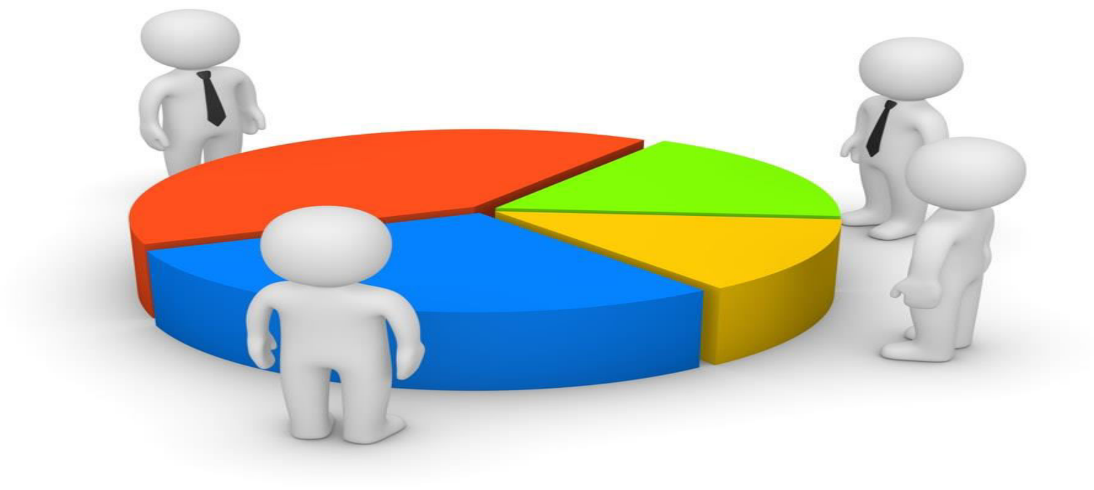

Accounting For Share Capital

8 CHAPTER

1. Company A company is an incorporated association which is an artificial person created by Law, having a separate legal entity with a perpetual succession and a common seal.

Kinds of Companies

(i) Private Company As per Section 2(68) of Companies Act, 2013, a private company is one which has a minimum paid-up capital as may be prescribed* 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 employment members to 200. If any shares 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 name of a private company ends with the words. 'Private Limited'.

(ii) Public company As per Section 2(71) of Companies Act, 2013, public company is a company which:

(a) Is not a private company.
(b) Has minimum capital as may be preascribed*.

(c) Is a private company, being a sunsidiary of a company which is not a private company.
The name of the public company ends with the word ‘ Limited’.

(iii) One person Company Section 2(62) of the Companies Act, 2013 defines one persons company as a company which has only one person as a member. It is a company incorporated as a private company which has only one member.

2. Share the capital of a company is divided into small units. Each of these small units is called a share +. Each share has a nominal value or face value, which may be Rs. 1 or Rs. 2 or Rs. 5 or Rs. 10 or any amount.

3. Nature of share As per Section 44 of the Companies Act, 2013, shares or debentures or other interest of any member in a company shall be movable property, transferable in the manner provided by the articles of the company.
According to sale of goods Act, 1930, ‘Goods mean any kind of movable property other than actionable claims and money, and includes stock and shares”.
So, on the basis of above two definitions, it can be concluded that shares are basically goods which can be bought, sold or gifted.

4. Share capital It is that part of the capital of a company, which is represented by the total nominal valued of shares, which it has issued.
5. Classification of share capital From accounting point of view share capital can be classified as
(i) Authorized share capital
(ii) Issued capital
(iii) Subscribed capital
(a) Subscribed and fully paid-up
(b) Subscribed but not fully paid-up

6. 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.

7. Capital Reserve It is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve In case of capital profits earned earned by the company. Reserve 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 or debentures, profit on re-issue of share, profits prior to incorporation, premium on redemption of debentures.

8. Classes or kinds of shares Shares are mainly classified into two categories:
(i) preference shares Preference shares are the shares are the shares that carry the following two rights:

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

(b) Return of capital on the winding up of the company before that of equity share.

(ii) Equity shares Equity shares are shares which are not preference shares. Thus, this share does not carry any preferential right or in other words, equity share is one which is entitled to dividend and repayment of capital after the claim of preference shares is satisfied.

9. Presentation of share capital in company's Balance Sheet As per Schedule III of Companies Act, 2013, share capital is to be disclosed in a company's balance sheet on equity and liabilities part under the head shareholders' funds. As per Schedule III of Companies Act, 2013, share capital is to be disclosed in a company's balance sheet in the following manner:

Balance Sheet

As at...

Particulars	Note No.	Current Year (Rs.)	Previous year (Rs.)
I. Equity And Liabilities			
1. Shareholders' Funds			
*(a) Share Capital	1	...	...

