CHAPTER-6
ACCOUNTING FOR SHARE CAPITAL
Introduction to a Company

Meaning, Characteristics and Kinds of Company:

- Meaning of a Company:
  - i. As per section 2(20) of the Companies Act, 2013, "Company means a company incorporated under this Act or any previous Company Law."
  - ii. A company (or a joint stock company) is an entity incorporated by a group of persons through the process of law in order to undertake a business.
  - iii. A company is divided into units called shares, the owners of which are known as members or shareholders.
  - iv. A company is an artificial person which is separate from its members (shareholders). Therefore, insolvency or death of a member does not affect the company, i.e., the company continues even if a member becomes insolvent or dies.
  - v. A company is an artificial person, created by law having separate legal entity with perpetual succession and a common seal.

- Characteristics (features) of a Company:
  - i. **Incorporation:** A company is created through the process of incorporation under the the Companies Act, 2013 or any other previous Companies Act.
  - ii. **Separate Legal Entity:** It is an artificial person which is separate legal entity from its members (shareholders).
  - iii. **Artificial Person:** It is an artificial person which is separate from its members (shareholders) and therefore, can own property, enter into contracts, conduct business on its own, sue or be sued for any of its debts or acts.
  - iv. **Perpetual Existence:** Since, it is an artificial person which is separate from its members (shareholders), insolvency or death of a member does not affect the company, i.e., the company continues even if a member becomes insolvent or dies. Life of the company comes to an end only by winding up through the process of law.
  - iv. **Limited Liability:** The members of a company are liable only to the extent of value of shares subscribed by them or amount guaranteed to be paid at the time of winding up in case of companies limited by guarantee. However, the liability of the members is unlimited, in case if the company that is incorporated with unlimited liabilities, liability of members is unlimited.
  - v. **Transferability of Shares:** Shares of a company other than a private company are freely transferable. For a private company, transfer of shares is regulated by its Articles of Association.
  - vi. **Management and Ownership:** Shareholders of the company are known as owners of the company and therefore, ownership of a company remains with the shareholders. To manage the business activities of a company, representatives are chosen who are known as Directors. Therefore, management and ownership are separate.
  - vii. **Common Seal:** A cannot sign or enter into any contract on its own by signing the documents. Therefore, a common seal is maintained by many companies

to affix it on all important documents of the company.

- Difference between Partnership and a Company (Joint Stock Company):

Sr. no.	Basis	Partnership	Company (Joint Stock Company)
1	**Formation**	It is formed by an agreement among the partners irrespective of whether it is registered under the Indian Partnership Act, 1932.	It is formed/set up by registration under the Companies Act, 2013 or under any previous Companies Acts.
2	**Governing Act**	It is governed by the provisions of Indian Partnership Act, 1932.	It is governed by the Companies Act, 2013.
3	**Members**	It should have a minimum of 2 and maximum of 50 members as per the rules and provisions of the Companies Act, 2013.	It should have a minimum of 7 members without a maximum limit if it is a public company. In case of a private company, there should be at least 2 members but not more than 200 members excluding its present or past employee members. In case of a One Person Company, there is only 1 member.
4	**Liability**	In this case, liability of the partners is unlimited.	In case of companies with unlimited liability, liabilities of members is unlimited, however, in case of other companies liability of members is limited to amount of shares held.
5	**Profit Distribution**	In this case, profits are distributed as per the terms of the Partnership Deed or equally if there is no agreement.	In this case, distribution of profits depends upon the Articles of Association or its directors as to what share of profits should be distributed to the shareholders in the form of dividend.

6	**Existence**	Stability or survival of a partnership is affected by death, retirement or insolvency of partners.	Stability and survival of a company is not affected by the shareholder's death, insolvency or transfer of shares.
7	**Audit**	Audit is not mandatory.	Audit is mandatory.
8	**Management**	Operations and transactions are managed by all the partners or any of them acting for all.	Operations and transactions are managed by all the directors who are elected by the shareholders.
9	**Transfer of Shares**	It is not possible for the partners to transfer the shares to any other person without the consent of all the partners.	Transfer of shares is not restricted except in case of a private company.
10	**Business**	If all the partners agree, a partnership can carry on any business.	The business specified in the Object Clause of the Memorandum of Association is the only business the company can carry on.
11	**Winding Up**	A partnership may be wound up by an agreement or by an order of the court. If the firm is unable to pay its debts, the Insolvency Act will apply.	A company can be wound up only by carrying out the winding up process prescribed in the Companies Act, 2013.

- **Kinds of Companies:** There are 3 kinds of companies as follows:
  i. **One Person Company (OPC):** As per Section 2(62) of the Companies Act, 2013, 'One Person Company means a company which has only one person as member'. It is governed by Rule 3 of the Companies (Incorporation) Rules, 2014. Such company should have at least 1 director but not more than 15 directors.
  ii. **Private Company:** As per Section 2(68) of the Companies Act, 2013, it is a company which has a minimum paid-up share 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 the case of one person company, limits the number of its members excluding its present or past employee members to 200.

     Where shares are held by two or more persons jointly they shall be treated as a single member.

     c. Prohibits any invitation to public to subscribe for any securities of the company.

     It is a company which should have at least 2 directors but not more than 15 directors and also the name of such company ends with the words, 'Private Limited'.

iii. **Public Company:** As per Section 2(71) of the Companies Act, 2013, a Public Company is a company which:

a. is not a private company;
b. has a minimum paid-up capital as may be prescribed; and
c. is a Private Company, being a subsidiary of a company which is not a Private Company. Such company must have at least 7 members and there is no restriction on the maximum number of members. Also, it should have at least 3 directors but not more than 15 directors. The name of such company ends with the word 'Limited'.

- Understanding Limited Liability Company, Unlimited Liability Company, and Company Limited by Guarantee.

a. **Limited Liability Company (or Company Limited by Shares):** As per Section 2(22) of the Companies Act, 2013, it is a company having the liability of its members limited by the memorandum to the amount if any, unpaid on shares respectively held by them.
b. **Unlimited Liability Company:** As per Section 2(92) of the Companies Act, 2013, it is a company where the liability of its members is unlimited. Therefore, in the event of winding up of such company, debts of the company shall be met from private property of the members.
c. **Company Limited by Guarantee:** As per Section 2(21) of the Companies Act, 2013, it is a company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of it being wound up.

