Bridge Course

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Bridge Course
for
BCOM (Eng)& BBA

Accounting of share capital

Introduction

- Company form came into existence after industrial revolution due to limitations of proprietorship and partnership forms in carrying out business on a large scale
- In India, first time separate act for company was made in 1956. it is known as Companies act, 1956. Recently, Indian government has incorporated a new Companies act, 2013 after necessary amendments in the previous act

Types of companies

- On the basis of establishment

1. Statutory companies or corporations
2. Registered companies

- As per Companies Act,

1. Private companies
2. Public company

Types of companies

- On the basis of liability of shareholders

1. Company limited by shares
2. Company limited by guarantee
3. Company by unlimited liability

Share and types of share capital

- Authorised, nominal or registered capital
- Issued capital
- Subscribed capital
- called up Capital
- Uncalled capital
- Paid up capital
- Reserve Capital

Types of Shares

- Preference shares and equity shares or Ordinary Shares
- Types of preference shares

1. Cumulative and non cumulative preference shares
2. Redeemable and irredeemable preference shares
3. Participating and non participating preference shares
4. Convertible and non convertible preference shares

Difference between Preference share and Equity Share

- Rate of Dividend
- Arrears of dividend
- Preferential right as to the payment of dividend
- Preferential right as to the payment of capital
- Voting rights
- Right to participate in management

Steps for issue of equity shares

- **A. For shares issued for public**
- Permission for issue
- Details of proposal to be sent to SEBI
- Refer to the public
- Tables shown in prospectus
- Share applications
- Share allotment
- Balance amount by instalments
- Oversubscription and under subscription of shares

- IPO and FPO
- Calls in arrears
- Calls in advance

Methods for issue of shares by company

1. **At par**

- Share of face value of Rs. 10 issued at a price of Rs. 10

2. At premium

- If share of face value of Rs. 10 issued at a price of Rs. 14 the additional amount of Rs. for shall be considered as a premium.
- When shares are issued at premium the amount received in excess of face value of shares is credited to a separate account as per companies act to such amount is carried to securities premium account or securities premium reserve account.

Methods for issue of shares by company

3. At discount

- If the total amount payable by share subscribers to a company is less than the total face value of shares the shares are said to be issued at discount if share of face value of Rs. 10 is issued at a price of Rs. 9 the amount of Rs. on shall be considered as a discount
- As per section 53 of companies act 2013 companies would no longer be permitted to issue shares at discount.

Forfeiture of shares

- Due to any reason, if any shareholder fail to pay the amount called on allotment or any call within the specified period given by company, then company can forfeit his shares by completing due formalities.
- When shares are forfeited, then the amount already paid by share holder in the company also get forfeited with the forfeiture of share and the same is credited to share forfeiture account and hence, the entries are passed in the books of company.

Re-issue of forfeited shares

- Company can reissue forfeited shares.. The directors of the company have the full authority by law directors. They can reissue the shares at par, premium or at a discount. Journal entries are passed for issue of forfeited shares in this situations.

Pro rata allotment of shares

- When the number of shares applied for is more than the number of shares offered for subscription by company is said to be over subscription. In these situations, share can be allotted by the company by any of the following alternatives

A. Full allotment of shares against shares application applied by applicants. Ex. allotment of 500 shares to applicants of 500 shares
B. Not a single share allotted to share application applicants against their applications. Ex. not to allot a single share to applicants of 200 shares
C. Allotted shares in proportion to share applicants against their applications. Ex. allotment of 300 shares to applicants of 500 shares.

Issue of shares for consideration other than cash

1. When company does not pay cash and issue shares for purchase of any asset or business
2. When company issue shares in lieu of remuneration payable to promoters
3. When company issue shares towards underwriting commission to underwriters
4. When company issues bonus shares to existing shareholders

Some important points

- Preferential allotment
- Sweat equity shares
- Employees Stock option plan
- Applications supported by Blocked amount

Accounting for debentures

Introduction

- Sometimes in addition to share capital, if company requires more fund, then these fund can be made by loan or borrowed amount. Financially sound companies get a long term loan from bank or financial institutions mostly. instead of borrowing such loan from financial institutions or in addition to borrowing such loan for large investments, company can rise fund from public by issue of securities. Such a security is popularly known as debentures or bond.

