

## **Chapter 1 Part-B**

### **Accounting For ShareCapital**

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(Share and Share Capital: Nature and types)

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

Definition given by Prof. Haney

#### **Characteristics (Features) of a company**

1. The certificate of incorporation of a company is issued by registrar of companies as per procedure/guidelines given in the Companies Act, 2013. The law considers a company as an artificial legal person.
2. A Company is a separate legal entity from its owner (shareholders).
3. A company has perpetual existence, not affected by the death, lunacy or insolvency of its shareholders. It can be wound up only by the law (Court or registrar of company.)
4. Every company has its own common seal, which acts as the official signature of the company.
5. The shares of a company are transferable subject to certain conditions (e.g. some conditions for private company.)
6. The company is managed by the ‘Board of Directors’, the directors are representative of the shareholders (owners). So, management and ownership are separate in company organization.
7. The liability of a shareholder is limited up to the nominal price of shares subscribed by one.

#### **Types of Companies**

- i. Private Company – Section 2 (68) of the Companies Act, 2013 defines “A private Company means a company which has a minimum paid up capital of Rs. 100,000 and which by its Articles of Association –

- (a) restricts the right to transfer its shares;
  - (b) limits the number of its members to 200 excluding its part or present employee members;
  - (c) Prohibits any invitation to public to subscribe for any of its securities.
- ii. Public Company – According to section 2 (71) of the Companies Act, 2013 a public company means a company which is not a private company and has a minimum paid up capital of L 500,000 or higher capital as may be prescribed a private company which is a subsidiary of a company not being a private company shall be deemed a public company.
- iii. One Person Company – Section 2 (62) of the Companies Act, 2013 states one person company is a company which has only one person as a member. Rule 3 of the Companies (In Corporation) Rules, 2014 provides that (i) only on Indian citizen resident in India can form one person company (ii) Its paid up capital is not more than 50 lakhs; (iii) Its Average annual turnover should not exceed Rs. 2 crores; (iv) It cannot carry out Non banking financial Investment activities.

**Class / Types of Shares :** There are two classes of shares

1. Preference shares : The shares which get preferential right in respect of :
  - (a) Right of dividend
  - (b) Repayment of capital on winding up of the company.
2. Equity shares : The shares which are not preference shares are called equity shares and do not get preference in above respect.

**Distinction between Equity Share and Preference Share**

Basic	Equity Share	Preference share
1. Refund of capital	On Winding up, the equity share capital is paid after the preference share capital is paid or equity shareholder received residual amount.	On winding up, the preference Share capital is paid before the Equity share capital is paid or preference shareholder have preference to get refund of capital over Equity shareholders.
	Dividend is paid on Equity	Dividend is paid on

2. Right of dividend	shares after payment of dividend on preference shares.	Preference share before payment of dividend on Equity shares.
3. Right of Dividend	No fixed rate of dividend. It is decided by board of directors every year and vary periodically.	Fixed rate of dividend prescribed on the face of preference shares e.g. 9% Preference same in this case rate of dividend is 9%.
4. Right to Vote	Equity shareholder have the right to vote in meeting of shareholders and they elect director for managing the company.	In normal course of business, preference shareholders do not enjoy the right to vote in the meetings of shareholders. But they have it only in special circumstances
5. Redemption	Equity share are not redeemable, however, a company may buy back its equity shares as condition prescribed in section 68 of the Companies Act, 2013	Preference share are always redeemable, now a company cannot issue irredeemable preference shares.

## Types OR Classes of Preference Shares

### (a) With Reference to Dividend :

- i. Cumulative Preference shares : Cumulative preference shares are these preference shares, the holders of which are entitled to receive arrears of dividend before any dividend is paid on equity shares.
- ii. Non-cumulative Preference shares : Non-cumulative preference shares are those preference share, the holders of which do not have the right to receive arrear of divided. If no dividend is declared in any year due to any reason. Such shareholders get nothing, nor they can claim unpaid dividend in any subsequent years.

### (b) With Reference to Participation

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- i. Participating preference shares : such shares, in addition to the fixed preference dividend, carry a right to participate in the surplus profit, if any, after providing dividend at a stipulated rate to equity shareholders.
  - ii. Non-Participating preference shares : Such shares get only a fixed rate of dividend every year and do not have a right to participate in the surplus profit.

**(c) With Reference to Convertibility**

- i. Convertible preference shares : are those preference shares which have the right/option to be converted into equity shares.
- ii. Non-convertible preference shares : are those preference shares which do not have the right/option to be converted into Equity shares.

**(d) With Reference to Redemption**

- i. Redeemable preference shares : are those preference shares the amount of which can be redeemed by the company at the time specified for their repayment or earlier.
- ii. Irredeemable preference shares : are those preference shares the amount of which cannot be refunded by the company unless the company is wound up. Now a company cannot issue irredeemable preference shares.

**Some Important Terms used in Accounting for Share Capital**

**Note 1 :** Minimum Subscription (Section 39) – It is the minimum amount stated in the prospectus that must be subscribed by the public before an allotment of any security is made.