- Difference among One Person Company, Private Company and Public Company:

Sr. no.	Basis	One Person Company	Private Company	Public Company
1.	Number of Members	It should have minimum and maximum of 1 member.	It should have minimum of 2 and maximum of 200 members excluding its present or past employee members, under the Companies Act, 2013.	It should have a minimum of 7 members and there is no limit as to the maximum number of members.
2.	Number of Directors	It should have at least 1 director and not more than 15 directors.	It should have at least 2 directors and not more than 15 directors.	It should have at least 3 directors but not more than 15.
3.	Prospectus	It is not required to have a prospectus.	It is not required to issue any prospectus.	It is required to issue prospectus to

				invite public to subscribe for shares, and if not a prospectus, a Statement in Lieu of Prospectus is filed with the Registrar of Companies.
4.	**Articles of Association**	It requires s pecial Articles of Association.	It requires special Articles of Association.	It can adopt Table F of the Companies Act, 2013 or it can have its own Articles ofAssociation having clauses different from those given in the Table F of the Companies Act, 2013, which will override Table F.
5.	**Name of the Company**	It uses the word 'OPC' as a part of its name.	It uses the words 'Private Limited' as a part of its name.	It uses the word 'OPC' as a part of its name.
6.	**Shares Subscription**	It cannot offer any shares to public.	It cannot offer any shares to public.	It can offer shares to public.
7.	**Shares Allotment**	Not Applicable	It can allot shares as the Directors decide.	It can allot shares only if Minimum Subscription has been received.
8.	**Public Deposit**	It cannot accept deposits from public.	It cannot accept deposits from public.	It can invite and accept deposits from public.
9.	**Transferability of shares**	It has only 1 member and therefore, such concept of transferability of shares is not applicable.	It cannot transfer the shares as per the restrictions specified in the Articles of Association.	It can transfer the shares without any restrictions.

Incorporation of a Company

- **Process of Incorporating a Company:** Process for incorporating a company can be divided into four stages that are as follows:

i. **Promotion:** A person or a group of persons who agree to start a business in the form of a company are called Promoters. These promoters undertake the responsibility to bring the company into existence by promoting its objects and activities which is the first stage in incorporation of a company.

ii. **Registration of a Company:** In order to incorporate a company, procedure prescribed in the Companies Act, 2013 should be followed, this includes:

- Promoters have to get the proposed company name approved from the Registrar of Companies.
- After getting the name of the proposed company approved, the promoters have to submit Memorandum of Association, Articles of Association, consent of first directors to act as directors and a declaration that the requirements of the Companies Act have been complied with.
  - Thereafter, if the Registrar is satisfied that the requirements of the Companies Act, 2013 have been complied with, he shall issue the Certificate of Incorporation to the Company.

iii. **Capital Subscription:** Capital subscription consists of the following:

- Prospectus: It is a document in which terms and conditions of the issue are stated along with the purpose of the proceeds of issue.
- Minimum subscription: It is the amount stated in the prospectus that must be subscribed and the amount payable on application for the amount stated as minimum subscription have been paid to and received by the company by cheque or other instrument.
- In case, minimum amount is not subscribed and the amount payable on application is not received within the specified period, then the application money shall have to be refunded within fifteen days from the closure of the issue.

iv. **Commencement of Business:** A company cannot commence its business or exercise borrowing powers unless:

- the directors do not file a declaration with the Registrar of Companies to the effect that every subscriber to the Memorandum of Association has paid the value if the shares, if any, agreed to be taken by him.
- a verification of its registered office should be filed by the company with the Registrar of Companies.

Share Capital of a Company

Meaning and Classes of Shares of a Company:

- **Meaning:** It is the amount that a company receives towards Share Capital from issue of both Equity Share and Preference Shares. According to Section 43 of the Companies Act, 2013, Share Capital of the Company can be broadly of two types or classes namely:

i. Preference Shares; and
ii. Equity Shares.

- Classes or Kinds of Shares:
  - **i. Section 43(b) of the Companies Act, 2013 on Preference Shares:** These are the shares that carry the following two preferential rights:
    - Right to receive dividend before it is paid to Equity Shareholders. Such dividend is paid as a fixed amount or an amount calculated at a fixed rate which may either be free of or subject to income tax.
    - Right to receive capital before equity shares in the event of winding up.

    Preference Shares can be classified with reference to:
    - **Dividend:** With reference to dividend, Preference shares are classified as Cumulative and Non-Cumulative Preference Shares.
      - **Cumulative:** This class carries the right to receive arrears dividend before dividend is paid to the Equity Shareholders.
      - **Non-Cumulative:** This class do not carry the right to receive arrears of dividend.
    - **Participation in Surplus Profit:** With reference to participation, Preference shares are classified as Participating and Non-Participating Preference Shares.
      - **Participating:** This class has the right to participate in the profits remaining after the dividend has been paid to the Equity Shareholders.
      - **Non-Participating:** This class has no right to participate in the profits remaining after the dividend has been paid to the Equity Shareholders.
    - **Convertibility:** With reference to convertibility, Preference shares are classified as Convertible and Non-convertible Preference Shares.
      - **Convertible:** This class are those which carry a right to be converted into Equity Shares.
      - **Non-Convertible:** This class are those which do not carry a right to be converted into Equity Shares.
    - **Redemption:** With reference to redemption, Preference shares are classified as Redeemable and Irredeemable:
      - **Redeemable:** This class of preference shares can be redeemed by the company at the time specified for their repayment or earlier.
      - **Irredeemable:** This class of preference shares are those the amount of which can be returned by the company to the holders of such shares when the company is wound up.

