

Share Capital

Meaning:

Share capital refers to the funds that a company raises by issuing shares to investors. Individuals and institutions invest varying amounts, which collectively form the company's capital. Instead of maintaining separate accounts for each investor, a consolidated capital account, known as the Share Capital Account, is maintained.

Kinds of Share Capital

1. Authorized, Registered, or Nominal Capital:

This is the maximum amount of capital that a company is authorized to raise through the issuance of shares, as stated in the company's Memorandum of Association.

Example: If a company has an authorized capital of ₹10,00,000, it can issue shares up to this amount.

2. Issued Capital:

Issued capital is the portion of authorized capital that has been offered to the public for subscription.

Example: If the company with an authorized capital of ₹10,00,000 offers shares worth ₹8,00,000 to the public, the issued capital is ₹8,00,000. The remaining ₹2,00,000 is unissued capital, which can be issued later.

3. Subscribed Capital:

Subscribed capital is the portion of the issued capital that has been actually subscribed (applied for) by the public.

Example: If the company offers 13,000 shares of ₹100 each (₹13,00,000) to the public and the public subscribes to 12,000 shares, the subscribed capital is ₹12,00,000.

4. Called-up Capital:

This is the part of the total subscribed capital that the company has asked the shareholders to pay.

Example: If the face value of a share is Rs. 10, and the company asks shareholders to pay only Rs. 7, then the called-up capital is Rs. 7 per share. The remaining Rs. 3 can be collected later when the company needs it.

5. Paid-up Capital:

This is the part of the called-up capital that the company has actually received from shareholders.

If all the called-up money (Rs. 7 in the example) has been paid, the called-up capital and paid-up capital are the same.

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If any shareholder hasn't paid the amount they were asked for, that unpaid amount is called "calls in arrears".

Formula: $\text{Paid-up Capital} = \text{Called-up Capital} - \text{Calls in Arrears}$



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6. Uncalled Capital:

- a. This is the part of the subscribed capital that the company has *not yet asked* the shareholders to pay.
- b. The company can ask for this money anytime when it needs funds.



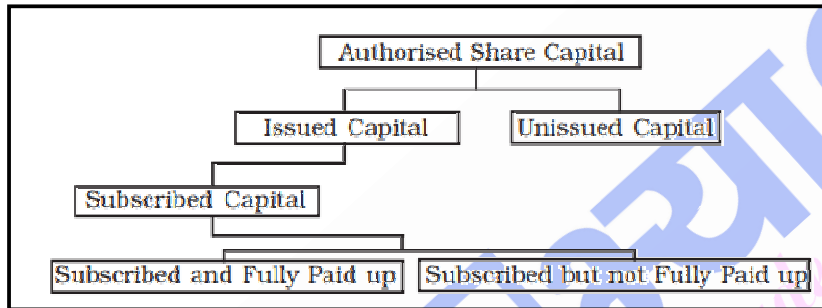
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7. Reserve Capital:

A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.



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Solved Example:

Let us take the following example and show how the share capital will be shown in the balance sheet. Sunrise Company Ltd., New Delhi, has registered its capital as Rs. 40,00,000, divided into 4,00,000 shares of Rs. 10 each.

- The company offered to the public for subscription of 2,00,000 shares of Rs. 10 each, to be received as Rs. 2 on application, Rs.3 on allotment, Rs.3 on first call and the balance on final call.
- The company received applications for 2,50,000 shares. The company finalised the allotment of 2,00,000 shares and rejected applications for 50,000 shares.
- The company did not make the final call. The company received all the amount except on 2,000 shares where call money has not been received. The above amounts will be shown in the Notes to Accounts of the balance sheet of Sunrise Company Ltd. as follows



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Share Capital (Rs.)

Particulars	Amount (Rs.)
Authorised (Registered/Nominal) Capital	
4,00,000 Shares of Rs. 10 each	40,00,000
Issued Capital	
2,00,000 Shares of Rs. 10 each	20,00,000
Subscribed Capital	
Subscribed but not fully paid up:	
2,00,000 Shares of Rs. 10 each, Rs. 8 called up	16,00,000
Less: Calls in Arrears (2,000 Shares × Rs. 3)	(6,000)
Paid-up Capital	15,94,000

Explanation:

- 1. Authorised Capital:** Total registered capital (4,00,000 shares of Rs. 10 each) = Rs. 40,00,000.
- 2. Issued Capital:** The company issued 2,00,000 shares at Rs. 10 each = Rs. 20,00,000.
- 3. Subscribed Capital:**
 - o Rs. 8 called-up per share (as the final call was not made).
 - o Total: 2,00,000 shares × Rs. 8 = Rs. 16,00,000.
- 4. Calls in Arrears:**
 - o On 2,000 shares, Rs. 3 per share was not received = Rs. 6,000.
- 5. Paid-up Capital:**
 - o Subscribed Capital - Calls in Arrears = Rs. 16,00,000 - Rs. 6,000 = Rs. 15,94,000.

