FINANCIAL ACCOUNTING

S.S. 2 WEEK 2

Topic: Formation of a Company

ISSUE OF SHARES
FORMATION OF A COMPANY

A company is a legal person or entity created by the association of a number of person in accordance with the law for the purpose of a defined object.

A company means a company registered under the act and the existing company laws (Companies and Allied Matter Acts 1990).

A business entity registered in compliance with provisions of CAMA 1990 is a company and is given incorporated number usually RC.

It must not be assumed that the world "company" as part of a firm's name indicated that the company is an incorporated company. A sole trader can adopt at title such as "Chukwuemeka and Company" for trading purposes.

Characteristics of a Company

1. It is a legal entity not a physical person
2. It is incorporated under the Companies and Allied Matters Act 1990.
3. It can sue and be sued in its official name
4. The death or bankruptcy of any of its member nor any change in the personnel of the firm does not affect its existence
5. The liability of the members is limited. The amount that a member can lose if the company is vested in the hands of the Board of Directors.
6. Management of the company is vested in the hands of the Board of Directors
7. Memorandum and Article of Association an provisions of Companies and Allied Matters Act 1990 governs it.
8. Members known as ordinary shareholders who are also risk bearers own it

9. CAMA 1990 prescribed the type of account to be kept by the company.
10. It must hold a general meeting of its members once in every calendar (financial) year.
11. Shareholders are not liable to pay more than the sum paid up in the event of liquidation.

TYPES OF COMPANY

1. **LIMITIED COMPANY**
   There are two types of limited company

a. **COMPANIES LIMITED BY SHARES:** This is a company in which the liability of its members in the event of liquidation is limited to the amount remaining unpaid on shares held/allotted to them.
b. **COMPANIES LIMITED BY GUARANTEE:** This is a company in which the liability of members is limited to the amount which they agreed to contribute in the event of liquidation.

2. **UNLIMITED COMPANY:** This is a company in which the liability of members extend beyond the amount remaining unpaid on the shares held (allotted) to them is in the event of liquidation if the assets of the company are insufficient to meet its debts, members will be required to contribute their resources towards settling the company's debts.

3. **PRIVATE COMPANY:** This is a company which has the following characteristics.
a. Right of transfer of shares restricted ie restrict eh right of transfer its shares.
b. Number of members limited to 50
c. The public cannot subscribe for its shares

4. **PUBLIC LIMITED COMPANY:** This is a company other than private company which is stated in its memorandum to be a public company and is free to offer its shares to the public for subscription

PERIOD II & III

Topic: Formation of a Company
Sub: Topic: Terminologies in the Formation of a Company

Content of the Lesson
FORMATION OF A COMPANY

Limited Liability Companies are formed and registered under the provisions of CAMA 1990. This Act makes provision for a minimum of two (2) to form a private company by subscribing their names to a Memorandum of Association and complying with other requirements of the Act in respect of registration.

A member of a company (shareholder) shall have his name entered in the register of members. Any company that fulfils these requirements could be incorporated into a limited liability company.

For the purpose of registration the Memorandum of Association and Article of Association shall be delivered to the registrar of companies in the ministry of Trade Industries and Commerce of the Federal Republic of Nigeria and all information therein are in order, the Registrar shall certify under his hand that the

The Registrar will issue a certificate of incorporation. This certificate is a conclusive evidence that all the requirement of CAMA 1990 in respect of registration and other matter have been complied with. From the date of incorporation, the members of the company shall be a body corporate by the name contained in the Memorandum of Association and shall have perpetual succession and a common seal. However, the liability of a member shall be restricted to the amount of shares not yet paid for / up.

Therefore, the effect of incorporation makes a company distinct from it members. The company can sue and be sued on its own name.

TERMS RELATED TO THE FORMATION OF A COMPANY

1. **MEMORANDUM OF ASSOCIATION**
   Memorandum of Association sets out relevant particulars of the company. It is a document that discloses the conditions which governs the company's relationship with outside world.
   It defines and limits the company's

CAMA 1990 stipulates that a company's memorandum of association should contain the following major information.

a. Name of the company with "LIMITED" as the last word of its name for a private company and plc for a public company.
b. The object of the company
c. A statement showing that the liability of the member is limited to the number of shares purchased.
d. The amount of share capital with which the company proposed to be registered and the division of the shares

ARTICLE OF ASSOCIATION
The article of association of a company governs its internal management.

They are set of rules or by-laws drawn up to govern the internal working of the company. It defines the power and duty of the directors and the form in which the company may operate.