  - **ii.** Section 43(1) of the Companies Act, 2013 on Equity Shares:
    - These are those shares which are not Preference Shares.
    - They are the most issued class of shares.
    - They carry the maximum 'risks and rewards' of the business, where the risks are losing part of the value of shares if the business incurs losses and the rewards are the payment of higher dividends and appreciation in the market

value.

- **Difference between Preference Shares and Equity Shares:**

Sr. no.	Basis	Preference Shares	Equity Shares
Z	Z	Dividend on such shares is paid before the dividend on equity shares.	Dividend on such shares is paid after the dividend is paid on the preference shares.
2	**Right to dividend**	It has a fixed rate of dividend.	It pays dividend at the rate that is proposed by the board of directors
3	**Arrears of dividend**	In case of cumulative Preference Shares, arrear of dividend is paid before dividend is paid on Equity Shares.	In case, dividend is not declared during the year, it is not accumulated to be paid in the coming years.
4	**Convertibility**	They can Bbe converted to equity shares if a terms of issue to provided	These shares are not convertible.
5	**Redemption**	They are redeemable on due date.	A company may buy back its Equity Shares.
6	**Voting Rights**	These shareholders have voting rights only in special circumstances.	These shareholders have voting rights in all the circumstances.
7	**Refund of Capital**	In the event of winding up, these shareholders are repaid before the equity shareholders.	In the event of winding up, these shareholders are repaid after the preference shareholders.
8	**Right to Participate in Management**	These shareholders do not have the right to participate in the management of the company.	These shareholders have the right to participate in the management of the company.

- **Classification of Share Capital for Accounting purpose:**

  For accounting purpose, provisions specified in the Companies Act, 2013 are to be followed. As per the form prescribed for preparation of Balance Sheet in Part I of Schedule III of the Companies Act, 2013, Share Capital of the company is to be classified and shown as follows:

i. Authorised Capital;

ii. Issued Capital;

iii. Subscribed Capital for each class of Share Capital

Understanding each of the heads:

i. **Authorised Capital:** It is the amount stated in the Memorandum of Association and such amount is the maximum amount that a company can raise as share capital. It is stated separately for each class or kind of shares. As per Section 2 (8) of the Companies Act, 2013, such capital as authorized by the memorandum of a company to be maximum amount of share capital of the company is called as Authorised Capital or Nominal Capital.

ii. **Issued Capital:** It is a part of the nominal value or Authorised Share Capital which is issued from time to time for subscription. Therefore, amount of Issued Capital cannot exceed the company's Authorised Share Capital. As per Section 2 (50) of the Companies Act, 2013, such capital of the company that it issues from time to time for subscription.

iii. **Subscribed Capital:** It is a part of the capital which is for the time being subscribed by the members of a company. As defined by Section 2 (86) of the Companies Act 2013, such part of the capital which is for time being subscribed by the members of a company. This can further be divided into:

- Subscribed and fully paid-up: It is a situation where the company has called-up the total nominal value of the share and has received the same.

- Subscribed and not fully paid-up: It is a situation where the company has called-up the total nominal value of the share, but has not receive it or has not called-up the total nominal value of the share.

Understanding the two terms, i.e., Called-up and Paid-up:

a. **Called-up Capital:** According to section 2(15) of the Companies Act, 2013, Called-up Capital means such part of the capital which has been called for payment.

b. **Paid-up Capital:** According to section 2(64) of the Companies Act, 2013, Paid-up Share Capital or Share Capital Paid-up means the amount that the shareholder has paid and the company has received against the amount Called-up in respect of the shares towards share capital or has been credited to it as paid-up.

Difference between Authorised or Nominal Capital and Issued Capital:

Sr. no.	Basis	Authorised or Nominal Capital	Issued Capital
1	**Meaning**	It is the amount stated in the Memorandum of Association which a company can raise as	It is the nominal value of that part of Authorised Share

Sr.			
		share capital of the company.	Capital which is issued for subscription.
2	**Disclosure in Memorandum of Association**	It is stated in the Memorandum of Association.	It is not stated in the Memorandum of Association.
3	**Whether one can exceed the other**	It is always equal or more than the Issued Share Capital.	It is always equal or less than the Authorised Share Capital.

- **Understanding Reserve Capital and Capital Reserve:**
  - **Reserve Capital:** It is a part of Subscribed Capital remaining uncalled that a company resolves, by a Special Resolution, not to call except in the event of winding up of the company. Such number of shares are shown as "Subscribed but not fully paid-up".
  - **Capital Reserve:** It is a type of reserve which is created out of capital profits and is not free for distribution as dividend.

Difference between Reserve Capital and Capital Reserve:

Sr. no.	Basis	Reserve Capital	Capital Reserve
1	**Meaning**	It is a part of uncalled capital which cannot be called-up except in the event of winding up.	It is a part of reserves which cannot be used for distribution of dividends.
2	**Creation**	It is a part of uncalled capital.	It is a part of capital profits.
3	**Optional/Mandatory**	It is not compulsory to have Reserve Capital.	It is considered appropriate to transfer capital profits to capital reserve.
4	**Special Resolution**	Reserve Capital requires a special resolution to be passed.	Capital Reserves do not require any special resolution to be passed.
5	**When can it be used**	It is a part of uncalled capital which can be called at the time of winding up.	It can be used anytime during the life of the company.
6	**Writing off Capital**	It cannot be used for writing off capital losses.	It is used to write off capital losses.
7	**Disclosure**	It is not disclosed in the Balance Sheet of the Company.	It is disclosed in the Note to Accounts on Shareholders' Funds under the head 'Reserves and Surplus.'

