LESSON-27
ISSUE OF SHARES

SUMMARY

We shall study the procedure of issuing shares for raising capital and its accounting treatment in the books of the company.

PROCEDURE OF ISSUE OF SHARES

Face value of a share is the par value of the share. It is also known as the Nominal value or denomination of a share. To issue shares a company follows a definite procedure which is controlled and regulated by the Companies Act and Securities Exchange Board of India (SEBI). There are different ways of issue of shares which may be

(A) For consideration other than cash

(B) For cash

(A) ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

Sometimes shares are issued to the promotors of the company in lieu of the services provided by them during the incorporation of the compnay. The issue price of these shares is normally debited to 'Goodwill A/c'.

(B) ISSUE OF SHARES FOR CASH

In general, shares are issued for cash. The company may call the share money either in one instalment or in two or more instalments. But company always collects this money through its bankers.

FULL, UNDER AND OVER SUBSCRIPTION

Full Subscription: Company may receive applications equal to the number of shares company has offered to people. It is called full subscription.

Under Subscription: The issue is said to have been under subscribed when the company receives applications for less number of shares than offered to the public for subscription. In this case company is not to face any problem regarding allotment since every applicant will be alloted all the shares applied for. But the company can proceed with allotment provided the subscription for shares is at least equal to the minimum required number of shares termed as minimum subscription.

Over Subscription: When company receives applications for more number of shares than the number of shares offered to the public for subscription it is a case of over subscription. A company cannot allot more shares than what it has offered.

ISSUE OF SHARES AT PREMIUM

If a company issues its shares at a price more than its face value, the shares are said to have been issued at Premium. The difference between the issue price and face value or nominal value is called 'Premium'. If a share of ` 10 is issued at ` 12, it is said to have been issued at a premium of ` 2 per share.

According to Section 78 of this Act, the amount of premium can be utilised for

(i) Issuing fully-paid bonus shares;
(ii) Writing off preliminary expenses, discount on issue of shares and debentures, underwriting commission or expenses on issue;
(iii) Paying premium on redemplion of Preference shares or Debentures;
(iv) By Back of Shares.

ISSUE OF SHARES AT DISCOUNT

When the issue price of share is less than the face value, shares are said to have been issued at discount. For example if a company issues its shares of ` 100 each at 90 each, the shares are said to be issued at discount. The amount of discount is 10 per share (i.e. ` 100 – ` 90).

CALLS IN ADVANCE AND CALLS IN ARREARS

Calls-in-Advance

If a shareholder pays any amount to company before it is demanded, it is called Call-in-Advance. This amount is put in a separate account known as Calls-in-Advance A/c.

Calls-in-Arrears

When the company sends notice to the shareholders to pay allotment and /or call money, it has to be paid by them within the specified time period. If it is not paid by any one or more of the shareholders, the unpaid amount becomes arrears due from them. Such arrears are transferred to an account termed as Calls-in-Arrears A/c.