

Tutorial Notes

Class: B.Com (Prog.) Semester III (CC9)

Subject: Corporate Accounting.

Topic: Shares and types of shares, and some important term used in accounting for share capital.

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Shares

A share is referred to as a unit of ownership which represents an equal proportion of a company's capital. A share entitles the shareholders to an equal claim on profit and losses of the company. There are majorly two kinds of shares i.e. equity shares and preference shares.

Different types of shares

As per section 43 of the Companies Act 2013, the share capital of the company is of two types:

Preference Share Capital

Preferential shares are preferential in nature. During the liquidation of the company, the shareholders holding preferential shares are paid out first after settling the debts of the creditors of the company. Also, preferential shareholders do not have any voting rights. Various types of preferential shares are seen based on structure, maturity terms, nature of dividend payment, etc. below are some common types:

- ❖ Cumulative Preference Shares:
 - Arrear will be received in subsequent years
 - At the time of inadequate profit, you will not lose anything.
 - The fixed rate of dividend is guaranteed.
- ❖ Non-cumulative Preference Shares:
 - At the time of inadequate profit, they will not get anything.
 - Fixed rate of dividend is guaranteed.
- ❖ Participating Preference Shares
 - Entitled to share the surplus profit
 - Fixed rate of dividend is guaranteed
- ❖ Non-participating Preference Shares:
 - Does not share the surplus profit.
 - Fixed rate of dividend is guaranteed.
- ❖ Convertible Preference Shares
 - It can be converted into Equity shares within a certain period.

- ❖ **Non-convertible Preference Shares:**
 - It cannot be converted into Equity shares.
- ❖ **Redeemable Preference Shares:**
 - Shares which a company may repay after a fixed period of time or earlier.
- ❖ **Irredeemable Preference Shares:**
 - Shares are repayable only at winding up.
 - It does not carry the arrangement for redemption.

Equity Share Capital

Equity Shares are also known as ordinary shares. Equity shares are one of the most common types of share. These are equal in value and also impart various rights like voting rights, dividends, etc. to the shareholders. These shares are traded in stock exchange and are issued at a face value.

Some Important Terms used in Accounting for Share Capital

Note 1: Minimum Subscription (Section 39) – It is the minimum amount stated in the prospectus that must be subscribed by the public before an allotment of any security is made.

Prospectus: It is an invitation to public for subscription of shares or debentures.

Capital: means amount invested in the business for the purpose of earning revenue. In case of company money is contributed by public and people who contributed money are called shareholders.

Share Capital: Capital raised by issue of shares is called share capital.

Authorised Capital: Also called as Nominal or registered capital. It is the maximum amount of capital a company can issue. It is stated in Memorandum of Association.

Issued Capital: This is part of authorized capital which is offered to public for subscription. It cannot exceed authorized capital.

Called Up Capital: It is the amount of nominal value of shares that has been called up by the company for payment by the subscriber towards the share.

Paid Up Capital: It is part of called up capital that the members of company or shareholders have paid.

Reserve Capital: It is part of increased capital and/or portion of uncalled share capital of an unlimited company which can be called only in case of winding up of the company.

Capital Reserve: It is capital profit not available for distribution as dividend. It is represented in balance sheet of company as Reserves and Surplus under the heading Shareholder's Funds.