- **Disclosure of Share Capital in a Company's Balance Sheet:** Share Capital is shown in the

Company's Balance Sheet as follows:

Balance Sheet of … (Extract) as at …

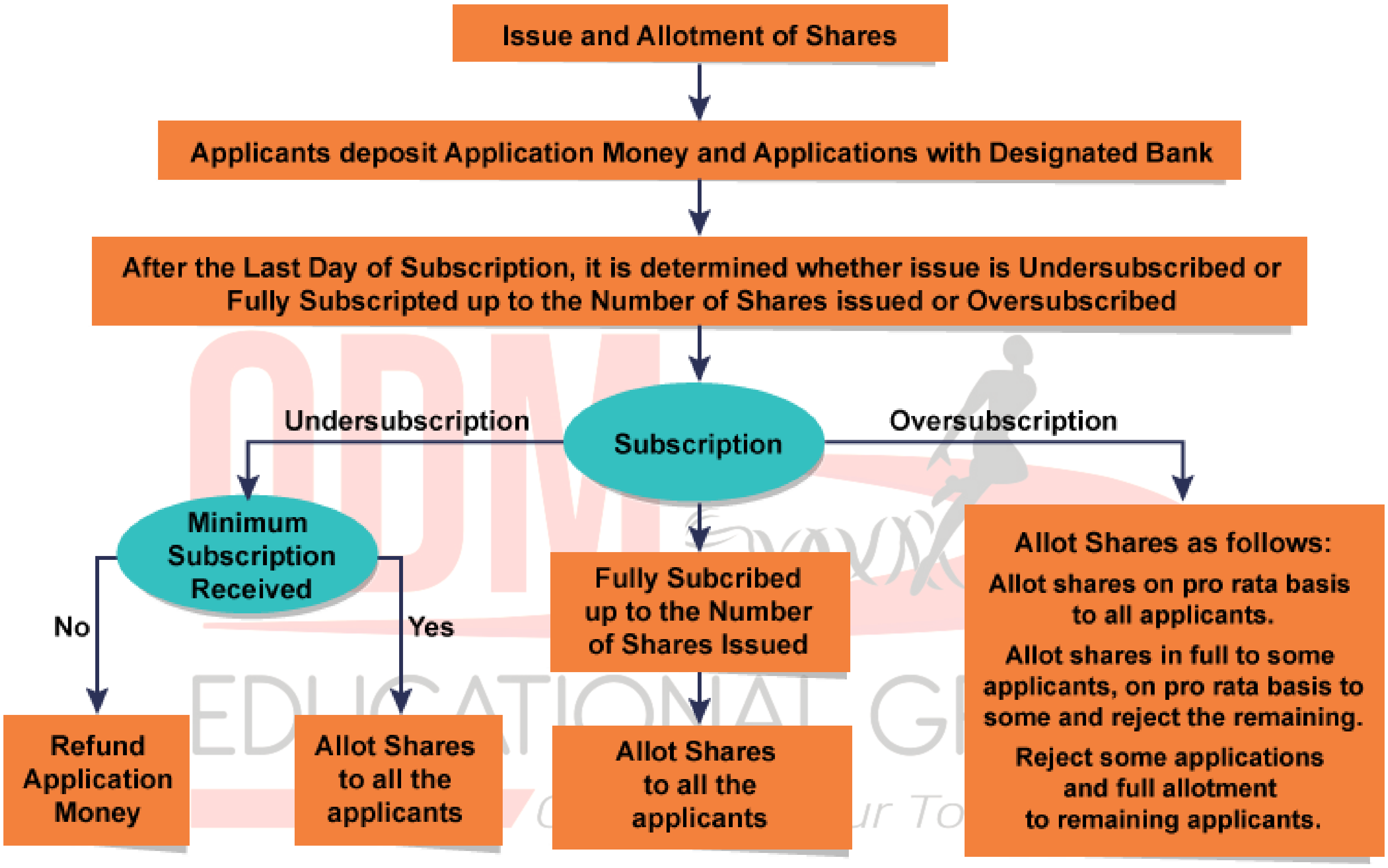
Particulars	Note No.	`
I. EQUITY AND LIABILITIES		
Shareholders' Funds		
Share Capital	**1**	**…**

Note to Accounts

		`
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		…
Subscribed but not fully paid-up		
…Equity Shares of ` … each, ` … called-up	…	
Less: Calls-in-Arrear	…	…
…Preference Shares of ` … each, ` … called-up	…	
Less: Calls-in-Arrears	…	…
Add: Forfeited Shares		…
Amount to be shown in the Balance Sheet against Share Capital		…
		…

Process of Issue and Allotment of Shares

A Public Company can issue shares only after meeting the prescribed legal compliances. Process of issuing and allotting the shares is explained as below with the help of a diagram:



Issue of Shares for Cash

This is the issue of shares which means the shares are issued by a company against payment received by cheque or a banking instrument. Such issue can be made at par or premium but not at discount and the amount received on such issue can be received either in lump sum or in installments.

Following is the accounting treatment in each of these cases:

i. **If issue price received in Lump Sum:** In this type of issue, total issue price of shares is payable in one instalment.

   a. To receive Shares Application Money:

   Bank A/c ...Dr. [amount received]

   To Shares Application A/c (Being application money received)

b. To Allot Shares:

Shares Application A/c ...Dr.
To Share Capital A/c [nominal value]
To Securities Premium Reserve A/c [premium amount, when issued at premium]

(Being shares allotted and application money transferred to Share Capital Account and Securities Premium Reserve Account)
Instead of Share Application Account, Share Application and Allotment Account may be used in the above entries.

ii. **If issue price received in Instalments:** In this type of issue, total issue price of shares is payable in instalments.

I. For receipt of Application money:
Bank A/c ...Dr. [amount received with application] To Shares Application A/c

II. For Allotment of Shares:
Shares Application A/c ...Dr. [application money on shares allotted] To Share Capital A/c

III. For Amount due on Allotment:
Shares Allotment A/c ...Dr. [Money due on shares allotted] To Share Capital A/c

IV. For receipt of Allotment money:
Bank A/c ...Dr. [amount received on shares allotted] To Shares Allotment A/c

V. For first call being due:
Shares First Call A/c ...Dr. [amount payable on first call] To Share Capital A/c

VI. For receipt of first call:
Bank A/c ...Dr. [amount received on first call] To Shares First Call A/c

- **Points to remember when shares are issued to public for subscription:** The important points to follow as mentioned below:
    I. Calls are made as provided in the Articles of Association of the company.

