

MODULE 4: ACCOUNTING FOR SHARES

B.COM SEMESTER II • FINANCIAL ACCOUNTING • CALICUT UNIVERSITY STRUCTURE

13. SHARE CAPITAL PARAMETERS & FUND RECOVERY CYCLES

Definition of Corporate Entity & Share Infrastructure

A Joint Stock Company is an artificial legal person constructed under statutory codification, defined by its separate legal entity status, perpetual succession, and centralized ownership structure. Because the necessary capital investment exceeds individual capacities, the corporate entity subdivides its capital requirements into minor, equal units of value called **Shares**. The total value of these fractional units defines the company's operating **Share Capital** pool.

Statutory Share Classifications ([Section 43](#))

Under Section 43 of the Companies Act, 2013, corporate share issues are structured into two distinct geometric portfolios:



1. PREFERENCE SHARE ASSETS

Holds preferential rights over common equity classes regarding:

- **Dividend Distribution:** Right to be paid a fixed dividend percentage before any profits reach equity tranches.
- **Liquidation Preference:** Priority right to capital reimbursement upon company winding up before secondary distribution.



2. EQUITY SHARE ASSETS

Does not possess prioritized dividend or capital repayment guarantees. Equity shares represent the core risk-bearing ownership tier of the enterprise. Shareholders possess direct voting power to shape corporate governance resolutions.

Accounting Mechanics: Installment Cycles for Cash Issues

Corporate accounting cycles rarely collect share values all at once. Instead, collections are structured across chronological accounting periods: ****Application, Allotment, and successive Call phases****.



PRACTICAL CASE ILLUSTRATION 1: PAR VALUE REGISTRATION

Problem Specifications: Zenex India Ltd. opens a public issue of **20,000 Equity Shares** (Nominal Face Value of **₹10 per unit**), structured across the following ledger milestone timeline:

- Application Milestone: **₹3 per share**
- Allotment Milestone: **₹4 per share**
- First & Final Call Milestone: **₹3 per share**

The entire public offering was fully subscribed, and all cash balances were successfully processed into the corporate bank accounts. Formulate the general journal entries.

Zenex India Ltd. — Symmetrically Aligned Ledger Journal

TRANSACTION & LEDGER DESCRIPTION		DEBIT (₹)	CREDIT (₹)
Bank A/c To Equity Share Application A/c (Being share application money collected for 20,000 shares at a rate of ₹3 per share)	Dr.	60,000	
Equity Share Application A/c To Equity Share Capital A/c (Being application funds transferred directly to corporate equity share capital ledger)	Dr.	60,000	60,000
Equity Share Allotment A/c To Equity Share Capital A/c (Being allotment capital installment due on 20,000 shares at a rate of ₹4 per share)	Dr.	80,000	
Bank A/c To Equity Share Allotment A/c (Being total allotment cash collection cleared in bank ledger)	Dr.	80,000	80,000
Equity Share First & Final Call A/c To Equity Share Capital A/c (Being final call installment due on 20,000 shares at a rate of ₹3 per share)	Dr.	60,000	
Bank A/c To Equity Share First & Final Call A/c (Being first and final call money collections successfully cleared)	Dr.	60,000	60,000

14. ISSUANCE VALUATIONS: PAR, PREMIUM, & DISCOUNT LAWS

1. Par Issuance

Occurs when shares are priced and allocated to public subscribers at a value exactly equal to their internal nominal face value (e.g., allocating a ₹10 share for exactly ₹10).

2. Premium Issuance & Statutory Controls ([Section 52](#))

When capital assets are issued at a price above face value, the excess is treated as a premium. For instance, allocating a ₹10 face-value unit for ₹12 adds a ₹2 premium value to the transaction. These premium funds must be systematically routed into a dedicated **Securities Premium Account** ledger.

SECTION 52(2) STATUTORY RESTRICTIONS MATRIX

Premium reserves cannot be used to pay dividends. They can strictly only be used for:

1. Issuing fully paid-up **Bonus Shares** to existing corporate shareholders.
2. Writing off the initial **Preliminary Expenses** of the corporation.
3. Offsetting underwriting commissions or issue discounts allowed on debentures.
4. Funding redemption premiums due on preference shares or corporate debentures.
5. Funding a structured **Buy-back** framework under Section 68 parameters.

3. Discount Issuance Prohibition ([Section 53](#))

Under Section 53 of the Companies Act, 2013, corporate entities are **completely banned** from allocating share issues at a financial discount. Any contracts enabling discount allocations are void from the start. The **only exception** is the allocation of **Sweat Equity Shares (Section 54)** issued to employees or executives for intellectual property or value additions.

PRACTICAL CASE ILLUSTRATION 2: PREMIUM VALUE STRATIFICATION

Problem Specifications: Apex Global Ltd. issues **10,000 Equity Shares** (Face Value **₹10 each**) at a premium of **₹3 per share** (Total price = ₹13). The installment schedule is split as follows:

- On Application: **₹3 per share**
- On Allotment: **₹6 per share (Including the ₹3 Premium)**
- On Final Call: **₹4 per share**

Formulate the allotment entries to demonstrate how premium splits are recorded.

