



# Share capital

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# Share capital

## **Meaning of Share Capital:**

- Denotes the amount of capital raised by the issue of shares, by a company.
- Collected through the issue of shares and remains with the company till its liquidation.
- Owned capital of the company
- The shareholder are the owners of the company.
- The total share capital is divided into small parts and each part is called a share.
- Share is the smallest part of the total capital of a company.

# Types of share capital

- **Authorised 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.

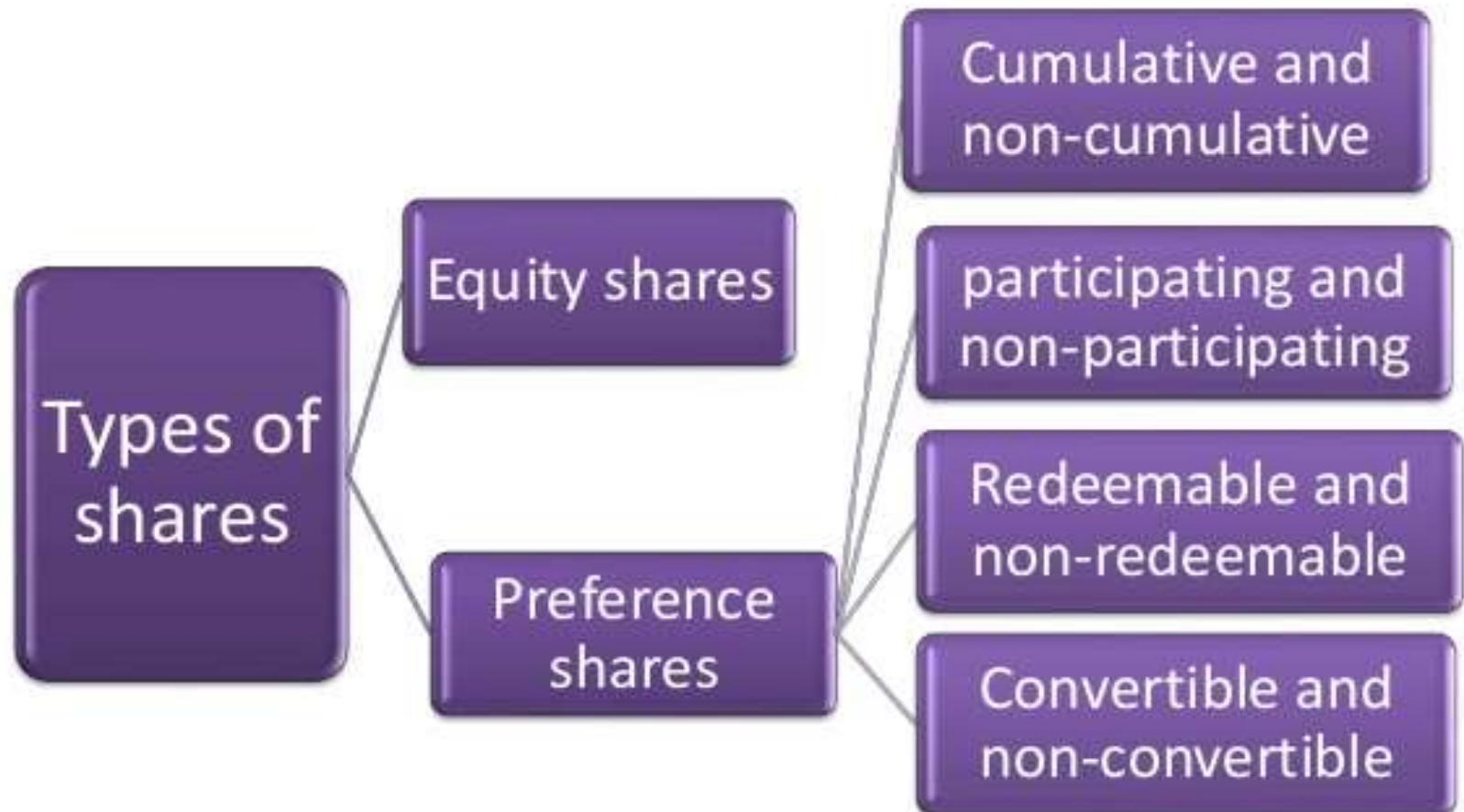
- **Subscribed capital:** A part of the issued capital which is subscribed by the public is known as subscribed capital. It does not necessarily mean that all the shares which have been issued will be taken over by the public.
- In other words, the share capital of the number of shares which are taken 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

- **Uncalled up 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.