Issue of Shares

When a company needs money to run its business or expand, it raises funds by issuing shares. Shares are like small parts of ownership in the company, and people who buy these shares become shareholders.

Steps in the Issue of Shares

- 1. Authorized Capital:**
 - o This is the total capital a company is allowed to raise by issuing shares.
 - o Example: A company has an authorized capital of Rs. 10,00,000, divided into 1,00,000 shares of Rs. 10 each.
- 2. Offer to Public:**



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- The company decides how many shares it wants to sell (called *Issued Capital*).
- Example: Out of 1,00,000 shares, the company offers 50,000 shares to the public.

3. Application for Shares:

- People apply for shares and pay a small part of the share value at the time of application.
- If more applications are received than shares available, the extra applications are either rejected or adjusted.

4. Allotment of Shares:

- The company allots shares to the applicants and asks for more money in parts, like:

- **Application Money:** Paid at the time of applying.
- **Allotment Money:** Paid when shares are allotted.
- **First Call & Final Call:** Paid later in installments.

5. Calls in Arrears:

- If some shareholders do not pay the amount when asked (called *calls*), the unpaid money is called *Calls in Arrears*.

NOTE: Shares of a company are issued either at par or at a premium. Shares are to be issued at par when their issue price is exactly equal to their nominal value according to the terms and conditions of issue. When the shares of a company are issued more than its nominal value (face value), the excess amount is called premium.

Irrespective of the fact that shares are issued at par or at a premium, the share capital of a company as stated earlier, may be collected in instalments payable at different stages.

Issue of Shares at Par:

Issue of Shares at Par means to issue the shares for an amount equal to the face value of shares.

For example, if the face value of shares is ₹20 each and they are issued at ₹20 each, then it will be **Issue of Shares at Par**. One should also notice that the shares issued by the company may be fully subscribed by the public. Suppose, if a company issues 1,00,000 shares and gets applications for 1,00,000 shares then it will be a full subscription. Besides, there is no special treatment for the full subscription of shares.

Accounting Entries on Issue of Shares at Par:

1. Entries on Receiving Application Money:



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The applicants who want to invest in a company deposit the application money directly in the bank. The bank then sends the application forms to the company's office.

A. For entry is made by the company on receiving the application money:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Application A/c			XXXX
	(Being application money received on xxxx shares at the rate of ₹XX per share)			

B. For Application money is transferred to Share Capital A/c (When a share application is accepted, it is an allotment of shares):

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Application A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	(Being share application money transferred to the share capital account)			

2. Entries on Allotment:

The applicants who are allotted shares are sent a letter of allotment. The letter consists of information regarding the number of shares allotted and the amount due to allotment. Once the allotment letter is sent to the applicants, the allotment money becomes due on the allotment and becomes a part of the share capital.

A. For making allotment for money due:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Allotment A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	(Being share allotment money due on xxxx shares @ ₹XX per share)			

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B. For receipt of allotment money:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Allotment A/c			XXXX
	(Being amount received on allotment on XXXX shares @ ₹XX per share)			

3. Entries on First Call:

A. For entry is passed for call money due:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share First Call A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	(Being first call due on xxxx shares @ ₹XX per share)			

B. For receipt of first call money:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share First Call A/c			XXXX
	(Being first call money received on xxxx shares @ ₹XX per share)			

4. Entries of Second and Final Call:

A. For the second call money due as follows:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Second & Final Call A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	(Being second and final call due on xxxx shares @ ₹XX per share)			

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B. For receipt of Second Call Money:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Second & Final Call A/c			XXXX
	(Being second and final call money received on xxxx shares @ ₹XX per share)			

Solved Example

Ques: Akanksha Ltd. was formed with an Authorised Share Capital of ₹1,00,000 divided into 10,000 shares of ₹10 each, payable ₹2 on Application, ₹3 on Allotment, ₹4 on First Call, and ₹1 on Second & Final Call. Expenses on the issue of shares amounted to ₹7,000. Pass the Journal Entries in the books of Akanksha Ltd.

