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Name of Paper: Corporate Accounting.
Topic – Public Subscription of Share Capital

Dr. Kripa Shankar Singh
Department of Commerce
Email-id: Kripa.jpgc@gmail.com
Mobile No: 9450248686

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Dr. Kripa Shankar Singh

Procedure For Issue of Shares For Consideration of Cash or Public Subscription of Share Capital

A registered public company has adopted the following step-wise procedure to collect share capital amount from the public by issuing of shares.

- 1. Issue of Prospectus** – A public company has to issue a prospectus which is an invitation to the public to subscribe to the capital of the company. It is done for raising the required fund from the public. Thus a prospectus is defined as a legal document describing a company's securities that have been put on sale. The prospectus generally discloses the company's operations along with the purpose of the securities being offered.

As per the companies Act, 2013 a prospectus can include information such as name of the company, objectives, address of the registered office of the

company, name and address of the directors, amount of authorised capital and issued capital price of shares, conditions of issue etc. Name of bank, amount along with application, date of opening and closing of issue are also mention in the prospectus.

2. **To receive application** – After reading the prospectus, the public applies for share in the company on a printed prescribes form. The application will be accepted only when it is accompanied by the application money which should not be loss than 25% of the issue price of each share. This amount must be deposited into a schedule bank by the public and get a receipt for the same. Therefore the company can not withdraw this money from the bank till the procedure of allotment has been completed.
3. **To make allotment of shares** - Allotment of shares means acceptance by the company of the offer made by the applicants to take up the shares applied for. When the subscription list closed then bank send all applications to the company. But the company cannot go for allotment unless minimum subscription is received by the company. Minimum subscription refers to the minimum amount of capital that should be subscribed for by the public before a company can proceed with allotment of shares. Minimum subscription of capital cannot be less than 90% of the issued amount according to SEBI guidelines, 2000. If a delay occurs beyond 15 days from the date of closure of subscription list, the company shall be liable to pay the amount with interest @15 p.a. The basis of allotment is decided by the Board of Directors in consultation with the stock exchange and as a result, the following courses of action are taken.
 - a. If application rejected fully; letter of regret along with refund orders are sent.
 - b. If application accepted fully, letter of allotment are sent
 - c. If application accepted partially, letter of allotment along with refund orders in respect of excess application money not adjusted towards other sums due on shares are sent.
4. **To make calls on shares** – After application and allotment amounts the unpaid amount may be called up by the directors in one or more instalments. Each instalment is named as 'First call, Second call!' and so on. A word final is added to the last call it is worth mentioning that calls are made as per provisions of articles of association of the company. If it is silent provisions of 'Table F of the companies Act will have to be followed.

Journal Entries for the Issue of Shares

A. Issue of shares with various instalment.

The amount of money paid by shareholders with various instalment represents the contribution to share capital and amount should be credited to share capital account. Accounting treatment taken place in following manner.

1. When application money received

Bank A/C	Dr
To Share Application A/C	

(Being share application money received on ___Shares@ Rs___ per share)

2. When excess application money refunded in case of oversubscription

Share Application A/C	Dr
To Bank A/C	

(Being excess application money received on ___Shares@ Rs___ per share refunded)

3. When application money transferred to share capital account

Share Application A/C	Dr
To Share Capital A/C	

(Being share application money transferred to share capital account on ___Shares@ Rs___ per share)

4. When allotment money due

Share Allotment A/C	Dr
To Share Capital A/C	

(Being share allotment money due on ___Shares@ Rs___ per share)

5. When allotment money received

Bank A/C	Dr
To Share Allotment A/C	

(Being share allotment money received on ___Shares@ Rs___ per share)

6. When share first call money due

Share first call A/C	Dr
To Share Capital A/C	

(Being share first call money due on ___Shares@ Rs___ per share)

7. When share first call received

Bank A/C	Dr
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To Share first call A/C
(Being share first call money received on ___Shares@ Rs___ per share)

8. When share second and final call money due

Share second and final call A/C
To Share Capital A/C
(Being share second and final call money due on ___Shares@ Rs___ per share)

9. When share second and final call received

Bank A/C
To Share second and final call A/C
(Being share second and final call money received on ___Shares@ Rs___ per share)

Sometimes a combined account called 'Share Application and Allotment Account' is opened in the books of a company which is based on the reasoning that allotment without application is impossible while application without allotment is meaningless when combined account is maintained entries will be passed as

1. For receipt of Application and Allotment

Bank A/C
To Share application and allotment call A/C
(Being share application and allotment money received on ___Shares@ Rs___ per share)

2. Transfer of Application and Allotment money to share capital account.

Share application and allotment call A/C
To Share Capital Account
(Being Share Application and Allotment money to share capital account.)

