum beyond the face value of the actual shares.

4. **Transferability of shares:** A shareholder contributes to the capital of the firm/company by subscribing to the shares of the company. in case of Public Ltd. Company Shareholders can transfer such shares without the consent of the other members but in Private Ltd. Companies it is restricted.

5. **Common Seal :** A company is a legal artificial person and not a natural person, it cannot sign its documents like a natural person. Hence a company should have a 'Common Seal' to enable it to sign its documents. In simple words common seal of the company is affixed on each and every document of the company.

Types of the Companies

1. **Statutory Company :** Only those companies are called statutory companies which are created through a special Act of Parliament. These companies are not suppose to use the word 'Limited' with their name. for example Reserve Bank of India.

2. **Government Companies:** According to Section 617 of The Companies Act, 1956. "A government company means any company in which not less than51% of the paid-up capital is held by the Central Government and partly by one or more State Governments, or includes a company which is a subsidiary of a Government Company."

3. **Registered Company :** In India only those companies are called Registered companies which are Registered under the Companies Act 1956.

4. **Holding Company:** A holding company is a company which owns controlling shares in another company or companies (assuming all of these companies are corporations), or a corporation organized to own and control other corporations. This control usually comes through owning a controlling interest (more than 50 percent) of the stock of the other companies, which are considered subsidiary companies.

5. **Subsidiary Company:** A company having more than half of its stock owned by another company.

6. **Public Company :** i) "public company" means a company which is not a private company. ii) Paid up capital of a public company should not be less than Rs.5 Lakhs. iii) A private company which is a subsidiary of a public company.

7. **Private Company :** According to Companies Act 1956, a "private company" means a company which, by its articles,—

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

(b) Limits the number of its members to fifty not including —

(i) Persons who are in the employment of the company, and

(ii)Persons who having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased; and

(c) Prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company; Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this definition, be treated as a single member.

Note: Shares allotted by the private company is called issued capital of the company.

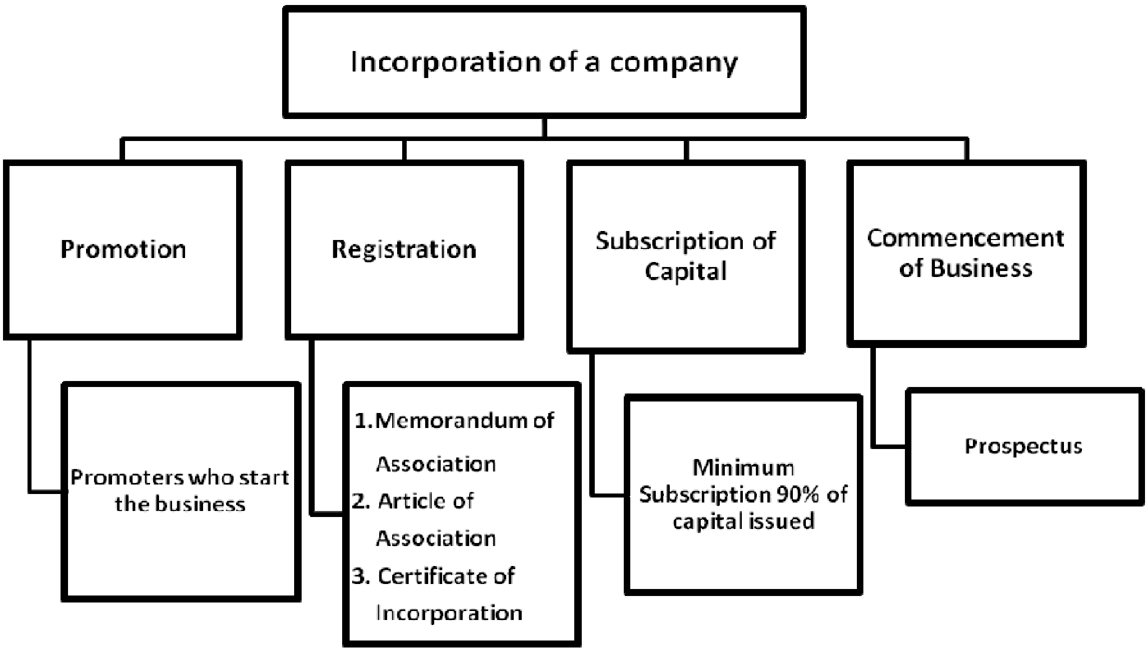
Distinction between partnership and a Joint Stock Company