**Prospectus :** It is an invitation to public for subscription of shares or debentures.

**Capital :** means amount invested in the business for the purpose of earning revenue. In case of company money is contributed by public and people who contributed money are called shareholders.

**Share Capital :** Capital raised by issue of shares is called share capital.

**Authorised Capital :** Also called as Nominal or registered capital. It is the maximum amount of capital a company can issue. It is stated in Memorandum of Association.

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**Issued Capital :** This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.

**Called Up Capital :** It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

**Paid Up Capital :** It is part of called up capital that the members of company or shareholders have paid.

**Reserve Capital :** It is part of increased capital and/or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company.

**Capital Reserve :** It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholder's Funds.

**Issues of Shares At Premium :** It is issue of share at more than face value.

This premium can be utilized for : (Section 52)

1. Issue of fully paid bonus shares to the shareholders.
2. Write off preliminary expenses of the company.
3. Writing off securities issue expenses commission paid discount on issue of securities.
4. For providing the premium payable on redemption of Redeemable preference shares or debentures of the company.
5. For Buy back of its own shares as per Section 68.

Journal Entries for accounting of securities premium, the securities premium may be collected by the company with application money / Allotment money / First call/Final Call depend upon the terms of issue of shares. If questions is silent regarding the securities premium amount due, it is assumed that securities premium money is due with the allotment money. Following are the various situation of securities premium received with application, allotment and call.

1. For Application money	Bank Account    Dr. To Share Application A/c	(No. of Application X application amount per share)
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On acceptance of Applications	Share Application A/c Dr. To Share Capital A/c To Securities Premium A/c	(No. of share allotted X application amount called on cash) (Amount of Securities Premium Received if any)
2. For allotment money due	Share Allotment A/c Dr. To Share Allotment A/c To Securities Premium A/c	(No. of Shares Allotted X amount called on allotment for each share (Securities Premium due)
On receipt of allotment money	Bank Account Dr. To Share Allotment A/c	(No. of allotment share x amount received on allotment for each share) or actual amount received)
3. For all money due	Share Call A/c Dr. To Share Capital A/c To Securities Premium A/c	(No. of shares allotted x amount called on each call share (Securities Premium due)
On receipt of calls money	Bank A/c Dr. To Share Call A/c	(No. of application allotted x amount received on each share)

**Issue of shares at discount [Section 53]** : A company cannot issue shares at discount other than sweat equity shares.

### Shares Issue for Consideration Other than Cash

When a company purchases any fixed asset or business and makes the payment to the vendor in form of issue of shares in place of cash it is called the issue of shares for consideration other than cash.

Share can be issued at par, at premium.

Journal entries for issue of shares to vendors/consideration other than cash

Date	Particulars	L.F	Debit (Rs.)	Credit(Rs.)

	<b>On Purchases of asset:</b>		Amount of purchase price	
	Sundry Asset Account     Dr.			
	To vendor			
	<b>On Purchases of business:</b>			
	<b>When purchases consideration is more then net asset</b>			
	Sundry Asset Account     Dr.			Agreed
	Goodwill Account (B/F)			Value
	To Sundry Liabilities		Consideration	Agreed Value
	To Vendor		-Net assets	Purchase Consideration
	<b>When purchase consideration is less than net asset</b>			
	Sundry Assets Account		Agreed Value	Agreed
	To Sundry Liabilities			Value
	To Vendor			Purchases
	To capital Reserve A/c (B/F)			Condsideration
				Difference
	<b>On Issue of Shares (a) at Par</b>			
	Vendor     Dr.			
	To share Capital			
	<b>(b) On Issue of Share At Premium</b>			
	Vendor     Dr.			
	To Share Capital A/c			
	To Securities Premium Reserve A/c			

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**Private Placement of Shares [Section 42]:** This is an issue of shares to institutional investors or some selected group of persons subject to prior approval of existing shareholders.

There is no need of issuing formal prospectus and it is cost and time saving method of raising capital.

**Under subscription :** When the number of Share application received is less than the number of shares offered to public it is under subscription.

**Over subscription :** When the number of Share application received is more than the number of shares offered to public it is over subscription

1. Either reject the excess applications
2. Make pro-rata allotment
3. Partially refund amount and on other applications pro-rata allotment is made.

**Calls in arrear :** Any Amount which has been called or demanded by company from shareholders but not paid by the shareholder till the last date mentioned in call letter is called as call in arrear, Company can charge interest on this at rate mentioned in Article of Association or 10% p.a. as per Table F.

**Calls in advance :** Any amount paid in excess of what they has asked to pay is called as call in advance. Interest is paid on this at rate mentioned in Article of Association or 12% p.a. as per Table F.

**Forfeiture of shares :** If any shareholder fail to pay the amount on any call, his money is forfeited or withheld by company this is called forfeiture of shares.

Forfeiture of share refers to the cancellation or termination of membership of a share holder by taking away the shares and rights of membership.

**Forfeiture of Shares Issued at par**

### Journal

Date	Particulars	L.F.	Debit (Rs.)	Credit (Rs.)



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	Share Capital A/c Dr.		Amount Called up	
	To various Calls/calls in Arrear A/c			Unpaid Amt.
	To Forfeited share A/c			Amount Received