

# VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

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## Accounting for Share Capital

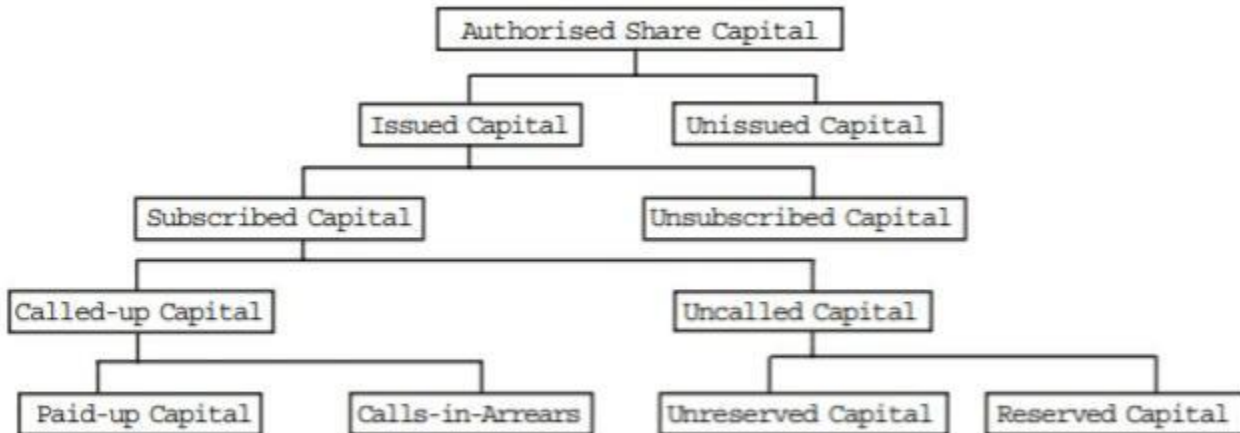


Fig. 1.1 : Categories of Share Capital

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, 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 on 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 balance sheet of a company as follows:

### Sunrise Company Ltd. Balance Sheet as on .....

Share Capital	(Rs.)
<u>Authorised or Registered or Nominal Capital:</u>	
4,00,000 Shares of Rs. 10 each	<u>40,00,000</u>
<u>Issued Capital:</u>	
2,00,000 Shares of Rs. 10 each	<u>20,00,000</u>
<u>Subscribed Capital</u>	
2,00,000 Shares of Rs. 10 each	<u>20,00,000</u>

### Called-up Capital

2,00,000 Shares of Rs. 10 each, Rs. 8 per share	16,00,000
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### Paid-up Capital

2,00,000 Shares of Rs. 10 each, Rs. 8 per share	16,00,000	
Less : Calls in arrears		
(on 2,000 Shares @ Rs. 3 per share)	6,000	15,94,000

## **1.4 Nature and Classes of Shares**

Shares, as applied to the capital of a company, refer to the units into which the total share capital of a company is divided. Thus, a share is a fractional part of the share capital and forms the basis of ownership interest in a company. The persons who contribute money through shares are called shareholders.

The amount of authorised capital, together with the number of shares in which it is divided, is stated in the Memorandum of Association but the classes of shares in which the company's capital is to be divided, alongwith their respective rights and obligations, are prescribed by the Articles of Association of the company. As per Section 86 of The Companies Act, a company can issue two types of shares (1) preference shares, and (2) equity shares (also called ordinary shares).

### **1.4.1 Preference Shares**

According to Section 85 of The Companies Act, 1956, a preference share is one, which fulfils the following conditions :

- a) That it carries a preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value of each share before any dividend is paid to the equity shareholders.
- b) That with respect to capital it carries or will carry, on the winding-up of the company, the preferential right to the repayment of capital before anything is paid to equity shareholders.

However, notwithstanding the above two conditions, a holder of the preference share may have a right to participate fully or to a limited extent in the surpluses of the company as specified in the Memorandum or Articles of the company. Thus, the preference shares can be participating and non-participating. Similarly, these shares can be cumulative or non-cumulative, and redeemable or irredeemable.