Basis	Partnership	Joint Stock company
Formation	Partnership is the relation between two or more persons. Partnership Act 1932 is applicable.	A company is an artificial person, Registered under the Companies Act 1956
Limit of members	There should be at least two persons to start a partnership business. Maximum number of partners can be 10 in case of banking business and 20 in case of any other business.	For public company minimum number of members is 7 but no limit is fixed for maximum. For private company minimum number of members is 2 and maximum number should not be more than 50
Management	In partnership each and every partner takes part in management	Only directors take part in the management
Winding up	Partnership business can be wound up by the mutual consent of the partner or by the order of the court	Companies Act 1956 is followed to close the business

Distinction between Private Company and Public Company

Basis	Private Company	Public company
Limit of members	For private company minimum number of members is 2 and maximum number should not be more than 50	For public company minimum number of members is 7 but no limit is fixed for maximum.
Prospectus	Private companies are not supposed to issue any prospectus	Public company invites the public to subscribe its shares by issuing the prospectus
Share Transfer	Approval of directors is required to transfer the shares	No Restriction on Transfer of shares

Incorporation of a company



Prospectus : -

" Prospectus means an invitation to the public for the subscription of its shares or debentures." --- Section 2 (36) of the Companies Act 1956

Commencement of Business

It is compulsory for a company to receive the Certificate for Commencement of business, without this certificate company cannot start its business. Following conditions are compulsory to fulfill.

a) Company has been filed with the Registrar of companies the prospectus or a statement in lieu of prospectus.
b) Company should declare that shares payable in cash are allotted with the amount of minimum subscription (Which is mentioned in prospectus)
c) Every director of the company has paid to the company, on each of the shares taken or contracted to be taken by him and for which he is liable to pay in cash.
d) It will be certified by the director or company secretary that all the requirements of the companies act 1956, are complied with.

Minimum Subscription

No allotment shall be made of any share capital of a company offered to the public for subscription, unless the amount in the prospectus, as the minimum amount, which in the opinion of the Board of directors, must be raised by the issue of share capital in order to meet the need of the business operations of the company relating to :

1. To Buy the Assets for the company
2. To meet the preliminary expenses and commission payable
3. To pay the money borrowed (Loan) if taken for the Purchase of assets or to pay the preliminary expenses and commission
4. To Meet the working capital requirements
5. To Meet the other expenditure of the business operations of the company

Minimum Subscription [Guidelines issued by SEBI]

If the company does not receive the minimum subscription of 90% of the issued amount on the date of closure of the issue, or if the subscription level falls below 90% after the closure of issue, the company shall forthwith refund the entire subscription amount received. If there is a delay beyond 8 days after the company becomes liable to pay the amount, the company shall pay interest at the rate of 15% per annum for the period of delay.

Note : This rule is not applicable when securities are offered for sale

Share Capital of a Company

Students must remember that a company is an Artificial Legal person. A company does not have its own capital. It is raised by its shareholders by subscribing to the shares of the companies. Share capital is that money which is contributed by its shareholders.

Types of Share Capital

1. **Authorized/Registered/Nominal capital :** This capital is represented by the 'Capital Clause' of the Memorandum of Association by which the company is Registered. Only after the Registration a company can issue its shares. Company can issue shares fully or partially with the specified denomination i.e. Rs.10, Rs.50, Rs.100 etc.

2. **Issued Capital:** Issued Share Capital is the total of the share capital issued to shareholders. This may be Equal or less than the authorized capital. Students must remember that issued capital is that part of the authorized capital which is offered to the public for subscription, including the shares offered to the vendors for subscription other than cash and shares allotted as bonus shares. Some part of authorized capital may be kept within the company which can be offered later which is known as 'Unissued Capital'.

3. **Subscribed Capital:** Subscribed capital is that portion of the issued capital which has been subscribed by the public. This may be equal or less than the issued share capital as there may be capital for which no applications have been received yet ('unsubscribed capital').

4. **Called-up Capital :** Called-up capital is that portion of the subscribed capital which shareholder will pay to the company on the shares allotted to them. For example if the face value of a share is Rs.20 and the company has called up only Rs.16 per share, in such a case the called up capital is Rs.16 and uncalled capital is Rs.4, which may be collected by the company later.

5. **Paid-up Capital:** Paid up Share Capital is that amount of share capital which is paid by the shareholders. Paid up capital may be equal or less than the called up capital as payments may be in arrears which is known as Calls-in-Arrears. In simple words, it is the actual amount paid by the shareholders.

6. **Uncalled Capital :** Uncalled capital is that portion of the subscribed capital which has not yet been called-up in the beginning, company may called this amount from the shareholders any time according to the need of funds.

7. **Reserve Capital :** Reserve Capital is that Part of the authorized capital which has not been called up by the company. Reserve capital helps in paying the creditors' at the time of liquidation.