Notes to Accounts

particulars	Amt (Rs.)
1. Share Capital	
Authorised Capital	
...shares of Rs. ... each	
Issued capital	
...shares of Rs. ... each	....
Subscribed capital	
Subscribed and fully paid-up	
... shares of Rs. ... each	....
Subscribed nut not fully paid-up	
... shares of Rs. ... each ... called-up	
...	....
(-) calls-in-arrears (if any)	....
(...)	.....
(+) Shares Forfeited A/c	
Total	

10. Terms of Issue of Shares

(i) Issue of Shares at Par When shares are issued at their face value, the shares are said to have been issued at par, i.e., issue price and face value are same

(ii) Issue of shares at premium When shares are issued at a value that is higher than the face value of the shares, the shares are said to have been issued at premium, i.e., issue price is more than the face value.

11. Issue of Share for cash

Accounting treatment for share issued can be discussed under two heads

i. Shares payable in Lumpsum

(i) For receiving share application money	Bank A/c Dr. To Share Application and Allotment A/c
(ii) For allotment of shares	At par Share Application and Allotment A/c Dr. To share capital A/c At premium Share Application and Allotment A/c To Share capital A/c (with the face value of shares) To Securities Premium Reserve A/c (with the amount of premium)

ii. Shares payable in instalments

I On receipt of application money	Bank A/c Dr. To Share Application A/c	(with application money received) (number of shares applied × Application money per share)
II On allotment of shares	Share Application A/c Dr. To share Capital A/c	(with Application money due on shares allotted) (Number of share allotted × Application money per share)
III On making	(a) At Par Share Allotment A/c	(with allotment money due) (Number

allotment money due	Dr. To Share Capital A/c (b) At Premium Share Allotment A/c Dr. To share Capital A/c To Securities Premium Reserve A/c	of shares allotted × Allotment money per share) (with total) (with allotment money due) (with premium money due)
IV On receipt of allotment money	Bank A/c Dr. To Share Allotment A/c	(WITH ALLOTMENT MONEY RECEIVED)
V On making the call due	Share Call A/c Dr. To Share Capital A/c	(With call money due (Number of shares allotted × call money per shares)
VI On receipt of the call	Bank A/c Dr. To share call A/c	(With call money received)

12. Full Subscription of shares When the number of shares applied for is equal to the number of shares offered for subscription, the shares are said to be fully subscribed.

13. Over Subscription of Shares When the number of shares applied for is more than the number of shares offered for subscription, the shares are said to be oversubscribed.
    Allotment of shares cannot be made to all the applicants in full.
    In case of oversubscription, following three alternatives are available

(i) Rejection of excess applications.
(ii) Partial or pro-rata allotment.
(iii) Combination of pro-rata allotment and rejection.

14. Undersubscription of shares When the number of shares applied for is less than the number of shares offered to the public, the shares are said to be undersubscribed. As per SEBI guidelines, minimum subscription of 90% of issued share should be received by the company, only then it can proceed with allotment.

15. Calls-in-arrears When one or more shareholders fail to pay his dues at the time of allotment or call, it is technically called calls-in-arrears. Table F of the Companies Act, 2013, Provides for the payment of interest on calls-in-arrears at a rate not exceeding 10% per annum.

16. Calls-inadvance the part of the whole amount received from the shareholders before the call is made, is called calls-inadvance. This amount is shown on the liabilities side of the balance sheet as a separate item under the head share capital but is not added to the amount of paid-up capital.
    Table F of the Companies act, 2013, provides for the payment of interest on calls-in-advance at a rate not exceeding 12% per annum.

17. Issue of Shares for Consideration other than Cash
    In this regard, the purchase of assets and issue of shares are to be treated as two separate transactions.

(i) Issue of shares to vendors	(a) When assets are purchased Assets A/c (individually) To Vendor (b) When business is purchased Sundry Assets A/c Goodwill A/c* To Sundry Liabilities A/c To Vendor To Capital Reserve A/c*
(ii) On Issue of Shares	(a) At par Vendor To share capital A/c Number of shares issued = Amount payable / Issue price i.e. Face Value (b) At premium Vendor To share capital A/c To securities premium reserve A/c Number of shares issued = amount payable / Issue price i.e. face Value + Premium amount
(iii) Issue of shares to promoters	Formation Expenses/Incorporation Cost/Goodwill A/c Dr. To share capital A/c
(iv) Issue of shares to underwriters	(a) Making underwriting expenses due Underwriting Expenses A/c Dr. To Underwriters A/c (b) Issuing shares to underwriters Underwriters A/c Dr. To share capital A/c

	(c) Transferring underwriting commission to statement of profit and loss Statement of profit and loss Dr. To underwriting Commission/Expenses A/c

18. Forfeiture of shares it means cancellation of shares and seizure of the amount received from the defaulting shareholders, whose share have been forfeited.

