

ACCOUNTING FOR SHARE CAPITAL

1) BOOKS OF ACCOUNTS: SEC 209

A company should keep proper books of account in respect of:

- a) Cash received and expended by the company;
- b) Sales and purchases of goods by the company;
- c) All Assets and liabilities of the company; and
- d) In case of a company engaged in production, processing, manufacturing, or mining activities, a production record as may be required by the Commission through a general or special order;

Books of account should be preserved **for 8 YEARS**;

Books of account are to be kept at the registered office of the company. If kept at any other place, the registrar should be informed;

If a Company has a **Branch Office**, Books Of Accounts may be kept at branch but **PROPER SUMMARISED RETURNS** must be sent by branch to Registered Office at **INTERVALS OF NOT MORE THAN 3 MONTHS**

Books of account should give a true and fair view of the state of affairs of the company and should contain explanation of transactions.

Statutory Books are the official records kept by the company relating to all legal and statutory matters, compulsory in nature. These are the register of members, the register of directors, the register of directors' shareholdings, the register of charges, and the minute book

Statistical Books are the optional books prepared by company connected with business operations

Directors, REGISTRAR of companies and other officer authorized by Central Govt. can inspect the books of account during the business hours.

2) Persons Responsible For keeping the books of accounts: 209 (6)

- a) Managing Director or Manager
- b) Every director (if a) is not applicable
- c) Every officer, employees and agent as defined under Section 240(6)

Failure on requirement of Section 209(6)

- a) Imprisonment upto 6 months ; or
- b) Fine upto Rs 10000 ; or
- c) Both

3) Meanings:

1) **SHARE:** A unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company.

Types:

a) **Preference Shares:** Sec. 85(1) of the Companies Act : those shares which carry

*Preferential rights as the payment of dividend at a fixed rate and

*as to repayment of capital in case of winding up of the company

*The rate of dividend on these shares is fixed and the dividend on these shares must be paid before any dividend is paid to ordinary shares only if there are profits.

*do not have voting rights: except where dividend is outstanding

For cumulative preference shares: more than 2 years

For Non Cumulative preference shares ; more than 3 years

*Types:

- 1) Cumulative and Non-cumulative Preference shares
- 2) Redeemable and Irredeemable Preference Shares

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- 3) Convertible and Non-convertible preference shares
- 4) Participating and Non-participating Preference Shares

b) **Equity Shares:** share represents a share of ownership in a corporation.

*Equity shareholders are the actual owners of the company.

*They have voting rights and share all the money remaining after the business' obligations are met.

*The voting right to every shareholder will be proportionate to his share of the paid up equity capital.

*The right to claim dividend will arise only when the dividend is declared by the company in the general meeting.

2) **SHARE CAPITAL:**

Meaning : share capital denotes the amount of capital raised by the issue of shares, by a company. It is collected through the issue of shares and remains with the company till its liquidation.

Types of Share Capital:

- **Authorized capital:** It is the maximum amount of capital which a company can collect or raise by selling its shares to the general public. Authorized capital is known as nominal capital or registered capital. For example: A company wants to sell 100 shares of Rs. 10/- each, so the total amount collected by the company is Rs. 1000/- i.e. 100 shares x 10 each = 1000

The capital with which a company is registered is known as its authorized capital.