B. Issue of Shares as fully paid or fully payment in one instalment -

When share are issued for consideration of fully paid or in lumpsum the whole amount should be paid in one instalment. The following journal entries are made.

1. When shares are issued at par as fully paid

Bank A/C
To Share capital A/C
(Being ___ Share Rs___ per share issued at par as fully paid)

2. When shares are issued at premium as fully paid

Bank A/C Dr
 To Security premium A/C
 To Share capital A/C
(Being ___ Share Rs___ each issued at premium Rs___ per share as fully paid)

C. Issue of Shares to Promoters –

Promoters are those persons, firm or companies who promote the company. They are entrusted with work of the formation of the company viz. providing information related to technology, research and development, management, lay out for setting up a plant and all efforts for the incorporation of the company.

Promoters are paid remuneration for their services in the form of cash and also of share and company issue shares to promoters without any payment of it. In this regard, Journal entries should be passed in following manner.

1. For issue of shares to promoters at par to promoters as fully paid

Formation Expenses/ Incorporation costs/ Goodwill A/C Dr
 To Share Capital A/C

(Being ___ Share Rs___ each issued at par to promoters as fully paid for their service)

2. For issue of shares to promoters at par to premium as fully paid

Formation Expenses/ Incorporation costs/ Goodwill A/C Dr
 To Share Capital A/C
 To Security Premium Reserve A/C

(Being ___ Share Rs___ each issued at premium Rs___ each to promoters as fully paid for their service)

D. Expenses on Issue of Shares.

Expenses incurred in the formation and promotion of company are taken as preliminary expenses. Following entries are passed for preliminary expenses and expenses on issue of shares.

1. When preliminary expenses made on formation of the company

Preliminary Expenses A/C Dr
 To Bank A/C
(Being preliminary expenses or formation expenses paid on formation of company)

2. When expenses incurred on issue of shares

Expenses on issue of shares A/C Dr
 To Bank A/C
(Being expenses made on issue of shares)

Issue of shares for consideration other than cash or Issue of shares for purchase consideration of assets.

Shares are not issued only for cash, it can also be issued for a consideration other than cash or purchase consideration of assets which are purchased on credit from vendors. The vendor agrees to accept the payment in the form of fully paid shares of the company issued to them. Normally no cash is received for such issue of shares. These shares can be issued either at par, at premium, or at discount. The number of shares to be issued will depend upon the price of assets to payable to the vendor, which will be calculated on the following manners.

No. of shares to be issued to vendor = $\frac{\text{Payable Amount}}{\text{Per share issue price}}$

1. When shares are issued at par

No. of shares to be issued = $\frac{\text{Payable Amount or purchase consideration}}{\text{Per share issue price at par}}$

2. When shares are issued at premium

No. of shares to be issued = $\frac{\text{Payable Amount or purchase consideration}}{\text{Per share issue price at premium}}$

Following journal entries are passed in case of shares issued for consideration other than cash depending upon the situations

I. For purchase of assets on credit from the vendor

Assets A/C Dr
 To Vendor's A/C
(Being assets purchased on credit from vendor)

II. For issue of share at par to vendor for payment of purchase consideration

Vendor's A/C Dr
 To Share Capital A/C
(Being ___ Shares@ Rs___ each issued at par to vendor for payment of purchase consideration)

III. For issue of share at premium to vendor for purchase consideration

Vendor's A/C Dr
 To Share Capital A/C
 To Security Premium Reserve A/C
(Being ___ Shares@ Rs___ each issued at a premium of Rs___ each in purchase consideration to vendor)

short answer type Questions.

1. What is prospectus?
2. What is expenses on issue of shares?

Long Answer type Question.

1. Explain the Accounting treatment for issue of shares for consideration of cash.

End

References.

- Corporate Accounting by Karim and Khanooja
- Corporate Accounting by S.M. Shukla and K.L. Gupta
- Corporate Accounting by S.C. Jain
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Name – Dr. Kripa Shankar Singh (Assistant Professor)
Department of Commerce
Jagatpur P.G. College
Jagatpur, Varanasi.