    II. If the company does not have its own Articles of Association or Articles of Association does not have a clause to this effect, Table F of the Companies Act, 2013 will apply. Table F has the following provisions:

i. Period of one month must elapse between two calls.

ii. The amount of one call should not be less than 25% of the face value of the share.

iii. Notice of 14days period should be given to the shareholders to pay the amount.

iv. Calls should be made on uniform basis on all shares within the same class.

- **Terms of Issue of Shares:** A company may issue shares at par or at premium as explained below:
  I. **Shares are issued at Par:** It means that the issue price is same as the nominal value (face value) of the shares.
  II. **Shares are issued at Premium:** It means that the issue price is more than the nominal value (face value) of the shares. Amount in excess of the nominal value of the share is termed as premium and such amount of premium is credited to Securities Premium Account or Securities Premium Reserve Account.

- Accounting entries for issue of Shares at Premium:

i. For receipt of Application money:

Bank A/c ...Dr. [amount received on application including premium]
  To Shares Application A/c

ii. For Allotment of Shares:

Shares Application A/c ...Dr. [application money on shares allotted] To Share Capital A/c [amount paid towards share capital]

  To Securities Premium Reserve A/c [amount of premium received with application money]

iii. For Amount due on Allotment:

Shares Allotment A/c ...Dr. [amount due on shares allotted]
  To Share Capital A/c [amount paid towards share capital]
  To Securities Premium Reserve A/c [amount due towards premium]

iv. For receipt of Allotment money:

Bank A/c ...Dr. [amount received on shares allotted]
Calls-in-Arrears A/c ...Dr. [amount not received against allotment money]
  To Shares Allotment A/c

v. For first call being due:

Shares First Call A/c ...Dr. [amount payable on first call]
  To Share Capital A/c [amount paid towards share capital]
  To Securities Premium Reserve A/c [amount due to towards premium]

vi. For receipt of first call:

Bank A/c ...Dr. [amount received on first call]
Calls-in-Arrears A/c ...Dr. [amount not received towards first call money due] To Shares First Call A/c

- **Section 52(2) of the Companies Act, 2013 on use of the amount received as premium on securities:** As per section 52(2) of the Companies Act, 2013, use of the amounts received as premium on securities is restricted to the following purposes only:
  i. issuing fully paid bonus shares to the members;
  ii. writing off preliminary expenses of the company;
  iii. writing off the expenses of, or the commission paid or discount allowed on any issue of securities or debentures of the company;
  iv. providing for the premium payable on the redemption of any redeemable Preference Shares of any debentures of the company;
  v. in purchasing its own shares i.e., in case of buy back of shares.

Oversubscription and Undersubscription of Shares

Meaning and Accounting Treatment of Oversubscription of Shares:

- Meaning of Oversubscription:
  - Oversubscription means, the number of applications received are more than the number of shares offered.
  - In such case, allotment can be done by any of the 3 alternatives available.
    i. First Alternative: Under this alternative, some applications are accepted and excess applications are rejected.
    ii. Second Alternative: Under this alternative, all applicants are allotted shares in proportion which is known as Partial or Pro-rata Allotment.
    iii. Third Alternative: Under this alternative, a combination of the above two alternatives may be adopted.
  - If the shares are allotted against the application, then there is no adjustment required as share capital is credited against the application money received. However, if the applications are rejected, the application money with respect to the rejected applications can be refunded or adjusted (in case of pro-rata allotment) against the allotment or calls on shares.

- Meaning of Pro-rata Allotment of Shares:

  - This is one of the alternative available with the company for allotment of shares when the number of shares applied for are more than the number of shares offered for subscription.

  - As per this alternative, all applicants are allotted shares in proportion which is called

Partial or Pro rata Allotment.

- Treatment of Surplus Application Money on Pro-rata Allotment:
  - If the question is silent or states that 'excess application money received is to be adjusted against allotment', surplus application money is adjusted against allotment money due and excess application money, if any is refunded.
  - If the question requires that surplus application money is to be refunded after adjustment of Allotment Money and Call Money, then the amount is transferred to Shares Allotment Account and Calls-in Advance Account. The balance, if still left, is refunded.

- **Computation of Amount not Received on Allotment in Case of Pro-rata:** In case where the shares are allotted on pro-rata basis and one or some of the shareholders of pro-rata category fail to pay the allotment money, then it is necessary to compute the amount not received on allotment as per the following steps:

i. Step 1: Compute the number of shares applied or allotted using the following formulae:

I. When the shares allotted are given:

Number of Shares Applied are:

$$\left(\text{Total Shares Applied} \div \text{Total Shares Allotted}\right) \times \text{Number of Shares Allotted}$$

II. When the shares applied are given:

Number of Shares Allotted are:

$$\left(\textbf{Total Shares Allotted} \div \textbf{Total Shares Applied}\right) \times \textbf{Number of Shares Applied}$$

ii. Step 2: Calculate the Allotment Amount not paid by defaulting shareholders:

	`
Amount due on Allotment (Shares Allotted x Allotment Money per Share)	...
Less: Excess Application Money Adjusted on Allotment	...
(Shares Applied – Shares Allotted) x Application Money per share	
Allotment Amount due but not paid	...

- **Journal entries for the following in the event of Oversubscription of Shares are as follows:**

a. For application money received:

Bank A/c ...Dr.

To Shares Application A/c

b. For application money for allotted shares:
Shares Application A/c ....Dr.
To Share Capital A/c

c. For excess application money refunded:
Shares Application A/c ...Dr.
To Bank A/c

d. For excess application money adjusted with allotment and calls:
Share Application A/c ...Dr.
To Shares Allotment A/c To Calls in Advance A/c

e. A combined entry can be passed to give effect to refund and adjustment of excess application money at the same time as follows:
Shares Application A/c ...Dr.
To Share Capital A/c To Bank A/c
To Shares Allotment A/c To Calls-in-Advance A/c

Meaning of Undersubscription of Shares and Difference between Oversubscription and Undersubscription:

- **Undersubscription:** It is a situation when the number of shares applied are less than the number of shares issued for subscription.
- **Minimum Subscription:** As per SEBI Guidelines, minimum subscription is to receive subscription for at least 90% of the shares issued. If the company does not receive minimum subscription, it cannot allot the shares and therefore, it will have to refund the application money to the subscribers.

