

## CORPORATE ACCOUNTING (BKS42)

### UNIT-I

#### Meaning of Shares:

Shares are units of ownership interest in a corporation or financial asset that provide for an equal distribution in any profits, if any are declared, in the form of dividends.

A share is referred to as a unit of ownership which represents an equal proportion of a company's capital. A share entitles the shareholders to an equal claim on profit and losses of the company. There are majorly two kinds of shares i.e. equity shares and preference shares.

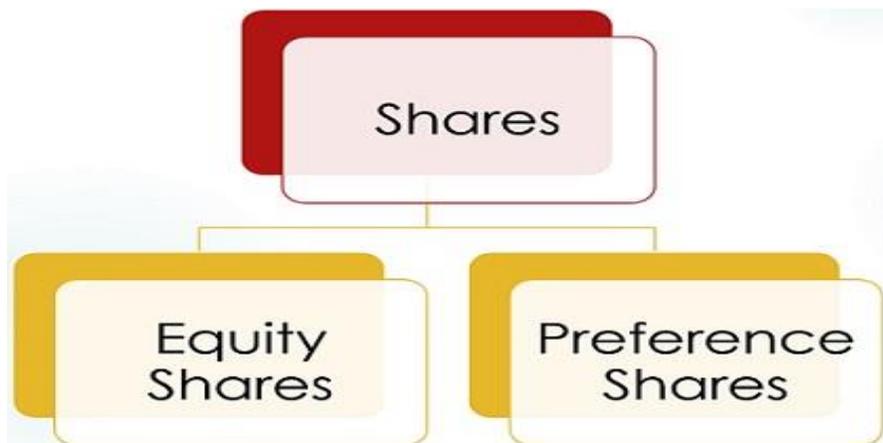
The share capital is the most important requirement of a business. It is divided into a 'number of indivisible units of a fixed amount. These units are known as 'shares'.

Shares can be described as the **financial instrument** issued by the company to raise funds from the general public. A shares represent fractional ownership in a body corporate. Thus, a share is the smallest unit of the company's overall net worth.

#### Definition of Shares:

A shares are that smallest part, into which the overall capital of the company is divided. Issue of shares is a process through which the company allocates fresh shares to the new or existing shareholders. The issue of shares is made to both individuals, institutions or body corporate.