Solution:
The amount payable will be as follows:

10,000 shares @ ₹2 on Application (10,000 x 2)	₹20,000
10,000 shares @ ₹3 on Allotment (10,000 x 3)	₹30,000
10,000 shares @ ₹4 on First Call (10,000 x 4)	₹40,000
10,000 shares @ ₹1 on Second & Final Call (10,000 x 1)	₹10,000

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Journal Entries				
Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c To Share Application A/c (Being application money received on 10,000 shares at the rate of ₹2 per share)	Dr.	20,000	20,000
	Share Application A/c To Share Capital A/c (Being share application money transferred to the share capital account)	Dr.	20,000	20,000
	Share Allotment A/c To Share Capital A/c (Being share allotment money due on 10,000 shares @ ₹3 per share)	Dr.	30,000	30,000
	Bank A/c To Share Allotment A/c (Being allotment money received)	Dr.	30,000	30,000
	Share First Call A/c To Share Capital A/c (Being first call due on 10,000 shares @ ₹4 per share)	Dr.	40,000	40,000
	Bank A/c To Share First Call A/c (Being first call money received)	Dr.	40,000	40,000
	Share Second & Final Call A/c To Share Capital A/c (Being second and final call due on 10,000 shares @ ₹1 per share)	Dr.	10,000	10,000
	Bank A/c To Share Second & Final Call A/c (Being second and final call money received)	Dr.	10,000	10,000
	Share Issue Expense A/c To Bank A/c (Being expenses incurred on issue of shares)	Dr.	7,000	7,000



Assignment

Ques 1: Nupur Ltd. was formed with an Authorised Share Capital of ₹7,00,000 divided into 70,000 shares of ₹10 each. The company issued a prospectus inviting application for 60,000 shares @ ₹10 each payable as ₹4 on Application, ₹1.5 on Allotment, ₹2 on First Call, and ₹2.5 on Second & Final Call. Pass Journal Entries in the books of Nupur Ltd.

Ques 2: Eagle Ltd. was formed with an Authorized Share Capital of ₹10,00,000 divided into 1,00,000 shares of ₹10 each. The company issued a prospectus inviting applications for 80,000 shares at ₹10 each, payable as ₹3 on Application, ₹2 on Allotment, ₹3 on First Call, and ₹2 on Second & Final Call. Pass the journal entries in the books of Eagle Ltd.

Issue of Shares at Premium:

Issue of Shares at Premium means to issue the shares for a value more than its face value per share. For example, if the face value of shares is ₹20 each and they are issued at ₹25 each, then it will be the Issue of Shares at a Premium of ₹5. There is no legal restriction on a company for the issue of shares at a premium.

There is a separate account called Securities Premium Reserve Account, in which the amount of the premium is credited. It is so because the amount of premium received on the shares issued is not a revenue profit but a capital profit. This amount is shown separately in the Equity and Liabilities side of the Balance Sheet under the Reserves and Surplus head.

Accounting Entries for the Amount of Premium:

The company may charge the premium either on application or on allotment or call. Therefore, it is essential to record premium at the time it is payable. The entries for the same will be as follows:



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1. When the Premium amount is received on Application Money:

A. For receiving Application Money:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Application A/c			XXXX
	(Being application money received including premium)			

B. For transferring Application Money to Share Capital A/c and Securities Premium A/c:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Application A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	To Securities Premium A/c			XXXX
	(Being application money transferred to Share Capital A/c with Securities Premium A/c)			

2. When the Premium amount is received or receivable along with Allotment Money:

A. When the allotment money is due including premium:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Allotment A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	To Securities Premium A/c			XXXX
	(Being allotment money due, including premium)			

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B. When the allotment money is received along with premium:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Allotment A/c			XXXX
	(Being allotment money received, including premium)			

3. If the Premium is received or receivable with Call Money:

A. When the call money is due along with premium:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Share Call A/c Dr.		XXXX	
	To Share Capital A/c			XXXX
	To Securities Premium A/c			XXXX
	(Being call money due, including premium)			

B. When the call money is received along with premium:

Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c Dr.		XXXX	
	To Share Call A/c			XXXX
	(Being call money received, including premium)			

