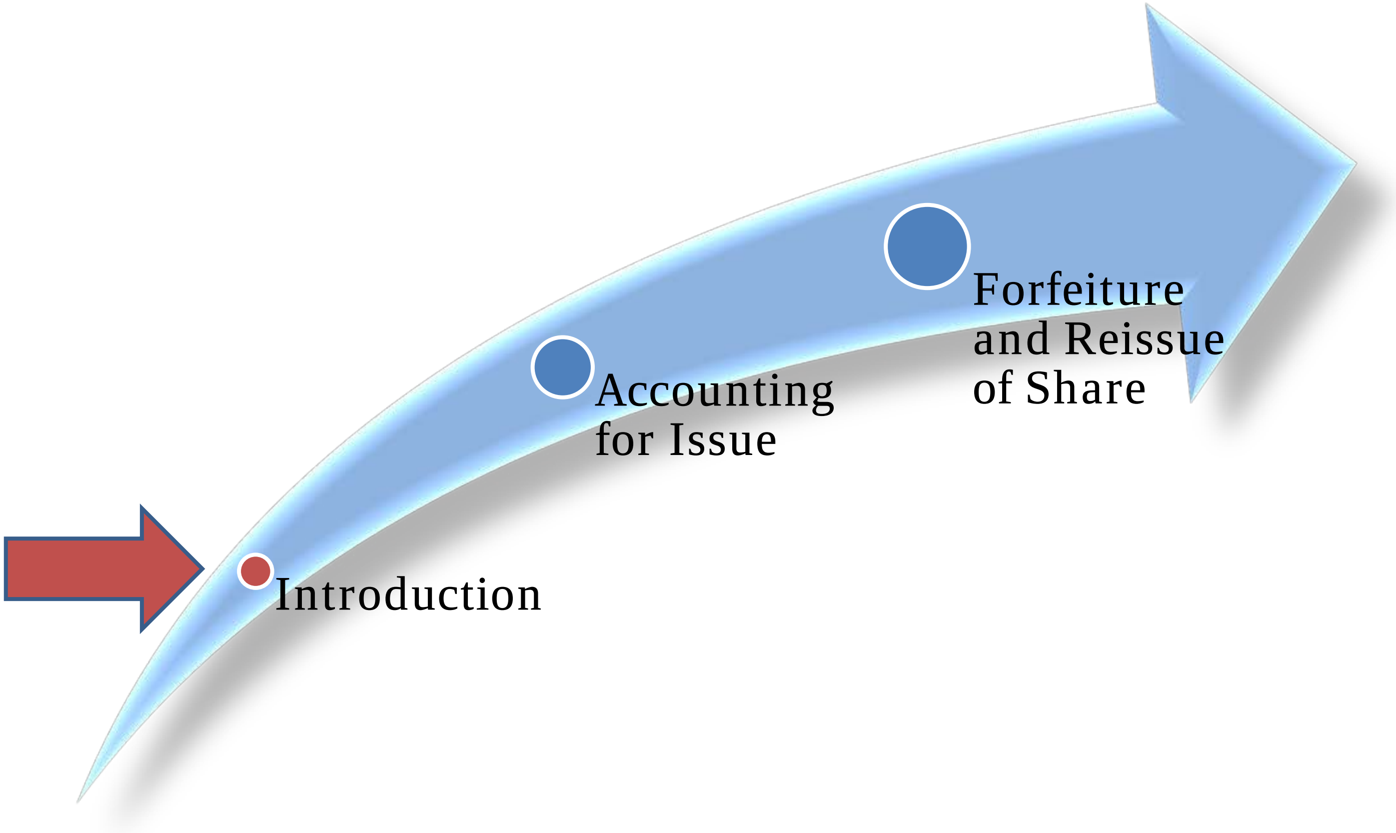
Fundamentals of Accounting – CPT
Chapter 9 – Unit 2

Issue, Forfeiture and Re-issue of Shares

Prof Rahul J. Malkan

E-mail : rahulmalkan@live.com


Introduction
Accounting for Issue
Forfeiture and Reissue of Share

Part 1 – Introduction and various aspects of Issue of shares

Capital

- Funds provided by the owner(s) into a business is known as capital.

