ACCOUNTANCY THEORY NOTES
CBSE – GRADE 12

CHAPTER – III
ACCOUNTING FOR SHARE CAPITAL

SHORT NOTES

1). Company A joint stock company is an artificial person, created by law, having separate entity distinct from its members with a perpetual succession and a common seal.

2).Characteristics or Features of a Company

(i)Artificial person (ii) Voluntary association
(iii) Created by law (iv) Capital divisible into transferable shares
(v) Limited liability (vi) Perpetual succession
(vii) Common seal (viii) Separate legal entity from its members
(ix) May sue or be sued

3).Kinds of Companies

(i) **Private companies** According to Section 2 (68) of the Companies Act, 2013, it is a company with minimum paid-up share capital of Rs 1,00,000 or such higher amount as may be prescribed in the Companies Act, 2013 and which by its Articles of Association

(a)Restricts the right to transfer its shares, if any.

(b)Except in one person company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them. If any share is held jointly by two or more persons, they shall be treated as a single member.

(c)Prohibits any invitation to the public to subscribe for any securities of the company. The minimum number of members required to form a private company is two. The name of a private company ends with the words, 'Private Limited'.

(ii)**Public company** As per Section 2 (7) of Companies Act, 2013, public company is a company which
(a)is not a private company.
(b) has minimum capital of Rs 5 lakh or such higher paid-up capital as may be prescribed.
(c) is a private company, which is a subsidiary of a public company. Minimum requirement of a public company is seven persons.

(iii) **One person company** is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation) Rules, 2014 provides that:

(a)Only a natural person being an Indian citizen and resident in India can form one person company or can be nominee for the sole member of one person company.

(b)One person can form only one 'one person company' or become nominee of one such company.

(c)It cannot be formed for charitable purpose.

(d)It cannot carry out non-banking financial investment activities including investment in securities of any body corporate.

(e)Its paid-up share capital is not more than Rs 50 lakhs.

(f)Its average annual turnover should not exceed Rs 2 crores.

4. Share According to Section 2 (84) of the Companies Act, 2013, share means a share in the share capital of a company and includes stock. The capital of company is divided into a number of equal units. Each unit is called a share. A company may divide its capital into share of Rs 100, Rs 50, Rs 10, Rs 5 or even Rs 1 each.

5. Types of Shares

A. PREFERENCE SHARES:

Preference shares According to Section 43 (b) of the Companies Act, 2013, preference shares are the shares which carry the following two preferential rights :

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

(b)Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called preference shareholders.

B. EQUITY SHARES:

Equity shares According to Section 43(a) of the Companies Act 2013, equity share is that share which is not a preference share. Equity shares are the most commonly issued class of shares which carry the maximum 'risks and rewards' of the business. The risks being losing part or all of the value of shares if the business incurs losses, the rewards being payment of higher dividends and appreciation in the market value.

6. Share Capital It is that part of the capital of a company, which is represented by the total nominal value of shares, which it has issued.

7. Kinds of Share Capital

(i) **Authorised share capital** According to Section 2(8) of Companies Act, 2013, 'authorised capital' or 'nominal capital' means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company.

(ii) **Issued capital** According to Section 2(50) of the Companies Act, 2013, issued capital means such capital as the company issues from time to time for subscription.

(iii)**Subscribed capital** According to Section 2(86) of the Companies Act, 2013, 'subscribed capital' means such part of the capital which is for the time being subscribed by the members of a company.

<u>(a)Subscribed and fully paid-up Shares</u> are said to be 'subscribed and fully paid-up' when the entire nominal (face) value is called and also paid-up by the shareholders.

<u>(b)Subscribed but not fully paid-up Shares</u> are said to be 'subscribed but not fully paid-up' when

- The company has called-up the entire nominal (face) value of the share but has not received it.
- The company has not called-up the entire nominal (face) value of share.

A reference has been made two terms

- **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. Thus, it means the amount of nominal (face) value called-up by the company to be paid by the shareholders towards the share capital.
- **Paid-up share 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' against the shares towards share capital.