Difference between Oversubscription and Undersubscription of Shares:

Sr. no.	Basis	Oversubscription of Shares	Undersubscription of Shares
1	**Shares Applied to Offered**	Number of shares applied are more than the shares offered for subscription.	Number of shares applied are less than the shares offered for subscription.
2	**Acceptance**	In this situation, all applications are not accepted, some are rejected or applications are allotted on pro rata basis.	In this situation, all the applications for shares are accepted, i.e., full allotment is made.

3	**Minimum Subscription**	Such problem of minimum subscription is not faced when there is over subscription of shares.	The problem of minimum subscription may arise in case of under subscription.
4	**Refund**	In this case, excess application money is refunded or adjusted towards allotment and calls.	In this situation, all the applications are accepted, therefore, there is no excess money to be refunded.

Calls-in-Arrears and Calls-in-Advance

Meaning and Accounting Treatment of Calls-in-Arrears:

- **Meaning of Calls-in-Arrears and Interest on Calls-in-Arrears:**
  i. **Calls-in-Arrears:** If the shareholder does not pay the call amount due on allotment or on any subsequent calls according to the terms, the amount not received is called Calls-in- Arrears.

  ii. **Interest on Calls-in-Arrears:** If the company is authorized by the Articles of Association, it may charge an interest at the specified rate on Calls-in-Arrears from the due date to the date of payment. In case Articles of Association is silent, Table F of the Companies Act, 2013 shall apply which provides for interest on Calls-in-Arrears at the rate of 10% p.a. However, directors have the right to waive such interest.

- **Accounting Treatment of Calls-in-Arrears:** This can be done in 2 ways as follows:
  i. Accounting treatment without opening Calls-in-Arrears Account: In this method, amount Sreceived from the shareholders is credited to the relevant call account. The respective call accounts (first, second, etc.) will continue showing debit balance equal to the total amount unpaid on those calls. On a subsequent date, when the amount of Calls-in- Arrears is received, Bank Account is debited and relevant call account is credited.

  Call Money Due:

  Share First Call A/c ...Dr.

  [with actual amount due on say, 100 shares @ 3 each] To Share Capital A/c

  Call Money Received:

  Bank A/c ...Dr.

  [with actual amount received, say 90 shares @ 3 each]

To Share First Call A/c

ii. **Accounting treatment by opening Calls-in-Arrears Account:** In this method, unlike the first method, the unpaid amount is transferred to Calls-in-Arrears Account. On account of this, Share Allotment Account and Shares Call Accounts will not show any balance. The Calls-in-Arrears Account will show a debit balance equal to the total unpaid amount on allotment or the calls. At a later date, on receipt of arrear amount, it is credited to the Calls- in-Arrears Account and same is closed with a corresponding debit to Bank A/c.

Call Money Due:

Share First Call A/c ...Dr. [with actual amount due on say, 100

shares @ 3 each] To Share Capital A/c

Call Money Received:

Bank A/c ...Dr. [with actual amount received, say 90 shares @ 3 each] Calls-in-

Arrears A/c ... Dr. [with amount not received, 10 shares @ 3each]

To Share First Call A/c

iii. **Disclosure in Balance Sheet:** Calls-in-Arrears Account is shown in the Notes to Accounts on 'Share Capital'. This is shown as a deduction from the amount of 'Subscribed but not fully paid-up' under 'Subscribed Capital'.

Meaning and Accounting Treatment of Calls-in-Advance:

- Meaning of Calls-in-Advance and Interest on Calls-in-Advance:

  i. **Calls-in-Advance:** An amount which is accepted by the company against the call or calls not yet made is termed as Calls-in-Advance. A company may accept such calls-in-advance amount only if it is allowed by the Articles of Association of the Company.

  ii. **Interest on Calls-in-Advance:** If the Articles of Association provides for any interest on Calls-in-Advance, then interest can be paid by the company. In case when the Articles of Association is silent, Table F of the Companies Act, 2013 shall apply where company is liable to pay interest at the rate of 12% p.a.

- **Accounting Treatment of Calls-in-Advance:** Journal Entry passed:

  i. To record calls-in-advances:

  Bank A/c ...Dr.

  [amount of calls money received in advance]

  To Calls-in-Advance A/c

  ii. To adjust when the respective call is made due:

Calls-in-Advance A/c ...Dr.

To Respective Call A/c

Difference between Calls-in-Arrears and Calls-in-Advance:

Sr. no.	Basis	Calls-in-Arrears	Calls-in-Advance
1	**Meaning**	Amount which is called-up by company but not paid by shareholders.	Amount which is not called-up by the company, but paid by the shareholders.
2	**Interest**	Interest is charged on such Calls-in-Arrears.	
3	**Rate of Interest**	Rate of interest is charged as per Table F of the Companies Act, 2013 which@10% p.a.	Rate of interest is paid as per Table F of the Companies Act, 2013 which @12 p.a.
4	**Authority under Articles of Association**	No Such clause in the AoA as non-payment is beyond the company's control.	Such Calls-in-Advance can be accepted by the company only if it is authorised by its Articles of Association to do so.
5	**Disclosure**	It is shown in the Note to Accounts on Share Capital in the Balance Sheet by way of deduction from the Subscribed but not fully paid-up Capital.	It is shown as a separate item as Other Current Liability under Current Liabilities.