Proprietor
- Sole - Proprietor

Partnership
- Partners

Company
- Shareholders

Share capital

- Total capital of the company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share.

Share capital

- The fixed Value of share, printed on the share certificate, is called nominal / par / face value of share.

Issued At Par

When the share is issued at Face Value. For eg. Share of ₹ 10 is issued at ₹ 10

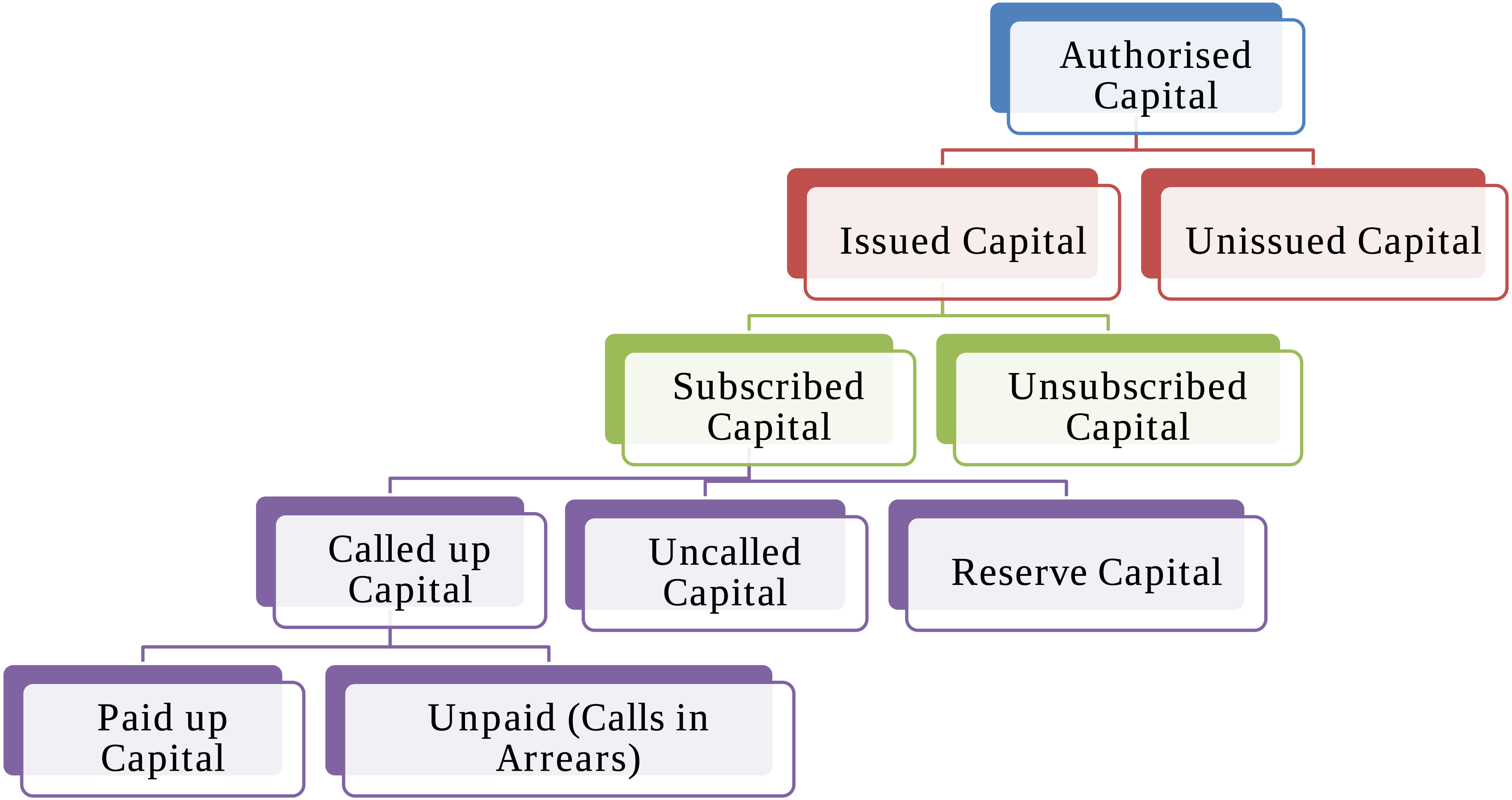
Issued At Premium

When the share is issued at value above face value. For eg. Share of ₹ 10 issued at ₹ 12

Issued at Discount

When the share is issued at value below the face value. For eg. Share of ₹ 10 issued at ₹ 8

Share Capital



Share Capital

Authorised Share Capital	• Maximum capital that the company can collect during its life time. It is referred as 'Registered Capital' or 'Nominal Capital'
Issued Share capital	• The portion of Authorised Capital Issued by the company
Subscribed Share Capital	• The part of the issued share capital that is subscribed by the public
Called up Share Capital	• The portion of Subscribed Share Capital which is called up.
Paid up share capital	• The portion of Called up capital paid up by shareholders is known as paid up capital.

Illustration

Illustration 1 – page 9.14

- A company had a registered capital of ₹ 1,00,000 divided into 10,000 equity shares of ₹ 10 each. It decided to issue 6,000 shares for subscription and received applications for 7,000 shares. It allotted 6,000 shares and rejected remaining applications. Upto 31-12-2011, it has demanded or called ₹ 9 per share. All share holders have duly paid the amount called, except one shareholder, holding 500 shares who has paid only ₹ 7 per share.

Solution

- **Authorised Capital** — ₹ 1,00,000 (10,000 x 10)
  - **Issued Capital** — ₹ 60,000 (6,000 x 10)
    - **Subscribed Capital** — ₹ 60,000 (6,000 x 10)
      - **Called up Capital** — ₹ 54,000 (6,000 x 9)
        - **Paid up Capital** — ₹ 53,000 (54,000 – 1,000)
        - **Unpaid (Calls in Arrears)** — ₹ 1,000 (500 x 2)
      - **Uncalled Capital** — ₹ 6,000 (6,000 x 1)
    - **Unsubscribed Capital** — Nil
