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Company and Its Features

A company is an association of persons who contribute money or money's worth to a common inventory and use it for a common purpose. It is an artificial person having a corporate legal entity distinct from its members (shareholders) and has a common seal used for its signature. The company has special features distinguishing it from other forms of organization.

- **Body is Corporate:** A company is formed according to the provisions of law enforced from time to time. In India, companies are generally formed and registered under Companies Law, except banking and insurance companies which have separate laws.
- **Separate Legal Entity:** A company has a legal entity distinct from its members. It can hold and deal with property, enter into contracts, and open bank accounts in its own name.
- **Limited Liability:** The liability of members is limited to the unpaid amount on shares held by them. For companies limited by guarantee, liability is limited to the guarantee amount in case of winding up.
- **Perpetual Succession:** The company continues to exist irrespective of changes in membership. Death, insanity, or insolvency of members does not affect the company's existence.
- **Common Seal:** The company cannot sign by itself; it uses a common seal as its official signature. Documents without the common seal are not binding.
- **Transferability of Shares:** Shares of a public limited company are freely transferable without company or member consent, subject to the Articles of Association.
- **May Sue or be Sued:** A company can enter contracts and enforce rights in its own name.

Kinds of Companies: Companies are classified based on liability and number of members.

- **Based on Liability:**
 - **Companies Limited by Shares:** Liability limited to nominal value of shares held (Joint Stock Company).
 - **Companies Limited by Guarantee:** Liability limited to guarantee amount on winding up.
 - **Unlimited Companies:** Members have unlimited liability; creditors can claim dues from members. Rare in India.
- **Based on Number of Members:**
 - **Public Company:** Not a private company, minimum paid-up capital ₹5 lakh or more, not a subsidiary of a private company.
 - **Private Company:** Minimum paid-up capital ₹1 lakh or more, restricts share transfer, limits members to 200 (excluding employees), prohibits public invitation for shares or deposits.
 - **One Person Company (OPC):** Company with only one member, Indian citizen resident in India, cannot carry non-banking financial activities, paid-up capital not exceeding ₹50 lakh, turnover not exceeding ₹2 crore.

Shares and Classes of Shares

Share: As per Section 2(84) of the Companies Act, 2013, a share is a unit of share capital of a company. Capital is divided into shares of various denominations such as ₹100, ₹50, ₹10, ₹5, or ₹1.

Classes of Shares:

1. **Preference Shares:** Carry preferential rights:
 - Preferential right to fixed dividend before equity shareholders.
 - Preferential right to repayment of capital on winding up before equity shareholders.
2. **Types of Preference Shares:**
 - *On Arrears of Dividend:*
 - **Cumulative Preference Shares:** Right to receive arrears of dividend before equity dividend.
 - **Non-Cumulative Preference Shares:** No right to arrears of dividend.
 - *On Share in Profits:*
 - **Participating Preference Shares:** Share in surplus profits after equity dividend.
 - **Non-Participating Preference Shares:** Only fixed dividend, no share in surplus profits.
 - *On Convertibility:*
 - **Convertible Preference Shares:** Can be converted into equity shares.

- **Non-Convertible Preference Shares:** Cannot be converted.
 - *On Redemption:*
 - **Redeemable Preference Shares:** Repayable after fixed period or earlier at company option.
 - **Irredeemable Preference Shares:** No maturity date; not permitted under Companies Act, 2013.
3. **Equity Shares:** Shares other than preference shares. Carry maximum risk and reward. Dividend is variable and depends on profits. Equity shareholders have voting rights.

Share Capital and Its Types

Share Capital: Capital raised by issuing shares.

Types of Share Capital:

1. **Authorised Capital:** Maximum capital company can raise as per Memorandum of Association.
2. **Issued Capital:** Portion of authorised capital issued to public.
3. **Unissued Capital:** Portion of authorised capital not issued.
4. **Subscribed Capital:** Portion of issued capital subscribed by public.
5. **Allotted Capital:** Capital allotted to applicants; not exceeding issued or applied capital.
6. **Called-up Capital:** Portion of allotted capital called for payment.
7. **Uncalled Capital:** Portion of allotted capital not called for payment.
8. **Paid-up Capital:** Portion of called-up capital actually paid by shareholders.
9. **Reserve Capital:** Portion of subscribed capital not called up during lifetime; called up on liquidation by special resolution.

