SHARE CAPITAL

TRANSACTIONS

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Meaning of Share and Stock

- **Share**

As per section 2(46) of companies ACT 1956 “Share means share in the share capital of a company and includes stock except where a distinction between stock and share is expressed or implied. Share is the portion of capital which each share holder is entitled to. Each share in a company is distinguished by its appropriate number.”

- **Stock**

Stock means the collection of fully paid up shares of small denominations. It is a set of shares are put together in a bundle. When the shares of a company are fully paid up, they can be converted into stock. This can be done only when the articles of the company permit for the same.

Kinds of shares

Under the companies Act, the shares of a company can be of two types (a) preference shares (b) equity shares.

(A) **Preference shares:-**

It is a share, which possesses two special rights, (a) the right to fixed dividend out of the profits of each year before any dividend can be paid to equity share holders and (b) the right to a return of the capital in priority to return of capital to the holders of equity shares in the event of the company’s winding up.

- Types of preference shares are as follows.
- Cumulative and Non-Cumulative preference shares.
- Redeemable and Irredeemable preference shares.
- Participating and Non-participating shares.

(B) Equity shares:-

Shares which do not enjoy any preferential right as regards to payment of dividend of repayment of capital are known as equity shares. A large part of the net profits of company after paying the fixed dividend on the preference share is paid as dividend to the equity shares. Equity shares can be purchase or sold in a stock exchange. Equity share holders have both higher expected returns and higher expected risks than preference shares. Equity shares have the right to share in assets upon liquidation.

- Equity share holders have voting rights in election of directors.
- Equity share holders can take part in the making of certain important decisions of company.

Issue of shares

- Companies limited by shares have to issue shares to raise necessary capital for their operations. The shares of a company can be issued in three ways.

  - By private placement of shares.
  - By rights issue of shares.
  - By public issue of shares.

Classification of Capital

- **Nominal or Authorised capital** :-

The amount of capital states in the memorandum of association is the nominal capital. It means the face value of the shares which a company is authorized to issue by its memorandum of association. A special procedure is to be authorized capital.

For example :- X ltd. has been incorporated with an authorised capital of Rs.50,00,000 divided into 50,000 shares of Rs.100 each company can issue maximum 50,000 shares during its lifetime.

- **Issued capital** :-

Capital issued to the public for subscription and allotment is called issued capital. Issued capital is always be less than or equal to the authorized capital. In above example if issues 30,000 shares to public. Than issued capital is Rs.30,00,000.

Subscribed capital :-

It is that part of the issued capital which has been subscribed by the public.

For example : Suppose 27,000 shares subscribed by public, than subscribed capital is Rs.27,00,000.

Called up capital :-

Normally a company does not call for the full payment of share capital by number of installments. Thus called up capital is that part of subscribed capital which the directors have called up in order to carry on the business of the company.

For example :Rs.50, per share has been called up than 27,000x50 = 13,50,000 is called up capital.

- **Paid up capital** :-

It is that part of the called up capital which is actually received in cash by company. E.g. suppose one share holder holding 5,000 shares failed to pay the call @ Rs. 10 per share than paid up capital is Rs.13,00,000

- **Uncalled Capital** :-

A part of the subscribed capital that has not been called up by the company for payment is uncalled capital. The difference between the subscribed capital and called up capital is represented by the uncalled capital.

- **Reserve Capital** :-

Generally, a company keeps some capital as reserve to meet contingencies, this is known as the Reserve Capital. A company by special resolution, keeps some part of share capital, which is called up either in the event of winding up or for payment of meeting contingencies. This uncalled portion of the share capital is called "Reserve Capital."

Accounting entries for share capital Transactions.

- **When Application money is received**

  Bank A/c Dr.

  To Share Application A/c
- **On allotment of shares**

  Share Application A/c Dr.

  To Share Capital A/c
- **Allotment money becomes due**

  Share allotment A/c Dr.

  To share capital A/c
- **When allotment money is received**

  Bank A/c Dr.

  To share Allotment account

- **When shares are oversubscribed, some applications may be rejected by the Board of Directors and application money will be refunded to the applicants**

  Share Application A/c Dr.

  To Bank A/c

- **When shares are oversubscribed directors may prefer to allot less number of shares than applied for, the excess application money is adjusted against allotment money**

  Share Application A/c Dr.

  To share allotment A/c

  To calls – in Advance A/c

  To Bank A/c

- **When allotment money are not paid by share holders**

  Calls – in arrears A/c Dr.

  To share allotment A/c

- **When first, second,---- call becomes due**

  Share call A/c Dr.

  To Share capital A/c

- **On receipt of call money**

  Bank A/c Dr.

  To share call A/c

- **When call money is not paid by share holder**

  Calls – in – Arrears A/c Dr

  To share call A/c

- **When call money is received in advance**

  Calls-in – advance A/c Dr

  To share call A/c