#### TYPES OF SHARES

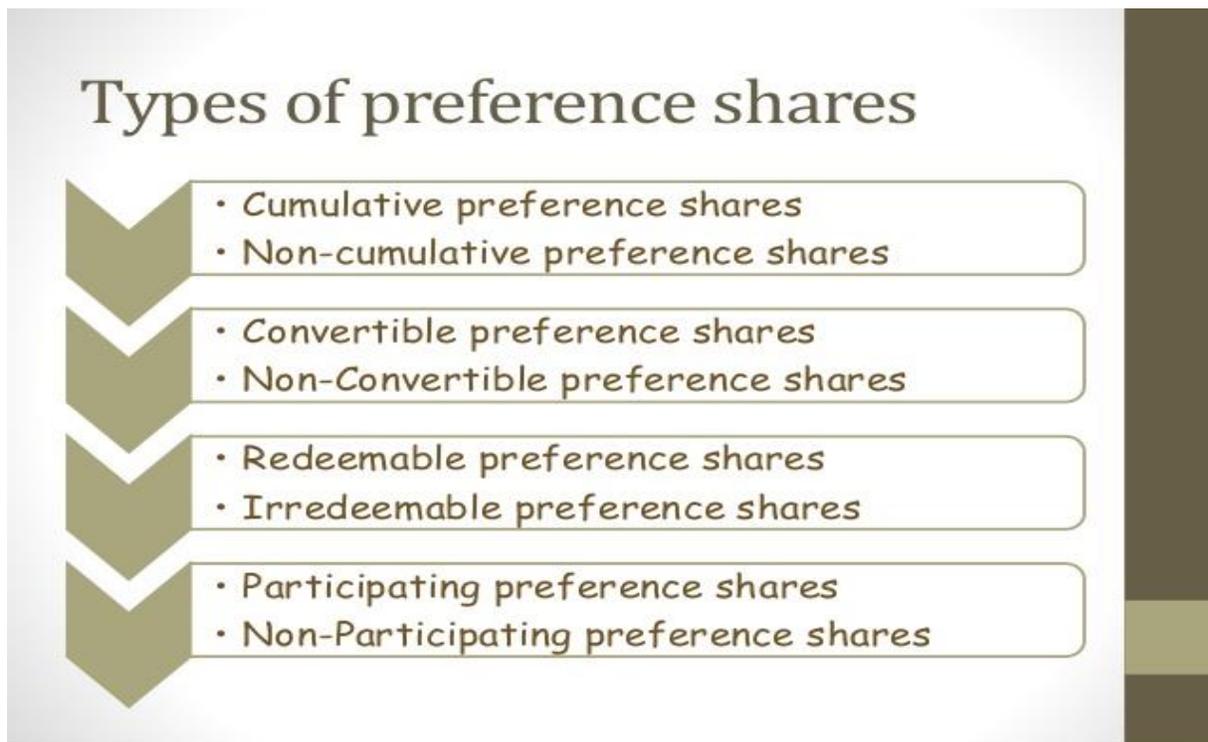


### **Preference Shares:**

They also carry preferential right in regard to payment of capital on winding up of the company. They carry preferential share right in respect of dividend at a fixed rate.

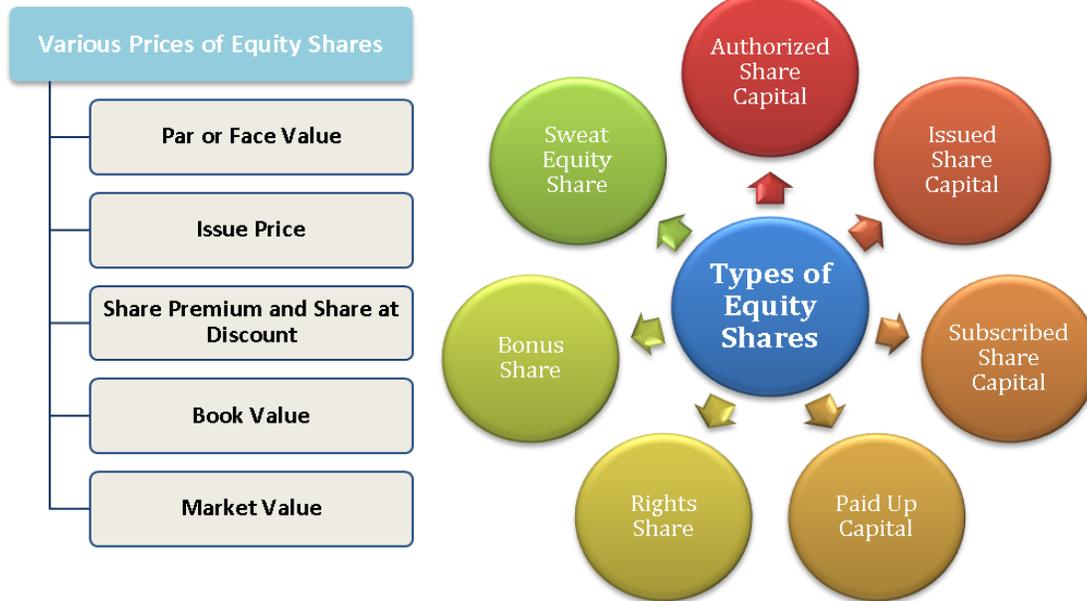
### **Equity Shares:**

Equity shares means that part of the share capital which is not a Preference share capital. It means all such shares which are not Preference shares. Equity shares are also called as Ordinary Shares.



**Equity Shares :**

They are categorized under long-term sources of finance because legally they are irredeemable in nature. For an investor, these shares are a certificate of ownership in the company by virtue of which investors are entitled to share the net profits and have a residual claim over the assets of the company in the event of liquidation.



## EQUITY VS. PREFERENCE SHARES

BASIS OF DIFFERENCE	PREFERENCE SHARES	EQUITY SHARES
<b>RIGHT TO DIVIDEND</b>	Dividend is paid on Preference shares before it is paid on the Equity shares.	Dividend is paid on the equity shares after it is paid on the preference shares.
<b>RATE OF DIVIDEND</b>	Rate of dividend may be fixed on these shares.	Rate of dividend is proposed by the Board of Directors each year.
<b>REDEMPTION</b>	Preference shares are redeemed on due date.	A company may buy-back its equity shares.
<b>VOTING RIGHTS</b>	Preference shareholders have voting rights only in special circumstances.	Equity shareholders have voting rights in all circumstances.
<b>REQUIREMENT FOR FORMATION</b>	A new company cannot be formed only with preference shares.	A new company can be formed only with the equity shares.
<b>TYPES</b>	There are 8 types of preference shares.	There is no such type of equity shares, however sweat equity shares are covered under this category.