Other Terms:

- **Private Placement:** Sale of shares or bonds to pre-selected investors instead of open market.
- **Employee Stock Option Plan (ESOP):** Right given to employees to buy shares at a set price.
- **Sweat Equity:** Ownership interest given as compensation for hard work.
- **Rights Issue:** Invitation to existing shareholders to buy additional shares at discount.

Issue of Shares and Accounting Treatment

Shares can be issued in installments: application, allotment, first call, second call, final call. Full amount can also be called at application.

Steps in Share Issue:

1. Issue of Prospectus
2. Receipt of Applications
3. Allotment of Shares

Accounting Treatment for Issue of Shares for Cash:

a. Issue of Shares at Par:

At Application:

Bank A/c Dr.
To Share Application A/c
(Being application money received on shares)

Share Application A/c Dr.
To Share Capital A/c
(Being application money transferred to share capital)

Share Application A/c Dr.
To Bank A/c
(Being application money returned on rejected applications)

At Allotment:

Share Allotment A/c Dr.
To Share Capital A/c
(Being allotment due on shares)

Share Application A/c Dr.
To Share Allotment A/c
(Being excess application money adjusted against allotment)

Bank A/c Dr.
To Share Allotment A/c
(Being allotment money received)

At First Call:

Share First Call A/c Dr.
To Share Capital A/c
(Being first call money due)

Bank A/c Dr.
To Share First Call A/c
(Being first call money received)

At Second Call:

Share Second Call A/c Dr.
To Share Capital A/c
(Being second call money due)

Bank A/c Dr.
To Share Second Call A/c
(Being second call money received)

At Third and Final Call:

Share Third and Final Call A/c Dr.
To Share Capital A/c
(Being third and final call money due)

Bank A/c Dr.
To Share Third and Final Call A/c
(Being third and final call money received)

b. Issue of Shares at Premium: Shares issued above face value. Premium credited to Securities Premium Reserve Account, a capital receipt.

Uses of Securities Premium Reserve (Section 52(2)):

- Issue fully paid bonus shares
- Write off preliminary expenses
- Write off commission or expenses on issue of shares/debentures
- Pay premium on redemption of preference shares or debentures
- Buy-back of equity shares and other securities

Journal Entries for Issue with Premium:

(1) For allotment due with premium:

Share Allotment A/c Dr.

To Share Capital A/c

To Securities Premium Reserve A/c

(Being amount due on share allotment with premium)

(2) For receipt of allotment money:

Bank A/c Dr.

To Share Allotment A/c

(Being share allotment money received)

Oversubscription and Under-subscription of Shares

Under-subscription: When shares applied for are less than shares offered. Minimum 90% application required or issue becomes void as per SEBI.

Oversubscription: When shares applied for exceed shares offered.

Options to deal with oversubscription:

1. Full allotment to some applicants, reject others.
2. Pro-rata allotment based on ratio of shares to be allotted to shares applied for.
3. Combination of above two methods.

Calls-in-Advance and Calls-in-Arrears

Calls-in-Advance: Payment received before calls are made, authorized by Articles. Interest may be paid up to 12% per annum.

Journal Entries:

(1) Receipt of calls-in-advance:

Bank A/c Dr.

To Calls-in-Advance A/c

(Being amount received in advance)

(2) Adjustment of calls-in-advance:

Calls-in-Advance A/c Dr.

To Share Call A/c

(Being calls-in-advance adjusted against call)

Calls-in-Arrears: Unpaid calls after due date. Separate account may be opened.

Journal Entries:

(1) Unpaid on allotment:

Calls-in-Arrears A/c Dr.

To Share Allotment A/c

(Being amount unpaid on allotment)

(2) Unpaid on calls:

Calls-in-Arrears A/c Dr.