  - **Unissued Capital** — ₹ 40,000 (4,000 x 10)

Types of Shares :

The different kinds of shares which can be raised by Companies are :

- EQUITY SHARES
- PREFERENCE SHARES

Preference Shares :

Preference shares are those shares which carry with them preferential rights for their holders, i.e,
1. Preferential right as to fixed rate of dividend &
2. Repayment of capital at the time of winding up of the Company.

Characteristics :

- Fixed rate of dividend.
- Priority as to payment of dividend.
- Preference as to repayment of capital during liquidation of the Company.
- Generally preference shareholders do not have voting rights.
- According to The Companies (Amendment) Act, 1988, the reference shares are redeemable & the maximum period for which they can be issued is 10 years.

Kinds of Preference Shares :

- **On the basis of cumulation of dividend :**
  - **Cumulative Preference Shares:**

    They are those shares on which the dividend at a fixed rate goes on cumulating till it is all paid.
  - **Non Cumulative Preference Shares:**

    These are those shares on which the dividend does not cumulate.
- **On the basis of participation :**
  - **Participating Preference shares:**

    This type of shares are allowed to participate in surplus profits during the lifetime of the company & surplus assets during winding up.
  - **Non Participating Shares:**

    These shares are not entitled to participate in surplus profit. Dividend at fixed rate is given.

Kinds of Preference Shares :

- **On the basis of conversion :**
  - **Convertible preference shares:**

    The owners of these shares have the option to convert their preference shares into equity shares as per the terms of issue.
  - **Non-convertible preference shares:**

    The owners of these shares do not have any right of converting their shares into equity shares.
- **On the basis of redemption:**
  - **Redeemable preference shares:**

    These are to be purchased back by the company after a certain period as per the terms of issue.
  - **Irredeemable preference shares:**

    These are not to be purchased back by the company during its lifetime.