- **Issued capital:** It is that part of the authorized capital which is actually issued/offered to the general public. For example: A company has issued 80 shares of Rs. 10/- each so the issued capital is Rs. 800/-
- **Unissued capital:** It is that part of the authorized capital which is not being issued to the general public. That is, company has not issued 20 shares of Rs. 10/- each, so the unissued capital is Rs. 200/-.
- **Subscribed capital:** It is that part of the issued capital which is actually subscribed by the general public. That is company has issued 80 shares out of which 70 shares are being bought by the general public, so the subscribed capital is Rs. 700/-. That is 70 shares of Rs. 10/- each.
- **Unsubscribed capital:** It is that part of the issued capital which is not subscribed by the general public. That is, if the the company has issued 80 shares out of which 70 are bought by the general public and 10 are not being bought by them, so the unsubscribed capital is 10 x Rs. 10 = Rs. 100. That is 10 shares of Rs. 10 each.
- **Called up capital:** It is that part of the subscribed capital which is actually called up by the company. For instance, if a company has asked its shareholders to pay Rs. 5/- per share so on 70 shares, they have to pay 70 shares x Rs. 5 each = Rs. 350/-. This is the called up capital.
- **Uncalled up capital:** It is that part of the subscribed capital which is not being called up by the company. It may be called up as and when the company need funds. That is out of Rs. 10/- per share, Rs. 5/- per share is being called up by the company and Rs. 2 is being uncalled up and Rs. 3 is kept as reserve, that is yet to be called.
- **Reserve capital:** Reserve capital is that part of the uncalled capital which is reserved to be called up only at the time of winding up or liquidation of the company. It cannot be called during the life time of a company. It is to be used only for meeting extra- ordinary situation such as liquidation of the company. The purpose of reserve capital is to meet the interests of the creditors at the time of winding up of the company.
- **Paid up capital:** It is that part of the called up capital which is actually paid up by the shareholders. For example, out of 70 shares which were subscribed for 60 shareholders have paid up their call money, that is 60 x Rs. 5 = Rs. 300/- is called as the paid up capital of the company.

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- **Unpaid up capital:** It is that part of the called up capital which is not being paid by the shareholders. For example: out of 70 shareholders, 60 shareholders have paid up their call money and 10 shareholders have not paid their call money, so $10 \times \text{Rs. } 5 = \text{Rs. } 50/-$ is called as unpaid up capital. Unpaid up capital is also known as Calls in Arrears.

2) ISSUE OF SHARES:

Issue Price : The Price at which shares are offered to general public

Face Value : The nominal or real value of shares

- a) **at PAR** : when Issue price = Face Value
- b) **at PREMIUM** : when Issue Price > Face Value (Section 78)

The share premium account is shown under "Reserve and Surplus" head in Liabilities Balance Sheet

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(1) be applied by the company-

- (a) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (b) in writing off the preliminary expenses of the company;
- (c) in writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (d) in providing for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company.

- c) **at DISCOUNT** : when Issue Price < Face Value (Section 79)

The following conditions should be followed:

- 1) The Shares must belong to a class already issued
- 2) At least one year has elapsed since the date on which the company was entitled to commence business
- 3) The issue is authorized by a resolution and sanction of Central Govt is obtained
- 4) Maximum rate of discount is 10 %
- 5) Not less than one year has at the date of the issue elapsed since the date on which the company was entitled to commence business
- 6) The shares must be issued within 2 months from the date of receiving the sanctions of the Central Government

The Discount on issue of shares is shown under "Miscell Expenditure" in Asset side in a balance sheet

3) LIEN ON SHARES :

A lien is the right to retain possession of a thing until a claim is satisfied.

In the case of a company lien on a share means that the member would not be permitted to transfer his shares unless he pays his debt to the company.

The articles may give the right of lien over share either for unpaid calls or for any other debt due by the member of the company.

The company may have lien on fully paid-up shares.

The lien also extends to the dividends payable on the shares.

The death of a shareholder does not destroy the lien.

4) SURRENDER OF SHARES:

Shares are said to be surrendered when they are voluntarily given up. The articles of a company may authorize the directors to accept surrender of shares. Surrender of shares is valid where it is done to relieve the company from going through the formality of forfeiture of shares and the shareholder is willing to surrender the shares. A surrender and a forfeiture have practically the same effect, the only difference being that the former is done with the assent of the shareholder while the latter is done at the instance of the company. A person ceases to be a member of the company on a valid surrender of shares.

5) FORFEITURE OF SHARES:

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Where a share holder fails to pay the amount due on any call, the directors may, if so authorized by the t his shares. Shares can only be forfeited for non-payment of calls. Before the shares are forfeited the shareholder:

- i) Must be served with a notice requiring him to pay the money due on the call together with interest;
- ii) The notice shall specify a date, not being earlier than the expiry of 14 days from the date of service of notice, on or before which the payment is to be made and must also state that in the event of non-payment within that date will make the shares liable for forfeiture;
- iii) There must be a proper resolution of the board;
- iv) The power of forfeiture must be exercised bonafide and for the benefit of the company.

