

## SUVA SANGAM COLLEGE

### YEAR 13 ACCOUNTING

Week 1 (Monday 5/7/21- Friday 9/7/21)

STRAND 3	Company Accounting
SUB STRAND	Formation of Companies

#### **FORMATION OF COMPANIES**

##### **Share issue**

The company directors decide the number of shares to be issued and the conditions of the issue. This is done at a director's meeting and the decision is recorded in the company's minute book.

##### **Share capital**

Share capital consists of all funds raised by a company in exchange for shares of either common or preferred shares of stock. The amount of share capital or equity financing a company has can change over time.

Terms used in accounting for the issue of shares in a company

1. Authorised capital – The total value of the shares that a company is entitled to sell to the public.
2. Issued capital – it is the total value of the shares that a company has issued to shareholders.
3. Unissued capital – value of the shares that has not yet been issued to the public.
4. Uncalled capital (Equity receivable) - the proportion of the issue price of the shares that shareholders have not been requested to pay to the company.
5. Application – the proportion of the issue price of the shares that shareholders are requested to send with their applications to buy the shares.
6. Allotment – the installment that is required to be paid when the shareholder receives notification of the allotment of the shares.
7. Calls – all installments of the issue price requested after the shares have been allotted.
8. Calls in arrears – calls that shareholders have not yet paid upon request by the company. Also known as unpaid calls.
9. Calls in advance – money received in advance from shareholders for calls not yet made.

##### Activity

Define the following terms

- a. Authorised Capital \_\_\_\_\_
- b. Uncalled Capital \_\_\_\_\_
- c. Calls \_\_\_\_\_
- d. Calls in Advance \_\_\_\_\_

Week 2 (Monday 12/07/21-Friday16/07/21)

Issue of shares fully payable on Application

Before issuing any shares to the public, a company provides disclosure documents such as prospectus, with an application form. The money received is kept in a separate bank account until the company has allotted shares or returned the money to applicants.

**For example;** on 1<sup>st</sup> January 2021, Sun Beam Company registered with capital of 500 000 \$1 shares. A prospectus has been issued and states that the full price of the share is to be included with the application form. All the shares have been subscribed for and allotted.

The following General Journal entry is made:

<b>Date</b>	<b>Particulars</b>	<b>Dr (\$)</b>	<b>Cr (\$)</b>
Jan 1	Unissued Capital	500 000	
	Authorised Capital		500 000
	<i>(To record authorized capital.)</i>		
	Uncalled Capital	200 000	
	Unissued Capital		200 000
	<i>(Issue of 200 000 shares @ \$1 as per director's resolution.)</i>		
	Application	200 000	
	Equity Receivable/Uncalled Capital		200 000
	<i>(200 000 shares issued at \$1 as per directors resolution in minutes book.)</i>		

**Note:**

This entry does not indicate any receipt of cash. Application monies must be placed in a special trust account as the money does not belong to the company until the shares are allotted;

Equity receivable is another term for uncalled capital.

Assuming that all money due is received, therefore the following entry is made:



Week 3 (Monday (19/07/21)-Friday (23/07/21))

### **Issue of shares payable in installments**

A company may decide to issue its shares on instalments. The first instalment is called application, the second is called allotment and any subsequent instalments are known as calls.

Sometimes companies incur calls in arrears for their final instalments on call.

### **Calls in arrears**

The balance left in a call account represents calls in arrears or unpaid calls. It represents called-up capital that is unpaid

### **Example**

Prime Company Ltd was registered with a capital of 70 000 @ \$1 share on 1<sup>st</sup> May 2017. The directors at that date decided to issue 60 000 shares to the public on the following terms:

40 cents per share on application

30 cents per share on allotment

20 cents per share on first call

10 cents per share on second call

Applications for all shares were received by 16<sup>th</sup> July. The directors allotted the shares on 23<sup>rd</sup> August. All allotment money due was received by 20<sup>th</sup> September. The directors made the first call on 1<sup>st</sup> October 2017. By 31<sup>st</sup> October first call monies had been received, with the exception of the amount owing on 400 shares.

### **Required:**

Using this information, prepare:

- a. General Journal entries.
- b. Ledger Accounts.
- c. Shareholders Fund Section of the balance sheet.

