

## Objectives

At the end of this chapter, students should be able to:

- Distinguish between different classes of shares;
- Distinguish between authorized capital and issued capitals;
- Distinguish between issued at par, discount and premium;
- Mention the types of shares;
- Prepare the various account related to issue of shares.

## 21.1 Introduction

A share is a part of a company's share authorised or issued capital. It represents an interest a shareholder has in a company. It is measured by a sum of money for the purpose of earning share dividend. To apply for a shareholding in a company, prospectus is used to make an offer of shares for subscription stating the number and kind of shares offered and the method of payment through the bankers of the company. Shares are allotted to the applicants by allotment letter showing the number of shares, amount paid and amount due or to be paid, then shares are issued, the company may demand for full payment at once or by installments. Share certificates are issued after full payment as an evidence of ownership of shares stated in the share certificates.

## 21.2 Terminologies

(i) **Authorised Capital:** It is the number of shares that can be issued legally as specified in the Memorandum and Articles of Association of a company. It is sometimes called .nominal capitals.

(ii) **Shares Issued at a Premium:** When share at per value is sold above per value, it is said to have been issued at a premium.

(iii) **Issued Capital:** This is a part of the authorised capital which is issued for subscription.

15th Jan. 40k per shares on allotment.

20th Jan. 20k per share on first and final calls.

Assuming that all shares offered were subscribed for and payment on application received by 15th Jan. allotment and calls money were received on their respective due dates. Enter the following transactions in the appropriate books of original entries. The entries for the above example will, therefore, appear as follows:

## Solution

First start with an opening journal entry before posting the ledgers.

Date	Particulars	N	N
		Dr	Cr
2009	Cash	80,000	
Jan 15	Application and allotment (application only) indented subscription received on application and allotment according to issues		

		₦	₦
Jan 15	Application Account	40,000	
	Allotment account	40,000.	
	Ordinary share capital account		80,000
	Being 40k per share on allotment on 100,000 ordinary shares issued as per directors order		
Jan 20	First and final call account	20,000	

### Ordinary Share Capital Account

		N	2009		₦
			Jan 16	Application & Allotment	80,000
			Jan 24	First & final calls	20,000

### Journal

When this amount is debited to the cash book, the corresponding credit is credited to application and allotment;

## 21.3 The First and Final Call

The first and final call was due on the 24th Jan at the director's discretion. Without delay the shareholders paid the remaining amount for shares allotted to them.

### First and Final Call ledger account

2009			2009		₦
Jan 24	Ordinary Share	20,000	Jan 24	cash	20,000

When shares are mixed, the company usually allows payment by installments. The first installment is payable on application the second installment is due on allotment of shares. A letter of allotment informing the applicant of shares allotted to him also requests the applicant to pay money immediately. The amount to be paid on allotment is usually stated. Subsequent calls for payment after allotment is known as .payment on calls. The calls may be more than two, the last of the calls is the final call. This part of the subscription is known as .called-up capital. And when the amount is paid, it is called .paid-up capital. When the shares are paid in full, the shares then can be described as fully-paid shares. When there is a default in payment in full for the shares allotted, the balance not paid on due to date is calls-in arrears received. First and Final Call was made on August th and this was honoured with full payment by August st, 209. You are required to show the journal entry, cash book and ledger entries to record the above information.

Date 2009	Particular	N	N
July 5	Cash Application & allotment account Being receipt of application & allotment money for 50,000 ordinary shares and 20,000 5% preference share	63,000.00	63,000.00
July 5	Application & allotment account ordinary share capital account Being 20k per share application and 20k per share on premium of 50,000 ordinary shares made this day	45,000.00	35,000.00  10,000.00
July 10	Application & allotment account	18,000.00	

**Application & allotment account  
Ordinary share**

Date 2009	Particulars	Amount N	Date	Particulars	account
July 1	Application (Ordinary shares)	10,000.00			

**Cash Book**

Date 2009	Particulars	Amount ₦	Date	Particulars	account
July 1	Application (Ordinary shares)	10,000.00			
July 10	Application (Ordinary shares)	4,000.00			
July 25	Allotment (Ordinary shares)	35,000.00			
July 29	Allotment (Ordinary shares)	14,000.00			
Aug. 22	First and final (Ordinary shares)	15,000.00			
Aug. 24	First and final (Ordinary shares)	6,000.00			

#### Application and Allotment Ordinary share

Date 2009	Particulars	Amount ₦	Date	Particulars	Amount ₦
July.17	Ordinary shares capital	35,000.00	July 25	Cash	10,000.00
July 17	Ordinary shares capital share premium	10,000.00			35,000.00
		45,000.00			45,000.00

#### Application and Allotment Ordinary share

Date	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
			July 10	Application and Allotment	4,000.00

#### Ordinary Share Capital Account

Date	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
Jan 16	Balance	60,000.00	July 5	Application	10,000.00
Aug 31	c/d		July 22	Allotment	35,000.00
			Aug 24	first & final call	45,000.00
		60,000.00	Sept 1	Balance c/d	60,000.00

#### Preference Share Capital Account

Date	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
Aug 31	Balance	24,000.00	July 5	Application	4,000.00
				Allotment	14,000.00
				first & final call	6,000.00
		24,000.00			24,000.00
			Sept 1	Balance b/d	24,000.00

### Share Discount Account

When a per value stock is sold below the stated value, it is a discount whereas stock sold above the per value is at a premium.