## TYPES OF SHARE CAPITAL

- **Nominal or registered or authorized capital:** amount of the capital with which the company is registered.
- **Issued capital:** that part of authorized capital which is offered to the public for subscription.
- **Subscribed capital:** that part of issued capital for which applications are received from the public.
- **Called up capital:** amount on the shares which is actually demanded by the company to be paid.
- **Paid-up capital:** the part of the called up capital which is offered and is actually paid by the member.
- **Reserve capital:** the portion of the share capital which has not been already called up and shall not be capable of being called up except in the event of winding up of the company.

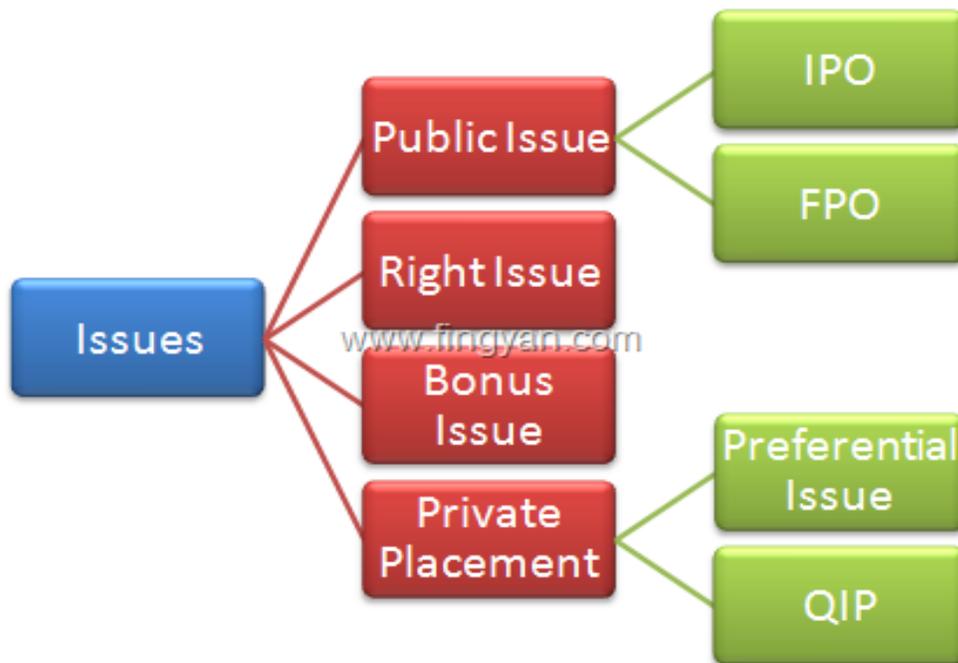
### Difference between Reserve Capital & Capital Reserve:

Basis	Capital Reserve	Reserve Capital
Meaning	The Profits earned through the special transaction by the company which is not distributed as a dividend to shareholders is known as Capital Reserve.	The Part of Uncalled capital is known as Reserve Capital
Created For	Capital Profits	Authorized capital
Disclosure	Appears on the Equity & Liabilities Side	Not Disclosed at All
Need for Creation	Compulsory	Voluntary
Specific Needs	No Such Conditions	Under the Special Resolutions
Useful's	For Fictitious Assets or Capital Losses	When the company in Stage of Winding Up

## Issue of shares

Issue of Shares is the process in which companies allot new shares to shareholders. Shareholders can be either individuals or corporates. The company follows the rules prescribed by Companies Act 2013 while issuing the shares. Issue of Prospectus, Receiving Applications, Allotment of Shares are three basic steps of the procedure of issuing the shares. The process of creating new shares is known as Allocation or allotment.

A company can issue its shares either at par, at a premium or even at a discount. The shares will be at par is when the shares are sold at their nominal value. Shares sold at a premium cost more than their nominal value, and the amount in excess of the face value is the premium. And of course, shares sold at discount cost less than the face/nominal value.



## Procedure of Issue of New Shares

### 1. Issue of Prospectus

Before the issue of shares, comes the issue of the prospectus. The prospectus is like an invitation to the public to subscribe to shares of the company. A prospectus contains all the information of the company, its financial structure, previous year balance sheets and profit and Loss statements etc.

It also states the manner in which the capital collected will be spent. When inviting deposits from the public at large it is compulsory for a company to issue a prospectus or a document in lieu of a prospectus.

## 2. Receiving Applications

When the prospectus is issued, prospective investors can now apply for shares. They must fill out an application and deposit the requisite application money in the schedule bank mentioned in the prospectus. The application process can stay open a maximum of 120 days. If in these 120 days minimum subscription has not been reached, then this issue of shares will be cancelled. The application money must be refunded to the investors within 130 days since issuing of the prospectus.

