Issue; Forfeiture And Reissue Of Shares

Fundamentals Of Accounting

Learning Objectives

After studying this unit you will be able to :

- Appreciate various types of shares and share capital
- Learn the accounting treatment if shares issued under different circumstances like at par, at discount and at premium.
- Differentiate the accounting treatment for under-subscription and over-subscription of shares.

- Understand the concept and accounting treatment of call-in-arrears and call-in-advance.
- Deal with the forfeiture of shares issued with different conditions.
- Journalise the entry for re-issue of shares whether at discount or at premium.

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**. The fixed value of a share, printed on the share certificate, is called nominal/ par / face value of a share. However, a company can issue shares at a price different from the face value of a share.

Categories

As per SEBI guidelines, a company is free to price its issue, if it has a three years track record of consistent profitability and in case of new company, if it is promoted by a company with a five years track record of consistent profitability.

(i) Authorised Share Capital

(ii) Issued Share Capital

(iii) Subscribed Share Capital

(iv) Called-up Share Capital

(v) Paid-up Share Capital

(vi) Reserve Share Capital

Reserve Capital is different from Capital reserve, Capital reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend.

Types of Shares

Share issued by a company can be divided into following categories:

(i) Preference Shares

They enjoy preferential rights in the matter of:

(a) Payment of dividend, and

(b) Repayment of capital

Types of Preference Shares

Preference shares can be of various types, which are as follows :

(a) Cumulative Preference Shares

(b) Non-cumulative Preference Shares

(c) Participating Preference Shares

(d) Non-participating Preference Shares

(e) Redeemable Preference Shares

(f) Non-redeemable Preference Shares

(g) Convertible Preference Shares

(h) Non-convertible Preference Shares

(ii) Equity Shares

The shares can be issued by a company either

(1) For cash or

(2) For consideration other than cash.

NOTE

A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.

As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a minimum of 90% subscription

Against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public.

The minimum application money to be paid by an applicant alongwith the application money shall not be less than 25% of the issue price. Companies (Amendment) Bill, 2003 require application money to be not less than

25% of the nominal value of security. Thus, the issue price of shares is generally received by the company in installments and these instalments are known as under:

First Instalment	…………..	Application Money
Second Instalment	…………..	Allotment Money
Third Instalment	…………..	First Call Money
Fourth Instalment	…………..	Second Call Money and so on.
Last Instalment	…………..	Final Call Money