Difference between Capital Reserve and Reserve Capital

Capital Reserve	Reserve Capital
1. Capital Reserves are Created out of the capital profits. (Capital profits are those, which are not earned by normal activity of the business) 2. Capital Reserves are used for a specific Purpose 3. Capital Reserves are meant to meet	1. Reserve Capital is that Part of the authorized capital which has not been called up by the company 2. Reserve capital helps in paying the creditors' at the time of liquidation. 3. Reserve capital can be used at the

the legal requirements 4. It is shown in the Balance Sheet under the head of 'Reserve and surplus'	time of liquidation of the company. 4. It is not shown in the balance sheet

What is a Share?

A share or stock is a document issued by a company, which entitles its holder to be one of the owners of the company. A share is issued by a company or can be purchased from the stock market. A company is an Artificial Legal person and does not have its own capital. It is raised by its shareholders by subscribing to the shares of the company.

In simple words, the total share capital of the company is divided into units of small denomination (Rs.10 , Rs.50 or Rs.100 etc) each unit is known as Share.

A 'Share' represents a unit into which capital of a company is divided.

Kinds of Shares :

1. **Preference Shares**
2. **Equity Shares**

Meaning of Preference Share

Preference Share means, that part of the share capital of the company which fulfils both the following requirements, namely

- Preference with respect to dividend at a fixed rate or of a fixed amount.
- Preference with respect to return of capital in case of winding up.

Section 85 (1) "Preference share capital" means, that part of the share capital of the company which fulfils both the following requirements, namely:-
(a) that as respects dividends, it carries or will carry a preferential right to be paid a fixed amount or an amount calculated at a fixed rate, which may be either free of or subject to income-tax; and
(b) that as respect capital, it carries or will carry, on a winding up or repayment of capital, a preferential right to be repaid the amount of the capital paid-up or deemed to have been paid up, whether or not there is a preferential right to the payment of either or both of the following amounts namely :-
(i) any money remaining unpaid, in respect of the amounts specified in clause (a), up to the date of the winding up or repayment of capital; and

(ii) any fixed premium or premium on any fixed scale, specified in the memorandum or articles of the company.

Types of Preference Share

Cumulative Preference Shares :

It carries the right of dividend, which is to be paid out of the current year profit, but if current year profit is not sufficient then it will be paid out of future profit

Non-Cumulative Preference Shares :

It carries the right of dividend, which is to be paid out of the current year profit, only.

Participating Preference Shares :

It carries the right of fixed dividend, they are also allowed to participate in the surplus profits (if any) once the equity shareholders are paid off.

Non-Paricipating Preference Shares :

It carries the right of fixed dividend only, they are not allowed to participate in the surplus profits.

Redemable Preference Shares :

These shares are issued with a condition that company will make the repayment on these shares after a fixed period or at the time of liquidation of the company (whichever is earlier

Non-Redemable Preference Shares :

These shares are not issued with any condition of redemption.

Convertible Preference Shares :

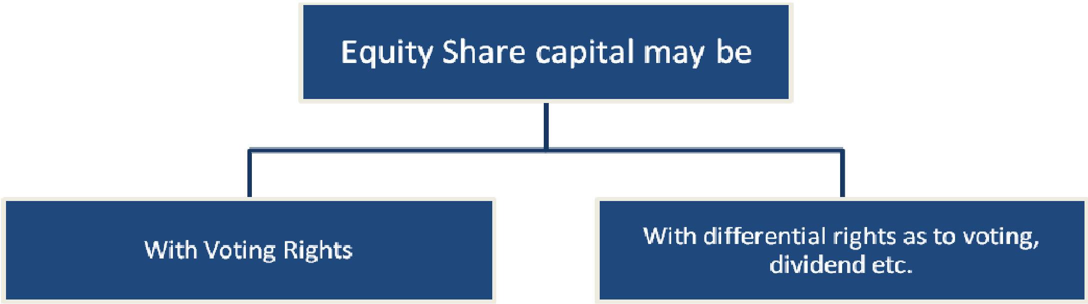
These shares can be converted into the equity shares (with term & conditions)

Non-Convertible Preference Shares :

These shares can not be converted into the equity shares

Equity Share : "Equity share capital" means, with reference to any such company, all share capital which is not preference share capital. Equity share holders are paid to the whole of the profits made by the company after the fixed dividends payable on the preference shares.

- Equity share is also known as ordinary shares
- Dividend on these shares is not fixed
- They are allowed to take part in the management of the business
- At the time of winding up Equity share holders are repaid after the preference shareholders.



