**Unit – I: Issue of Shares & Debentures**

Introduction – Issue of Shares and Debentures – Forfeiture and Re-issue of Shares – Surrender of Shares – Rights Issue – Underwriting.

**Introduction:**

The company is the third form of business organization where there is no restriction for maximum number of members. It should be registered under Companies Act 1956. It has many special features like legal status, perpetual succession, common seal, limited liability, separation of ownership and management.

**Definition of Company:**

Sec 3 (1) of the Companies Act 1956 defines “a company formed and registered under this act or an already existing company”. An existing company means a company formed and registered under any of the previous Companies Act.

### Salient features of a company:

### 1] Incorporated Association: A company is required to be registered under the [Companies Act 2013](https://www.toppr.com/guides/business-laws/companies-act-2013/). Any association of persons that is not [registered](https://www.toppr.com/guides/business-laws/companies-act-2013/registration-and-incorporation-of-a-company/) and subsequently [incorporated](https://www.toppr.com/guides/business-laws-cs/elements-of-company-law/steps-in-incorporation-of-a-company/) with the Registrar of Companies is not recognized as a company at all.

**2] Separate Legal Entity:** A company in the eyes of the law is distinct (separate) from the people who constitute it. It is capable of enjoying rights is also subject to [duties](https://www.toppr.com/guides/general-knowledge/indian-constitution-fundamental-concepts/fundamental-rights-and-duties/) under the [law](https://www.toppr.com/guides/business-law-cs/introduction-to-law/various-definitions-of-law/). A company can also own and deal in property and other such assets. One point to be noted is that the company is not the agent or the trustee of the subscribers; it has its own distinct legal identity.

**3] Limited Liability:** Since a company has its own legal identity, its members are not liable for its debts. The liability of the members of a company is limited to the unpaid share of their share value. There are some companies limited by guarantee, where the liability of each member is determined by such a guaranteed amount.

**4] Transferability of Shares:** The shares held by a shareholder of a company are transferable by nature. So the ownership in a company can be transferred in accordance with the manner provided in the Articles of Association. In a private company, there may be some restrictions placed on the transfer of shares. But the right is not taken away completely.

**5] Perpetual Existence:** A company is an artificial person, so it does not have a restricted span of life. Death, insolvency, insanity, retirement etc of any or even all of its members does not affect the status of a company.

**6] Common Seal:** Directors of a company are essentially its agents. So when a director acts within his powers a company is bound by his actions. The Common Seal is like a signature of the company. The directors use the seal to sign documents on behalf of the company. So until there is such a seal on the documents, they cannot be enforced.

**Types of company:**

**1. Chartered company:** In olden days the king gave a charter to start a company. Those companies which were started after getting such permission from ruling kingdom is called chartered company.

**2. Statutory company:** Those companies which were formed by their specific statue are called statutory companies.

**3. Registered company:** A company incorporated under the companies Act 1956 or earlier Companies Act is called registered company.

**4. Company limited by shares:** When the liability of shareholders of a company is limited to the value of share holdings, then it is called limited company. Though the liability of the company is more the shareholders are required to pay only the remaining amount unpaid on their holdings.

**5. Companies limited by guarantees:** When the share holders of a company accept to give a guarantee amount over and above their share holdings it is called companies limited by guarantees. But such guarantee amount should be payable only at the time of liquidation of the company.

**6. Unlimited company:** This type of company is not found elsewhere. The liability of its shareholder are unlimited they have to pay necessary amount to settle company’s liabilities over their shareholding value.

**Types of share capital:**

**1. Authorised Capital:**  Authorised capital is the maximum amount of share capital that a company can issue. The amount of authorized capital is specified in the Memorandum of Association and can be changed only by following a specific procedure underlined for the same.

**2. Issued Capital:** Issued capital is the share capital issued to the shareholders. It can be less than authorized capital but not more than it.

**3. Subscribed Capital:** Subscribed capital is the amount of capital that is actually invested by the public.

**4. Called Up Capital:** Called capital up is that part of subscribed capital which is called upon to pay on the shares allotted to the shareholders. The company may not require whole capital at once, so it may ask the shareholders to pay only the portion called up.

**5. Paid Up Capital:** Paid-up capital is the total amount of capital actually paid by the shareholders.

**6. Uncalled Capital:** Uncalled capital is that portion of total capital that the company has not yet called upon to pay from its shareholders.

