

Accounting for Share Capital

A company is an artificial person created by law, with a ~~real~~ separate legal entity, common seal and perpetual succession. Its owners are the shareholders; managed by a Board of Directors elected by them.

Features of a Company

- (i) Body corporate -- registered u/Cos. Act 2013
- (ii) Separate legal entity (distinct from members)
- (iii) Limited liability (upto ~~paid~~ unpaid amt.)
- (iv) Perpetual succession -- members may go
- (v) Common seal = official *signature
- (vi) Transferability of shares (public co.)
- (vii) May sue or be sued in its own name

Shareholder = owner ; ^{*} Director = manager

<-key idea

Kinds of Companies

By liability :

1. Ltd. by shares
2. Ltd. by guarantee
3. Unlimited co.

By members : Public / Private / One Person Co.

OPC : 1 member, paid-up \leq Rs. 50 L, T/O \leq 2 Cr.

Share Capital -- Categories

Share Capital = amount contributed by shareholders towards the capital of the co.

Shown under one common 'Share Capital A/c' .

Categories

1. Authorised / Nominal / Registered Capital :
max. amount stated in MoA ; ceiling for all future issues .
2. Issued Capital : part offered to public
(incl. ~~vendors~~ allotments to vendors)
3. Subscribed Capital : part actually applied for by the public .
4. Called-up Capital : amt. demanded by co.
e.g. Rs.7 of a Rs.10 share = called-up Rs.7
5. Paid-up Capital : amt. actually received on calls (= called-up -- calls in arrears)
6. Uncalled Capital : subscribed -- called-up
7. Reserve Capital : uncalled , callable only on winding-up of the company .

Paid-up = Called-up -- Calls in arrears

<- memorise

Tip : Authorised \supseteq Issued \supseteq Subscribed
 \supseteq Called-up \supseteq Paid-up .

Classes of Shares

Sec. 43 Cos. Act 2013 -- a co. may issue :

(1) Preference Shares

(a) Preferential right to dividend (fixed rate)

(b) Preferential right to repayment of capital on winding-up, before equity.

Types : cumulative / non-cumulative ,
participating / non-participating ,
redeemable / irredeemable ,
convertible / non-convertible .

(2) Equity Shares

Any share that is not a preference share .

Dividend ~~fixed~~ variable -- depends on profit .

Two kinds : (i) with voting rights ;

(ii) with differential rights (DVR)

Steps in Issue of Shares

1. Prospectus --> invitation to public
2. Receipt of applications + appln. money
3. Allotment of shares (letters sent)
4. Calls -- first call , second call ... final

Min. subscription \geq 90% of issued amt.

Accounting -- Application & Allotment

Money is collected in instalments :

Application → Allotment → Calls .

On Receipt of Application

| |
|--------------|
| Bank A/c Dr. |
|--------------|

← money in bank

To Share Application A/c

(appln. money on ___ shares @ Rs. ___ each)

On Allotment

(a) Transfer of application money :

Share Appln. A/c Dr.

To Share Capital A/c

(b) Refund of rejected applications :

Share Appln. A/c Dr. *

To Bank A/c

(c) Amount due on allotment :

Share Allotment A/c Dr.

To Share Capital A/c

(d) Adjust excess appln. → allotment :

Share Appln. A/c Dr.

To Share ~~Capital~~ Allotment A/c

(e) On receipt : Bank A/c Dr. To Share Allot. A/c

Calls , Over-subscription & Premium

Calls on Shares

When a call is made (e.g. First Call) :

Share First Call A/c Dr.

To Share Capital A/c

On receipt :

Bank A/c Dr.

To Share First Call A/c

Calls in Arrears = called but not paid yet .

Calls in Advance = paid before being called .

Over-subscription -- 3 ways

1. Reject excess applns. (refund money)
2. Pro-rata allotment* (adjust excess to allot.)
3. Combination of (1) + (2)

Issue at Premium (Sec. 52)

Issue price > face value . Excess = Securities Premium ; credited to a separate reserve .

| |
|-------------------------------|
| Bank A/c Dr. (with full amt.) |
|-------------------------------|

To Share Capital A/c (face value)

To Securities Premium ~~A/c~~ Reserve (excess)

Use : write off prelim exp. , buy-back , bonus issue .

Forfeiture & Re-issue of Shares

If a shareholder fails to pay a call, the co. may forfeit the shares after due notice.

Forfeiture -- Journal Entry

Share Capital A/c Dr. (called-up)
 To Share Forfeiture A/c (amt. received)
 To Calls in Arrears A/c (unpaid amt.)

[if premium received \rightarrow already in res. ;

if premium not received \rightarrow also debit S.P.]

Re-issue

Forfeited shares may be re-issued at par, premium or ~~below~~ at a discount.

Max. discount allowed = amt. forfeited on those shares.

Bank A/c Dr. (re-issue price)

Share Forfeiture A/c Dr. (discount)

To Share Capital A/c (called-up)

Transfer of Profit

Bal. of Forfeiture A/c \rightarrow Capital Reserve

\leftarrow after re-issue

Only the profit on re-issued shares is transferred.