Distinguish between a preference share and an equity share

Basis	Preference Share	Equity Share
Dividend Right	This is the right of the preference share holders to get the dividend before it is paid to the equity share holders	They are allowed to Receive the dividend only after the preference share holders.
Dividend Rate	Dividend Rate is fixed on preference shares	Dividend rate is not fixed on the equity shares.
Voting Rights	They can vote only in special circumstances (if necessary)	They have voting rights in all circumstances
Convertibility	These shares can be converted into the equity shares (with terms & conditions)	These shares cannot be converted

Issue of Shares for Cash

There may be two situations under this case:

1. Shares Payable in Lump Sum
2. Shares payable in installments

Shares Payable in Lump Sum: Company may ask its shareholders to pay the lump sum amount on the shares subscribed by them. These shares are mostly issued at par (Original Price) and Payable within one installment.

In such a case following Journal entries are recorded:

Transaction	Journal Entry
When Application Money is Received	Bank A/c Dr. To Share Application A/c (Being Application Money Received)
When shares are allotted and Application money is transferred to Sh. Capital A/c	Share Application A/c Dr. To Share Capital A/c (Being Application money transferred to Sh. Capital A/c and Shares allotted to the shareholders)

Issue of Shares at Par

Meaning : When a company issue its share at the face value (Original price) it is known as issue of shares at Par. For example if the Face value of a share is Rs.20 and the issue price of share is also Rs.20.

Following Journal entries are recorded at the time of issue of shares:

S. No.	Transaction	Journal Entries
1.	When Application Money is Received	Bank A/c Dr. To Share Application A/c (Being Application Money Received)
2.	When shares are allotted and Application money is transferred to Sh. Capital A/c	Share Application A/c Dr. To Share Capital A/c (Being Application money transferred to Sh. Capital A/c)
3.	When Allotment is due	Share Allotment A/c Dr. To Share Capital A/c (Being Allotment money due)
4.	When Allotment Money is Received	Bank A/c Dr. To Share Allotment A/c (Being Allotment money Received)

5.	When Call amount is due	Share First Call A/c Dr. To Share Capital A/c (Being Call money due)
6.	When Call Money is Received	Bank A/c Dr. To Share First Call A/c (Being Call money Received)

Issue of shares at Premium

Meaning : When a company issue its share at more than the face value (face value + Premium) it is known as issue of shares at Premium. For example if the Face value of a share is Rs.10 and the issue price of share is also Rs.12. in such a case Rs.10 is the Face value of the share and Rs. 2 is the Premium.
Premium may call by the company on Application, Allotment or Calls but if nothing is mentioned in the question about premium it should be taken at allotment.

Utilisation of Securities Premium

Section 77 A and 78 of the Companies Act 1956, lays down condition for which amount of premium can be utilized:

1. In paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
2. In writing off the preliminary expenses of the company;
3. In writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
4. In providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company.
5. In Purchasing its own share (Buy Back of Shares) [Section 77 A]

Note : Securities Premium cannot be distributed as dividend

Following Journal Entries are passed for this purpose:

Premium on Application	Premium on Allotment	Premium on Call
Bank A/c Dr. To Share Application A/c (Being Application Money Received) Share Application A/c Dr. To Share Capital A/c	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c (Being Allotment money due) Bank A/c Dr.	Share First Call A/c Dr. To Share Capital A/c To Securities Premium (Being Call money due) Bank A/c Dr. To Share First Call A/c

To Securities Premium A/c (Being Application money transferred to Sh. Capital A/c)	To Share Allotment A/c (Being Allotment money Received including premium)	(Being Call money Received)

Note : Sometimes Premium is involved in Application and allotment or allotment and call or first call and second call in such a case premium should be adjusted partly and necessary journal entries should be passed.

Issue of Shares at Discount

Meaning : When a company issue its share at less than the face value (face value - Discount) it is known as issue of shares at Discount. For example if the Face value of a share is Rs.20 and the issue price of share is also Rs.18. in such a case Rs.20 is the Face value of the share and Rs. 2 is the Discount.

Conditions for issue of Shares at Discount

Section 79 of Companies Act 1956 has laid down certain conditions subject to which a company can issue its shares at a discount. These conditions are as follows:

- At least one year must have elapsed from the date of commencement of business;
- Such shares are of the same class as had already been issued;
- The issue of shares at a discount is authorized by passing an ordinary resolution in its General meeting and the approval of the court is obtained.
- Discount should not be more than 10% of the face value of the share and if the company is interested to give the discount more than 10%, in such a case company should obtain the sanction from the Central Government.
- The company shall issue shares at discount within two months from the date of approval by the Company Law Board.
- Prospectus relating to the issue of the shares should mention the particulars of the discount allowed on the issue of the shares.