**7.Reserve Capital:** Reserve capital is that part of uncalled capital which the company reserves till the time of its liquidation. This portion of capital is not called upon during the existence of the company, and it is kept aside for the creditors of the company.

**Difference between private and public company:**

| **Feature** | **PVT. Company** | **Public Limited Company** |
| --- | --- | --- |
| Minimum Members | There should be at least 2 members. | There should be at least 7 members. |
| Maximum Members | There can be a maximum of 50 members. | There is no limit so as to the number of members. |
| Minimum Directors | There should be minimum 2 Directors. | There should be minimum 3 Directors. |
| Suffix | Pvt. Ltd. | Ltd. |
| Statutory Meeting | Voluntary | Mandatory |
| Public Subscription | Not Allowed | Allowed |
| Share Transferability | Restricted. Not freely transferable. | Freely Transferable. |
| Quorum Requirements | 2 members personally present. | 5 members present personally. |
| Commencement of Business Operations | On receipt of Certificate of Incorporation. | On Receipt of Certificate of Commencement of Business. |
| Minimum Paid Up Capital | Rs. 1,00,000/- | Rs. 5,00,000/- |

**Meaning of share:**

A share represents a unit of equity ownership in a company. Shareholders are entitled to any profits that the company may earn in the form of dividends. They are also the bearers of any losses that the company may face. In simple words, if you are a shareholder of a company, you hold a percentage of ownership of the issuing company in proportion to the shares you have bought.

**Types of shares:**

### 1. Equity Shares: These are also known as ordinary shares and comprise the bulk of the shares being issued by a particular company. Equity shares are transferable and are traded actively by investors in stock markets. As an equity shareholder, you are not only entitled to voting rights on company issues but also have the right to receive dividends.

* **Authorised Share Capital:** Every company, in its Memorandum of Associations, requires to prescribe the maximum amount of capital that can be raised by issuing equity shares. The limit, however, can be increased by paying additional fees and after the completion of certain legal procedures.
* **Issued Share Capital:** This implies the specified portion of the company’s capital, which has been offered to investors through the issuance of equity shares.
* **Subscribed Share Capital:** The portion of the issued capital, which has been subscribed by investors is known as subscribed share capital.
* **Paid-Up Capital:** The amount of money paid by investors for holding the company’s stocks is known as paid-up capital. As investors pay the entire amount at once, subscribed and paid-up capital refer to the same amount.
* **Bonus Shares:** Bonus share definition implies those additional stocks which are issued to existing shareholders free-of-cost, or as a bonus.
* **Rights Shares:** Right shares meaning is that a company can provide new shares to its existing shareholders - at a particular price and within a specific period - before being offered for trading in stock markets.
* **Sweat Equity Shares:** If as an employee of the company, you have made a significant contribution, the company can reward you by issuing sweat equity shares.
* **Voting and Non-Voting Shares:** Although the majority of shares carry voting rights, the company can make an exception and issue differential or zero voting rights to shareholders.
* **Dividend Shares:** A company can choose to pay dividends in the form of issuing new shares, on a pro-rata basis.
* **Growth Shares:** These types of shares are associated with companies that have extraordinary growth rates. While such companies might not provide dividends, the value of their stocks increases rapidly, thereby providing capital gains to investors.
* **Value Shares:** These types of shares are traded in stock markets at prices lower than their intrinsic value. Investors can expect the prices to appreciate over some time, thus providing them with a better share price.

**2. Preference Shares:** Preferential shareholders receive preference in receiving profits of a company as compared to ordinary shareholders. Also, in the event of liquidation of a particular company, the preferential shareholders are paid off before ordinary shareholders.

* **Cumulative And Non-Cumulative Preference Shares:** In the case of cumulative preference shares, if a particular company doesn’t declare an annual dividend, the benefit is carried forward to the next financial year. Non-cumulative preference shares don't provide for receiving outstanding dividends benefits.
* **Participating/Non-Participating Preference Share:** Participating preference shares allow shareholders to receive surplus profits, after payment of dividends by the company. This is over and above the receipt of dividends. Non-participating preference shares carry no such benefits, apart from the regular receipt of dividends.
* **Convertible/Non-Convertible Preference Shares:** Convertible preference shares can be converted into equity shares, after meeting the requisite stipulations by the company’s Article of Association (AoA), while non-convertible preference shares carry no such benefits.
* **Redeemable/Irredeemable Preference Share:** A company can repurchase or claim redeemable preference share at a fixed price and time. These types of shares are sans any maturity date. Irredeemable preference shares, on the other hand, have no such conditions.