8. Reserve Capital It is that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound

9. Capital Reserve: 'Capital reserve' is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company. Reserves which are created out of capital profits, are not readily available for distribution as dividend among the shareholders, e.g. premium on issue of shares of debentures, profits on re-issue of shares, profits prior to incorporation, premium on redemption of debentures.

10.Minimum Subscription It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instrument, security cannot be allotted.

ISSUE OF SHARES

1.Terms of Issue of Shares
(i) **Issue of shares at par** When shares are issued at their face value, the shares are said to have been issued at par. i.e. issue price and face value are same.
(ii) **Issue of shares at premium** When shares are issued at a value that is higher than the face value of the shares, the shares are said to have been issued at premium, i.e. issue price is more than face value.

2.Utilisation of Securities Premium Reserve Section 52 (2) of the Companies Act, 2013 restrict the use of the amount received as premium on securities for the following purposes
(i) In purchasing its own shares (buy back) (Section 77A).
(ii)Issuing fully paid bonus shares to the members (Section 78).
(iii)Writing-off preliminary expenses of the company (Section 78).
(iv)Writing-off the expenses of, or the commission paid or discount allowed on any issue of securities or debentures of the company (Section 78).
(v)Providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company (Section 78).

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

4. Over Subscription of Shares When the number of shares applied for, is more than the number of shares offered for subscription, the shares are said to be oversubscribed. Allotment of shares cannot be made to all the applicants in full.
In case of oversubscription, following three alternatives are available (i) Rejection of applications (ii) Partial or pro-rata allotment (iii) Combination of pro-rata allotment and rejection

5. Under Subscription of Shares When the number of shares applied for, is less than the number of shares offered to the public, the shares are said to be under subscribed.

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

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

8. Forfeiture of Shares
Forfeiture of shares means cancellation of shares and seizure of the amount already received from defaulting shareholders.

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

SHORT QUESTIONS

1. ***Define company as per companies Act.***

   According to section 3(1) (i) of the companies act 1956, a company as "a company formed and registered under this act or an existing company

   Section 2(20) of the Companies Act, 2013, defines the term 'Company' as follows: "Company means a company incorporated under this Act or under any previous company law."

2. ***Can forfeited shares be issued at a discount? If so to what extent?***

   Forfeited shares can be reissued at a discount. However, the discount on the reissue of such shares can not exceed the amount earlier forfeited on such shares. In other words, amount received on re-issue plus amount already received on forfeited shares must not be less than the paid up value of shares.

3. ***What is Escrow account?***

   In order to fulfil certain obligations under the scheme of buy-back of securities an account is opened, which is known as Escrow account.

4. ***What do you mean by private placement of shares?***

   Private placement of shares implies issue and allotment of shares to a selected groups of persons privately and not to public in general through public issue. In order to place the shares privately, a company must pass a special resolution to this effect.

5. ***What is Sweat Equity?***

   Sweat equity shares means easily shares issued by the company to its employees or whole time directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value addition by whatever name called

BOARD EXAM QUESTIONS

1. D Ltd invited applications for issuing 10,00,000 equity shares of ? 10 each. The public applied for 8,55,000 shares. Can the company proceed for the allotment of shares? Give reason in support of your answer (All India 2014)
Ans. No, the shares cannot be allotted because subscribed shares are less than 90% i.e. minimum subscription.

2. What is meant by paid-up capital? (Compartment 2014)
Ans. It is the amount that the shareholder has paid and the company has received against the amount called-up against the shares towards share capital.

3. What is meant by 'undersubscription'? (Compartment 2014)
Ans. Undersubscription means that number of shares applied for is less than the number of shares issued

4. What is meant by authorised capital of a company? (Compartment 2014; Foreign 2011)
Ans. According to Section 2 (8) of the Companies Act, 2013, 'authorised capital' means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company.

5. What is the name given to the part of capital of a company which is called-up only on winding up? (All India 2011; hots)
Ans. Part of capital of a company which is called-up only on winding up is called 'reserve capital'.