Journal Entries in this case: First two entries will be same

Share Allotment A/c Dr. (Amount of allotment)
Discount on issue of Shares A/c (Amount of Discount)
To Share Capital A/c
(Being Allotment due)

Bank A/c Dr.
To Share Allotment A/c
(Being Allotment money received after deducting the discount)

Issue of Shares for Consideration other than Cash

Following Journal entries are recorded for this purpose:

i) When Asset is Purchased :

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

ii) When Shares are issued at Par to the Vendor :

Vendor's A/c Dr.
To Share Capital A/c
(Being shares issued to the Vendor)

If issued at Premium :

Vendor's A/c Dr.
To Share Capital
To Securities Premium

If issued at Discount :

Vendor's A/c Dr.
Discount on Issue of Shares A/c Dr.
To Share Capital A/c

When Cash and Shares both are given to the Vendor:

Vendor A/c Dr.
To Bank A/c
To Share Capital A/c

Case 2. When business is Purchased

Accounting Treatment

1. On purchase of Business : Sundry Assets A/c
Goodwill A/c*
To Liabilities A/c
To Vendor A/c**
To Capital Reserve***

- If credit side is more, difference shall be debited to Goodwill A/c.
- If vendor amount is not given (Assets – Liabilities) = Vendor Amount
- If debit side is more, difference shall be credited to Capital Reserve A/c

(Either Goodwill or Capital Reserve A/c will appear at a time)

2. On issue of shares : See Previous Page

When Shares are issued at Par to the Vendor :

Vendor's A/c Dr.
To Share Capital A/c
(Being shares issued to the Vendor)

If issued at Premium :

Vendor's A/c Dr.
To Share Capital
To Securities Premium

If issued at Discount :

Vendor's A/c Dr.
Discount on Issue of Shares A/c Dr.
To Share Capital A/c

When Cash and Shares both are given to the Vendor:

Vendor A/c Dr.
To Bank A/c
To Share Capital A/c

Calls in Arrears

Meaning : When a shareholder does not pay the Allotment or calls amount on time it is known as calls in arrears or unpaid calls. Interest is charged on calls in arrears.

Treatment in Balance Sheet: The Amount of Calls in arrears will be deducted from the Called up capital (to know the paid up capital) while preparing notes to accounts..

If Calls in Arrears account is maintained by the company following additional journal entry should be recorded.

Calls in Arrears A/c Dr.
To Share 1st Call A/c
To Share 2nd & Final Call A/c
(Being unpaid calls transferred to calls in arrears A/c)

- When The Article of Association of the company is not silent, it allows The Directors to charge the rate of interest at stipulated rate on calls in arrears.
- When the Article of Association of the company is silent for interest on calls in arrears, in such a case Company should follow the Rules of Table A.
- According to Table A Rate of interest should not be more than 5% p.a.

When call money which was considered as calls in arrear is received with interest, in such a case interest received will be credited as income for the company.

Bank A/c Dr.
To Calls in Arrears A/c
(Being amount of calls in arrears received)

a) **For Interest due on calls in arrears**
Shareholders A/c Dr.
To Interest on Calls in Arrears A/c

b) **For Receipt of Interest on Calls in Arrears**
Bank A/c Dr.
To Shareholders A/c

c) **For Transferring Interest to P/L A/c**
Interest on calls in arrears A/c
To P/L A/c

Note : if the question is silent about charging interest on calls in arrears, No need to make the Journal entry for calls in arrears and interest.

DISTINCTION BETWEEN CALLS IN ARREARS & CALLS IN ADVANCE

Basis	Calls in Arrears	Calls in Advance
Meaning	Amount of calls not paid by the shareholders on due date	Amount of calls paid by the shareholders in advance
Interest as Per Table A	interest should not be exceed 5% p.a.	interest should not be exceed 6% p.a.
Income/loss	Interest received on calls in arrears is the income for the company	Interest paid on calls in advance is the loss for the company
Treatment in B/S	It is deducted from the called up capital in the B/S (to know the paid up capital)	It is shown in the liability side of B/S under the heading 'Share Capital'

Preparation of Cash Book:

When students are asked to prepare the cash book in any question, all entries related to Cash will be recorded in the Cash Book and not in the Journal. This is the Double Column Cash Book in which Cash and Bank Columns are prepared.