**3. Deferred shares:**

It is also known as Founder shares or management shares. They are issued to promoters and their friends at the time of formation of a company.

**Difference between share and stock:**

|  |  |  |
| --- | --- | --- |
| **Basis of distinction** | **Shares** | **Stocks** |
| Nominal value | A share has a nominal or face value | Stock does not have a nominal or face value |
| Issue | Shares can be directly issued to the public | Stock cannot be issued directly. Only fully paid up shares can be converted into stock. |
| Transferability | Shares can only be transferability in round numbers. | Stock may be transferred in small fractions. |
| Denominations | All shares are of equal denominations such as Rs. 10, Rs,100 etc | Stock may be of unequal amounts like Rs.41, Rs.81, Rs.97 |
| Numbering | Each share bears a distinctive number. | Fractions or parts of th stock do not bear any distinctive numbers. |
| Payment | A share may be fully or partly paid up. | Stock is always fully paid up |

**Forfeiture and re – issue of shares:**

Share forfeiture is the process of cancelling the shares from a particular share holder for non-payment of any amount due to the company. After the forfeiture, the share holder loses his capacity as a shareholder and the company will not repay the amount which was already paid by him. These shares can be reissued at a discount to any person including the person who already had it. But the discount amount should not exceed the money already received on forfeited shares.

**Journal Entries:**

**1. For forfeiture of shares:**

Share capital A/c Dr

To Share forfeiture A/c

To Share call A/c

**2. For re – issue of forfeited shares:**

Bank A/c Dr

Share Forfeiture A/c

To Share capital A/c

**3. For transferring profit on reissue:**

Share Forfeiture A/c Dr

To Share capital reserve A/c

**Journal entries:**

**1. On receipt of application money:**

Bank A/C Dr

To Equity Share application A/c

**2. On allotment of shares to transfer share application money:**

Share application A/c Dr

To Equity share capital A/c

**3. On refund of application money for rejected applications:**

Equity share application A/c

To Bank A/c

**4. For allotment money due:**

Equity share allotment A/c Dr

To Equity share capital A/c

**5. On receipt of allotment money:**

Bank A/c Dr

To Equity share allotment

**6.On making call for the call money due:**

Equity share call A/c Dr

To Equity share capital

7. On receipt of call money:

Bank A/c Dr

To Equity share call A/c

**Problems:**

1. X Co Ltd issued 50,000 equity shares of Rs.10 each to the public on condition that full amount of shares will be paid in lump sum. All these shares were taken up and paid by the public. Pass journal entries in the books of company when:

(a) Shares are issued at bar (b) Shares are issued at a premium of 10% and (c) Shares are issued at a discount of 10%

**Solution:**

1. Bank A/c Dr 5,00,000

To Equity share capital A/c 5 ,00,000

(Being shares are issued)

2. Bank A/c (50,000 \* 11) Dr 5,50,000

To equity share capital A/c 5,50,000

(Being shares are issued at premium)

3. Bank A/c Dr 4,50,000

Discount on issue of shares A/c 50,000

To Equity share capital A/c

(Being shares issued at discount)

2. Ram Ltd purchased assets of Rs.8,00,000 from Anil Bros. it issued equity shares of Rs.100 each fully paid in satisfaction of their claim. Make journal entries record these transactions.

**Solution:**

(i) Assets A/c Dr 8,00,000

To Anil Bros A/c 8,00,000

(Being assets purchased form Anil Bros)

(ii) Anil Bros A/c Dr 8,00,000

To Equity share capital A/c 8,00,000

(Being issue of 8,000 shares of Rs.100 each fully paid up)

3. Kailash Ltd purchased the business of Mani Bros for Rs.54,00,000 payable in ful;ly paid shares of Rs.100 each. What entries will be made in the books of kailash Ltd if such issue is (a) at par ; (b) at a premium of 20% and (c) at a discount of 10%?

