



# *Accountancy Notes*

## **PDF**

### *Chapter- 6*

## *Accounting for Share Capital*

A Company may be defined as an artificial person created by law, having a corporate and legal personality distinct and separate from its members, perpetual succession, and a common seal.

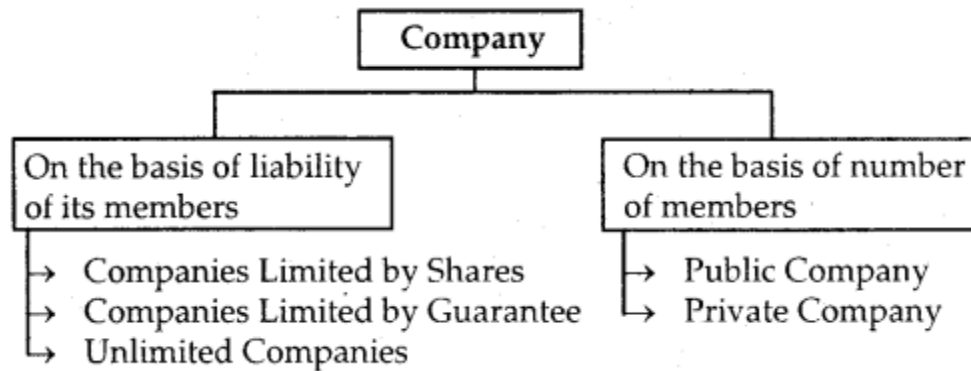
### **Characteristics (Features) of a company**

1. It is a voluntary association of persons for profit.
2. It is a separate legal entity i.e. Its legal existence is different from that of its members.
3. The members have limited liability.
4. It has perpetual succession.
5. It has a common seal which signifies the sign of the company.
6. The shares of a public limited company can be freely transferable.
7. It can enter into contracts and can enforce contractual rights against others. Similarly, the company can be sued by others if there is a breach of contract by the company.

### **Types of Companies**

1. 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 the public to subscribe for any of its securities.
2. 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.
3. 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.

## Kinds of a Company:



**Companies Limited by Shares:** In this case, the liability of the members is limited to the extent of the nominal value of shares held by them.

**Companies Limited by Guarantee:** In this case, the liability of its members is limited to the extent of the guarantee given by them in the event of the company being wound up.

**Unlimited Companies:** When there is no limit on the liability of its members, such Companies are called unlimited companies.

**Public Company:** A Public Company means a company that is not a Private Company.

**Private Company:** A Private Company is one which by its Articles of Association:

1. Restricts the right to transfer its shares;
2. Limits the number of its members to fifty;
3. Prohibits any invitation to the public to subscribe for any shares in or debentures of the company.

**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 receives residual amount.	On winding up, the preference Share capital is paid before the Equity share capital is paid or preference shareholders have preference to get refund of capital over Equity shareholders.
2. Right of dividend	Dividend is paid on Equity shares after payment of dividend on preference shares.	Dividend is paid on Preference share before payment of dividend on Equity shares.
3. Right of Dividend	No fixed rate of dividend. It is decided by the board of directors every year and varies 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 shareholders have the right to vote in meetings of shareholders and they elect directors for managing the company.	In the 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 shares are always redeemable, now a company cannot issue irredeemable preference shares.

### Types OR Classes of Preference Shares

#### (a) With Reference to Dividend :

1. 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.

2. Non-cumulative Preference shares : Non-cumulative preference shares are those preference shares, the holders of which do not have the right to receive arrear or divided. If no dividend is declared in any year due to any reason. Such shareholders get nothing, nor can they claim unpaid dividends in any subsequent years.

### (b) With Reference to Participation

1. 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.
2. 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

1. Convertible preference shares : are those preference shares which have the right/option to be converted into equity shares.
2. 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

1. 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.
2. 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 the public for subscription of shares or debentures.

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

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

**Authorised Capital:** An Authorised Capital refers to that amount that is stated in the Memorandum of Association as the share capital of the company. It is the maximum amount with which the company is registered and which it is authorized to raise from the public by the issue of shares. The amount is also called the registered or nominal capital.

**Subscribed Capital:** It is that part of the issued capital which has been actually subscribed by the public. When the shares offered for public subscription were subscribed fully by the public, in such a case the issued capital and subscribed capital would be the same.

**Issued Capital:** This is part of authorized capital which is offered to the 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 a 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 the balance sheet of the company as Reserves and Surplus under the heading Shareholder's Funds.

**Issues of Shares At Premium:** It is an issue of shares 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 depending upon the terms of issue of shares. If questions are silent regarding the securities premium amount due, it is assumed that securities premium money is due with the allotment money. Following are the various situations 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)
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 cells money	Bank A/c Dr. To Share Call A/c	(No. of application allotted x amount received on each share)
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**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.

**Shares 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 than 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
	On Issue of Shares (a) at Par			
	Vendor Dr.			
	To share Capital			
	(b) On Issue of Share At Premium			

	Vendor Dr.			
	To Share Capital A/c			
	To Securities Premium Reserve A/c			

**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 a cost and time saving method of raising capital.

**Under subscription :** When the number of Share applications received is less than the number of shares offered to the 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 have asked to pay is called as call in advance. Interest is paid on this at a rate mentioned in the Article of Association or 12% p.a. as per Table F.

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

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

**Forfeiture of Shares Issued at par****Journal**

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

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