Performa of Cash Book:

Cash Book (Bank Column)

Date	Particulars	L.F	Amount	Date	Particulars	L.F	Amount
	To Sh. Application A/c (Application Money Received) **To Sh. Allotment A/c** (Allotment Money Received)		**xxxx** **xxxx**		**By Balance c/d**		**xxxx**

	To Sh. First Call A/c (First Call Money Received) **To Sh. Final Call A/c** (Final Call Money Received)		xxxx xxxx				

When shares are issued to The Promoters

Promoters are those persons, firms or companies who are involved in setting up and funding a new company. Remuneration May be paid to the promoters in the form of cash or shares. When shares are issued to the promoters following entry will take place :

Goodwill A/c Dr.
To Share Capital A/c
(Being shares issued to promoters)

Alternative :

Incorporation Costs or Formation Expense A/c Dr.
To Share Capital A/c
(Being Shares issued to the promoters)

Note : Students must Remember here the Accounting Standard 10 According to Which Goodwill will be recorded in the books only if some money or money worth is paid for goodwill.

Oversubscription

In case of well managed and financially strong companies it has been observed that excess applications are received by the companies for the subscription of shares than the number of shares offered for subscription. In such a case there are three options available to the directors of the company.

1. **Reject the Excess Applications:** in this case directors may reject the excess applications and excess application money received will be paid back to the applicants.
2. **Allotment on Pro-rata basis:** The directors may allot the shares on pro-rata basis. For example Ram has applied for 100 shares but company has issued only 70 shares on pro-rata basis and money of 30 shares will be adjusted on the allotment. (In this case applicants do not get the full shares applied by them.

3. **Combination of above two alternatives:** This is combination of first two methods where some of the excess applications are rejected by the company and pro-rata allotment is made to the remaining applicants. Options available in this case are :
   - Some of the excess applications may be rejected

- Some applicants may get full allotment
- Some Applicants may get allotment on pro-rata basis

Case 1. When Excess Applications are Rejected

Accounting Treatment: Following Journal entries are recorded in this case:

1. Bank A/c Dr.
   To Share Application A/c
   (Being application money received on …. shares @ Rs. _ per share)

2. Share Application A/c Dr.
   To Share Capital A/c
   To Bank A/c (Money refunded)
   (Being Application money transferred to Sh. Capital A/c and money refunded on shares rejected)

3. Share Allotment A/c Dr.
   To Share Capital A/c
   (Being Amount due on the allotment)

4. Bank A/c Dr.
   To Share Allotment A/c
   (Being Allotment money received)

Case 2. When Pro-rata allotment is made

Accounting Treatment: Following Journal entries are recorded in this case:

1. Bank A/c Dr.
   To Share Application A/c
   (Being application money received on …. shares @ Rs. _ per share)

2. Share Application A/c Dr.
   To Share Capital A/c
   To Sh. Allotment A/c (Money adjusted on allotment)
   (Being App. money transferred to Sh. Capital A/c and excess adjusted in the allotment)

3. Share Allotment A/c Dr.
   To Share Capital A/c
   (Being Amount due on the allotment)

4. Bank A/c Dr.
   To Share Allotment A/c
   (Being Allotment money received after deducting the money adjusted)

Case 3. Combination of above two alternatives

Accounting Treatment: Following Journal entries are recorded in this case:

1. Bank A/c Dr.
   To Share Application A/c
   (Being application money received on _ _ shares @ Rs. _ per share)

2. Share Application A/c Dr.
   To Share Capital A/c
   To Sh. Allotment A/c (Money adjusted)
   To Bank A/c (Money refunded)
   (Being Application money transferred to Sh. Capital A/c, Excess adjusted towards the Allotment and money refunded on shares rejected)

3. Share Allotment A/c Dr.
   To Share Capital A/c
   (Being Amount due on the allotment)

4. Bank A/c Dr.
   To Share Allotment A/c
   (Being Allotment money received after deducting the adjusted money)

Entry No. 2 May be changed in the following conditions:

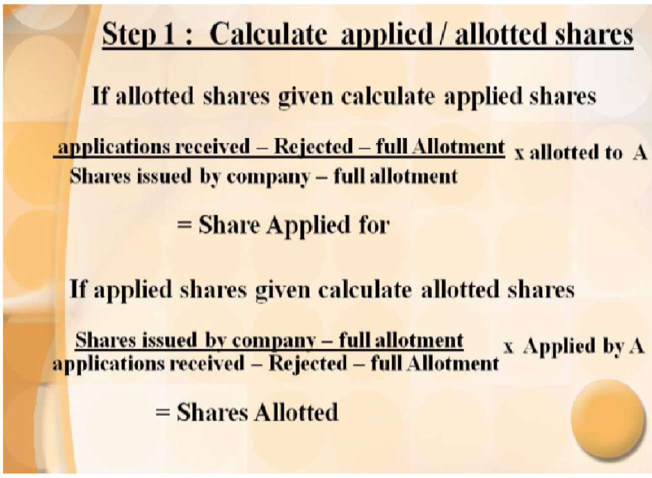
When Excess money is adjusted in allotment and calls	When Excess money is adjusted in allotment and calls and Remaining Excess balance money is refunded (if any)
Share Application A/c Dr. To Share Capital A/c To Sh. Allotment A/c To Calls A/c **Note :** Call may be first call or both first and second call (Final call)	Share Application A/c Dr. To Share Capital A/c To Sh. Allotment A/c To Calls A/c To Bank A/c

