

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.

Over-Subscription of Shares

When a company's shares are in high demand, the number of shares applied for may exceed the number offered. This situation is known as over-subscription.

Handling Over-Subscription:

1. Pro-rata Allotment: Shares are allotted in proportion to the number of shares applied for by each applicant. For instance, if an applicant applied for 200 shares but the allotment ratio is 2:1, they may receive only 100 shares.
2. No Allotment to Some Applicants: Some applicants may not receive any shares, and the application money received from them is refunded.



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Journal Entry for Refund:

plaintext

```
Share Application A/c Dr.  
    To Bank A/c  
(Application money returned)
```

3. Utilization of Excess Application Money: If applicants receive fewer shares than they applied for, the excess application money is often used to pay for the shares allotted or for future calls.

Journal Entry for Utilization:

plaintext

```
Share Application A/c Dr.  
    To Share Allotment A/c  
(Excess application money utilized for allotment)
```

4. Retention of Excess Money: If the excess application money exceeds the allotment money due, the surplus can either be returned or retained for future calls, provided the company's Articles of Association allow it.

Journal Entry for Retention:

plaintext

```
Share Application A/c Dr.  
    To Share Allotment A/c  
    To Calls in Advance A/c  
(Excess application money utilized for allotment and calls)
```

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Summary

Understanding the different types of share capital and the process of handling over-subscription is crucial for both companies and investors. It ensures transparency and fairness in the allotment of shares and helps in efficient management of the funds raised through share issuance.

Solved Example

Ques 1: X Ltd. invited applications for 1,00,000 shares of 10 each payable as follows: Rs 3 on Application; Rs 2 on Allotment, Rs 2.50 on First Call and Rs 2.50 on Second Call. Public applied for 1,50,000 shares and the allotments were made as under:

- To Applicants for 40,000 shares full
- To Applicants for 80,000 shares 60,000 shares
- To Applicants for 30,000 shares Nil
- All moneys were duly received.

Pass Journal Entries.

Sol:

Journal Entries

1. For receiving share applications:

```

css
Bank A/c                Dr. 4,50,000
    To Share Application A/c                4,50,000
(Being the application money received for 1,50,000 shares at Rs 3 per share)
    
```

2. For transferring share application money to share capital:

```

css
Share Application A/c   Dr. 3,00,000
    To Share Capital A/c                3,00,000
(Being the application money transferred to share capital for 1,00,000 shares)
    
```

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3. For refunding excess application money:

```

CSS Copy code

Share Application A/c  Dr. 1,50,000
    To Bank A/c                                1,50,000
(Being the excess application money refunded for 50,000 shares)
    
```

4. For share allotment due:

```

CSS Copy code

Share Allotment A/c  Dr. 2,00,000
    To Share Capital A/c                                2,00,000
(Being the allotment money due on 1,00,000 shares at Rs 2 per share)
    
```

5. For receiving share allotment money:

```

CSS Copy code

Bank A/c              Dr. 2,00,000
    To Share Allotment A/c                                2,00,000
(Being the allotment money received)
    
```

6. For first call due:

```

sql Copy code

Share First Call A/c  Dr. 2,50,000
    To Share Capital A/c                                2,50,000
(Being the first call money due on 1,00,000 shares at Rs 2.50 per share)
    
```

7. For receiving first call money:

```

sql Copy code

Bank A/c              Dr. 2,50,000
    To Share First Call A/c                                2,50,000
(Being the first call money received)
    
```

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8. For second call due:

```

sql
Share Second Call A/c  Dr. 2,50,000
    To Share Capital A/c                                2,50,000
(Being the second call money due on 1,00,000 shares at Rs 2.50 per share)
    
```

9. For receiving second call money:

```

sql
Bank A/c                Dr. 2,50,000
    To Share Second Call A/c                2,50,000
(Being the second call money received)
    
```

Explanation:

Application: Public applied for 1,50,000 shares, but only 1,00,000 shares are being issued. The application money is ₹3 per share, so the total application money received is ₹4,50,000.

Allotment:

- For applicants of 40,000 shares, full allotment is made.
- For applicants of 80,000 shares, only 60,000 shares are allotted.
- For applicants of 30,000 shares, no shares are allotted.

This means the total shares allotted are 1,00,000 shares. Excess application money for the shares that were not allotted (50,000 shares) is refunded.

Allotment Money: Allotment money is ₹2 per share, so ₹2,00,000 is due and received.

First Call: First call money is ₹2.50 per share, so ₹2,50,000 is due and received.

Second Call: Second call money is ₹2.50 per share, so ₹2,50,000 is due and received.

By following these steps, all money related to the issuance of the shares is properly accounted for in the journal entries.

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Assignment

Ques 1: ABC Ltd. invited applications for 50,000 shares of ₹20 each, payable as follows:

- ₹5 on Application
- ₹7 on Allotment
- ₹4 on First Call
- ₹4 on Second Call

Applications were received for 80,000 shares and the allotment was made as follows:

- Applicants for 20,000 shares were allotted in full.
- Applicants for 50,000 shares were allotted 25,000 shares.
- Applicants for 10,000 shares were allotted nothing.
- All money was received except the second call on 2,000 shares.

Pass the necessary journal entries.

Ques 2: XYZ Ltd. issued 200,000 shares of ₹50 each, payable as follows:

- ₹15 on Application
- ₹10 on Allotment
- ₹15 on First Call
- ₹10 on Second Call

Applications were received for 300,000 shares and allotment was made as follows:

- Applicants for 100,000 shares were allotted in full.
- Applicants for 150,000 shares were allotted 80,000 shares.
- Applicants for 50,000 shares were allotted nothing.
- All money was received except the first call on 5,000 shares and the second call on 8,000 shares.

Pass the necessary journal entries.

Ques 3: PQR Ltd. invited applications for 30,000 shares of ₹100 each, payable as follows:

- ₹30 on Application
- ₹30 on Allotment
- ₹20 on First Call
- ₹20 on Second Call

Applications were received for 45,000 shares and allotment was made as follows:



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- Applicants for 10,000 shares were allotted in full.
- Applicants for 25,000 shares were allotted 15,000 shares.
- Applicants for 10,000 shares were allotted nothing.
- All money was received except the first call and second call on 1,000 shares each.

Pass the necessary journal entries.



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Ques 4: MNO Ltd. issued 100,000 shares of ₹10 each, payable as follows:

- ₹2 on Application
- ₹3 on Allotment
- ₹3 on First Call
- ₹2 on Second Call

Applications were received for 120,000 shares and allotment was made as follows:

- Applicants for 40,000 shares were allotted in full.
- Applicants for 60,000 shares were allotted 40,000 shares.
- Applicants for 20,000 shares were allotted nothing.
- All money was received except the allotment on 5,000 shares and the first call on 10,000 shares.

Pass the necessary journal entries.



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