WELCOME

SUBJECT- CORPORATE ACCOUNTING PAPER- I

MODULE- I

ISSUE OF SHARES, FORFEITURE OF SHARES AND RE-ISSUE OF FORFEITED SHARES

BY

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MEANING AND DEFINITION OF COMPANY

- A company may be defined as an association of persons who contribute money or money's worth to a common stock and use it for a common purpose.
- Company is an artificial person created by law. A company has a capital divisible into transferable shares, having a corporate legal entity and a common seal. Though a company is a creation of the members; a company is distinct and separate from its members.

Features of a Company:

1. Voluntary association
2. Separate legal entity
3. Limited liability
4. Perpetual succession
5. Common seal
6. Transferability of shares
7. Separate property
8. Capacity to sue and be sued

❖ TYPES OF COMPANIES:

A) On the basis of liability of shareholders or members:

1) Companies limited by shares
2) Companies limited by guarantee
3) Unlimited companies

B) On the basis of number of members:

1) Private Company
2) Public Company
3) One Person Company (OPC)

❖ SHARES – MEANING AND DEFINITION

1. Share means share in the share capital of the company.
2. When share capital of the company is divided into small parts or units then it is called as shares.

TYPES OF SHARES

As per The Companies Act, a company can issue two types of shares

1. Equity shares
2. Preference shares

i) Cumulative and Non-Cumulative Preference Shares:

ii) Redeemable and Irredeemable Preference Shares

iii) Participating and Non-Participating Preference Shares

iv) Convertible and Non-Convertible Preference Shares

❖ SHARE CAPITAL

The capital which is raised by the issue of shares is called as share capital.

❖ TYPES OF SHARE CAPITAL

1. Authorized or Registered or Nominal Capital
2. Issued Capital
3. Subscribed Capital
4. Called up Capital
5. Paid-up Capita
6. Uncalled Capital
7. Reserve Capital

RAISING OF SHARE CAPITAL

A public limited company issues prospectus and appeals the public for the subscription of its share capital. The interested persons can apply in a prescribed form for the number of shares they intend to purchase along with application money. Company does not demand the face value of share in one installment but it demand in number of installments as per the need of company. These installments are-

1. Application money: Application money is paid by the applicant along with the application form so it is not necessary to demand. Application money should not be less than 5% of the face value of shares.

2. Allotment money: Allotment means allocation of shares. In case of oversubscription the application money of the applicants to whom no one share is allotted is refunded and the excess application money received from the applicants to whom less number of shares are allotted than the number of shares applied for is adjusted to allotment and calls depends upon the surplus amount received. After allotment of shares the second installment is demanded it is called as Allotment Money. A letter of allotment is sent to each applicant to whom the shares are allotted. This letter contains the information of number of shares allotted and asking him to pay the second installment i.e. allotment money due from him.

3. Calls on shares: Installment demanded after allotment money towards the unpaid balance on shares is called as calls on shares. If installments are more than one, then they are serially numbered as first call, second call and the last call as final call. According to the Companies Act- i) One month period must be passed between two calls. ii) The amount of call should not be more than 25% of face value of shares. iii) The shareholders must be given 14 days' notice for payment of calls.

ISSUE OF SHARES

Issue of shares means sale of shares. Shares can be issued at par, at premium and at discount.

1. Issue of shares at Par-

If shares are issued at face value then it is called as issue at par. For example sharers having face value Rs. 100 issued at Rs. 100.

2. Issue of shares at Premium-

If shares are issued at price higher than face value then it is called as issue of shares at premium. For example, shares having face value Rs. 100 issued at Rs. 120 then Rs. 20 is premium. If the premium is included in allotment money then the entry will be passed as under-

Allotment Money Due-

Share Allotment A/c   Dr.

    To Share Capital A/c

    To Share Premium A/c

Allotment Money Received-

Bank A/c   Dr.