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Solved Example

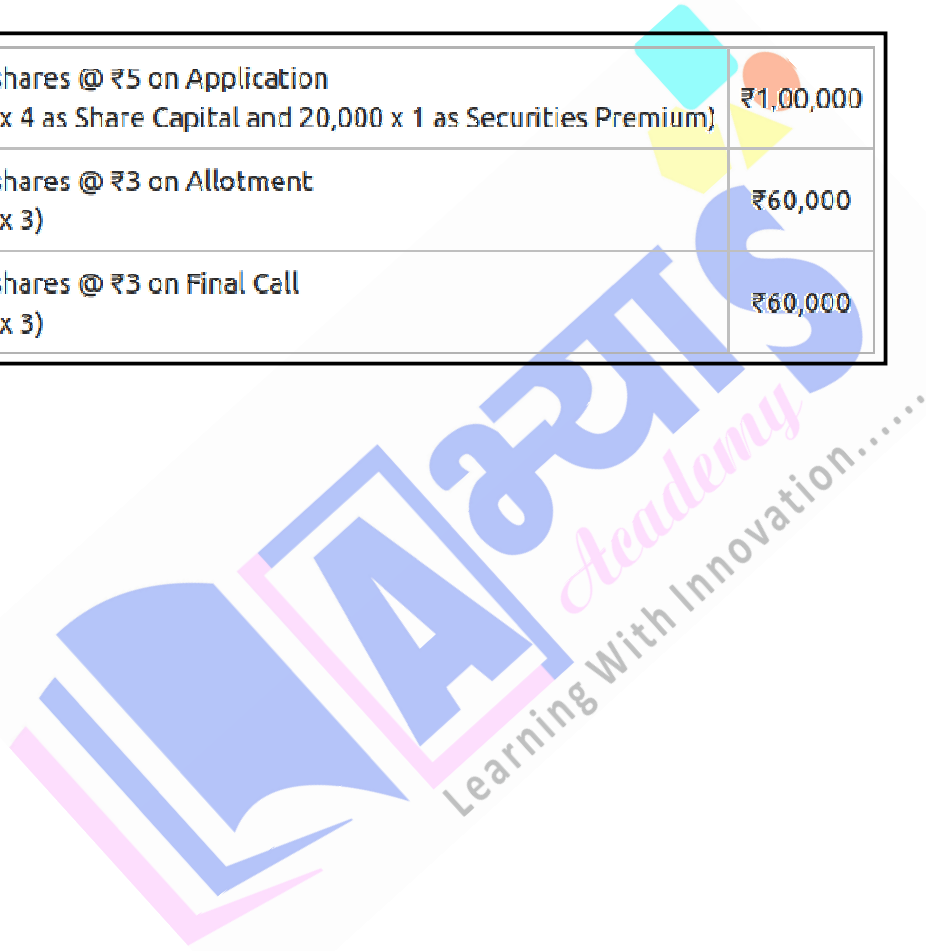
Ques 1: (When Premium is received on Application):

Sukant Ltd. issued 20,000 shares of ₹10 each with 10% premium, payable ₹5 on Application (including premium), ₹3 on Allotment and balance on Final Call. All money was received. Pass the Journal entries in the books of Sukant Ltd.

Solution:

The amount payable will be as follows:

20,000 shares @ ₹5 on Application (20,000 x 4 as Share Capital and 20,000 x 1 as Securities Premium)	₹1,00,000
20,000 shares @ ₹3 on Allotment (20,000 x 3)	₹60,000
20,000 shares @ ₹3 on Final Call (20,000 x 3)	₹60,000



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Journal Entries				
Date	Particulars	LF	Amount(Dr.)	Amount(Cr.)
	Bank A/c To Share Application A/c <i>(Being application money on 20,000 shares received @ ₹5 including premium)</i>	Dr.	1,00,000	1,00,000
	Share Application A/c To Share Capital A/c To Securities Premium A/c <i>(Being application money transferred to Share Capital A/c with Premium @ ₹1)</i>	Dr.	1,00,000	80,000 20,000
	Share Allotment A/c To Share Capital A/c <i>(Being allotment money due on 20,000 shares received @ ₹3 each)</i>	Dr.	60,000	60,000
	Bank A/c To Share Allotment A/c <i>(Being the allotment money received)</i>	Dr.	60,000	60,000
	Share Final Call A/c To Share Capital A/c <i>(Being the final call money due on 20,000 shares @ ₹3 each)</i>	Dr.	60,000	60,000
	Bank A/c To Share Final Call A/c <i>(Being the final call money received)</i>	Dr.	60,000	60,000

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Ques 2: (When Premium is received on Allotment and Call):

Sayeba Ltd. issued 50,000 shares @ ₹10 each at a premium of ₹4 per share payable as follows:

₹3 per share on Application

₹5 per share on Allotment (including ₹2 as premium)

₹3 per share on First Call (including ₹2 as premium)

₹3 per share on Second & Final Call

The issue was fully subscribed and money was duly received. Pass Journal Entries.