Apex Global Ltd. — Premium Allotment Entries

LEDGER ACCOUNTS & PARTICULARS		DEBIT (₹)	CREDIT (₹)
[Application Phase: ₹30,000 processed normally into Share Capital ledger]			
Equity Share Allotment A/c	Dr.	60,000	
To Equity Share Capital A/c (10,000 × ₹3 nominal value)			30,000
To Securities Premium A/c (10,000 × ₹3 premium value)			30,000
(Being allotment money due on 10,000 shares including an integrated premium of ₹3 per share)			
Bank A/c	Dr.	60,000	60,000
To Equity Share Allotment A/c			
(Being total allotment cash cleared in bank, inclusive of premium balances)			
[Final Call Phase: ₹40,000 due and collected normally to complete the equity transaction]			

15. BALANCE ADJUSTMENT MECHANICS: ARREARS AND ADVANCES

The Symmetrical Control Framework

- **Calls in Arrears (Default):** Installment funds requested by the company but left unpaid by a subscriber after the deadline. It is deducted from Called-up Capital on the Balance Sheet. Under ****Table F****, the maximum interest rate a company can charge on late payments is ****10% per annum****.
- **Calls in Advance (Pre-payment):** Funds paid voluntarily by a subscriber for future installments before they are officially called up. It is categorized as a Current Liability. Under ****Table F****, the company must pay interest on this advance at a maximum rate of ****12% per annum****.



PRACTICAL CASE ILLUSTRATION 3: ADVANCE & ARREARS BALANCING

Problem Specifications: Vertex Tech Ltd. manages an active issue of **5,000 Equity Shares** of **₹10 each**. During the Allotment stage (due at **₹3 per share**), two distinct defaults and advance actions occur simultaneously:

1. Investor **Ravi** (holding **200 shares**) defaults, creating a **Calls in Arrears** balance.
2. Investor **Arjun** (holding **300 shares**) pre-pays his future First & Final Call money early (**₹4 per share**), creating a **Calls in Advance** balance.

Calculate the exact cash flows and record the combined allotment ledger journal entry.

Symmetrical Matrix Calculations:

- Gross Allotment Capital Due: $5,000 \text{ shares} \times ₹3 = ₹15,000$
- Calls in Arrears Deduction (Ravi): $200 \text{ shares} \times ₹3 = ₹600$
- Calls in Advance Addition (Arjun): $300 \text{ shares} \times ₹4 = ₹1,200$
- Net Cash Cleared in Bank: $₹15,000 - ₹600 + ₹1,200 = ₹15,600$

Vertex Tech Ltd. — Ledger Balance Journal Entry

LEDGER ACCOUNTS & BALANCE DISTRIBUTION		DEBIT (₹)	CREDIT (₹)
Equity Share Allotment A/c	Dr.	15,000	15,000
To Equity Share Capital A/c			
(Being allotment money due on 5,000 shares @ ₹3 per share)			
Bank A/c	Dr.	15,600	
Calls in Arrears A/c	Dr.	600	
To Equity Share Allotment A/c (Clear original ledger)			15,000
To Calls in Advance A/c (Pre-paid liability balance)			1,200
(Being allotment cash collected, balancing arrears and advance adjustments simultaneously)			

16. RECOVERY SYSTEMS: FORFEITURE, REISSUE, & PROFIT REALIZATION

The Capital Forfeiture & Re-Marketing Pipeline

If a shareholder ignores statutory warning notices and defaults on their arrears, directors have the authority to forfeit their shares. This cancels their membership and seizes all funds they have already paid to the

company. These shares can then be reissued to new buyers. Any discount given during reissue is funded directly by those confiscated balances, and any remaining profit is treated as a capital gain.

PRACTICAL CASE ILLUSTRATION 4: FULL FORFEITURE & REISSUE CYCLE

Problem Specifications: Matrix Ltd. forfeits **1,000 Equity Shares** of **₹10 each**, fully called up. The original shareholder paid an **Application fee of ₹3 per share**, but defaulted on both the **Allotment fee of ₹4 per share** and the **Final Call of ₹3 per share**.

The directors seize these units and **reissue all 1,000 units** to a new investor at a discounted cash price of **₹8 per share**, credited as fully paid up.

Provide the calculations and register the journal entries for the forfeiture, reissue, and capital reserve transfer.

Mathematical Balance Breakdown:

- Share Capital Reversal:** $1,000 \text{ shares} \times \text{₹10 nominal value} = \text{₹10,000}$ (Debited to Share Capital).
- Confiscated Cash Base:** $1,000 \text{ shares} \times \text{₹3 application paid} = \text{₹3,000}$ (Credited to Share Forfeiture A/c).
- Reissue Discount Allowed:** $1,000 \text{ shares} \times (\text{₹10 Face Value} - \text{₹8 Reissue Price}) = \text{₹2,000}$ (Debited to Share Forfeiture A/c).
- Net Profit Transfer to Capital Reserve:**

$$\text{Net Gain} = \text{Forfeited Cash (₹3,000)} - \text{Reissue Discount Used (₹2,000)} = \text{₹1,000}$$

Matrix Ltd. — Forfeiture, Reissue, and Capital Reserve Entries

LEDGER TRANSACTION REGISTRIES		DEBIT (₹)	CREDIT (₹)
Equity Share Capital A/c (1,000 × ₹10 value)	Dr.	10,000	
To Equity Share Allotment A/c (Unpaid allotment default)			4,000
To Equity Share Final Call A/c (Unpaid final call default)			3,000
To Share Forfeiture A/c (Confiscated application cash)			3,000
(Being 1,000 equity shares forfeited due to non-payment of allotment and final call balances)			
Bank A/c (1,000 shares × ₹8 price)	Dr.	8,000	
Share Forfeiture A/c (Reissue discount given)	Dr.	2,000	
To Equity Share Capital A/c (1,000 shares × ₹10 par restored)			10,000
(Being all 1,000 forfeited shares reissued at ₹8 per share as fully paid-up)			
Share Forfeiture A/c	Dr.	1,000	1,000
To Capital Reserve A/c			
(Being the remaining profit balance on reissued shares transferred to Capital Reserve)			