    To Equity Share Allotment A/c (Amount received including premium)

According to Section 52(2), the share premium can be utilized only for:

a) issuing fully paid bonus shares to members.

b) writing off the balance of the preliminary expenses of the company.

c) writing off the commission paid or discount allowed, or expenses incurred on issue of shares or debentures of the company.

d) providing for the premium payable on redemption of any redeemable preference shares or debentures of the company.

e) for the purchase of its own shares or other securities under section 68.

3. Issue of shares at Discount

If shares are issued at price lower than face value, then it is called as issue of shares at discount. For example, Shares having face value of Rs. 100 issued at Rs. 80 then Rs. 20 is discount. The Companies Act laid down the following restrictions to issue the shares at discount

1. Shares can be issued at a discount must be of a class already issued.
2. Issue must be sanctioned by company law board.
3. Issue of share at discount must be made by passing ordinary resolution
4. At least one year must be completed from the date of commencement certificate to issue the shares at discount.
5. In ordinary resolution company must specify the rate of discount (Discount should not be more than 10% of face value of shares)

6.The share must be issued within two months from the date of sanction by company law board.

If shares issued at discount the entry for discount is passed as follows

Share Allotment A/c Dr.

Discount on issue of shares A/c Dr.

To Share Capital

SPECIMEN JOURNAL ENTRIES (ISSUE OF SHARES)

Following are the specimen journal entries for the issue of shares.

1. Application Money Received

Bank A/c Dr.

To Equity share Application A/c

2. Application Money Received Transferred to Share Capital A/c

Equity Share Application A/c Dr.

To Equity Share Capital A/c

3. Allotment Money Due/ Demanded

Equity Share Allotment A/c Dr.

To Equity Share Capital A/c

4. Excess Application Money Received Refunded and Adjusted to Allotment

Equity Share Application A/c Dr.

To Bank A/c

To Equity Share Allotment A/c

5. Allotment Money Received

Bank A/c Dr.

To Equity Share Allotment A/c

6. First Call due/ Demanded

Equity Share First Call A/c Dr.

To Equity Share Capital A/c

7. First Call Money Received

Bank A/c Dr.

To Equity Share First Call A/c

8. Second Call due/ Demanded

Equity Share Second Call A/c Dr.

To Equity Share Capital A/c

9. Second Call Money Received

Bank A/c Dr.

To Equity Share Second Call A/c

10. Final Call due/ Demanded

Equity Share Final Call A/c Dr.

To Equity Share Capital A/c

11. Final Call Money Received

Bank A/c Dr.

To Equity Share Final Call A/c

CALLS IN ADVANCE

If any shareholders pay the whole amount on the shares allotted to them before the making calls by the company is called as calls in advance. A call in advance is the liability of the company. It is transferred to calls in advance A/c. Calls in advance is not a part of companies subscribed capital until the respective calls are made so such amount is credited first to calls in advance A/c by passing the following entry

Bank A/c   Dr.

    To Calls in Advance A/c

It is shown in the balance sheet under the heading share capital or unsecured loans. Interest not exceeding 12% p.a can be paid on calls in advance. The interest on calls in advance is charged to P & L A/c like other revenue expenses. On making calls the requisite amount form calls in advance is transferred to that particular calls A/c by passing the following entry

Calls in Advance A/c   Dr.

    To Particular Call A/c (i.e. Fist/Second)

CALLS IN ARREARS

If any shareholders fails to pay the allotment/calls money due form them then it is called as calls in arrears. These calls in arrears are deducted from the called-up and Paid-up capital in the Balance Sheet. At the end of year debit balance on share allotment/calls A/c are transferred to Calls in Arrears A/c to close the accounts. The entry for this is passed as under-

Calls in arrears A/c   Dr.

    To Share Allotment A/c

    To Share first call A/c

    To Share final call A/c (Amount of Debit Balance)

The director can charge interest not exceeding 10% on calls in arrears from the due date of payment to the date of actual payment of allotment/calls money. This interest is income for company so it is credited to P & L A/c.