Solution:

The amount payable will be as follows:

50,000 shares @ ₹3 on Application (50,000 x 3)	₹1,50,000
50,000 shares @ ₹5 on Allotment (50,000 x 3 as Share Capital and 20,000 x 2 as Securities Premium)	₹2,50,000
50,000 shares @ ₹3 on First Call (50,000 x 1 as Share Capital and 20,000 x 2 as Securities Premium)	₹1,50,000
50,000 shares @ ₹3 on First Call (50,000 x 3)	₹1,50,000

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Date	Particulars	L.F.	Amount Dr (₹)	Amount Cr (₹)
---	Bank A/c		1,50,000	
	To Share Application A/c <i>(Being application money received for 50,000 shares @ ₹3 each)</i>			1,50,000
---	Share Application A/c		1,50,000	
	To Share Capital A/c <i>(Being application money transferred to share capital)</i>			1,50,000
---	Share Allotment A/c		2,50,000	
	To Share Capital A/c			1,50,000
	To Securities Premium A/c <i>(Being allotment money transferred to share capital and premium)</i>			1,00,000
---	Bank A/c		2,50,000	
	To Share Allotment A/c <i>(Being allotment money received for 50,000 shares @ ₹5 each, including ₹2 as premium)</i>			2,50,000
---	Share First Call A/c		1,50,000	
	To Share Capital A/c			50,000
	To Securities Premium A/c <i>(Being first call money transferred to share capital and premium)</i>			1,00,000
---	Bank A/c		1,50,000	
	To Share First Call A/c <i>(Being first call money received for 50,000 shares @ ₹3 each, including ₹2 as premium)</i>			1,50,000
---	Share Second & Final Call A/c		1,50,000	
	To Share Capital A/c <i>(Being second and final call money transferred to share capital)</i>			1,50,000
---	Bank A/c		1,50,000	
	To Share Second & Final Call A/c <i>(Being second and final call money received for 50,000 shares @ ₹3 each)</i>			1,50,000



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Assignment

Ques 1: Anaya Ltd. issued 60,000 shares @ ₹10 each at a premium of ₹4 per share payable as follows:

- ₹4 per share on Application
- ₹5 per share on Allotment (including ₹3 as premium)
- ₹3 per share on First Call (including ₹1 as premium)
- ₹2 per share on Second & Final Call

The issue was fully subscribed, and all money was duly received.
Pass the Journal Entries.

Ques 2: Aarav Ltd. issued 30,000 shares of ₹10 each with a 20% premium, payable as follows:

- ₹6 on Application (including ₹2 as premium)
- ₹3 on Allotment
- Balance on Final Call

All money was duly received.

Pass the Journal Entries in the books of Aarav Ltd.

Issue of Shares at a Discount

There are instances when the shares of a company are issued at a discount, i.e. at an amount less than the nominal or par value of shares, the difference between the nominal value and issue price representing discount on the issue of shares.

Issue of Shares at a Discount refers to the practice of issuing shares at a price lower than their **nominal (face) value**. For example, if a share has a face value of ₹100 and is issued at ₹90, it is said to be issued at a discount of ₹10.

Key Points:

1. **Prohibition under the Companies Act, 2013:** The issue of shares at a discount is prohibited under Section 53 of the Companies Act, 2013, except in the case of **sweat equity shares** issued to employees or directors as a reward for their services.
 2. **Penalty for Violation:** If a company issues shares at a discount in violation of the law, it faces penalties, including repayment of the amount plus interest.
 3. **Sweat Equity Shares:** These are shares issued at a discount or for consideration other than cash, given to employees or directors for providing valuable know-how or intellectual property.
- In modern practice, companies avoid issuing shares at a discount and prefer alternative methods, such as **rights issues** or **bonus shares**, to raise funds.

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