Notes By Akhilesh Kumar
J K college Biraul Darbhanga
YouTube : A commerce Education

Notes BY: AKHILESH KUMAR(Guest Teacher)

DEPARTMENT OF COMMERCE

JANTA KOSHI COLLEGE BIRAUL, DARBHANGA

For – LNMU B. Com part -2 ,PAPER -IV CORPORATE ACCOUNTING (Hons.)

Lecture -1

Easy to understand the concept

Notes By Akhilesh Kumar
J K college Biraul Darbhanga
YouTube : A commerce Education

Unit -1

Accounting for Share capital

Issue and Forfeiture of Shares

Q.1 Give the definition of A Company?

Ans.: A company is an association of persons who agree to contribute money to The equity shares for the purpose of employing it in a business. A Company is a creation of law and is called an artificial person, having a Corporate legal entity and a common seal.

Q.2 What is a Share? Explain the types of Shares.

Ans. Share: The capital of a company is divided into units of small Denominations; each such unit is called a share.

Types of Shares : A public company can issue only two types of shares :-

(1) Preference shares

(2) Equity Shares

(1) Preference Share: Preference share is one which carries the

Following two preferential rights:-

(a) In respect of payment of dividends.
(b) In return of capital if the company being wound up.

Types of Preference Shares:

(i) Cumulative Preference Shares: These are those shares on Which arrears of dividend accumulate which could not be Paid due to insufficient profits in any year.

(ii) Non-Cumulative Preference Shares: These shares do not Have the privilege of accumulation of the unpaid or arrears of dividends.

(iii) Participating Preference Shares: Shares, which carry the Right left after paying preference and equity dividends.

(iv) Convertible Preference Shares: Shares, which can be Converted into equity shares after a particular period.

(v) Non-Convertible Preference Shares: Shares, which don"t Carry the right of conversion into equity shares.

(vi) **Redeemable Preference Shares:** Shares, the capital of which Is refunded by the company after a specified duration.

(vii) **Irredeemable Preference Shares:** The capital of which can Not be refunded before winding up of the company.

(viii) **Non-Participating Preference Shares:** Shares which do not Carry the right of sharing in the surplus left after paying Equity dividend.

(ix) **Cumulative Convertible Preference Shares:** Which are Cumulative as well as convertible having both the rights.

(3) **Equity shares**: They are such shares which carry no special rights As regards receipt of dividends and return of capital at the time of Liquidation. According to sec. 5(2) of companies Act, 1956, equity Shares are those which are not preference shares.

Q.3 Explain the meaning of Share Capital and Its Categories.

Ans.: **Share Capital**: Capital raised by the company from issue of shares.

(1) **Authorized Capital:** This is the maximum limit of capital which is Authorized to raise.

(2) **Issued Capital:** It is that part of authorized capital which the Company has issued to the public.

(3) Subscribed Capital : It is that part of the issued capital which is Actually subscribed by the public.

(4) Called Up Capital: It is that amount on the shares subscribed, Demanded from the public by the company.

(5) Paid-Up Capital: The part of called-up capital which is actually Paid by shareholders.

(6) Reserve Capital: The company may decide by passing a special Resolution that a portion of the uncalled amount shall not be called Up by the company except in case of winding up or liquidation. This is called reserve capital.

Q.4 Explain the Accounting Treatment in case of Issue of Shares.

Ans. A company can issue shares in two ways – (i) for cash and (ii) for Consideration other than cash. These shares may be issued at par or at Premium or at discount.

Accounting Entries for Issue of Shares :

1. **Issue of shares for cash consideration:-**

(A) Shares Payable in Lump-Sum : When shares are issued at nominal Value payable full in a single instatement, the shares so payable are Said to have been issued in lump-sum.

(B) Share Payable in Installments: Where a company does not require the immediate use of all Proceeds from share issue, the shares are issued as payable in Installments.

Shares are said to be at par when they are issued at a price equal to

The face value (nominal value).

1. On Receipt of Application money

Bank A/c Dr.

To Share Application A/c

(With actual money Received on applications)

2. On acceptance of applications for Allotment:

Share Application A/c Dr.

To Share Capital A/c

(With actual money due On shares allotted)

3. On making allotment money due

Share Allotment A/c Dr.