	Ordinary Share Capital Account Being 20k per share on application 40k per share on allotment of 20,000 ordinary shares discount made this date		12,000.00
June 29	First and Final calls Account Discount on ordinary Share Account Ordinary Capital Share Account Being first and final call on 20,000 ordinary shares with 10% discount made this date	6,000.00 2,000.00	8,000.00

### Cash Book

Date 2009	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
June 12	Application Allotment First & Final Calls	4,000.00 8,000.00 6,000.00 18,000.00			

### Application and Allotment

Date 2009	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
June 12	Ordinary share capital	4,000.00	June 12	Cash	4,000.00
			June 12	Cash	8,000.00
		12,000.00			12,000.00

### First and Final Call Account

Date 2009	Particulars	Amount ₦	Date 2009	Particulars	Amount ₦
June 29	Ordinary share	6,000.00	June 19	Cash	6,000.00

The issue must be within one month after the sanction of the court. In the balance sheet the sum of discount is shown on the assets side as fictitious until it is written off, the profit and loss appropriation

account for a period of time is offset with premium account, if there is any. A company may issue shares at a discount (for the reasons such as the company not doing well) in an attempt to attract investors. However, any discount issue has no effect on the face value of shares held by the investors (shareholders). Discount can be written off by calling for additional payment by shareholders (or through retirement of the related shares of redeemable preference shares).

## 21.4 Types of Shares

There are three types of shares these are:

- (i) Preference shares.
- (ii) Ordinary shares.
- (iii) Deferred shares.

**(i) Ordinary Shares:** They have no dividend right. The holders are entitled to what amount remains after the fixed preference shareholders have been paid. The dividend to be paid to the shareholders depend on the number of shares held by individual shareholders in the event of liquidation, ordinary share holders will not be refunded their holdings until or after all other investors are paid. Any surplus are paid to ordinary shareholders. Ordinary shareholders have the control of the company through their roles at the annual general meetings to elect directors, auditors and to amend the memorandum and articles of association.

**Illustration:** 30,000 shares of the authorised capital for public subscription N1.00 per value, payable as follows:

60k per share on submission of the application forms and 40k balance to be paid as soon as the notice of allotment is received by the allottees within two weeks from the date of invitation, the application fees were received and two weeks later the allotment fees were also received in full. You are required to show necessary entries through journal and posting to record the transactions.

**(ii) Preference Share Capital:** Preference shareholders have the right to fixed dividend each year before any other class of share holding is paid dividend. In case of liquidation they have the first right of claim. Preference shareholders are part owners because they earn dividend as owners at a fixed and stated rate of 5% or 10% as the case may be on their share certificate. With no insufficient profit, preference shareholders may not be paid dividend. If it is cumulative preference shares, they are entitled to receive dividend in arrears.

## Deferred or Founders Shares

This type of shares is issued to promoters of the company for their services. The shares carry no voting right. Dividends are not paid to deferred shareholders until ordinary shareholders are paid.

## 21.5 Summary

In this chapter, students have learnt that:

1. A share is a part of a company's authorised and issued capital, and there are three types of shares.
2. Shares are issued to individual investors as preferred or ordinary shareholders.
3. Shares can be issued at per value, premium and discount.
4. Shares are issued on application, allotment and calls in more than twice resulting in first call, second call and first and final call. Ordinary shares of N1.00 per share on September 15, 2009.

## 21.6 Revision Questions

1. Distinguish between per and non-per value shares.
2. Explain in a few sentences the meaning of each of the following:
  - (i) Share discount
  - (ii) Share premium
6. The maximum capital a company is allowed by law to raise is \_\_\_\_\_.
  - A. nominal capital
  - B. issued capital
  - C. called-up capital
  - D. working capital

7. A share or holder subscribed where \_\_\_\_\_.  
A. it is offered for sale at less than nominal value  
B. It is offered for sale at nominal value  
C. It is offered sale more than nominal value  
D. the number of shares applied for is less than the offer
8. The maximum payable to shareholders of a company is. \_\_\_\_\_.  
A. determined by affairs commission  
B. shareholders of company directors of the company  
C. executive secretary of the company
9. When shares are sold more than per value. They are issued at a \_\_\_\_\_.  
A. profit  
B. premium  
C. discount  
D. normal value
10. Payment for share installments is done by means of \_\_\_\_\_.  
A. call  
B. circulars  
C. subscription  
D. Invitation