

58.1 A drill to practise accounting for the issue of shares in a new company

For each of the companies below:

- state the double entry necessary to account for the issue of shares
- show the entries in the relevant accounts
- show a summary balance sheet for the company after the share issue.

1.

ABC Ltd is formed with authorized share capital £100, divided into 400 ordinary shares of 25p each nominal value.

100 shares are issued for cash at par, fully paid.

DR	Cash	£25	
CR	Issued Share Capital		£25

<i>Cash</i>		<i>Issued Share Capital</i>	
<i>received from issue of shares</i>	25	<i>claim to nominal value of shares issued</i>	25

ABC Ltd Balance Sheet	
Assets	<u>£25</u>
Issued Share Capital	
100 shares of 25p each, fully paid	<u>£25</u>

2.

DEF Ltd is formed with authorized share capital £10 000, divided into 20 ordinary shares of nominal value £500 each.

The company issues 5 shares for cash at par, fully paid.

DR	Cash	£2 500	
CR	Issued Share Capital		£2 500

<i>Cash</i>		<i>Issued Share Capital</i>	
<i>received from issue of shares</i>	2 500	<i>claim to nominal value of shares issued</i>	2 500

DEF Ltd Balance Sheet	
Assets	<u>£2 500</u>
Issued Share Capital	
5 shares of £500 each, fully paid	<u>£2 500</u>

3.

GHI Ltd is formed with authorized share capital £2 000, divided into 4 000 ordinary shares of nominal value 50p each.

- a) The company issues 100 shares for cash at par, part paid 30p per share.

DR	Cash	£30	
CR	Issued Share Capital		£30

Cash		Issued Share Capital	
<i>received from issue of shares</i>	30	<i>claim to initial value paid in</i>	30

GHI Ltd Balance Sheet	
Assets	<u>£ 30</u>
Issued Share Capital	
100 shares of 50p each, part paid 30p	<u>£ 30</u>

- b) The issued shares are made fully paid.

DR	Cash	£20	
CR	Issued Share Capital		£20

Cash		Issued Share Capital	
<i>received from issue of shares</i>	30	<i>claim to initial value paid in</i>	30
<i>received to make shares fully paid</i>	20	<i>claim to further value paid in</i>	20

GHI Ltd Balance Sheet	
Assets	<u>£ 50</u>
Issued Share Capital	
100 shares of 50p each, fully paid	<u>£ 50</u>

4.

JKL Ltd is formed with authorized share capital £1 000, divided into 5 000 ordinary shares of nominal value 20p each.

- a) The company issues 1 000 shares for cash at par, part paid 15p per share.

DR	Cash	£150	
CR	Issued Share Capital		£150

Cash		Issued Share Capital	
<i>received from issue of shares</i>	150		<i>claim to initial value paid in</i> 150

JKL Ltd Balance Sheet	
Assets	<u>£ 150</u>
Issued Share Capital	
1 000 shares of 20p each, part paid 15p	<u>£ 150</u>

- b) The issued shares are made fully paid.

DR	Cash	£50	
CR	Issued Share Capital		£50

Cash		Issued Share Capital	
<i>received from issue of shares</i>	150		<i>claim to initial value paid in</i> 150
<i>received to make shares fully paid</i>	50		<i>claim to further value paid in</i> 50

JKL Ltd Balance Sheet	
Assets	<u>£ 200</u>
Issued Share Capital	
100 shares of 50p each, fully paid	<u>£ 200</u>

5.

MNO Ltd is formed with authorized share capital £100, divided into 200 ordinary shares of nominal value 50p each.

The company issues 100 shares for cash at 60p each (i.e. at a premium of 10p per share) fully paid.

DR	Cash	£60	
CR	Issued Share Capital		£50
CR	Share Premium		£10

Cash		Issued Share Capital	
<i>received from issue of shares</i>	60		<i>claim to nominal value of shares issued</i> 50
		Share Premium	
			<i>claim to extra value paid in</i> 10

MNO Ltd Balance Sheet	
Assets	<u>£ 60</u>
Issued Share Capital	
100 shares of 50p each, fully paid	50
Share Premium	<u>10</u>
	<u>£ 60</u>

6.

PQR Ltd is formed with authorized share capital £500, divided into 500 ordinary shares of nominal value £1 each.

The company issues 300 shares for cash at £1.50 each (i.e. at a premium of 50p per share) fully paid.

DR	Cash	£450	
CR	Issued Share Capital		£300
CR	Share Premium		£150

																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																									</
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	----

PQR Ltd Balance Sheet	
Assets	<u>£ 450</u>
Issued Share Capital	
300 shares of £1 each, fully paid	300
Share Premium	<u>150</u>
	<u>£ 450</u>

7.

STU Ltd is formed with authorized share capital £1 000, divided into 1 000 ordinary shares of nominal value £1 each.

a) The company issues 100 shares for cash at £1.20 each, part paid 90p.