Under Subscription: If the no. of shares applied for is less than the no. of shares offered to the public then it is called as Under Subscription.

Over Subscription: If the no. of shares applied for is more than the no. of shares offered to the public then that is called as over Subscription.

## 3. Allotment of Shares

Once the minimum subscription has been reached, the shares can be allotted. Generally, there is always over subscription of shares, so the allotment is done on pro-rate basis. Letters of Allotment are sent to those who have been allotted their shares. This results in a valid contract between the company and the applicant, who will now be a part owner of the company.

If any applications were rejected, letters of regret are sent to the applicants. After the allotment, the company can collect the share capital as it wishes, in one go or in instalments.

A noticeable feature of the company's capital is that the amount on its shares can be progressively collected in simple instalments that are spread over a time frame relying upon its enhancing financial obligation. The 1st instalment is collected with the application and is hence, called as application money, the 2nd is on allocation (termed as allocation or allotment of money), and the 3rd instalment is known as a 1st call, 2nd call and so on. The word-final is suffixed to the final instalment. This procedure, in no way, prevents an enterprise from calling the entire amount on shares during the period of application.

**Partial Allotment:** In partial allotment the company rejects some application totally, refunds their application money.

**Pro-rata Allotment:** When a company makes a pro-rata allotment, it allots shares to all applicants but allots lesser shares than applied for .

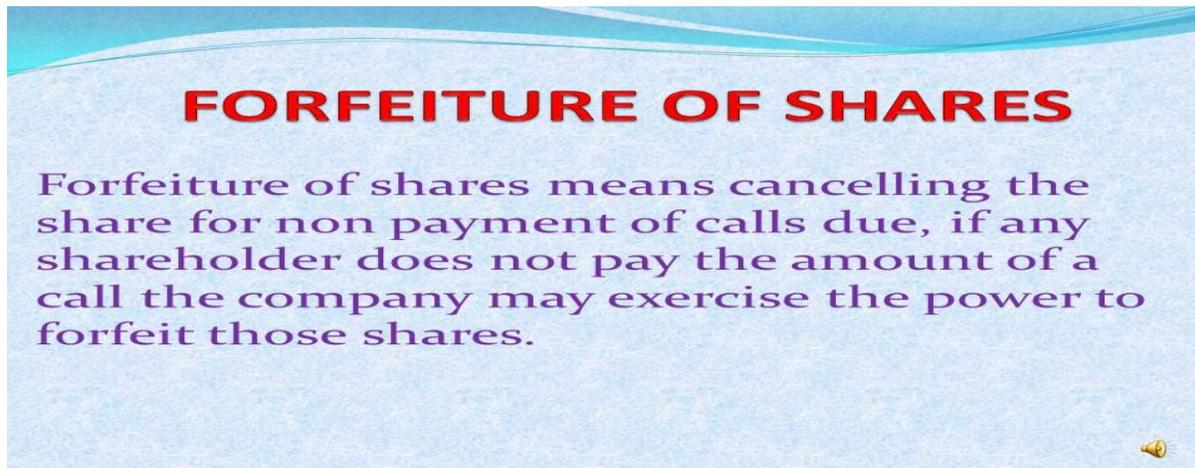
### **Minimum Subscription:**

This is a minimum amount that must be raised when the shares are offered to the public during the issue of shares. This minimum subscription is generally set by the Board of directors, but it cannot be less than 90% of the issued capital.

So at least 90% of the issued capital must receive subscriptions or the offer will be said to have failed. In such a case the application money received thus far must be returned within the prescribed time limit.

### **Forfeiture of shares**

It is a process where the company forfeits the shares of a member or shareholder who fails to pay the call on shares or instalments of the issue price of his shares within a certain period of time after they fall due. In other words, when the shareholder fails to pay the full amount of share which he agreed to pay in instalments the company can cancel his shares.



### **Re-issue of shares:**

Shares are forfeited because only a part of the due amount of such shares is received and the balance remains unpaid. On forfeiture the membership of the original allottee is cancelled. He/she cannot be asked to make payment of the remaining amount. Such shares become the property of the company. Therefore company may sell these shares. Such sale of shares is called 'reissue of shares'. Thus reissue of shares means issue of forfeited shares.

A forfeited share may be reissued or otherwise disposed of on such terms and in such a manner as the Board may think fit. Reissue of forfeited shares is a sale of shares and it does not

amount to an allotment. The company should duly record the particulars of the members who acquire those shares as if it were a transfer of shares.