The Article of Association also contains regulations regarding:
a. Regulation on the issue of shares
b. Transfer and forfeiture of capital
c. Holding of Annual General Meeting
d. The keeping of accounts and its audit
e. Borrowing power
f. The right of shareholders
g. Powers and duties of directors
h. Disqualification
i. Conversion of shares into stock
j. Appointment of secretary

PROMOTER
This is one who undertakes to form and register a company. He gets all the necessary document, submits them for registration and obtain a certification of incorporation which entitles a company to commence operation.

PROSPECTUS
A prospectus is an invitation to the public to buy shares on the terms stated. It contains information such as historical background of the company scope of its operation, management, capital structure, the type of stock to be issued and the selling price.

PRELIMINARY EXPENSES
It is the initial cost of floating a company. Such expenses have to do with preparation of legal documents and related formalities.

SHARES
They are the units of ownership of Limited Liability Company. They are small units each of capital amount into which the capita of a company is divided.

STATUTORY BOOKS
Statutory books are those books which by law CAMA 1990 requires every company must keep. The books are required to be kept by law. Strict compliance is required by all registered company. Failure to keep these prescribed books can lead to punitive measure taken against the company and its directors

CERTIFICATE OF CORPORATION
This is a document which gives legal personality. It is issued by the Registrar of Companies after due consultation with the various document submitted to the company

WEEK 3 & 4

Topic: Issue of Shares

Content of the Lesson
ISSUE OF SHARES

The directors of public companies subject to incorporation may invite subscription from the public. The invitation takes the form of a prospectus in which the general particulars regarding the company are set out and a formal invitation is made to the public to subscribe for the shares on the stated terms.

The prospectus contains information such as historical background of the company, nature and scope of its operation, management, capital structure, past and forecasted results, accountant's report and other details in a prescribed form.

Shares are units of ownership of a Limited Liability Company. They are the small units each of equal amount into which the capital of a company is divided. The capital of a company is divided into units, each of these units is known as shares.

SHARE CAPITAL
The capital of a company is called share capital
TYPES OF CAPITAL

1. **Ordinary Shares:** These are shares whose holders receive dividend only after the preference shareholder have received dividend. They are regarded as the risk bearers because they bear the heaviest loss in the event of liquidation of the company. On the other hand, the surplus profit after appropriation and surplus of assets in the event of liquidation belong solely to ordinary shareholders unless the Article of Association stipulates otherwise.

2. **Preference Shares:** This are shares which by the Memorandum or Article of Association confer some preferential right over other classes of shares usually the right to a fixed dividend out of the profit of each year before any dividend is paid to the holder of ordinary share and also may have a prior claim to repayment of capital in the event of winding up.

   Holders of preference shares are known as preference shareholder. They have no voting rights. Preference shareholders do not participate in the company's decision making. They only participate in surplus profit.

   Preference shares may be subdivided into:

a. **Cumulative Preference Shares:** This are preference shares in respect of which unpaid arrears of dividends are accumulated yearly and carried forward until profits are available to pay the dividend at which time the whole of the accumulated preference dividends must be paid before ordinary dividends are paid.

   When no profits is available or declared their dividends are carried forward to the next year.

b. **Non Cumulative Preference Shares**: These are preference shares in respect of which arrears of dividend are not carried forward if there are no profits to pay the individuals in any year.

c. **Redeemable Preference Shares:** These are preference shares which the company is under obligation to redeem at a specified date. Their owners can have their capital paid back to them.

d. **Irredeemable Preference Shares:** These are preference shares which the company is not obliged to redeem that is, they will remain permanently as capital in the company as long as the company exists.

e. **Participative Preference Shares:** Participative preference shares usually confer the right to fixed dividend and in addition entitles the holder to participate in surplus profits (if any) after the ordinary shareholders have received a specified percentage.

f. **Non-Participative Preference Shares:** They are shares whose owners cannot participate in surplus profit after the ordinary shareholders have received a stated percentage.

PERIOD II & III

Topic: Classes of Shares

Content of the Lesson
CLASSES OF SHARES

A company raises its capital either by subscription among the friend of the promoters or by public offer. Sometimes the shares are issued to existing shareholders either free of charge or for cash consideration.

At other times the shares of a company may be issued to persons owned by the company in settlement of such liabilities.

The division of the capital of a company into shares of persons the company each according to his financial ability. A company is thus able to raise capital from a much wider range of persons than other forms of business.

SUBSCRIPTION
It is an arrangement by which a member of the public applies for and buys shares in a company.

ALLOTMENT
It is the process by which shares subscribed for are allocated to person who have put in allocation. Eg. a person may apply for 2,000 shares but may be allotted 50% of this owing to compelition. In this case he is given a refund.