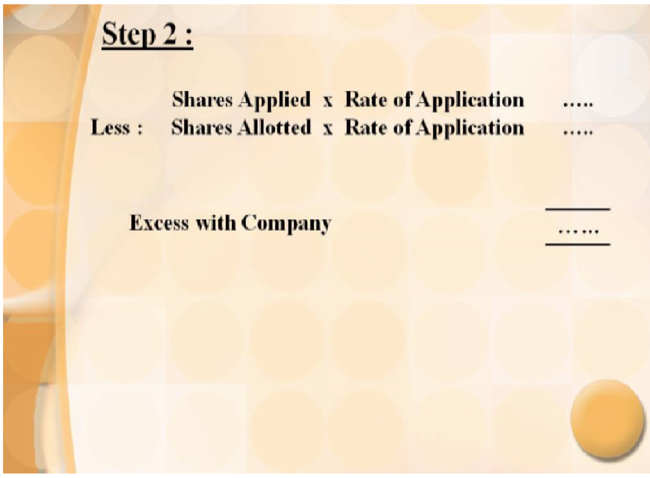
Calculation of Allotment Money

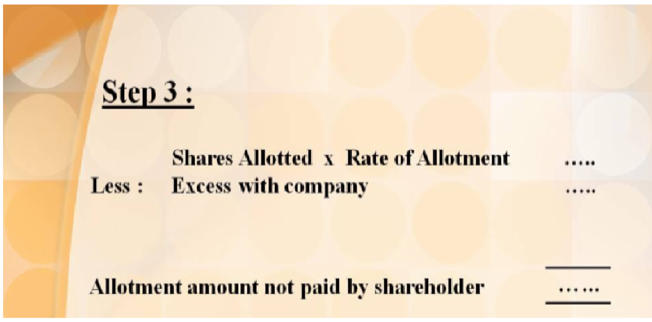
Use the following steps if these two conditions are satisfied :

a) **There is Pro-rata Allotment to that shareholder**
b) **Allotment is not paid by the shareholder**

If above two conditions are satisfied use these steps:







scription. Mostly this is happen in the case of new company or a company with low goodwill. If a company receives applications less than 90% of offered shares, in such a case issue will be cancelled and money will be refunded to the applicants.

Distinction between Over Subscription and under subscription

Basis	**Oversubscription**	**Under subscription**
Meaning	Excess applications are received by the companies for the subscription of shares than the number of shares offered for subscription.	Applications received by the company are less than the shares offered for subscription
Allotment of shares	Shares may be allotted on the pro-rata basis and some applications may be rejected.	Full allotment is made to the applicants

Refund	➢ Excess money will be refunded to the applicants or may be adjusted on allotment or call. ➢ When some applications are rejected money will be returned to the applicants and will not be adjusted anywhere.	No need to refund the money to the applicants

Private Placement of Shares

A private placement is an issue of shares or of convertible securities by a company to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue.
This is a faster way for a company to raise equity capital. A private placement of shares or of convertible securities by a listed company is generally known by name of preferential allotment.

Buy Back of Shares [Section 77A]

Purchase of its own shares by a company in order to reduce the number of shares on the market. Company may buy back its shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

A company may purchase its own shares or other specified securities out of—
(i) its free reserves; or
(ii) the securities premium account; or
(iii) the proceeds of any shares or other specified securities:

Company may purchase its shares from the Open Market, Employees, or Existing equity shareholders. Buy should not be more than 25% of the paid up capital and free reserves.

Rights Issue

Rights Issue (RI) is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. The rights are normally offered in a particular ratio to the number of securities held prior to the issue. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders unless they do not intend to subscribe to their entitlements.

Value of Right = Market Price of a share - Average Price of a share

$$\textbf{Average Price} = \frac{\text{Market Price of Existing Shares + Issue price of proportionate right shares}}{\text{Existing Shares + Rights Shares}}$$

Employee Stock Option

Employee stock option" means the option given to the whole-time Directors, Officers or employees of a company which gives such Directors, Officers or employees, the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a predetermined price.

Sweat equity shares

A company whose equity shares are listed on a recognized stock exchange may issue
sweat equity shares in accordance with Section 79A of Companies Act, 1956 and
these Regulations to its –
(a) Employees
(b) Directors
In simple words, Sweat equity shares may be issued to employee, promoter at a discount or for consideration other than cash. Employees or directors who have been largely involved in building the company from scratch. They do not put any money in the business, but are given the shares as a reward for providing the know-how or making available rights to use intellectual property.