### **Solution**

#### **a. General Journal Entries**

Record the  **Authorised Capital**  
**Prime Company Ltd**

### General Journal

Date	Particulars	Debit \$	Credit \$
May 1	Unissued Capital  Authorised Capital  <i>(To record 70 000 x \$1 authorised capital.)</i>	70 000	70 000

STEP 2

**Record the value of shares to be issued**

### General Journal

Date	Particulars	Debit \$	Credit \$
May 1	Uncalled Capital / Equity Receivable  Unissued Capital  <i>(Issue of 60 000 shares @ \$1 as per directors' resolution.)</i>	60 000	60 000

STEP 3

**Record the money received on application**

### General Journal

Date	Particulars	Debit \$	Credit \$
July 16	Cash at Bank – Share Trust  Application  <i>(Money received on application.)</i>	24 000	24 000

**Record the amount due on application**

STEP 4

**General Journal**

Date	Particulars	Debit \$	Credit \$
July 16	Application  Uncalled Capital  <i>(Application of 40cents share on 60 000 shares as per directors' resolution.)</i>	24 000	24 000

Record the **STEP 5** amount due on allotment  
General Journal

Date	Particulars	Debit \$	Credit \$
Aug 23	<b>Allotment</b>  <b>Uncalled Capital</b>  <i>(Allotment of 60 000 shares @ 30cents as per directors' resolution.)</i>	<b>18 000</b>	<b>18 000</b>

**STEP 6** Transfer the balance of Cash at Bank-Share Trust to Cash at Bank-General  
General Journal

Date	Particulars	Debit \$	Credit \$
Aug 23	<b>Cash at bank-general</b>  <b>Cash at bank-share trust</b>  <i>(Transfer of trust monies to general cash at bank account.)</i>	<b>24 000</b>	<b>24 000</b>

**STEP 7** To record money received on allotment  
General Journal

Date	Particulars	Debit \$	Credit \$
Sept 20	<b>Cash at bank-general</b>  <b>Allotment</b>  <i>(Money received on allotment 60 000 shares @ 30cents.)</i>	<b>18 000</b>	<b>18 000</b>

Record the **STEP 8** amount due on call  
General Journal

Date	Particulars	Debit \$	Credit \$
Oct 1	<b>Call No. 1</b>  <b>Uncalled Capital</b>  <i>(To record the amount due on call 60 000 shares @ 20cents.)</i>	<b>12 000</b>	<b>12 000</b>



Week 4 (Monday (26/07/21- Friday (30/07/21)

The following ledger accounts relates to the example of Prime Company Limited.

<b>Authorised Capital</b>					
<b>Date</b>	<b>Particulars</b>	<b>\$</b>	<b>Date</b>	<b>Particulars</b>	<b>\$</b>
			<b>May 1</b>	<b>Unissued capital</b>	<b>70 000</b>

<b>Unissued Capital</b>					
<b>Date</b>	<b>Particulars</b>	<b>\$</b>	<b>Date</b>	<b>Particulars</b>	<b>\$</b>
<b>May 1</b>	<b>Authorised capital</b>	<b>70 000</b>	<b>May 1</b>	<b>Uncalled Capital</b>	<b>60 000</b>
			<b>31</b>	<b>Balance c/d</b>	<b>10 000</b>
		<b>70 000</b>			<b>70 000</b>
<b>June 1</b>	<b>Balance b/f</b>	<b>10 000</b>			

<b>Uncalled Capital/ Equity Receivables</b>					
<b>Date</b>	<b>Particulars</b>	<b>\$</b>	<b>Date</b>	<b>Particulars</b>	<b>\$</b>
<b>May 1</b>	<b>Unissued Capital</b>	<b>60 000</b>	<b>July 16</b>	<b>Application</b>	<b>24 000</b>
			<b>Aug 23</b>	<b>Allotment</b>	<b>18 000</b>
			<b>Oct 1</b>	<b>Call</b>	<b>12 000</b>
			<b>31</b>	<b>Balance c/d</b>	<b>6 000</b>
		<b>60 000</b>			<b>60 000</b>

<b>Application</b>					
<b>Date</b>	<b>Particulars</b>	<b>\$</b>	<b>Date</b>	<b>Particulars</b>	<b>\$</b>
<b>July 16</b>	<b>Uncalled Capital</b>	<b>24 000</b>	<b>July 16</b>	<b>Cash- share trust</b>	<b>24 000</b>

<b>Cash at Bank- Share Trust</b>					
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Date	Particulars	\$	Date	Particulars	\$
July 16	Application	24 000	Aug 23	Cash at Bank-general	24 000