- **Called up capital:** Generally, the shareholders pay the price of the shares by instalments, 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 -up capital.
- **Reserve capital:** 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



# KINDS OF SHARES





# Equity shares

- Equity shares are those shares which are ordinary in the course of company's business.
- • They are also called as ordinary shares.
- • According to section 85 (2),
- “Equity share capital” means, with reference to any such company, all share capital which is not preference share capital.

# Difference between share and stock

BASIS FOR COMPARISON	SHARE	STOCK
Meaning	The capital of a company, is divided into small units, which are commonly known as shares.	The conversion of the fully paid up shares of a member into a single fund is known as stock.
Is it possible for a company to make original issue?	Yes	No
Paid up value	Shares can be partly or fully paid up.	Stock can only be fully paid up.
Definite number	A share have a definite number known as distinctive number.	A stock does not have such number.
Fractional transfer	Not possible.	Possible
Nominal value	Yes	No
Denomination	Equal amounts	Unequal amounts

# Under subscription

- Sometimes, the applications for shares received are less than the number of shares issued. For instance, a Company issued 10,000 shares to the public and the Company received applications for 8000 shares from the public. This situation is called Under-subscription.
- In such cases, the allotment may be done to the number of shares subscribed for i.e. 8,000 shares, which is less than the issued shares. But if the Company fails to receive the minimum subscription, shares cannot be allotted. And all the application money will be returned to the applicants

# Oversubscription

- Sometimes, a Company receives applications for a larger number of shares than offered by it to public for subscription. This situation is termed as Over-subscription. However, allotment can be made only to the number of shares that are issued. The Company cannot allot more shares than the issued even if there is demand for the shares.
- **Rejection of Applications for Excess Number of Shares**
- **Allotment of Shares on Pro-Rata Basis**

# Calls in Arrears

- If any amount, called in respect of a share, is not paid before or on the date fixed for payment thereof, such amount which is not paid, is called “**CALLS-IN-ARREARS**”. Amount may be called up by the Company either as Allotment Money or Call Money. Thus, in case, any default on account of not sending the call money, is known as “**CALLS-IN-ARREARS**” and separate account i.e.
- Calls-in-Arrears Account to be opened. The company can charge interest on all such calls in arrears for the period the amount remain unpaid at the rate of 10% p.a. The total of Calls- in-Arrears is shown in the Balance Sheet as a deduction from the Called up Capital.

### Journal entries

1.	Calls-in-arrears account Dr. To Share allotment Account To Share first call Account To Share Second & Final Call Account (Being various calls outstanding transferred)			
2.	Bank account Dr. To Calls-in-arrears account (Being the amount received out of Calls-in-Arrears Account)			

*Note :* The balance of calls-in-arrears account is shown as a deduction from the called up capital in the liability side of balance sheet.

# CALLS IN ADVANCE

- The Money received by the company in excess of what has been called up is known as “**CALLS IN ADVANCE**”. A Company may, if authorised by its Articles, accept calls in advance from its shareholders. If such an amount, which has not been called, is received, such amount to be credited to a separate account known as **CALLS-IN-ADVANCE ACCOUNT**.
- But this amount which is not called should not be credited to Capital Account. A company may pay interest on such amount received in advance at the rate of 12% p.a. No dividend is payable on this amount. The amount so received will be adjusted towards the payment of calls as and when they become due.



# Pro-Rata Allotment

- A company may receive applications for shares more than the number of shares it has offered to the public. This is known as over-subscription of shares. Usually, the companies that are financially strong, have a good reputation in the market or have profitable future prospects, receive over-subscription of shares. Thus, Pro Rata Allotment becomes necessary

# Forfeiture of shares

- It may happen that some shareholders fail to pay one or more instalments, viz. allotment money and/or call money. In such circumstances, the company can forfeit their shares, i.e. cancel their allotment and treat the amount already received thereon as forfeited to the company within the framework of the provisions in its articles. These provisions are usually based on Table A which authorise the directors to forfeit the shares for non-payment of calls made. For this purpose, they have to strictly follow the procedure laid down in this regard.