To Share Calls A/c

(Being amount unpaid on calls)

Issue of Shares for Consideration Other Than Cash

Shares may be issued for non-cash consideration such as assets or services. Number of shares issued = Amount payable / Issue price per share.

Cases:

(A) Issue to Promoters:

Incorporation Expenses A/c Dr.

To Share Capital A/c
(Being fully paid shares issued to promoters)

(B) Issue to Vendors:

(i) Purchase of assets on credit:

Sundry Assets A/c Dr.

To Vendor's A/c

(Being assets purchased on credit)

Purchase of business:

Sundry Assets A/c Dr.

Goodwill A/c Dr.

To Liabilities A/c

To Vendor's A/c

To Capital Reserve A/c

(Being business purchased)

(ii) Issuing shares to vendor:

At par:

Vendor's A/c Dr.

To Share Capital A/c

(Being fully paid shares issued to vendor)

At premium:

Vendor's A/c Dr.

To Share Capital A/c

To Securities Premium Reserve A/c

(Being shares issued to vendor at premium)

Forfeiture and Reissue of Shares

Forfeiture of Shares: When a member fails to pay allotment or calls within time, company may forfeit shares.

Accounting Treatment:

(1) Forfeiture of shares issued at par:

Share Capital A/c Dr. (called up amount)
To Share Allotment A/c (unpaid allotment)
To Share Calls A/c (unpaid calls)
To Shares Forfeiture A/c (amount received)

(2) Forfeiture of shares issued at premium:

(a) If premium not received:

Share Capital A/c Dr. (called up less premium)
Securities Premium Reserve A/c Dr. (premium called up)
To Share Allotment A/c
To Share Calls A/c
To Shares Forfeiture A/c (amount received)

(b) If premium received:

Share Capital A/c Dr. (called up amount)
To Share Allotment A/c
To Share Calls A/c
To Shares Forfeiture A/c (amount received less premium)

Balance in Shares Forfeiture Account is added to capital under 'Subscribed Share Capital' in Notes to Accounts.

Reissue of Forfeited Shares: May be reissued at par, premium, or discount. Discount on reissue debited to Shares Forfeiture Account. Balance transferred to Capital Reserve.

Journal Entries:

(1) Reissue at par:

Bank A/c Dr.
To Share Capital A/c
(Being forfeited shares reissued at par)

Reissue at discount:

Bank A/c Dr.
Shares Forfeiture A/c Dr.

To Share Capital A/c
(Being forfeited shares reissued at discount)

Reissue at premium:

Bank A/c Dr.

To Share Capital A/c

To Securities Premium Reserve A/c

(Being forfeited shares reissued at premium)

(2) Transfer balance of forfeited shares to capital reserve:

Shares Forfeiture A/c Dr.