Preferential Allotment

Preferential issue means issuance of equity shares to promoter group or selected investors. in this case shares are issued at less than the market price. When Preferential allotment is made by the company to its promoters, lock in period will be applicable according to which a shareholder cannot sell his shares in the open market in the first 3 years of allotment.

Escrow Account

Escrow generally refers to money held by a third-party on behalf of transacting parties. *Something of value, such as a deed, stock, money, or written instrument, that is put into the custody of a third person by its owner, a grantor, an obligor, or a promisor, to be retained until the occurrence of a contingency or performance of a condition.* When the condition specified in the escrow agreement is performed, the individual holding the writing, gives it over to the party entitled to receive it.

Forfeiture of Shares

If on alotment of share alotees fail to pay the amount on any callhis money is forfeited or with-held by company this is called forfeiture of so forteit means to take away or to withdraw the rights of a person. Forfeiture of share referes to the cancelation or termination of membership of a share holder by taking away the shares and rights of membership.

Journal Entries at the time of Forfeiture of Shares (in different situations)

Situations	Treatment
If allotment is not paid and shares are forfeited immediately after allotment	Share Capital A/c Dr. To Share Allotment A/c To Share Forfeiture A/c
If allotment and 1st call is not paid and shares are forfeited immediately after 1st call	Share Capital A/c Dr. To Share Allotment A/c To Share First Call A/c

	To Share Forfeiture A/c
If Allotment , First call and Second not paid and shares are forfeited after the 2nd & final call	Share Capital A/c Dr. To Share Allotment A/c To Share First Call A/c To Share Second & Final call A/c To Share Forfeiture A/c
If First call and Second call is not paid and shares are forfeited after 2nd call	Share Capital A/c Dr. To Share First Call A/c To Share Second & Final call A/c To Share Forfeiture A/c
If First call is not paid and shares are forfeited before making 2nd call	Share Capital A/c Dr. To Share First Call A/c To Share Forfeiture A/c
If 2nd & Final call is not paid and shares are forfeited	Share Capital A/c Dr. To Share Second & Final call A/c To Share Forfeiture A/c

Forfeiture of Shares (Which were issued at Premium)

Students must keep eye on the amount of premium. If premium was already paid by the shareholder it will not take place in the entry but if premium was not paid it should be debited with unpaid amount.

If Premium was paid by the shareholder	**If premium was not paid**
Share Capital A/c Dr. To Share Allotment A/c To Unpaid Calls A/c To Share Forfeiture A/c	Share Capital A/c Dr. Securities Premium A/c (unpaid premium) To Share Allotment A/c To Unpaid Calls A/c To Share Forfeiture A/c

Forfeiture of Shares (Which were issued at Discount)

In this case discount is to be credited with the original amount of discount.

Discount to be credited = forfeited shares x Rate of Discount

Accounting Treatment :

Sh. Capital A/c Dr.
To Discount on Issue of Share A/c (forfeited shares x Rate of Discount)
To Unpaid Calls A/c
To Sh. Forfeiture A/c

Meaning of Re-issue: When forfeited shares are Re-issued to the public it is known as Re-issue of Shares. The Directors may Re-issue the forfeited shares only if permitted by the 'Article of Association' of the company. Forfeited shares are the property of the company and can be Re-issued at Par, Premium or Discount. The amount of discount should not be more than the Forfeiture amount.

Accounting Treatment

Re-issued at Par	**Re-issued at Premium**	**Re-issued at Discount**	**Shares which were originally issued at discount and now Re-issued at discount**
Bank A/c Dr. To Sh. Capital A/c (Being Shares Reissued) Sh. Forfeiture A/c Dr. To Capital Reserve (Being profit transfer to capital reserve)	Bank A/c Dr. To Sh. Capital A/c To Sec. Premium A/c (Being Shares Reissued) Sh. Forfeiture A/c Dr. To Capital Reserve (Being profit transfer to capital reserve)	Bank A/c Dr. Sh. Forfeited A/c Dr. To Sh. Capital A/c (Being Shares Reissued) Sh. Forfeiture A/c Dr. To Capital Reserve (Being profit transfer to capital reserve)	Bank A/c Dr. Discount on issue of Share A/c Dr. Sh. Forfeited A/c Dr. To Sh. Capital A/c (Being Shares Reissued) Sh. Forfeiture A/c Dr. To Capital Reserve (Being profit transfer to capital reserve)

Calculation of Capital Reserve

(Total forfeited amount/No. of shares forfeited x No. of reissued shares) – Forfeiture A/c at the time of reissue