The directors would fix a price for the forfeited share that should not be lower than the amount of the call(s) due and unpaid on the share at the time of forfeiture.

**Table : Differences between Forfeiture and Lien**

Basis	Forfeiture	Lien
Purpose	Forfeiture is done in case of non-payment of any sum which, by the terms of issue of a share, is due from the shareholder ( <i>article 35</i> ).	A company can have lien on partly paid shares for uncalled amount as well as all debts payable by the shareholder ( <i>Article9, table A</i> ).
Reduction in Capital	Forfeiture may or may not result in reduction of capital.	Lien does not result in reduction of capital.
Disposal	Forfeited shares may be reissued or cancelled.	Shares acquired through lien can only be sold.
Nature	Forfeiture is penal in nature.	Lien is meant as a security in transaction.
Example	Simon, a shareholder of Rahat Ltd., owes Rs 10,000 to the company in respect of unpaid calls on shares held by him. The company can resolve to forfeit his shares.	Simon, a shareholder of Rahat Ltd., owes Rs 10,000 to the company in respect of goods purchased by him from the company on credit. The company can exercise lien over his shares.

**JOURNAL ENTRIES FOR ISSUE OF SHARES AT PAR:**

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Bank A/c Dr.		XXX	
	To Share Application A/c			XXX
	(Being application money received)			
	Share Application A/c Dr.		XXX	
	To Share Capital A/c			XXX
	(Being application money transferred to share capital account)			
	Share Application A/c Dr		XXX	
	To Bank A/c			XXX
	(Being return of the application money of rejected)			

Applicants)				
Share Allotment A/c Dr.		XXX		
To Share Capital A/c				XXX
(Being allotment money due on shares @ Rs. Per share)				
Bank A/c Dr.		XXX		
To Share Allotment A/c				XXX
(Being allotment money received)				
Share I call A/c Dr.		XXX		
To Share Capital A/c				XXX
(Being share I call money due)				
Bank A/c Dr.		XXX		
To Share I call A/c				XXX
(Being share I call money received)				
Share II call A/c Dr.		XXX		
To Share Capital A/c				XXX
(Being share II call money due)				
Bank A/c Dr.		XXX		
To Share Call A/c				XXX
(Being share II call money received)				

### JOURNAL ENTRIES FOR ISSUE OF SHARES AT PREMIUM

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Share Allotment A/c Dr.		XXX	
	To securities premium A/c			XXX
	To share capital A/c			XXX
	(Being allotment money due on shares @ Rs. Per share including premium of Rs.)			
	Bank a/c Dr.		XXX	
	To share allotment a/c			XXX
	(Being allotment money received)			

### JOURNAL ENTRIES FOR ISSUE OF SHARES AT DISCOUNT

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Share Allotment A/c Dr.		XXX	
	Discount on Issue of Shares A/c		XXX	
	To share capital A/c			XXX

(Being allotment money due on shares @ Rs. Per share & the amount of discount allowed on the issue)			
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## JOURNAL ENTRIES FOR FORFEITURE & REISSUE

### ❖ At Par

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Share Capital A/c Dr		XXX	
	To Unpaid Call A/c			XXX
	To Forfeited Shares A/c			XXX
	(Being forfeiture of shares for non payment of calls)			
	Bank A/c Dr		XXX	
	Forfeited Shares A/c Dr			XXX
	To Share Capital A/c			XXX
	( Being re-issue of forfeited shares)			
	Forfeited Shares A/c Dr		XXX	
	To Capital Reserve A/c			XXX
	( Being transfer of forfeited shares account to capital Reserve)			

### ❖ At Discount

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Share Capital A/c Dr		XXX	
	To Discount on Issue of Shares A/c			
	To Unpaid Call A/c			XXX
	To Forfeited Shares A/c			XXX
	(Being forfeiture of shares for non payment of calls)			
	Bank A/c Dr		XXX	
	Discount on Issue of Shares A/c Dr		XXX	
	Forfeited Shares A/c Dr		XXX	
	To Share Capital A/c			XXX
	( Being re-issue of forfeited shares)			
	Forfeited Shares A/c Dr		XXX	
	To Capital Reserve A/c			XXX
	( Being transfer of forfeited shares account to capital Reserve)			

- ❖ For Profit on Reissue of Forfeited Shares (If only a portion of forfeited shares are reissued)

DATE	PARTICULARS	LF	DEBIT	CREDIT
	Forfeited Shares A/c Dr		XXX	
	To Capital Reserve A/c			XXX
	( Being transfer of profit on reissue of forfeited			
	Shares)			

#### References:

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