Shares Issued for Consideration Other Than Cash

Such issue is possible under the following circumstances where Shares are issued to:

- **Vendors against purchase of assets or business:** Entry to be passed is as follows:
  a. if shares are issued for purchase of assets:
  Sundry Assets A/c (individually) ...Dr. (with the amount of purchase price) To

Vendor's A/c (with purchase consideration)

b. if shares are issued for purchase of business: When a business is purchased, both assets and liabilities are taken over for a consideration which can be equal to, more than or less than the difference between values of assets and liabilities. Entry to be passed in each of these cases is as follows:

I. if consideration is equal to the difference between the value of assets and liabilities: Sundry Assets A/c (individually) ...Dr. (agreed value)
   To Sundry Liabilities (individually) (agreed value)
   To Vendor's A/c (purchase consideration)

II. if consideration is more than the difference between the value of assets and liabilities, such excess is debited to Goodwill Account:
   Sundry Assets A/c (individually) ...Dr. (agreed value)
   Goodwill A/c ...Dr. (excess consideration over net assets)
   To Sundry Liabilities (individually) (agreed value)
   To Vendor's A/c (purchase consideration)

III. if consideration is less than the difference between the value of assets and liabilities, such shortfall is credited to Capital Reserve Account:
   Sundry Assets A/c (individually) ...Dr. (agreed value) To Sundry Liabilities (individually) (agreed value)
   To Vendor's A/c (purchase consideration)
   To Capital Reserve A/c (excess of net assets over consideration)

- Accounting Entries for issue of Shares to Vendors when Shares are:
  i. Issued at par:
  Vendor's A/c ...Dr. (nominal value of shares allotted) To Share Capital A/c

  ii. Issued at premium:
  Vendor's A/c ...Dr. (purchase consideration)
  To Shares A/c (nominal value of shares allotted)
  To Securities Premium Reserve A/c (premium amount)

- Calculation of Number of Shares: When a business is purchased and consideration is paid in the form of issue of shares, number of shares is to be calculated as follows:
  Number of Shares Issued = Purchase Consideration ÷ Issue Price of Share

- **Issue of Shares to Promoters:** Such issue is made for services rendered by promoters for incorporating the company. Entry to be passed is as follows:
  <u>Amount due to Promoters</u>

  Incorporating Expenses or Formation Expenses A/c ...Dr.
  To Promoter's A/c

Issue of shares to Promoters Promoter's A/c ...Dr.

To Share Capital A/c

- **Issue of Shares to Underwriters:** Such issue is made for services rendered by the underwriters where the underwriter agrees to take shares instead of charging commission in cash for his services rendered. Entry to be passed is as follows:
  Amount due as Underwriting Commission Underwriting Commission A/c ...Dr.

  To Underwriters' A/c

  Issue of shares to Underwriters Underwriters' A/c ...Dr.

  To Share Capital A/c

- Disclosure in the Balance Sheet:
  Shares issued for consideration other than cash are disclosed in the Balance Sheet under 'Subscribed Capital'. This may be further subscribed and fully paid or subscribed but not fully paid as the case may be and shown in Notes to Accounts under Share Capital.

Forfeiture of Shares and Reissue of Forfeited Shares

Meaning and Accounting Entries for Forfeiture of Shares:

- Meaning:
  i. It means cancellation of shares for non-payment of calls due.
  ii. It can be done by the company only if it is allowed by its Articles of Association.
  iii. If any of the shareholders of the company does not pay the amount of call, the company may exercise this power to forfeit the shares held by the shareholder on which amount of call is not paid.
  iv. In case of such forfeiture, the company must first give a clear 14days' notice to the defaulting shareholder to pay the amount due on call and interest thereon if any.
  v. If the shareholder does not pay, the company may forfeit the shares by passing an appropriate resolution.
  vi. In the event of such forfeiture, forfeited shares are cancelled and Share Capital is reduced to that extent.

- Accounting Entries for forfeiture of Shares:
  i. **Forfeiture of Shares issued at Par:** Following entry is passed for forfeiture of shares: Share Capital A/c Dr. (Shares forfeited x Called up value per share)

     To Forfeited Shares A/c (Amount received on forfeited shares) To Share Allotment A/c (Amount due but not paid on allotment) To

Shares Call A/c (Amount due but not paid on call)

Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.

ii. **Forfeiture of Shares issued at Premium:** In this case, there are 2 possibilities:

a. Securities Premium Amount has been received: Following entry is passed for forfeiture of shares:

Share Capital A/c Dr. (Called up value *less* Premium)
To Share Allotment A/c (Amount not received on allotment) To Shares Call A/c (Amount not received on calls)

To Forfeited Shares A/c (Amount received *less* premium)

b. Securities Premium Amount has not been received: Following entry is passed for forfeiture of shares:

Share Capital A/c Dr. (Called up value less premium)
Securities Premium Reserve A/c Dr. (Premium amount called-up but not received) To Share Allotment A/c (Amount not received on allotment)

To Shares Call A/c (Amount not received on calls) To Forfeited Shares A/c (Amount received *less* premium)

Where Calls in Arrears Account is maintained, Calls in Arrears Account will be credited instead of Shares Allotment A/c and Shares Calls Account.

Meaning and Accounting Entries for Reissue of Forfeited Shares:

- **Meaning:** It is the selling of shares that were cancelled by the company in the event of forfeiture. Such forfeited shares can reissued by the company at par, premium or discount. If issued at discount, the amount of discount should be within the maximum permissible limits. Accounting entry passed in each case is as follows:

i. When reissue is at par, i.e., nominal value of share:
Bank A/c ...Dr. (amount received on reissue) To Share Capital A/c (amount credited as paid-up)

ii. When reissue is at discount:
Bank A/c ...Dr. (amount received on reissue)
Forfeited Shares A/c ...Dr. (discount allowed on reissue i.e., paid up value *less* reissue price)

To Share Capital A/c (amount credited as paid-up)

iii. When reissue is at premium:

Bank A/c ...Dr. (amount received on reissue) To Share Capital A/c (amount credited as paid up)

To Securities Premium Reserve A/c (excess amount received on reissue)

- **Maximum Permissible Discount:** At the time of reissue of the forfeited shares, care has to be taken with respect to the maximum permissible discount on the shares reissued. The maximum permissible discount that can be allowed on reissue of forfeited shares is the amount forfeited, i.e., the amount credited to the forfeited shares. In simple terms, the reissue price cannot be less than the amount unpaid on the forfeited shares.