*Note: This Cash at bank share trust would normally be kept in separate records.*

Allotment					
Date	Particulars	\$	Date	Particulars	\$
Aug 23	Uncalled Capital	18 000	Sep 20	Cash at bank - general	18 000

Call No. 1					
Date	Particulars	\$	Date	Particulars	\$
Oct 1	Uncalled Capital	12 000	Oct 31	Cash at bank - general	11 920
				Balance c/d	80
		12 000			12 000
Nov 1	Balance b/f	80			

#### Cash at Bank - General

Date	Particulars	\$	Date	Particulars	\$
Aug 23	Cash at bank-share trust	24 000	Oct 31	Balance c/d	53 920
Sept 20	Allotment	18 000			
Oct 31	Call	11 920			
		53 920			53 920
Nov 1	Balance b/f	53 920			

#### ACTIVITY

Miriama Company Ltd was registered on 1<sup>st</sup> January, 2018. On 4<sup>th</sup> January the directors offered 80 000 shares at a price of \$1 share to the public payable 50 cents on application, 25 cents on allotment and 25 cents on call. Applications due were received by 31<sup>st</sup> January. The directors allotted the shares on 4<sup>th</sup> February and allotment due was received by 20<sup>th</sup> February. A call was made on 1<sup>st</sup> March and money due was received, with the exception of the call on 500 shares.

#### **Required:**

- Show the general journal entries.
- Post it to appropriate ledger accounts.

Week 5 (Monday 02/08/21- 08/08/21)

The following example relates to the shareholders' section of the Balance Sheet of Prime Company Limited

**Prime Company Ltd**

<b>Statement of Financial Position as at 31<sup>st</sup> October 2017 (Extract)</b>		
	\$	\$
<b>Shareholders' Equity</b>		
Authorised Capital	70 000	
Less Unissued capital	10 000	
Issued capital	60 000	
Less Uncalled capital	6 000	
Called Up Capital	54 000	
Less Call in arrears	80	
Paid-up capital	53 920	<b>\$53 920</b>
This is represented by:		
<b>Current Assets</b>		
Cash at bank		<b>\$53 920</b>

**Alternative form of setting out share capital**

An alternative form of setting out the share capital section normally used in external reporting is:

<b>Shareholders' Equity</b>	\$	\$
<b>Share Capital</b>		
Paid up Capital      59 600 shares @ 90c	53 640	
400 shares @ 70c	280	
<b>Total Shareholder's Equity</b>		<b>53 920</b>

ACTIVITIES

1. Del Company Ltd was registered on 22<sup>nd</sup> July 2018 with an authorised capital of 300 000 @ \$5 per share. The directors at that date decided to issue 250 000 shares at \$5 per share on the following terms:

Application \$2 per share  
Allotment \$2 per share

Calls 25 cents per share on each call

Applications were called on 31<sup>st</sup> July. All application monies were received by 31<sup>st</sup> July and at this date the directors allotted the shares. All allotment monies were received by 15<sup>th</sup> August. On 1<sup>st</sup> September the directors decided to make the first call. On 1<sup>st</sup> October, first call money was still outstanding on 1 000 shares.

**Required:**

- a. Show the general journal entries.
- b Post it to appropriate ledger accounts.
- c. Prepare the Statement of Financial Position (Extract) of Del Company Ltd as at 1<sup>st</sup> October 2018.

2.The following information relates to Farmers Company Ltd. (Reference FSFE 2017)

Farmers Company Ltd was formed on 1<sup>st</sup> February 2017 with a registered capital of \$200 000, consisting of 200 000 \$1.00 preference shares of 9%. On 4<sup>th</sup> February 2017, the directors proposed to offer 130 000 preference shares to the public on the following terms:

- 50c on Application
- 25c on Allotment
  
- 25c on Call

On 28<sup>th</sup> February all Application money was received. On 1<sup>st</sup> March, 2017 the directors allotted the shares and by 31<sup>st</sup> March, 2017 all Allotment money was received. A Call was made on 1<sup>st</sup> April and money due was received with the exception of the Call on 400 shares.

**Required**

- (a) Using the relevant information given above, prepare the general journal entry to record the amount of money due on application.
- (b) What is the amount of money the company received from Call?
  
- (c) State **one** advantage to the shareholders of buying preference shares.