**Ch-07 : Company Accounts- Accounting for Share Capital**

Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share. The fixed value of a share, printed on the share certificate, is called nominal/ par / face value of a share. However, a company can issue shares at a price different from the face value of a share.

*Fundamentals of Accounting: Issue; Forfeiture And Re-issue of Shares.*

As per SEBI guidelines, a company is free to price its issue, if it has a three years track record of consistent profitability and in case of new company, if it is promoted by a company with a five years track record of consistent profitability.

1. Authorised Share Capital.

2. Issued Share Capital.

3. Subscribed Share Capital.

4. Called-up Share Capital.

5. Paid-up Share Capital.

6. Reserve Share Capital.

Reserve Capital is different from Capital reserve, Capital reserves are part of ‘Reserves and Surplus’ and

refers to those reserves which are not available for declaration of dividend.

**Types of Shares**

Share issued by a company can be divided into following categories:

(i) Preference Shares They enjoy preferential rights in the matter of:

(a) Payment of dividend, and

(b) Repayment of capital.

**Types of Preference Shares**

Preference shares can be of various types, which are as follows:

(a) Cumulative Preference Shares.

(b) Non-cumulative Preference Shares.

(c) Participating Preference Shares.

(d) Non-participating Preference Shares.

(e) Redeemable Preference Shares.

(f) Non-redeemable Preference Shares.

(g) Convertible Preference Shares.

(h) Non-convertible Preference Shares Equity Shares.

*The shares can be issued by a company either For cash or For consideration other than cash.*

A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.

50

As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription.

Against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public.

The minimum application money to be paid by an applicant along with the application money shall not be less than 25% of the issue price. Companies (Amendment) Bill, 2003 require application money to be not less than 25% of the nominal value of security. Thus, the issue price of shares is generally received by the company in instalments and these instalments are known as under:

**JOURNAL ENTRIES FOR ISSUE OF SHARES FOR CASH**

Upon the issue of share capital by a company, the under mentioned entries are made in the financial books:

(i) On receipt of the application money

Bank Account Dr. (with the actual amount received)

To Shares Application Account

(ii) On allotment of share

Share Allotment Account Dr. (With the amount due on allotment)

Share Application Account Dr. (With the application amount received on allotted shares.)

To Share Capital (With the amount due Account on allotment and application).

(iii) On receipt of allotment money

Bank Account Dr. (with the amount actually received on allotment.)

To Share Allotment Account

Sometimes separate Application and Allotment Accounts are not prepared and entries relating to application and allotment monies are passed through a combined Application and Allotment Account.

(iv) On a call being made

Share Call Account Dr. (with the amount due on the call.)

To Share Capital Account

(v) On receipt of call money

Bank Account Dr. (with the due amount actually received on call)

To Share Call Account

When shares are issued at a premium, the premium amount is credited to a separate account called

“Securities Premium Account” because it is not a part of share capital.

(ii) Share Application A/c Dr. [No. of Shares Applied for x Application Amount per share]

To Securities Premium A/c [No. of Shares allotted x Premium Amount per share]

To Share capital A/c [No. of Shares allotted x per share for capital]

(b) Premium Amount called with Allotment Money

(i) Share Allotment A/c Dr.[ No. of Shares Allotted x Allotted and Premium Money per share]

To Share Capital A/c [No. of Shares Allotted x Allotment Amount per share]

To Securities Premium A/c [No. of Share Allotted x Premium Amount per share]

(Amount due on allotment of Shares @ ₹ per share including premium)

(ii) Bank A/c Dr.

To Share Allotment A/c (Money received including premium consequent upon allotment)

**Kinds of Companies**

(i) Private companies According to Section 2 (68) of the Companies Act, 2013, it is a company with minimum paid-up share capital of 1,00,000 or such higher amount as may be prescribed in the

51

Companies Act, 2013 and which by its Articles of Association

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

(b) Except in one person company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them. If any share is held jointly by two or more persons, they shall be treated as a single member.

(c) Prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is two. The name of a private company ends with the words, ‘Private Limited’.

(ii) Public company As per Section 2 (7) of Companies Act, 2013, public company is a company which

*(a) is not a private company.*

*(b) has minimum capital of Rs 5 lakh or such higher paid-up capital as may be prescribed.*

*(c) is a private company, which is a subsidiary of a public company. Minimum requirement of a public company is seven persons.*

(iii) One person company is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation)

**5. Types of Shares:-**

Preference shares According to Section 43 (b) of the Companies Act, 2013, preference shares are the shares which carry the following two preferential rights:

Preferential right of dividend to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income tax.

Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called preference shareholders.

Equity shares According to Section 43(a) of the Companies Act 2013, equity share is that share which is not a preference share. Equity shares are the most commonly issued class of shares which carry the maximum ‘risks and rewards’ of the business. The risks being losing part or all of the value of shares if the business incurs losses, the rewards being payment of higher dividends and appreciation in the market value.

6. Share Capital It is that part of the capital of a company, which is represented by the total nominal value of shares, which it has issued.

**7. Kinds of Share Capital**

(i) Authorised share capital According to Section 2(8) of Companies Act, 2013, ‘authorised capital’ or ‘nominal capital’ means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company.

(ii) Issued capital According to Section 2(50) of the Companies Act, 2013, issued capital means such capital as the company issues from time to time for subscription.

Subscribed capital According to Section 2(86) of the Companies Act, 2013, ‘subscribed capital’ means such part of the capital which is for the time being subscribed by the members of a company.

(a) Subscribed and fully paid-up Shares are said to be ‘subscribed and fully paid-up’ when the entire nominal (face) value is called and also paid-up by the shareholders.

(b) Subscribed but not fully paid-up Shares are said to be ‘subscribed but not fully paid-up’ when

the company has called-up the entire nominal (face) value of the share but has not received it.

the company has not called-up the entire nominal (face) value of share.

52

A reference has been made two terms

Called-up capital According to Section 2(15) of the Companies Act, 2013, ‘called-up capital’ means such part of the capital, which has been called for payment. Thus, it means the amount of nominal (face) value called-up by the company to be paid by the shareholders towards the share capital.

Paid-up share capital According to Section 2(64) of the Companies Act, 2013, ‘paid-up share capital’ or ‘share capital paid-up’ means the amount that the shareholder has paid and the company has received against the amount ‘called up’ against the shares towards share capital.

8. Reserve Capital It is that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up.

9. Capital Reserve ‘Capital reserve’ is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company. Reserves which are created out of capital profits are not readily available for distribution as dividend among the shareholders, e.g. premium on issue of shares of debentures, profits on re- issue of shares, profits prior to incorporation, premium on redemption of debentures.

10. Minimum Subscription It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instruments, security cannot be allotted.

11. Presentation of Share Capital in Company’s Balance Sheet.

As per Schedule III of Companies Act, 2013, share capital is to be disclosed in company’s balance sheet in the following manner.