OVERSUBSCRIPTION

When the number of shares applied for is more than the number of shares the company has offered to the public, it is known as 'Oversubscription'. In case of oversubscription there may be three possibilities:

1. Some applicants may be allotted the full number of shares they have applied for which is known as full allotment.
2. Some applicants may not be allotted any shares in which case their applications are treated as rejected.
3. Some applicants may be allotted less number of shares than they have applied for.

In the first case, there is no excess money received. In the second case of rejection, the whole amount will have to be refunded to the applicants. In the third case of partial allotment, the excess amount received on application may be utilized towards the money due on allotment by transferring the excess amount from the Share Application Account to the Share Allotment A/c. Whenever there is oversubscription one of the alternatives available to the director is to allot full shares to a few applicants and reject the remaining applications. In this case, the application money for the rejected applications will be returned. Hence, there will be no application money left for adjustment against the allotment money due.

UNDERSUBSCRIPTION

A company offers shares to the public inviting applications for their subscription. When the number of shares applied for by the public is less than the number of shares issued by the company, it is a situation of under subscription. Generally, a company that is newly set up or does not have a good reputation in the market receives under-subscription. Usually, such companies opt for underwriting of the shares.

For example, a company offered 2 lakh shares for subscription to the public but the applications were received for 1,90,000 shares, only. In such a situation, the allotment will be confirmed to 1,90,000 shares and entries shall be made accordingly. However, it must be ensured that the company has received the minimum subscriptions and the company will have to refund the entire subscription amount received.

PRO-RATA ALLOTMENT

If the demand received for shares is more than the number of shares issued the directors may reduce the demand of each applicant proportionately on the basis of total demand and the number shares are issued it is called as pro-rata allotment. In short pro-rata allotment is applicable in case of over subscription. Under pro-rata allotment each applicant get shares but less than those demanded by him. Suppose the company issued 1200 shares and the demand is received from applicant as under-

X – 1000 Shares

Y – 800 Shares

Z – 200 Shares

The directors may reject the application of Z and allotting 700 shares to Y and 500 shares to X. Thus in there is case no proportion is followed by directors. Instead of the above the director can reduce the demand of each applicant and allot 1200 shares proportionately in the ratio of the demand i. e 10:8:2 = 5:4:1 Accordingly, out of 1200 shares X, Y, Z will get-

X - 2000: 1000: 1200 = 600

Y- 2000: 800: 1200 = 480

Z- 2000: 200: 1200 = 120

If the allotment is thus made proportionately, the original demand of applicant can be find out on the basis of number of shares allotted to him as under-

Total Shares Applied ÷ Total Shares Allotted × Shares Allotted to Particular Share Holder Suppose in the above example shares allotted to Y is 480 we can find out Y's Demand as-2000÷ 1200 × 480 = 800 shares This means company has received excess application money on 320 shares form Y.

FORFEITURE OF SHARES:

In case a shareholder does not pay the calls made on him, the directors can forfeit the shares held by him, remove his name from the Register of Members and treat the amount already paid by him forfeited to the company, if authorized by its Articles of Association. Table A authorizes the directors to forfeit shares for non-payment of calls made. But they have to strictly follow the procedure laid down in this regard. The directors must give clear 14 days' notice to the defaulting shareholder asking him to pay the amount due from him in respect of the calls not paid by him, together with interest at the applicable rate on or before a certain date expressly mentioned in the notice. The notice must also state that if the shareholder fails to pay the amount on or before specified date, the shares will be forfeited. If payment is not received by the company up to the specified date, the directors can pass a resolution in their meeting forfeiting the shares held by the defaulting shareholder and remove his name from the Register of Members.

CONDITIONS FOR FORFEITURE OF SHARES

1.There should be a default by the shareholders in the payment of allotment or calls money.