- **Accounting treatment of Balance in Forfeited Shares Account:** When a company has to reissue the forfeited shares there are 2 options for which different accounting entries are required to be passed as follows:
  a. All forfeited shares are reissued: In this case, the balance left in Forfeited Shares Account is transferred to Capital Reserve as follows:

     Forfeited Shares A/c ...Dr.

     To Capital Reserve A/c

     (Being the gain on reissue transferred to Capital Reserve)

  b. All forfeited shares are not reissued: In this case, the amount of discount allowed on reissue of forfeited shares is a Capital gain (Profit) and therefore, transferred to Capital Reserve. The amount of forfeited shares not reissued will remain in the Forfeited Shares Account till the time these shares are reissued.

- **Forfeiture of Shares Under Pro-Rata Category:** Following process is required to be followed when shares belonging to pro rata category are forfeited:
  i. Calculate number of shares applied (if not given) by the shareholder whose shares are being forfeited:

$$\left(\frac{\text{Shares Applied under Pro-rata Category}}{\text{Shares Allotted under Pro-rata Category}}\right) \times \text{Number of shares Allotted to shareholder}$$

Or

Calculate total number of shares allotted (if not given):

$$\left(\frac{\text{Shares Allotted under Pro-rata Category}}{\text{Shares Applied under Pro-rata Category}}\right) \times \text{Number of shares Applied to shareholder}$$

  ii. Compute the total application money received on shares applied by defaulting shareholder as under:

     Number of shares Applied by shareholder × Application money per share

  iii. Compute Application money due on shares allotted to defaulting shareholder as under:Number of shares Allotted to shareholder × Application money per share

- Concept of Preferential Allotment:
  i. It is the allotment of shares at a predetermined price to the pre-identified people

who are interested in taking a strategic stake in the company.

ii. Requires special resolution for the same has been passed in the shareholder's meeting.

iii. Such interested people includes promoters, venture capitalists, financial institutions, people who buy company's products or any other party related.

- Concept of Private Placement of Shares as per Section 42 of the Companies Act, 2013:

  i. As per Section 42 of the Companies Act, 2013, Private Placement means any offer of the securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of private placement offer letter and which satisfies the conditions specified in this section.

  ii. In simple terms, securities offered to the selective group of persons by issuing private placement offer is known as the Private Placement of Shares. There are conditions specified by Companies Act, 2013 that are to be fulfilled for offering such private placement of shares.

- **Conditions to be fulfilled for offering Private Placement of Shares:** Conditions have been prescribed for the following points:

  i. Limit on offers:
     - Invitation to subscribe securities shall be made in a financial year to persons not exceeding 50 in number or such higher number as may be prescribed.
     - Also, the maximum number of persons to whom offer of Private Placement can be made is prescribed as 200.
     - For this purpose, Qualified Institutional buyers and employees of the company offered securities under a scheme of employees stock option is excluded.

  ii. **Previous/Earlier offers:** Such offer or invitation shall not be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company.

  iii. **Subscription Amount:** Amount of subscription should not be less than ` 20, 000. Any amount payable towards subscription of securities shall be paid through cheque or bank draft or any other banking instrument but not by cash.

  iv. **Allotment:** Condition with respect to allotment prescribes that the company shall allot its securities within 60 days from the date of receipt of application money. In case the company is not able to allot securities within 60 days, it shall refund the application money within 15 days from the day of completion of 60 days.

  v. **Application money received:** Any amount received towards application of securities shall be kept in a separate bank account and shall be utilised for:
     a. adjustment against allotment of securities; or
     b. repayment of money against which the company is not able to allot securities.

  vi. **Offers:** Offer for such securities shall be made only to such persons whose names are recorded by the company before the invitation to subscribe.

vii. **Filing with Registrar of Companies:** It is necessary to file complete information with the Registrar of Companies within 30 days of the circulation of offer for private placement.

viii. **Public Advertisement:** No public advertisement or use of any media, marketing or distribution channels or agents to inform the public at large about the offer.

- Concept of Employees Stock Option Plan (ESOP):

  i. It is a category of Sweat Equity which is a wider term than ESOP and includes issue of shares to promoters as remuneration for their contribution towards incorporating the company and other related services.

  ii. It is an option granted to the employees and employee directors of a Company to subscribe the company's shares at a price that is lower than the market price (fair value) of the share.

  iii. It is an option and not an obligation for the employees and employee directors. Therefore, they may or may not exercise the option.

  iv. It is necessary to fulfil the prescribed conditions to issue such stock options.

- Terms associated with Employees Stock Option Plan (ESOP):

  i. **Grant:** It is the option given to the Employees to subscribe to the share of the company.

  ii. **Grant Date:** It is the date at which the enterprise and its employees agree to the terms of Employees Stock Option Plan (ESOP).

  iii. **Vesting:** It is the process by which the employee is given the right to apply for shares of the company against ESOP.

  iv. **Vesting Date:** It is date when all the specified vesting conditions are satisfied by the employee and therefore, becomes entitled to receive the shares.

  v. **Vesting Period:** It is the period between the grant date and the date on which all the specified vesting conditions of an Employee Stock Option Plan are to be satisfied.

  vi. **Exercise:** It is an application by the employee for issue of shares against the option vested in him in pursuance of the Employees Stock Option Plan (ESOP).

  vii. **Exercise Period:** It is the period after vesting within which the employee should exercise the right to apply for shares against the option vested in him in pursuance of the Employees Stock Option Plan (ESOP).

  viii. **Exercise Price:** It is the price payable by the employee for exercising the option granted in pursuance of the Employees Stock Option Plan.

  ix. **Value of Option:** It is the difference between the market price and the issue price of the security.

- Conditions to issue stock options:

  i. shares issued are of the same class of shares already issued;

  ii. such issue is authorised by a special resolution passed by the company;

  iii. such resolution specifies all possible details of the number of shares, consideration, market price, and class or classed of employees or directors to whom such shares are to be issued;

iv. at the date of issue, not less than 1 year has been elapsed since the date on which the company had commenced business; and

v. all the regulations prescribed by SEBI with respect to such issue have been duly complied with.