To Share Capital A/c

(With money due on Allotment)

4. On receipt of allotment money

Bank A/c Dr.

To Share Allotment A/c

(With money received on Allotment.)

5. **On making the first call**

Share First Call A/c Dr.
To Share Capital A/c

(With first call money due)

6. **On receipt of first call**

Bank A/c Dr.

To Share First Call A/c

(With money received on First call)

Note : Similar entries will be made for the second or third calls Through share second call account and share third call account Respectively.

- **Calls in Arrear: Some shareholders fail to pay the amount due on Allotment and/or calls on the share hold by them. Such unpaid Amount on account of one or more installments is called calls in Arrear unpaid calls.**

Entry: It is not mandatory to maintain a separate account for calls In arrear. When a separate account is opened in such a case

Following entry will be made:-

Calls in Arrear A/c Dr.

To Share Allotment A/c

To Share I/II/Final Call A/c

- **Notes -According to Table F of the companies Act, 2013 Interest at the rate not exceeding 10% per annum shall be charged (according to Table A of company Act 1956 it was 5% p .a)**

- **For the period from the date fixed for payment to the date of actual payment.)**
- **Calls in Advance : Any amount received from a share holder in Excess of the amount due is called "Calls-in-Advance".**

Entry :

Bank A/c Dr.

To Calls in Advance A/c

(with the amount received in advance)

Note: The amount received in respect of future calls shall be adjusted

When the call received in advance is made due.

Calls in Advance A/c Dr.

To Particular Call A/c

- **According to Table F of the companies Act, 2013 interest at the rate of 12% per Annum may be allowed to the shareholders. (according to Table A of company Act 1956 it was 6% p .a)**

- **Issue of Shares at Premium: Share are said to be issued at a Premium when they are issued at a price higher than the face Value. The excess of issue price over the face value is called as the Amount of securities** premium. It is shown on liabilities side of B/S Under the heading of "Reserve and Surplus."

(i) **For transferring money to Capital A/c –**

Share Call A/c Dr. (Particular call)

To Share Capital A/c (Amount of Capital)

To Securities Premium A/c (Amount of Premium

(ii) **On receipt of full amount including premium –**

Bank A/c Dr. (Amount received)

To Share (Particular) Call A/c

- **Issue of Shares at Discount:** Shares are said to be issued at Discount when they are issued at a price lower than the face value.

It is treated as a loss of capital nature :

(i) **On allotment money being due –**

Share Allotment A/c Dr. (Actual amount due)

Discount on Shares A/c Dr. (Discount on issue)

To Share Capital A/c (Total amount)

(ii) **On allotment money received –**

Bank A/c Dr.

To Share Allotment A/c

(Allotment money received excluding discount)

(iii) On writing off the amount of discount –(every year)

Securities Premium/ P&L A/c Dr.

To Discount on issue of share A/c

- **Issue of shares for a consideration other than cash :**

It is not necessary to issue the shares only for cash. Sometimes a Company issue fully paid shares for consideration other than cash,

In the following cases:

(1) Issue of shares to Promoters: **Promoters are the persons who Have formed the company and brought it into existence. For the Services rendered by them they may be issue shares by the Company. The entry would be made:**

Goodwill A/c Dr.

To Equity or Preference Share Capital A/c

(For equity or preference shares issued to its promoters)

(2) Issue of shares for Purchases of Assets: **Sometimes a company Purchases some assets and makes the payment to vendor in fully Paid shares. Such shares may be issued at par, or at premium, or at Discount. The Journal entries to be made are as under:**

1. When Asset is purchased:

Sundry Asset A/c Dr. (With the Purchases price)

To Vendor"s A/c (With the Purchases Price)

2. (a) On issue of shares to vendors at par:

Vendors A/c Dr. (With the Purchase Price)

To Share Capital A/c (Nominal value of Shares)

(b) On issue of shares to vendors at premium:

Vendors A/c Dr. (With the Purchase Price)

To Share Capital A/c (With the Nominal Value of Shares)

To Security Premium A/c (With the Amount Of premium)

(c) On issue of shares to vendors at Discount :

Vendors A/c Dr. (With the Purchase Price)

Discount on issue of share Dr. (With the nominal Value of shares)

To Share Capital a/c