

COMPANIES

Study unit 6

FAC1601

ISSUE OF SHARES

- ① Three basic transactions
 - Receipt of applications to subscribe for shares
 - Allotment of shares
 - Returning money to unsuccessful applicants (over-subscription) OR Underwriter
- ① Application and allotment account
 - Interim account
 - Close-off to applicable capital account

ISSUE DIFFERENT CLASSES OF SHARES - JOURNALS

1. Receipt application money from founders
 - Dr Bank
 - Cr Incorporators: Ordinary shares
2. Allotment to incorporators
 - Dr Incorporators: Ordinary shares
 - Cr Share capital: Ordinary shares
3. Receipt application money from public
 - Dr Bank
 - Cr Application and allotment: Ordinary shares
 - Cr Application and allotment: x% Preference shares
4. Allotment of shares
 - Dr Application and allotment: Ordinary shares
 - Dr Application and allotment: x% Preference shares
 - Cr Share capital: Ordinary shares
 - Cr Share capital: x% Preference shares

OVER-SUBSCRIPTION

- ◉ Same journals as previous slide, then:
- ◉ Cash refunded to unsuccessful applicants
 - Dr Application and allotment account: (*type*) Shares
 - Cr Bank
- ◉ Payment of share-issue expenses
 - Dr Share-issue expenses
 - Cr Bank

ALLOTMENT SCHEDULE

Group	# Applications in group	Total # shares applied for	Received from applicants	Shares allotted	Cash repaid to unsuccessful applicants
1	XX	XX	XX	XX	XX
2	XX	XX	XX	XX	XX
3	XX	XX	XX	XX	XX
Totals		XX	XX	XX	XX

ISSUE CAPITALISATION SHARES

- ◉ AKA Bonus shares to existing share holders
 - Same proportion as current share holding
 - Receive no payment
 - Use distributable reserves & retained earnings
- ◉ Journal entries
 - Dr Retained earnings
 - Cr Share capital: (*type*) Share , e.g. Ordinary shares

UNDERWRITING SHARES

- Under-subscription
 - Receive fewer applications than shares being issued
- Underwriters provide guarantee
 - Take up shares not subscribed by public
 - Commission to provide guarantee
 - Based on total value of shares underwritten
 - Treat as expense in P/L
- Journals (1-2 of slide 3)
 - Underwriter commission due
 - Dr Underwriters commission
 - Cr Underwriter name (creditor)
 - Receive application money from public
 - Dr Bank
 - Cr Application and allotment account
 - Allotment of shares to applicants
 - Dr Application and allotment account
 - Cr Share capital
 - Allotment of shares to underwriter
 - Dr Underwriter (Creditor)
 - Cr Share capital
 - Balance paid underwriter
 - Dr Bank
 - Cr Underwriter (Shares allocated - commission)
 - Close-off expenses to P/L account

DIVIDENDS DECLARATION AND PAYMENT

⦿ Declaration

- Dr Preference/ordinary dividends
- Cr Dividends payable

⦿ Payment

- Dr Dividends payable
- Cr Bank

DEBENTURES ISSUE

⊙ Issue debentures

- Dr Bank
- Dr Discount of issue of debentures *
 - ⊙ (Market % > Nominal rate)
- Cr x% Debentures
- Cr Premium on issue of debentures *
 - ⊙ (Market % < Nominal rate)

Debentures can be issued at nominal value,
premium OR discount.

⊙ Interest payments

- Dr Interest on debentures
- Cr Bank