To Capital Reserve A/c

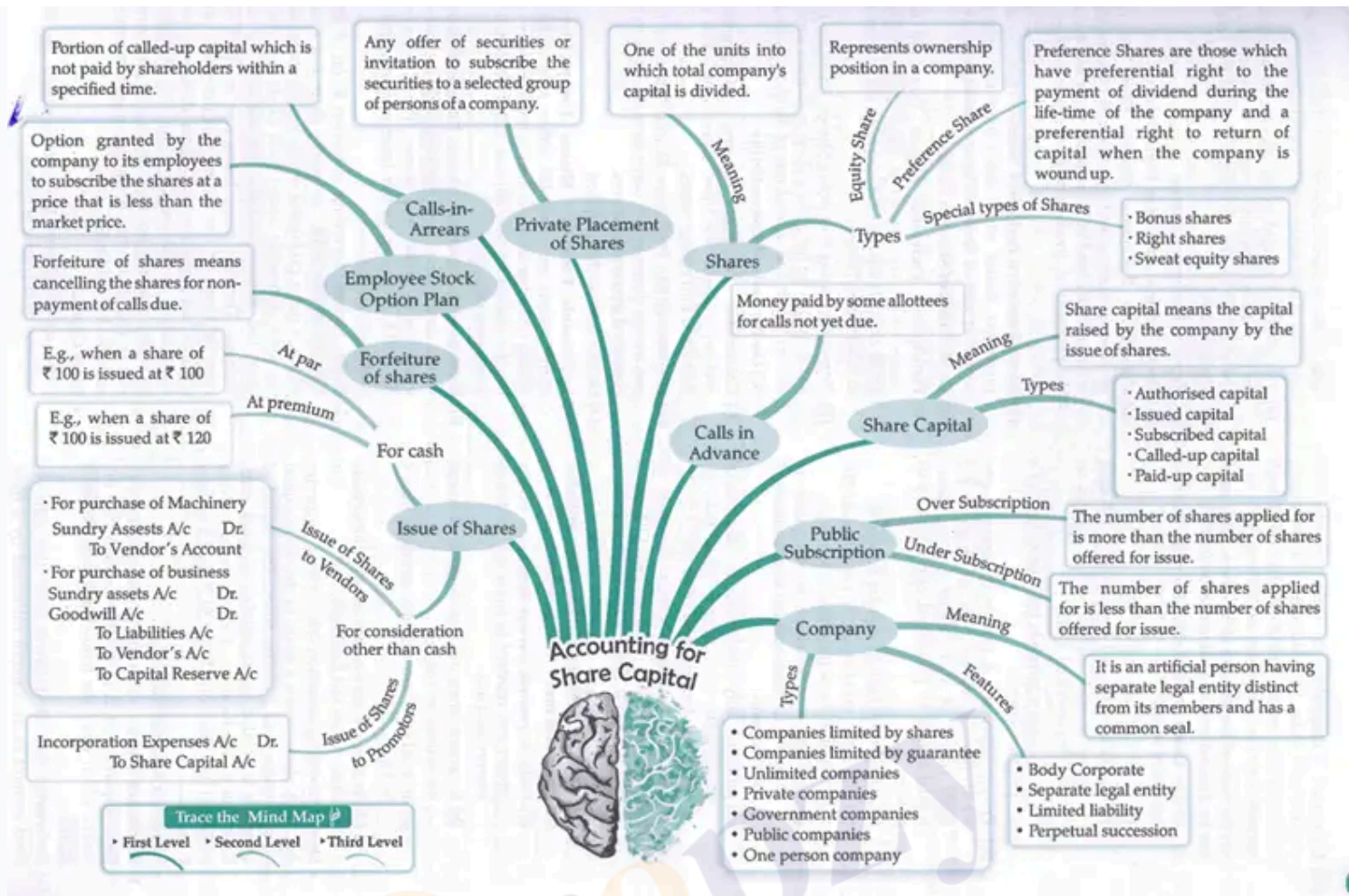
(Being balance transferred to capital reserve)

Disclosure of Share Capital in Balance Sheet

As per Schedule III of Companies Act, 2013, share capital is disclosed under Shareholders' Funds in the Equity and Liabilities section of the Balance Sheet. Notes to Accounts provide details of types of shares, their face value, number of shares issued, paid-up, forfeited, and calls in arrears or advance.

Key Terms

- **Share Premium:** Amount received by company over and above face value of shares.
- **Securities Premium Reserve:** Capital reserve created from share premium, used for specified purposes under law.



Difference between Equity & Preference Share

Basic	Equity Share	Preference share
(i) Refund of capital	On winding up, the equity share capital is paid after the preference share capital is paid or equity shareholder receive residual amount.	On winding up, the preference share capital is paid before the equity share capital is paid or preference shareholder have preference to get refund of capital over equity shareholders
(ii) 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.
(iii) Right of Dividend	No fixed rate of dividend. It is decided by board of directors every year and vary periodically.	Fixed rate of dividend prescribed on the face of preference shares e.g. 9% Preference these In this case rate of dividend is 9%.
(iv) Right to Vote	Equity shareholder have the right to vote in meeting of shareholders and they elect director for managing the company.	In 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.
(v) 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 share are always redeemable. Now a company cannot issue irredeemable preference shares.

