- A *company* is an organisation formed by an association of persons through a process of law for undertaking (usually) a business venture.

  The *essential characteristics* of a company are:

  (i) It is a *voluntary association* of individuals coming into existence through a process of law for undertaking (usually) a business venture.

  (ii) It is an *artificial legal person* created by law.

  (iii) It has a *separate legal entity.*

  (iv) It has a *perpetual succession, i.e.*, it can be created and wound up by law only.

  (v) It has a *common seal, i.e.*, official seal of the company.

  (vi) The *shares of a company can be transferred* from one person to another.

- **Share Capital**

  (i) *Authorised Share Capital* is the maximum amount up to which a company can issue shares.

  (ii) *Issued Share Capital* is a part of authorised share capital that is issued by the company for subscription.

  (iii) *Subscribed Share Capital* is a part of issued share capital that is subscribed.

  (iv) *Called-up Share Capital* is the amount of nominal value of share that has been called-up for payment.

  (v) *Paid-up Share Capital* is a part of called-up share capital that has been paid.

  Reserve Capital is a part of subscribed share capital that a company resolves, by a Special Resolution, not to call except in the event and for the purpose of company being wound up.

- **Types of Shares:** Shares that can be issued are Preference Shares or Equity Shares.

  Preference Shares are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

  Equity Shares are the shares that are not preference shares.

  Shares can be issued (*i*) for cash and (*ii*) for consideration other than cash.

  Further, the shares can be issued (*i*) at par, (*ii*) at a premium or (*iii*) at a discount.

  Shares cannot be issued at a discount of more than 10% of the face value except with the permission of the Central Government.

- **Over-Subscription of Shares** means shares applied for are more than the shares offered for subscription.
- **Under-Subscription of Shares** means shares applied for are less than the shares offered for subscription.
- ***Pro rata* Allotment** means allotment of shares in a fixed proportion. *Pro rata* allotment takes place only when the shares are over-subscribed.
- **Securities Premium** can be utilised for the purposes prescribed in Sections 77A and 78, which are:
  (*i*) issuing fully paid bonus shares;
  (*ii*) writing off preliminary expenses;
  (*iii*) writing off expenses such as share issue expenses, commission, discount allowed on issue of shares or debentures;
  (*iv*) providing for the premium payable on redemption of debentures or preference shares; or
  (*v*) in buying-back its own shares. (Section 77A)
- **Call** is a demand by a company to the holders of partly paid shares to pay a further instalment towards full nominal value.
- **Calls-in-Arrear** is the amount not yet received by the company against the call or calls demanded.
- **Calls-in-Advance** is the amount received by the company from its allottees against the calls not yet made. Calls-in-Advance is categorised as a current liability.

- **Forfeiture of shares** means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities Premium Account—How dealt when shares are forfeited. In case where Securities Premium Account has been credited and also it has been received—Securities Premium Account is not debited because of the restrictions imposed by Section 78 of the Companies Act as to utilisation.

In case Securities Premium Account has been credited but the amount has not been received—Securities Premium Account is debited because, the amount has not been received and therefore, Section 78 of the Companies Act does not apply.

Forfeited Shares can be reissued and they may be reissued at a value lower than its face value. The maximum amount of discount which may be allowed on reissue is as:

Case	*Maximum Permissible Discount on Reissue*
1. When the shares were originally issued at par or premium.	The amount credited to Forfeited Shares Account.
2. When the shares were originally issued at a discount.	The amount credited to Forfeited Account + Amount of Original Discount.

Regarding Reissue of Forfeited Shares, Always Remember:

1. Loss on reissue (*i.e.*, discount allowed) cannot exceed the forfeited amount.
2. If the loss on reissue is less than the amount forfeited, the surplus (*i.e.*, profit on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited shares is reissued, then the profit made on reissue of such shares is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the share capital.
5. When the shares are reissued at a loss, such loss is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the face value of the shares, the excess amount is credited to Securities Premium Account.
7. When shares, originally issued at a discount, are reissued at a loss, the loss to the extent of original discount is debited to Discount on Issue of Shares and the balance loss is debited to Forfeited Shares Account.

- **Rights Issue:** It refers to the right of the existing shareholders to subscribe in proportion to their existing holdings for shares to be issued by the company to increase its subscribed capital.

  The monetary benefit to the existing shareholders due to right issue is known as **Value of Right**.
- **Preferential Allotment:** A preferential allotment is one that is made at a predetermined price to the preidentified people who wish to take a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of company's products or the suppliers.
- **Private Placement of Shares:** It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called **Private Placement of Shares**.
- **Employees Stock Option Scheme (ESOS):** ESOS means a scheme under which a company grants options to its employees to apply for shares at the predetermined price.
- **Employees Stock Purchase Scheme (ESPS):** ESPS means a scheme under which a company offers shares to its employees as part of a public issue or otherwise.
- **Buy-Back of Shares:** The term buy-back implies the act of purchasing its own shares by a company.

Q.1 S Ltd. invited applications for 1,00,000 equity shares of ₹ 10 each. The shares were issued at a premium of ₹ 5 per share. The amount was payable as follows :

On Application ₹ 3, on allotment ₹ 8 per share including premium of ₹ 5, on first call ₹ 2 and on final call ₹ 2.

Applicationn for 1,50,000 shares were received. Applications for 10,000 shares were rejected and their money was returned. Pro-rata allotment was made to the remaining applicants on the following basis :

(i) Applicants for 80,000 shares were allotted 60,000 shares; and

(ii) Applicants for 60,000 shares were alloted 40,000 shares.

X, who belonged to first category and was allotted 300 shares, failed to pay the allotment money and on his further failure to pay the first call, his shares were forfeited. Y, who belogned to the second category and was allotted 200 shares also failed to pay two calls. His shares were forfeited after the final call. The forfeited shares were reissued @ ₹ 12 per share fully paid up. Pass the necessary Journal entries. (11)

In the Books of S Limited

Q. 1. Prime Ltd., issued a prospectus inviting applications for 20,000 equity shares of ₹ 10 each at a premium of ₹ 2 per share payable as under :

On application ₹ 2 per share, on allotment ₹ 5 per share (including premium), on first call ₹ 2 per share, on second call ₹ 3 per share.

Applications were received for 30,000 shares, allotment was made pro rata to the applicants for 24,000 shares, the remaining applications were rejected and their money was returned. Money overpaid on application was utilized towards sum due on allotment. A, to whom 800 shares were allotted, failed to pay allotment and calls money and B to whom 1,000 shares were allotted failed to pay the two calls. Their shares were subsequently forfeited after the second call. Out of the forfeited shares, 1,200 shares were sold to C as fully paid-up at ₹ 8 per share. Show the journal entries, including bank transactions, to record the above transactions in the books of Prime Ltd. 15

Journal Entries