6) **BUY BACK OF SHARES (SECTION 77A)**

The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956.

Objectives of Buy Back: Shares may be bought back by the company on account of one or more of the following reasons

- i. To increase promoters holding
- ii. Increase earning per share
- iii. Rationalise the capital structure by writing off capital not represented by available assets.
- iv. Support share value
- v. To thwart takeover bid
- vi. To pay surplus cash not required by business

Resources of Buy Back

A Company can purchase its own shares from

- (i) free reserves; Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve and details of such transfer shall be disclosed in the balance-sheet or
- (ii) securities premium account; or
- (iii) proceeds of any shares or other specified securities. A Company cannot buyback its shares or other specified securities out of the proceeds of an earlier issue of the same kind of shares or specified securities

Conditions of Buy Back

- (a) The buy-back is authorised by the Articles of association of the Company;
- (b) A special resolution has been passed in the general meeting of the company authorising the buy-back. In the case of a listed company, this approval is required by means of a postal ballot. Also, the shares for buy back should be free from lock in period/non transferability. The buy back can be made by a Board resolution If the quantity of buyback is or less than ten percent of the paid up capital and free reserves;
- (c) The buy-back is of less than twenty-five per cent of the total paid-up capital and free reserves of the company and that the buy-back of equity shares in any financial year shall not exceed twenty-five per cent of its total paid-up equity capital in that financial year;

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- (d) The ratio of the debt owed by the company is not more than twice the capital and its free reserves after such buy-back;
- (e) There has been no default in any of the following
- i. in repayment of deposit or interest payable thereon,
 - ii. redemption of debentures, or preference shares or
 - iii. payment of dividend, if declared, to all shareholders within the stipulated time of 30 days from the date of declaration of dividend or
 - iv. repayment of any term loan or interest payable thereon to any financial institution or bank;
- (f) There has been no default in complying with the provisions of filing of Annual Return, Payment of Dividend, and form and contents of Annual Accounts;
- (g) All the shares or other specified securities for buy-back are fully paid-up;
- (h) The buy-back of the shares or other specified securities listed on any recognised stock exchange shall be in accordance with the regulations made by the Securities and Exchange Board of India in this behalf; and
- (i) The buy-back in respect of shares or other specified securities of private and closely held companies is in accordance with the guidelines as may be prescribed.

SOURCES from where the shares will be purchased

The securities can be bought back from

(a) existing security-holders on a proportionate basis;

Buyback of shares may be made by a tender offer through a letter of offer from the holders of shares of the company or

(b) the open market through

(i). book building process;

(ii) stock exchanges or

(c) odd lots, that is to say, where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange; or

(d) purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

Every Buy back should be completed within 12 months from the date of passing the special resolution
Company Cannot make further issue of the same kind of shares within six months except by way of bonus issue

7) Right Issue :

Right issue is the share that a company offers to its existing shareholders. The number of right issue to be offered to an investor depends on the number of shares that the investor is currently holding. While the right issue is offered to the shareholders, he or she has the right to buy a shares or ignore the right issue offer to lapse or even sell the entitlement of the shares. The companies offer the right issue to get more fund from the equity to meet their capital requirement or further expansion of the business. In most cases one share is allotted for two shares.

8) SWEAT Equity SHARES(79A):

Sweat equity shares are equity shares issued by a company to its employees or directors at a discount, or as a consideration for providing know-how or a similar value to the company.

A company may issue sweat equity shares of a class of shares already issued if these conditions are met:

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The issue of sweat equity shares should be authorised by a special resolution passed by the company in a general meeting. The resolution should specify the number of shares, current market price, consideration, if any, and the section of directors /employees to whom they are to be issued. As on the date of issue, a year should have elapsed since the company was entitled to commence business.

9) Employee Stock Option Plan (ESOP) :

is a plan through which a company awards Stock Options to the employees based on their performance. Under an ESOP, the employees have right to buy the shares of the company on a predetermined date at a predetermined price. The objective of ESOP is to motivate the employees to perform better and improve shareholders' value. Apart from giving financial gains to the employees, ESOP also creates a sense of belonging and ownership amongst the employees.