**Solution:**

(i)Sundry Assets A/c Dr 54,00,000

To Mani bros A/c 54,00,000

(Being purchase of business)

**(ii) Issued at par:**

Mani Bros A/c Dr 54,00,000

To Share capital A/c 54,00,000

(Being issues of shares at par)

**(iii) Issued at premium:**

Mani Bros A/c Dr 54,00,000

To Share capital A/c (45,000 \*100) 45,00,000

To Securities premium A/c (45,000 \* 20) 9,00,000

(Being shares are issued at premium)

**(iv) Issued at discount:**

Mani Bros A/c Dr 54,00,000

Discount on issue of shares A/c 6,00,000

To Share capital A/c 60,00,000

(Being shares are issued at discount)

**Working Notes:**

**(i) When shares are issued at a premium of 20%**

No. of shares to be issued = Purchase price / Issue price

= 54,00,000 / 120

=45,000 shares

**(ii) When shares are issued at discount of 10%**

No. of shares to be issued = Purchase price / Issue price

= 54,00,000 / 90

= 60,000 shares

4. Priya Ltd issued 1,00,000 equity shares of Rs.10 each payable, Rs.5 on application, Rs.2 on allotment, Rs.2 on first call and Rs.1 on final call. All the shares are subscribed and amount was duly received. Pass Journal entries.

**Solution:**

1. Bank A/c Dr 5,00,000

To Equity share capital A/c 5,00,000

(Being application money received)

2. Equity share application A/c Dr 5,00,000

To Equity share capital A/c 5,00,000

(Being transfer of share application money to share capital)

3. Equity share allotment A/c Dr 2,00,000

To Equity share capital A/c 2,00,000

(Being allotment money due)

4. Bank A/c Dr 2,00,000

To Equity share allotment A/c 2,00,000

(Being allotment money received)

5. Equity share first call A/c 2,00,000

To Equity share capital A/c 2,00,000

(Being first call money due)

6. Bank A/c Dr 2,00,000

To Equity share first call A/c 2,00,000

(Being first call money received)

7. Equity share second and final call A/c Dr 1,00,000

To Equity share capital A/c 1,00,000

(Being share second and final call money due)

8. Bank A/c Dr 1,00,000

To Equity share second and final call A/c 1,00,000

(Being second and final call money received)

5. A Ltd issued 10,000 shares to the general public. Share value of Rs.10 will be collected as follows: On Application Rs.2, on allotment Rs.4, on first and second call Rs.2 each. All the shares are subscribed by the public. Pass journal entries.

**Solution:**

1. Bank A/c (10,000 \* 2) Dr 20,000

To Share application A/c 20,000

(Being share application money received)

2. Share application A/c Dr 20,000

To Share capital A/c 20,000

(Being application money transferred)

3. Share Allotment A/c Dr 40,000

To Share capital A/c 40,000

(Being allotment money due)

4. Bank A/c Dr 40,000

To Share allotment A/c 40,000

(Being allotment money received)

5. Share first call A/c Dr 20,000

To Share capital A/c 20,000

(Being call money due)

6. Bank A/c Dr 20,000

To Share first call A/c 20,000

(Being call money received)

7. Share final call A/c Dr 20,000

To Share capital A/c 20,000

(Being call money due)

8.Bank A/c Dr 20,000

To Share final call A/c 20,000

(Being call money received)

6. Kumar company issued 10,000 equity shares at Rs.10 per share payable, Rs.5 on application, Rs.3 on allotment and Rs.2 of first and final call. The public subscribed for 9,000 shares. The directors allotted all the 9,000 shares and duly received the money. Pass the necessary journal entries.

**Solution:**

1. Bank A/c (9,000 \*5) 45,000

To Equity share application A/c 45,000

(Being application money received)

2. Equity share application A/c Dr 45,000

To Equity share capital A/c 45,000

(Being transfer of application money to share capital A/c)

3. Equity share allotment A/c Dr 27,000

To Equity share capital A/c 27,000

(Being allotment money due)

4. Bank A/c Dr 27,000

To Equity share allotment A/c 27,000

(Being allotment money received)

5. Equity share first and final call A/c 18,000

To Equity share capital A/c 18,000

(Being Call money due)

6. Bank A/c Dr 18,000

To Equity share first and final call A/c 18,000

(Being call money received)

7. Senthil Ltd issued 1,00,000 equity shares of Rs.10 each to the public at par. The details of the amount payable on the shares are as follows:

On application Rs.5 per share

On allotment Rs. 3 per share

On first and final call Rs. 2 per share

Application money was received for 1,20,000 shares. Excess application money was refunded immediately. Pass journal entries to record the above.