Accounting Treatment

(i) Forfeiture of shares Which were issued at par	Share capital A/c Dr. To Share Allotment A/c To share call A/c To Share Forfeiture A/c	(Called-up-value) (Amount not received) (Amount not received) (Amount received)
(ii) Forfeiture of shares which were originally issued at premium	(a) If premium has been received Share capital A/c Dr. To share allotment A/c To share call A/c To share forfeiture A/c	(Amount called-up less premium) (amount not received) (Amount not received) (amount received, so far excluding securities premium reserve)
	(b) If premium has not been received Share capital A/c Dr. Securities premium reserve A/c Dr. To share Allotment A/c To share call a/c To share forfeiture A/c	(Amount called-up, so far less premium) (Amount of premium not received) (Amount not received) (Amount not received) (amount received)

19. Re-issue of Forfeited Shares

The directors can either cancel or reissue the forfeited shares. Shares forfeited can be re-issued at par, at premium or at a discount.

Accounting Treatment

(i) At par	Bank A/c Dr. To Share Capital A/c	
	Bank A/c Dr. Share Forfeiture Dr. To Share capital a/c	(With the amount received on re-issue) (with the discount allowed on re-issue) (with the amount credited as paid-up)
	Bank A/c Dr. To Share Capital To Securities Premium Reserve A/c	

Transfer of Balance in the Forfeited Shares Account

Share Forfeiture A/c Dr.
To capital Reserve A/c

20. Employee Stock Option Plan (ESOP) It is a plan where an option is given by the company to its whole time directors, officers and employees to purchase or acquire at a future data a specified number of shares at a pre-determined price, which is usually lower than the market price.

Journal Entries

(a) At the time of accounting the expenses	Employees Compensation Expenses A/c Dr. To share Options Outstanding A/c	(With the expense i.e. Difference Between the market price and exercise price, over the vesting period)

(b) At the time of option being exercised by the employee	When all the employees exercise the option in full Bank A/c Dr. Shares Options outstanding A/c	[With the amount received] [With the amount credited to shares

	Dr. To Share Capital A/c To Securities Premium Reserve A/c When all the employees have not excercised the options and the options have expired Bank A/c Dr. Shares Options Outstanding A/c Dr. To share Capital A/c To Securities Premium Reserve A/c To General Reserve A/c	options outstanding account] [With the nominal value of share] [With the balance amount] [with the amount received] [with the amount credited to share options outstanding account] [with the nominal value of share] [with the amount out of shares options outstanding account relating to options that have been exercised] With the amount out of shares options outstanding account relating to options that have not been exercised, i.e., lapsed]
(c) On Transfer of Employee Compensation Expenses	Statement of Profit and Loss Dr. To Employees Compensation Expenses A/c	

21. Some Important Terms

(i) Private Placement of Shares

It means issue and allotments of shares to a selected group of persons privately and not to public in general. It is generally made by private or unlisted companies. When a company issues shares through private placement route a special resolution to this effect should be passed. All SEBI guidelines concerning preferential issue are applicable to private placement of shares as well.

(ii) Preferential Allotment

A preferential allotment is one that is made at a pre-determined to the pre-identified people who are interested in taking a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of company's products or its suppliers.

(iii) Sweat Equity Shares

According to Section 2(88) of the Companies Act, 2013, the expression sweat equity shares means equity shares issued by a company to its employees or directors at a discount. A company may issue sweat equityshares of a class already issued by passing a special resolution, specifying the number of shares, their current market price, consideration and the class or classes of directors or employees to whom such shares are to be issued. A period of one year must have elapsed since the date of the company has company has commenced business. The company is also required to meet the regulations of SEBI.

(iv) Employees stock Purchase Scheme (ESPS)

Employees stock purchase means a scheme under which a company offers shares to its employees as part of a public issue or otherwise.

In respect of shares issued under employees stock purchase scheme during any accounting period. The following journal entry is passed

Bank a/c Dr.	[issue price × Number of shares]
Employee Compensation Expense A/c Dr.	[accounting value of options]
To share capital A/c	[number of shares × face value]
To securities Premium Reserve A/c	[number of shares × (Market price – face value)

(v) Right Issue

The existing shareholders, under Section 62 of the Companies Act, 2013 have a right to subscribe to fresh issue of share capital made by the company in proportion to their existing shareholders. They may subscribe to the offer in full or in part or may reject it or may renounce the right. Alternatively, the company may seek their approval, through passing a special resolution, to offer the fresh issue to the public in general.

(vi) Buy-back of shares

The term 'buy-back' are-Free reserve, the securities premium reserve account and the proceeds of any shares or other specified securities.