Difference between Capital Reserve and Reserve Capital

Capital Reserve	Reserve Capital
(i) It is a reserve that is created from the capital profits of the company.	Reserve capital is defined as the capital that is uncalled, i.e; this capital is called only in case of winding up of company.
(ii) It is necessary to create a capital reserve.	It is not compulsory to create a reserve capital.
(iii) A capital reserve is used at the time of emergencies like inflation, incurring losses, etc.	Reserve capital is the amount reserved by the company. This amount is used for the events that will happen in the future.
(iv) Capital reserves are created through capital profits.	Reserve capital is created out of authorised capital.

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Example-2

Rolga Ltd. is having an authorised capital of ₹ 50,00,000 divided into equity shares of ₹ 100 each. The company offered 40,000 shares to the public. The amount payable was as follows:

On Application	-	₹ 30 per share
On Allotment	-	₹ 40 per share (including premium)
On First and Final Call	-	₹ 50 per share

Applications were received for 40,000 shares.

All sums were duly received except the following:

Lal, a holder of 100 shares did not pay allotment and call money.

Pal, a holder of 200 shares did not pay call money.

The company forfeited the shares of Lal and Pal. Subsequently, the forfeited shares were reissued for ₹ 70 per share as fully paid-up. Show the entries for the above transactions in the Journal of the company.

Ans.

Books of Rolga Ltd.

Journal Entries

S. No.	Particulars	L.F.	Dr. Amount (₹)	Cr. Amount (₹)
(1)	Bank A/c Dr. To Equity Share Application A/c (Being application money received on 40,000 shares)		12,00,000	12,00,000
(2)	Equity Share Application A/c Dr. To Equity Share Capital A/c (Being application money transferred to share capital A/c)		12,00,000	12,00,000
(3)	Equity Share Allotment A/c Dr. To Equity Share Capital A/c To Securities Premium/Securities Premium Reserve A/c (Being equity share allotment made)		16,00,000	8,00,000 8,00,000
(4)	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share Allotment A/c (Being allotment money received except on 100 shares)		15,96,000 4,000	16,00,000
(5)	Equity Share First Call A/c Dr. To Equity Share Capital A/c (Being first call money due on 40,000 shares)		20,00,000	20,00,000
(6)	Bank A/c Dr. Calls-in-Arrears A/c Dr. To Equity Share First Call A/c (Being first call money received except on 300 shares)		19,85,000 15,000	20,00,000
(7)	Equity Share Capital A/c Dr. Securities Premium/Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Equity Share Allotment A/c To Equity Share First Call A/c / Calls-in-Arrears A/c (Being 300 shares forfeited)		30,000 2,000	13,000 4,000 15,000
(8)	Bank A/c Dr. Share Forfeiture A/c Dr. To Equity Share Capital A/c (Being forfeited shares reissued)		21,000 9,000	30,000
(9)	Share Forfeiture A/c Dr. To Capital Reserve A/c (Being gain on forfeiture of reissued shares transferred)		4,000	4,000

Balance Sheet

Particulars	Note No.	Figures as at the end of current year (₹)	Figures as at the end of previous year (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds:			
(a) Share Capital			
(b) Reserves and Surplus			
(c) Money Received Against Share Warrants			

Note: According to Schedule III of the Companies Act, 2013, disclosure requirements pertaining to share capital are to be provided in Notes to Accounts as given ahead:

Notes to Accounts

Particulars	Amount (₹)	Amount (₹)
(1) Share Capital		
Authorised Capital:		
.....Equity Shares of ₹..... each		
.....Preference Shares of ₹ each		
Issued Capital:		
..... Equity Shares of ₹ each		
..... Preference Shares of ₹ each		
Subscribed Capital:		
Subscribed and Fully paid-up:		
..... Equity Shares of ₹ each		
..... Preference Shares of ₹ each		
(Of the above shares shares are allotted as fully paid-up pursuant to a contract without payment in cash)		
Subscribed but not fully paid-up:		
..... Equity Shares of ₹ each, ₹ per share called-up		
<i>Less: Calls- in-Arrears</i>		
..... Preference Shares of ₹ each, ₹ called up		
<i>Less: Calls- in-Arrears</i>		
(i) By Directors ₹		
(ii) By others ₹		
<i>Add: Forfeited Shares</i>		
Amount to be shown in the Balance Sheet		