2. The companies article of association must be given the authority to the directors to forfeit shares of the defaulting shareholders.

3. The company has to follow the procedure given in the articles of association of the company.

4. A fourteen days notice should be given to the defaulting shareholders. In notice tell the defaulting shareholders to pay the allotment or calls money on or before specified date.

5. In notice it should be mention that the shareholders shares will be forfeited on failure to pay the allotment or calls money on or before the specified date.

6. The board of director must pass a resolution for forfeiture of shares in the meeting of the company.

When shares are forfeited, the company shall debit the share Capital Account with the amount called (including application money) up to the date of forfeiture in respect of shares forfeited and credit (i) Share Forfeiture Account with the amount already received, and (ii) the respective unpaid calls' accounts (or Calls in Arrears Account if unpaid-calls have already been transferred to Calls in Arrears Account) in respect of such shares.

REISSUE OF FORFEITED SHARES

The directors can reissue the forfeited shares. In most cases, however, they decide to reissue these shares which may be at par, at a premium or at a discount. The forfeited shares are usually reissued as fully paid and that too at a discount. In this connection it should be noted that the amount of discount allowed on reissue should not exceed the amount which has already been received (the amount forfeited) in respect of these shares on their original issue and the same should be debited to the Share Forfeited Account.

After the shares have been reissued, the balance of the Share Forfeiture Account (the difference between the amount forfeited and the amount of discount allowed on reissue) is treated as capital profit and therefore transferred to Capital Reserve Account. However, all the forfeited shares are not reissued at the same time, the whole balance of the Share Forfeiture Account cannot be transferred to capital reserve because the capital profit arises only in respect of the shares reissued and not all forfeited shares. Hence it becomes necessary to first ascertain the amount forfeited on shares which have not been reissued. This amount will not be transferred to capital reserve. It will remain as a balance in Share Forfeiture Account to be utilized for allowing discount as and when such shares are reissued.

SPECIMEN JOURNAL ENTRIES FOR FORFEITURE AND RE-ISSUE OF FORFEITED SHARES:

Forfeiture of Shares: While passing the Journal Entries for forfeiture of shares the following points should be taken into consideration-

1. The amount called-up on the shares forfeited. (Till the date of forfeiture)

2.The amount received on these shares. (Excluding premium)

3. The amount not received on these shares (Including premium)

4. Number of shares forfeited. As a result of forfeiture of shares the original subscribed capital is reduced and hence the Share Capital A/c is debited.

The entry for forfeiture of shares is passed as under-

Share Capital A/c Dr. (No of shares forfeited × called-up amount)

Share Premium A/c Dr. (If premium not received)

To Forfeited Share A/c (Amount received excluding premium)

To Share Allotment/Calls A/c (Amount not received)

RE-ISSUE OF SHARES FORFEITED:

The entry or re-issue is passed as under-

a) If Re-issued at Par

Bank A/c   Dr.

To Share Capital A/c

b) If Re-issued at Discount

Bank A/c   Dr.

Forfeited Shares A/c   Dr.

To Share Capital A/c

c) If Re-issued at Premium

Bank A/c Dr.

To Share Capital A/c

To Share Premium A/c

d) After re-issue of forfeited shares if there remains any balance on forfeited shares A/c then it is transferred to capital reserve A/c with the following entry

Forfeited shares A/c   Dr.

To Capital Reserve A/c

e) If forfeited shares originally issued at discount reissued at discount

The entry on Forfeiture will be passed as under-

Share capital A/c Dr. (face value of shares forfeited)

To Forfeited Shares A/c (Amount received)

To Discount on issue of shares A/c (Discount)

To Share Allotment/Calls A/c

On Re-issue the entry will be passed as under-

Bank A/c Dr.

Discount on issue of shares A/c Dr. (Original discount)

Forfeited Shares A/c Dr. (Additional discount)

To Share Capital A/c

THANK YOU