6. What are preliminary expenses? (Delhi 2010)
Ans. The expenses incurred in the promotion and formation of the company are known as preliminary expenses, such as registration fee paid to registrar of the companies, stamp duty, legal expenses, expenses regarding preparation and issue of prospectus, etc.

7. What is meant by 'capital reserve'? (All India 2010)
Ans. 'Capital reserve' is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company.

8. Give the meaning of minimum subscription? (All India 2008)
Ans. It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instrument, security cannot be allotted.

9. What is the maximum amount of discount at which forfeited shares can be re-issued? (Delhi 2014)
Ans. When forfeited shares are re-issued at a discount, the discount cannot exceed the amount forfeited on re-issued shares.

10. Give any one purpose for which the amount received as 'securities premium reserve' may be utilised. (Compartment 2014)
Ans. Securities premium can be utilised in writing-off preliminary expenses of the company.

11. A Ltd forfeited 100 equity shares of Rs 10 each issued at premium of 20% for the non-payment of final call of Rs 5 including premium. State the maximum amount of discount at which these shares can be re-issued. (All India 2014)
Ans. Maximum amount of discount that can be allowed at the time of re-issue is the amount forfeited on re-issued shares, i.e. Rs 7.

12. What is meant by private placement of shares? (Compartment 2014)
Ans. Private placement of shares means selling of shares to a relatively small number of select investors. Private placement is the opposite of a public issue, in which securities are made available for sale in the open market.

13. Give the meaning of forfeiture of shares. (All India 2014(c), 2010)
Ans. Forfeiture of shares means cancellation of shares and seizure of the amount received from the defaulting shareholders, whose shares have been forfeited. Upon forfeiture, the name of original shareholder must be removed from the register of members. Forfeiture results in reduction of share capital.

14. What is meant by 'calls-in-arrears'? (All India 2013)
Ans. If shareholders make default in paying the money due on allotment or any call, the money not so paid is called calls-in-arrears.

15. What rate of interest the company pays on calls-in-advance, if it has not prepared its own Articles of Association?(Delhi 2013)
Ans. As per Table F, of the Companies Act, interest on calls-in-advance is payable @ 12% per annum by the company.

16. What is meant by'securities premium reserve'? (Delhi 2013)
Ans. A company can issue its shares at more than its face value. Excess of issue price of shares over its face value is termed as securities premium.

17. What is meant by calls-in-advance? (All India 2012; Delhi 2008)
Ans. Calls-in-advance means the amount paid by shareholders in excess of the amount due from them. The company may receive calls-in-advance if the articles permit. It is shown as a current liability in the balance sheet.

18. State the steps other than rejecting applications that a company can take in case of over subscription. (Delhi 2011c)
or
Give any two alternatives available to a company for the allotment of shares in case of over subscription. (Delhi 2009 c)
Ans. The step's other than rejecting applications that a company can take in case of over subscription are:
(i) All applicants are allotted shares on pro-rata basis.
(ii) Some applicants are allotted shares in full and some are allotted shares on pro-rata basis.

19. Can securities premium be used as working capital? Give reason in support of your answer.(All India 2011; HOTS)

Ans. Securities premium cannot be used as working capital.
According to Section 52 (2) of the Companies Act, 2013, the securities premium can be applied only for the following purposes:
(i) Issuing fully paid bonus shares to the members.
(ii) Writing-off the preliminary expenses of the company.
(iii) Writing-off the expenses on issue of shares, commission paid on any issue of shares or debentures of the company and discount allowed on any issues of shares and debentures.
(iv) Providing for the premium payable on the redemption of redeemable preference shares or debentures of the company.

20. What is meant by pro-rata allotment of shares? (All India 2010)

Ans. In the case of over subscription, it is not possible to allot shares to all applicants. Applicants may be allotted less number of shares than they have applied for. This type of allotment of shares is known as pro-rata allotment of shares, e.g. if company allots 50,000 shares to applicants of 75,000 shares, it is pro-rata allotment in proportion of 2 : 3.

21. Give the meaning of over subscription. (All India 2008)

Ans. Over subscription is a situation in which applications received are for more shares than the number of shares offered to the public for subscription through prospectus by a company.