**Solution:**

1. Bank A/c (1,20,000 \* 5) Dr 6,00,000

To Equity share application A/c 6,00,000

(Being application money received)

2. Equity Share application A/c (1,00,000\*5) 5,00,000

To Equity share capital A/c 5,00,000

(Being transfer of share application money to share capital)

3. Equity share application A/c (20,000\*5) 1,00,000

To Bank A/c 1,00,000

(Being excess share application money refunded)

4. Equity share allotment A/c 3,00,000

To Equity share capital A/c 3,00,000

(Being share allotment money due)

5. Bank A/c Dr 3,00,000

To Equity share allotment A/c 3,00,000

(Being allotment money received)

6. Equity share first and final call A/c 2,00,000

To Equity share capital A/c 2,00,000

(Being first and final call money due)

7. Bank A/c Dr 2,00,000

To Equity share first and final all A/c 2,00,000

(Being first and final call money received)

8. Anitha was holding 500 equity shares of Rs.10 each of Thanjavur Motors Ltd issued at par. She paid Rs. 3 on application, Rs.5 on allotment but could not pay the first and final call of Rs.2. The directors forfeited the shares for nonpayment of call money. Give journal entry for forfeiture of shares.

**Solution:**

Equity share capital A/c (500 \* 10) 5,000

To Equity Share call A/c (500 \* 2) 1,000

To Forfeited shares A/c (500 \* 8) 4,000

(Being 500 shares forfeited for nonpayment of call money)

9. Muthu was holding 20 equiyt shares of Rs.10 each on which he paid Rs.2 on application but could not pay Rs.3 on allotment and Rs.1 on first call. Directors forfeited the shares after the first call. Give journal entry for recording the forfeiture of shares.

**Solution:**

Equity share capital A/c (20\* 6) 120

To Equity share allotment A/c (20 \* 3) 60

To Equity share first call A/c (20 \* 1) 20

To Forfeited shares A/c (20 \* 2) 40

(Being shares are forfeited)

10. Sunil company forfeited 200 equity shares of Rs.10 each issued at par held by Vijay for nonpayment of the final call of Rs.3 per share. The shares were reissued to Laxman at Rs.6 per share. Show the journal entries for forfeiture and reissue.

**Solution:**

1. Equity share capital A/c (200 \* 10) Dr 2,000

To Equity share final call A/c ( 200 \* 3) 600

To Forfeited shares A/c (200\*7) 1,400

(Being shares forfeited)

2. Bank A/c (200\*6) Dr 1,200

Forfeited shares A/c (200\*4) Dr 800

To Share capital A/c 2,000

(Being forfeited shares reissued)

3. Forfeited shares A/c (1,400 – 800) 600

To Capital reserve A/c 600

(Being on reissues of forfeited shares transferred to capital reserve account)

**Underwriters:**

Underwriting may be defined as a contract entered into by the company with persons or institutions called underwriters, who under take to take up the whole or a portion of such offered shares or debentures as may not be subscribed for by the public in consideration of remuneration called underwriting commission.

**Underwriting commission:**

The commission is the consideration for the service rendered by the underwriters. It is paid for the risk taken by them in placing of the shares before the public.

* Underwriting commission is paid at specified rates, as per the agreement, subject to limits fixed by the Companies Act.
* The commission is payable whether an underwriter was called upon to take any shares or debentures or not.
* It is usually paid as a percentage on the total issue price of the shares or debentures underwritten.
* Payment of the commission has to be authorized by the Articles of Association of the Company.
* The commission should not exceed 5% of the issue price of shares or the rate authorized by the Articles, whichever is less. In case of debentures the commission should not exceed 2.5% of the issue price or the rate authorized by the Articles whichever is less.

**Types of underwriters:**

**1. Pure underwriting:**

The underwriter’s liability is purely contingent. He agrees to subscribe the shares or debentures of the company which are not applied for by the public. If the public subscribes for the entire issue, the underwriter has no obligation at all.

**(a) Complete Underwriting:** If the whole of the issue of the shares or debentures of a company is underwritten, without involving any Firm underwriting it is termed as complete underwriting.

**(b) Partial underwriting:** If only a part of the issue of shares or debentures of a company is underwritten, it is termed as partial underwriting. Incase of partial underwriting the company is treated as underwriter for the remaining part of the issue.

**2. Firm underwriting:**

In this type of underwriting contract the underwriter’s liability is partly definite and partly contingent. The contract signifies a definite commitment to take up a specified number of shares irrespective of the number of shares subscribed by the public.