Important points relating to debentures

- Debenture is a security that bears a fix rate of interest on which the interest is payable on a pre determined date.
- As Per companies act 2013, no company is allowed to issue debentures having a maturity date of more than 10 years from the date of issue.
- Debentures can be issued with or without charge on the assets of the company. charge on assets means mortgage or hypothecation.
- Debentures are shown as a long term borrowings under the heading non current liabilities on equity and liabilities side in the balance sheet.
- Debenture holders do not have any voting right in any matter of the company
- in the event of the liquidation of the company, the debenture holders are repaid their money before the payment to equity shareholders

Types of Debentures

- On the basis of security

1. Secured or mortgage debentures
2. Unsecured or simple debentures

- As per negotiability and procedure for redemption

1. Registered debenture
2. Bearer debenture

- On the basis of condition of redemption

1. Redeemable debentures
2. Irredeemable debentures

Types of Debentures

- The basis of condition for convertibility

1. Convertible debenture
2. Non Convertible debenture

Procedure for issue of debentures

- A resolution is passed at the meeting of board of directors of the company
- Prospectus or statement in lieu of the prospectus is also issued
- The procedure for the issue of debenture is very much similar to that of the issue of shares
- A company has to open a separate bank account in any scheduled bank
- As per companies act 2013 minimum subscription should be 90% of the issued amount.
- Debentures may be issued either at par at a premium or at a discount.

Accounting effects for issue of debentures

- Procedure transaction and name of the accounts for issue of debentures at same is share capital transactions such as debenture application account debenture allotment account and debenture call account etc.
- Debenture percentage is always mentioned before the word debenture.

Methods to issue Debentures

A. Issue of debentures at par

- For example, a company issued 8000, 9 % debentures of Rs. 100 each the full amount on debenture was called up on application and the amount was fully received.
- Ashok Mills limited issued 8000 of Rs. 100 each for public subscription. interest is to be paid at the rate 8 % on debentures. The amount called up for debenture is as under:

with application Rs. 30, on allotment Rs. 40 and on call Rs. 30.

Methods to issue Debentures

B. Issue of debentures at a premium.

- For example if a debenture of Rs. 100 is issued at Rs. 130 then it is called this debenture is issued at a premium of Rs. 30.
- The companies act 2013 premium amount on debentures is transferred to securities premium reserve account and it is shown on the equity and liabilities side of the balance sheet under the head “reserve and surplus.”

Methods to issue Debentures

C. Issue of debentures at discount

- When the company issues debenture at a price which is less than their face value or nominal value, then debentures are said to have been issued at a discount. For example, a debenture of Rs. 100 face value is issued at Rs. 90. here Rs. 10 would be discount.
- Amount of discount on debentures is debited to Discount on debentures account.

Issue of debentures for consideration other than cash

- like shares debentures are also sometimes issued for consideration other than cash for example the issue of debentures to vendor against the purchase of assets like land and building plant and machinery.
- Issue of debentures as a collateral security
- When a company takes a loan from a bank or from some other party the company may have to issue debentures as a subsidiary or secondary security in addition to the principal security the debentures so issued are known as debentures issued as a collateral security
- The accounting effects will be somewhat different in this case.

Redemption of debentures

- When debentures are redeemed at par
- When debentures are issued at a par or at a premium or at a discount and are redeemable at a premium
- When debentures are issued at a premium and are redeemable at a premium
- When debentures are issued at discount and redeemable at a premium

Provision of finance for the reduction of the debentures

- Debentures are the liabilities of the company the payment of debentures to the debenture holders is made by the company in accordance with the terms and conditions as stated in the prospectus
- Amount required for the redemption of debentures may be managed by the company from the following sources as per companies act
- Redemption of debentures from fresh issue of shares and debentures
- Redemption of debentures out of capital
- Redemption of debentures out of profit

SEBI guidelines for redemption of debentures

- The creation of debenture redemption reserve is obligatory only for non convertible debentures and non convertible portion of partly convertible debentures. a company shall create debenture redemption reserve equivalent to at least 25% of the amount of debentures issued before starting the redemption of debentures. balance of debenture redemption reserve is shown on the equity and liabilities part of the balance sheet under the head reserve and surplus.

Debenture redemption investment

- As per rule 18 of the companies, share capital and debentures rules, 2014 company is required to deposit or invest or some which shall not be less than 15 % of the total face value of the debenture to be redeemed at the end of the year. This investment is called debenture redemption investment account. the amount so deposited or invested can be utilised only for the purpose of repayment of the debentures maturing during the year.

Methods of redemption of debentures

- Lump sum payment at the end of fixed period
- Paid in instalments by drawing of lots
- By purchase of own debentures in the open market
- By conversion into shares

Difference between share and debenture

- Type of capital
- Certainty of return
- Charge or security
- Right
- Restriction on issue at discount
- Convertibility
- For redemption
- At the time of liquidation