Kinds of Preference Shares :

Status of Preference Shares, if Articles of Association are silent :

- **Preference shares will be presumed to be:**

➢ Cumulative
➢ Non-Participating
➢ Redeemable and
➢ Non-Convertible.

Equity Shares :

The equity shares or ordinary shares are those shares on which the dividend is paid after the dividend on fixed rate has been paid on preference shares.

Characteristics:

- No fixed rate of dividend.
- Dividend is paid after dividend at a fixed rate is paid on preference shares.
- At the time of liquidation, capital on equity is paid after preference shares have been paid back in full.
- Non redeemable.
- Equity shareholders have voting rights & thus, control the working of the Company.
- Equity shareholders are the virtual owners of the Company.

Issue of shares :

For Cash

For Consideration Other Than Cash

Issue of shares for cash :

Prospectus

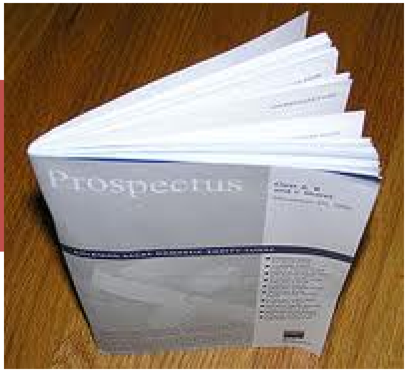
Application

Allotment

Calls

Issue of shares for cash :

Prospectus



Prospectus is an legal document, which contains information company and securities, it is to issue.

It is an invitation to the public to subscribe to the shares of the Company.

Issue of shares for cash :

Application

1. Share application is an offer made by public to subscribe the shares of the company.

2. Application should be accompanied with application money as demanded by the company.

3. Minimum application money should be 5% of the nominal value of the shares as per companies act.

4. As per SEBI, minimum application money should be 25% of the issue price.

Issue of shares for cash :

Allotment

1. Allotment is the acceptance of the offer by the company.
2. Allotment is the stage when the share becomes legal.
3. Public will have to pay allotment money on the allotment of shares
4. Public company cannot make allotment of shares unless the amount of minimum subscription is collected

Issue of shares for cash :

Allotment

Minimum Subscription

1. According to SEBI, a company must receive minimum 90% Subscription before making any allotment of shares.

2. If the company does not receive minimum subscription then they should refund the entire application money within 15 days of the closure of issue.

3. If there is delay in refund then the company is liable to pay interest ranging from 4% to 15% depending upon the delay in period.

Issue of shares for cash :

Calls

1. Call is demand made by the company to pay the unpaid amount on shares.
2. Company can demand the entire balance on single call or may make divide in more than one calls
3. Call made should be uniform on all shares.
4. Article authorises board to make a call.
5. According to SEBI the amount on share should be collected within the period of one year.

Subscription of Shares

Full Subscription

- Issue is fully subscribed if the number of shares offered for subscription and number of shares actually subscribed by public are same.

Under Subscription

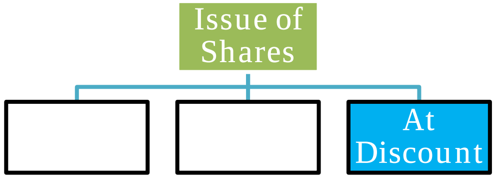
- It means that number of shares offered for subscription is more than the number of shares subscribed by public.

Over Subscription

- It means number of shares applied by public for subscription is more than number of shares offered for subscription.

- Issue of Shares
  - At Par
  - At Premium
  - At Discount

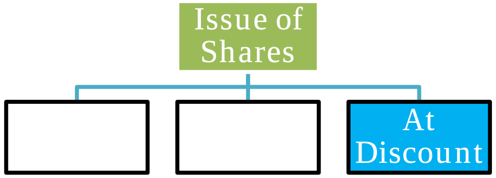
Issue of shares at discount



Section 79, permits issue of shares at discount provided the following conditions are satisfied.