DR	Cash	£90	
CR	Issued Share Capital		£70
CR	Share Premium		£20

Cash		Issued Share Capital	
<i>received from issue of shares</i>	90		<i>claim to part of nominal value of shares issued</i> 70
		Share Premium	
			<i>claim to extra value paid in</i> 20

STU Ltd Balance Sheet after part-paid issue	
Assets	<u>£ 90</u>
Issued Share Capital	
100 shares of £1 each, part paid	70
Share Premium	<u>20</u>
	<u>£ 90</u>

7. continued

STU Ltd was formed with authorized share capital £1 000, divided into 1 000 ordinary shares of nominal value £1 each.

a) The company has issued 100 shares for cash at £1.20 each, part paid 90p.

b) The issued shares are made fully paid.

DR	Cash	£30	
CR	Issued Share Capital		£30

Cash		Issued Share Capital	
<i>received from issue of shares</i>	90		<i>claim to part of nominal value of shares issued</i> 70
<i>received to make shares fully paid</i>	30		<i>claim to the rest of nominal value of shares issued</i> 30
		Share Premium	
			<i>claim to extra value paid in</i> 20

STU Ltd Balance Sheet after shares are fully paid	
Assets	<u>£ 120</u>
Issued Share Capital	
100 shares of £1 each, fully paid	100
Share Premium	<u>20</u>
	<u>£ 120</u>

8.

VWX Ltd is formed with authorized share capital £5 000, divided into 500 ordinary shares of nominal value £10 each.

- a) The company issues 400 shares for cash at £12 each, part paid £11.

DR	Cash	£4 400	
CR	Issued Share Capital		£3 600
CR	Share Premium		£800

Cash		Issued Share Capital	
			<i>claim to part of nominal value of shares issued</i>
<i>received from issue of shares</i>	4 400		3 600
		Share Premium	
			<i>claim to extra value paid in</i>
			800

VWX Ltd Balance Sheet after part-paid issue	
Assets	<u>£4 400</u>
Issued Share Capital	
400 shares of £10 each, part paid	3 600
Share Premium	<u>800</u>
	<u>£4 400</u>

8. continued

VWX Ltd was formed with authorized share capital £5 000, divided into 500 ordinary shares of nominal value £10 each.

a) The company has issued 400 shares for cash at £12 each, part paid £11.

b) The issued shares are made fully paid.

DR	Cash	£400	
CR	Issued Share Capital		£400

Cash		Issued Share Capital	
<i>received from issue of shares</i>	4 400		<i>claim to part of nominal value of shares issued</i> 3 600
<i>received to make shares fully paid</i>	400		<i>claim to the rest of nominal value of shares issued</i> 400
		Share Premium	
			<i>claim to extra value paid in</i> 800

VWX Ltd Balance Sheet after shares are fully paid	
Assets	<u>£4 800</u>
Issued Share Capital	
400 shares of £10 each, fully paid	4 000
Share Premium	<u>800</u>
	<u>£4 800</u>

9.

Robert has invented and patented a new engineering process.

Various investors are interested, and Robert has formed RHA Ltd to exploit the idea, with an authorized share capital of £50 000, divided into 200 000 shares of 25p each.

The company initially issues a total of 160 000 shares at a premium of 75p per share, fully paid. 90 000 shares are allotted to Robert, in exchange for the exclusive right to use his patent, and 70 000 shares are allotted to Audrey for cash.

DR	Patent Rights	£90 000	
DR	Cash	£70 000	
CR	Issued Share Capital		£40 000
CR	Share Premium		£120 000

<i>Patent Rights</i>	
<i>received from Robert</i>	90 000

<i>Cash</i>	
<i>received from Audrey</i>	70 000

<i>Issued Share Capital</i>	
<i>claim to nominal value of shares issued</i>	40 000

<i>Share Premium</i>	
<i>claim to extra value paid in</i>	120 000

RHA Ltd Balance Sheet	
	£
Assets	
Patent Rights	90 000
Cash	70 000
	<u>£160 000</u>
Issued Share Capital	
160 000 shares of 25p, fully paid	40 000
Share Premium	120 000
	<u>£160 000</u>

10.

X, Y, and Z have formed XYZ Ltd with an authorized share capital of £500 000, divided into 100 000 shares of £5 each.

The company issues 20 000 shares at par, fully paid, as follows:

8 000 shares are issued to X in exchange for delivery vehicles

7 000 shares are issued to Y in exchange for machinery

5 000 are allotted to Z for cash.

DR	Delivery Vehicles	£40 000	
DR	Machinery	£35 000	
DR	Cash	£25 000	
CR	Issued Share Capital		£100 000

<i>Delivery vehicles</i>	
<i>received from X</i>	40 000
<i>Machinery</i>	
<i>received from Y</i>	35 000
<i>Cash</i>	
<i>received from Z</i>	25 000

<i>Issued Share Capital</i>	
	<i>claim to nominal value of 100 000 shares issued</i>

XYZ Ltd Balance Sheet	
	£
Assets	
Delivery Vehicles	40 000
Machinery	35 000
Cash	25 000
	<u>£100 000</u>
Issued Share Capital	
20 000 shares of £5, fully paid	<u>£100 000</u>