

**For B.COM.**

**Lecture-01**

**CORPORATE ACCOUNTING**

**Title: Issue of Shares**

**Delivered by**

**Department of Commerce**

**Govt. P.G. College**

**Datia, M.P.**

**Note:** Students can also watch the videos of Prof. Suryavanshi,  
Head, Department of Commerce, Govt. P.G. College, Datia

## **Issue of Shares**

The objective of this lecture is to gain knowledge on accounting of share capital.

Today in this lecture we shall cover the topic issue of shares. Under issue of shares we shall learn in detail

- the meaning of share and meaning of share capital.
- Types of Share Capital
- how the share capital is being issued i.e. the mode of issuing of share capital
- Journal Entries for issuing shares
- Practical Question on Issue of Shares

**Q1: What do we mean by share?**

Ans: Share is a small fraction of the share capital of the company which is being held by the people.

**Q2: What do we mean by share capital?**

Ans: Share capital means the amount of the money which is being invested in the company for carrying out its business and the share capital will be divided into small fractions which is known as shares and they have the face value which is the small amount of the rupees which is being expressed, if there are number of shares face value is the denomination of that share i.e. rupees 20.

For example we have 20000 shares so its face value if its rupees 20 we can say our share capital is Rs 400000.

**Q3: What are types of share capital?**

Ans: The share capital can be mainly of 2 types: Equity and Preference.

Equity: The capital on which there is no preferential right. Holders have residual claim only. Equity shareholders will get the dividend, they will get the voting power in the company.

Preference: Preference shareholders are those shareholders who have preferential right, preferential in terms of payment of dividend and at the time of liquidation also they are getting preference in the payment.

**Q4: What are the modes of issuing of share capital?**

Ans: There are three method of issuing share capital in cash;

- First one is they can be issued at par
- Second at discount, and
- Third at premium.

**Q5: What are the forms of above share capitals?**

Ans: **Authorised/Nominal/Registered Capital:**

At the time of registration of a company, the Memorandum of Association mentions the amount of capital a company is authorised to raise from the public by selling shares which is known as Authorised Capital or Normal Capital or Registered Capital.

It is the maximum amount of share capital that a company can issue. In the case of a limited company, the Memorandum shall contain the amount of Capital by which a company is proposed to be registered and the division thereof into shares of fixed amount. In short, it is the maximum amount of capital which a company will have during its lifetime—unless it is increased.

### **Issued Capital:**

Generally, a part of the authorised capital is issued to the public for subscription which is known as issued capital, i.e., it is the nominal value of the shares which are offered to the public for subscription. Usually, a company does not issue all its capital at a time, i.e., issued capital is less than the authorised capital. If all shares are issued, issued capital and authorised capital will be the same.

### **Subscribed Capital:**

A part of the issued capital which is subscribed by the public is known as subscribed capital. It does not necessarily mean that all the shares which have been issued will be taken over by the public.

In other words, the share capital of the number of shares which are taken over by the public is called subscribed capital, i.e., the portion of issued share capital which is paid/subscribed by the shareholder is known as subscribed capital.

### **Called-Up Capital:**

Generally, the shareholders pay the price of the shares by installments, viz., application, allotment, First call, Final call etc. Therefore, the portion of the face value of the shares which the shareholders are called upon to pay or the company has demanded to pay is called Called-up capital.

### **Uncalled Capital:**

The unpaid portion of the subscribed capital is called Uncalled Capital. In other words, it is the remainder of the issued Capital which has not been called. However, the

company may call this amount at any time but that must be subject to the terms of issue of shares.

**Paid Up Capital:**

The amount actually paid by the shareholders is known as Paid-up Capital.

**Reserve Capital:**

According to Sec. 99 of the Companies Act, 1956, Reserve Capital is that part of uncalled capital of a company which can be called only in the event of its winding-up. A limited company may, by special resolution, determine that any portion of its share capital which has not been called-up, shall be called up, except in the event of the company being wound-up, such capital is known as Reserve Capital.

It is available only for the creditors on the winding-up of the company.

### **Journal Entries for issuing shares**

When application money is received:

Bank A/c     Dr.

To share application A/c

when allotment is made

Share application A/c     Dr.

To share Capital A/c

when allotment money is received

Bank A/c     Dr.

To share allotment A/c

When first call being due

Share first call     A/c     Dr.

To share capital A/c

when first call money is received

Bank A/c     Dr.

To share first call A/c

When second call being due

Share second call   A/c     Dr.

To share capital A/c

when second call money is received

Bank A/c     Dr.

To share second call A/c

## How to Prepare Bank Account for above transactions

### Bank Account

**Dr.**

**Cr.**

Particulars	Amount	Particulars	Amount
To Share Application		By balance c/d	
To Share Allotment			
To Share First Call			
To Share Second Call			
TOTAL		TOTAL	

### PRACTICAL QUESTION ON ISSUE OF SHARES

A limited is a company which has authorized capital of rupees 1, 60,000 divided into 20,000 shares of rupees 8 each and it has offered the shares for subscription i.e. 10,000 shares it has offered for subscription of rupees 8 each that means the shares are being issued at par the face value

the mode of payments or installments are;

Application 2 per share,

Allotment 2 per share,

First call 2 per share

and Second call is also 2 per share

#### Solution:

1. Bank A/c Dr. 20,000

To share application A/c 20,000

(Being application money on 10,000 shares at Rs 2 each received)

2. Share application A/c Dr. 20,000

To Share Capital A/c 20,000

(Being share application money transferred to share capital account)

3. Share allotment A/c Dr. 20,000  
     To share Capital A/c 20,000  
     (Being allotment due on 10,000 shares at Rs 2each)

4. First call A/c Dr. 20,000  
     To share capital 20,000  
     (Being first call due on 10,000 shares at Rs 2 each)

5. Bank A/c Dr. 20,000  
     To first call A/c 20,000  
     (Being first call received on 10,000 shares of 2 each)

6. Second call A/c Dr. 20,000  
     To share capital 20,000  
     (Being first call due on 10,000 shares at Rs 2 each)

7. Bank A/c Dr. 20,000  
     To Second call A/c 20,000  
     (Being first call received on 10,000 shares of 2 each)

### Bank Account

**Dr.**

**Cr.**

Particulars	Amount	Particulars	Amount
To Share Application	20000	By balance c/d	80000
To Share Allotment	20000		
To Share First Call	20000		
To Share Second Call	20000		
TOTAL	80000	TOTAL	80000