- The issue of shares at discount is authorised by a resolution passed by the company at its general meeting and sanctioned by the central government.
- The resolution must specify the maximum rate of discount at which the shares are to be issued, but the rate should not exceed 10% of the nominal value of shares.
- The rate of discount can be more than 10% if the central government is convinced that a higher rate is called for under special circumstances of the case.
- At least one year must have elapsed since the company was entitled to commence the business
- The shares are of the class, already been issued.

Issue of shares at discount

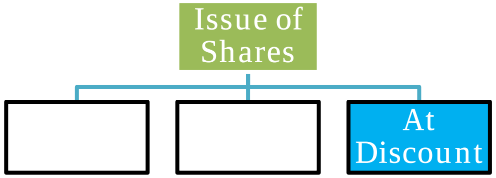


The clear implications of the restrictions placed on the issue of shares at a discount are that

---- a new company cannot issue shares at a discount and

---- a new class of shares cannot be issued at a discount.

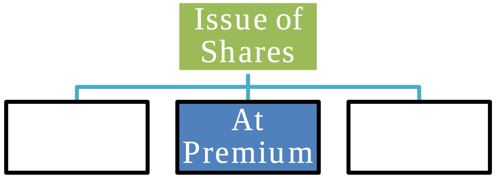
Issue of shares at discount



Disclosure

- Discount is loss and debited to an account called *"Discount on the issues of shares A/c"*
- Discount is loss of capital nature and should be disclosed on balance sheet asset side, under the head other non current assets
- It should be written of by charging it off to Securities premium account, if any, and in its absence, by charging to the profit and loss A/c over a period of time

Issue of shares at Premium



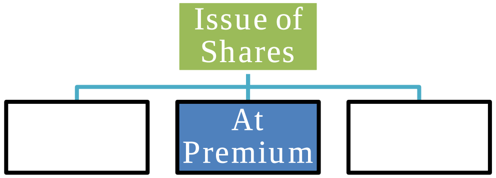
When the company issues securities at a price more than the face value, it is said to be issued at premium

It is quite common for financially strong and well managed companies to issue the shares at premium

Unlike shares issued at discount, there are no restrictions to the shares issued at Premium.

Issue of shares at Premium

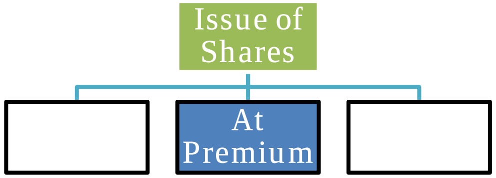
Disclosure



When shares are issued at premium, the premium amount is credited to separate account known as "securities premium account"

Securities premium account should be disclosed in the balance sheet under sub head "Reserves and Surplus" under main head "Shareholders fund" in Equity and liabilities part of balance sheet

Securities Premium



Section 78 of companies act, 1956, securities premium account may be used by the company

- In paying up the un-issued securities of the company to be issued to members of the company as fully paid bonus securities.
- To write off the preliminary expenses of the company
- To write off the expenses of , or commission paid, or discount allowed on any of the securities or debentures of the company.
- To pay premium on the redemption of preference shares or debentures of the company.

Calls in Arrears and Calls in Advance

At the time of receiving the value of shares in instalment

- Instalment money received in full
- "Calls in Arrears"

  Money received less than due
- "Calls in Advance"

  Money received more than due

Calls in Arrears

Sometimes shareholders fail to pay the amount due on allotment or calls.

The total unpaid amount on one or more instalments is known as calls – in – arrears or unpaid calls.

Calls in Arrears

Amount unpaid represents the uncollected amount of capital from the shareholders, hence, it is shown by way of deduction from "called up capital" to arrive at paid – up value of the share capital.

Calls in Arrears

---- The Articles of Association usually empowers the directors to charge interest at the stipulated rate on calls – in – arrears.