# Capital reserve

- **The capital reserve is the reserve which is created out of the profits of the company generated from its non-operating activities during a period of time and is retained for the purpose of financing the long term project of the company or write off its capital expenses in future**

# Issue of shares

- At Par
- At Premium
- At Discount

# Journal entries

*1. On receipt of application money*

**Bank A/c      Dr ( for the full amount received on application)**

**To Share application A/c**

*2. On acceptance of application*

**Share application A/c      Dr ( with the application money on  
allotted shares)**

**To Share capital A/c**

- *When shares are issued at premium, and premium is payable with application money*

<b>Share application A/c</b>	<b>Dr</b> ( with the application
money + premium on allotted shares)	

<b>To Share capital</b>	( application money only)
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<b>To Security Premium A/c</b>	(amount of premium)
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- **When excess of application money is returned**

Share application A/c	Dr
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To Bank A/c	
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### 3. *On making allotment due*

**Share allotment A/c**  
on allotted shares)

**Dr** ( with the allotment money

**To Share capital**

- *When shares are issued at premium, and premium is payable with allotment money*

**Share allotment A/c**  
premium on allotted shares)

**Dr** ( with the allotment money +

**To Share capital**

( allotment money only)

**To Security Premium A/c**

(amount of premium)



- *When shares are issued at discount*

**Share allotment A/c**                      **Dr** (with the allotment money on  
allotted shares)

**Discount on issue of shares A/c**                      **Dr** (amount of discount)

**To Share capital**                      ( allotment money +  
discount )

- *When excess application money if any is adjusted towards allotment*

**Share application A/c**                      **Dr** (amount adjusted to allotment)

**To Share allotment A/c**

## *On receipt of allotment money*

**Bank A/c**

**Dr** (with the actual amount received)

**To Share allotment A/c**

- *When any advance money is paid towards any calls together with the allotment money*

**Bank A/c**

**Dr** (with the actual amount received)

**To Share allotment A/c**

**To Calls in advance A/c**

(advance amount received)

## *On making first/second/final call*

**Share first call A/c**                      **Dr** ( with the call money on allotted shares)

**To Share capital A/c**

- *When excess application money if any is adjusted towards call*

**Share application A/c**                      **Dr** (amount adjusted to call)

**To Share first/second/final A/c**

- *When adjusting calls in advance to first/second/final call*

**Calls in advance A/c**

**Dr** (advance amount)

**To Share first/second/final A/c**

- *On receipt of first/second/final call money*

**Bank A/c**

**Dr** (with the actual amount received)

**To Share first/second/final call**

## Journal For forfeiture of shares

**Share Capital A/c    Dr** (with the amount called up, i.e amount paid +unpaid)

<b>Security Premium A/c</b>	<b>Dr</b> (with the unpaid amount of premium)
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**To Share Allotment** (with the unpaid amount on allotment)

**To Share Call** (with the unpaid amount on call)

**To Discount on Issue of Shares A/c (if shares are issued at discount)**

**To Forfeited Shares A/c** (with the amount paid excluding premium)

# Journal For re issue of forfeited shares

**Bank A/c**  
re-issue)

**Dr** (amount received on

**Discount on Issue of Shares A/c**  
original discount if the Shares originally were issued at  
discount)

**Dr** (with the amount of

**Forfeited Shares A/c**  
issue)

**Dr** (with the discount or loss on re-

**To Share Capital A/c**  
paid up)

(with the amount credited as

**To Security Premium A/c**  
on re-issue)

(with the amount of premium

- If all forfeited shares have been re-issued, the credit balance left in the Forfeited Shares A/c being a capital profit should be transferred to Capital Reserve A/c by passing the following journal entry:

**Forfeited Shares A/c**

**Dr**

**To Capital Reserve A/c**

- If only a part of the forfeited shares have been re-issued, only the profit on shares which have been re-issued is transferred to Capital Reserve A/c.



- Mona Earth Mover Limited decided to issue 12,000 shares of Rs.100 each payable at Rs.30 on application, Rs.40 on the allotment, Rs.20 on the first call and balance on second and final call. Applications were received for 13,000 shares. The directors decided to reject application of 1,000 shares and their application money being refunded in full. The allotment money was duly received on all the shares, and all sums due on calls are received except for 100 shares. Record the transactions in the books of Mona Earth Movers Limited

- Cronic Limited issued 10,000 equity shares of Rs. 10 each payable at Rs. 2.50 on application, Rs. 3 on allotment, Rs. 2 on first call, and the balance of Rs. 2.50 on second and final call. All the shares were fully subscribed and paid except of a shareholder having 100 shares who could not pay for second and final call. Give journal entries to record these transactions.