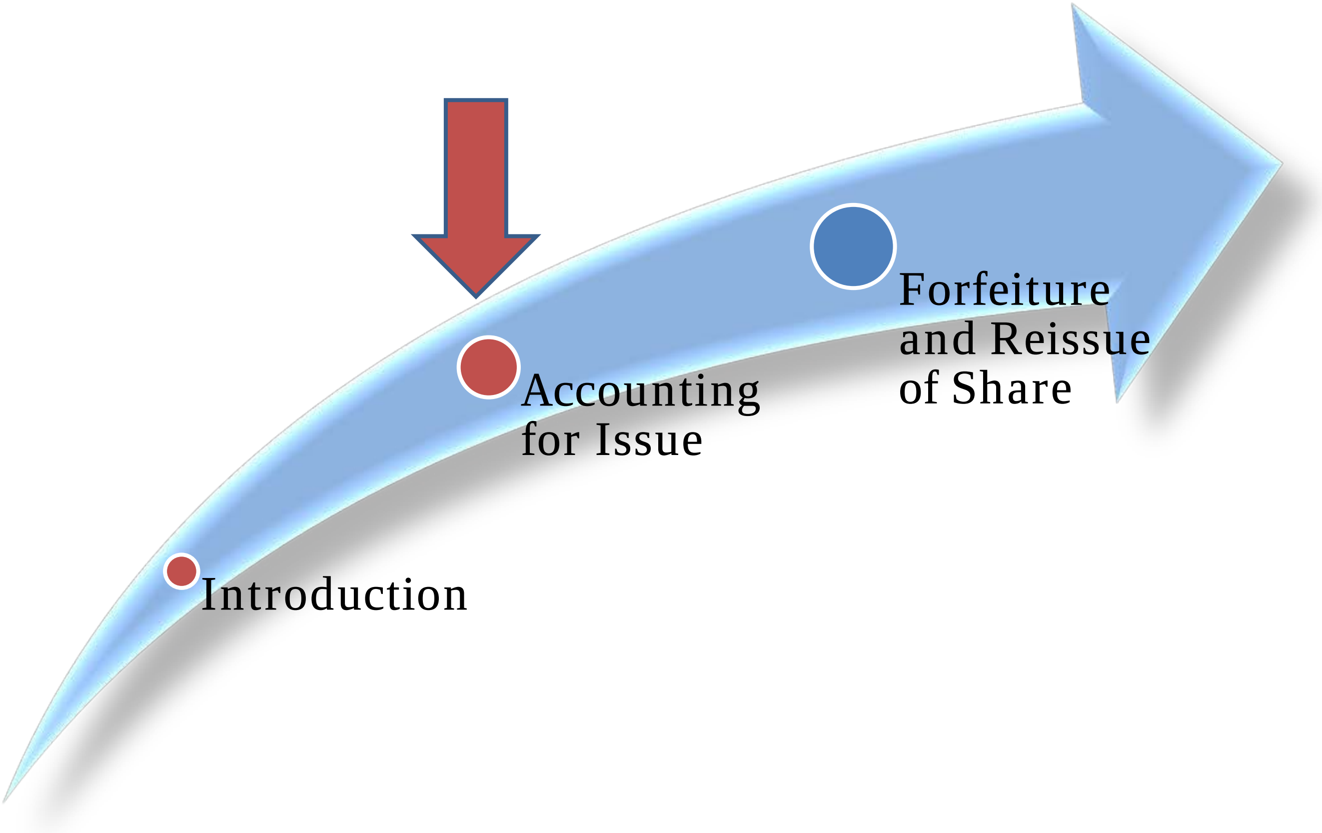
---- According to Table A interest at the rate of 5% p.a .

---- However, directors have the authority to waive of charge a higher rate of interest.

Calls in Advance

Sometimes shareholders may pay a part, or whole, of the amount not yet called up, such amount is known as calls – in – advance.

According to Table A, interest at the rate of 6% is to be paid on such advance call money.


Introduction
Accounting for Issue
Forfeiture and Reissue of Share