SHARE CAPITAL
The capital of a company is called share capital which may be of the following types:

a. **AUTHORISED SHARED CAPITAL**: This is the amount of capital which can be raised legally as specified by the Memorandum of Association. It is the number of shares that can be used legally or authorised to issue in the Memorandum of Association. It is also called Nominal Capital.

b. **ISSUED CAPITAL:** This is the portion of the authorised capital which has been issued to subscribers or the public for cash as full or partly paid.

c. **UNISSUED CAPITAL:** This is the portion of the authorised capital that has not been issue to the public for subscription.

d. **CALLED UP CAPITAL:** This is the portion of the issued capital that is required or upon which the directors have been called upon the shareholders to pay the instalment due.

e. **PAID UP CAPITAL:** This is the amount of the called up capital that has actually been paid up by the shareholders.

f. **UNCALLED CAPITAL:** This is the portion of issued capital that has not been demanded for payment.

g. **CALLS IN ARREARS:** This is the portion of the called up that remained unpaid.

EXAMPLE

Better life enterprises were formed with the legal right to be able to issue 100,000 shares of ₦1 each. 75,000 shares were offered to the public. None of the shares have yet been fully paid. So far the company have made calls for 80k (0.80k) per share. All the calls have been paid by shareholders except for ₦200 owing from one shareholder.

Required to calculate

a. Authorised share capital
b. Issued share capital
c. Called up capital
d. Calls in Arrears
e. Paid up capital

Solution:

a. Authorised or Nominal Capital is ₦ 100,000
b. Issued Share Capital is ₦ 75,000
c. Called up Capital is ₦ 75,000 x ₦ 0.80 = ₦ 60,000
d. Calls in Arrears is ₦ 200
e. Paid up Capital is ₦ 60,000 – ₦ 200 = ₦ 59,800

Assignment

Twins Nig. Ltd is registered with a nominal capital of ₦ 12,000,000 divided into 12,000,000 shares of ₦ 1 each. 800,000 shares were offered to the public and were fully subscribed. By 30th April 1999 50k per share on application and allotment and the first call of 25k per share had been paid up except for the call of 25k on 200,000 shares held by John Bull which remained unpaid.

Required to calculate:

1. Authorised Capital
2. Issued Capital
3. Subscribed Capital
4. The called up Capital
5. The paid up Capital
6. The calls in Arrears
7. Unissued Capital.

PERIOD IV

Topic: Issue of Shares
Sub: Topic: Issue of Shares Terminologies

Content of the Lesson
ISSUE OF SHARES TERMINOLOGIES

In Nigeria, the law requires each share to carry a nominal value or par value which is the value stated or specified in the Memorandum of Association for example 500,000 ordinary shares of ₦ 1 each. The nominal value of a share represents the true worth of the share at the time of issue.

Issue of shares is applicable to both ordinary shares and preference shares. The directors of a company may decide that not all the authorised capital is needed immediately and may offer part only for immediate subscription.

The shares applied for may be more than, equal or below shares available for subscription. When shares applied for are more than the shares offered for subscription, the shares are said to be OVER SUBSCRIBED. Once such occurs there is need for allotment of shares among the applicant using a suitable basis such as PRO-RATA basis or ratio basis.

If the shares applied for is less than the shares offered for subscription, the issue is said to be UNDER SUBSCRIBED. In other to avoid this, there may be need to engage the services of an under writer.

UNDERWITER: An underwriter is a financier who undertakes to subscribe for the shares in the offer not subscribed for in consideration of a commission based on the number of shares underwritten. He is a financier who subscribed for the remaining shares not subscribed for. He charges a commission for his underwritten services.

If shares applied for is equal to the amount offered, the issue is said to be FULLY SUBSCRIBED.

ISSUE PRICE
This is the price at which shares are issued to shareholders.

PAR VALUE / NOMINAL VALUE
This is the face value of the shares as stated in the company's Memorandum of Association.

SHARE CERTIFICATE
This is a document that certifies that the person named therein is the registered owner of the stated number of shares and mention the distinguishing number of such shares.

TERMS OF ISSUE
These are the condition under which share can be issued to the public.

a. **SHARES ISSUED AT PAR:** This is when shares are issued at a price equal to its nominal value e.g 50 million ordinary shares of ₦1 each is issued to the public at ₦ 1 per share.

b. **SHARES ISSUED AT A PREMIUM:** This is when the shares of a company are issued at a price over and above the nominal value ie 100 million ordinary share of ₦1.50k each. There is a premium of ₦0.50k per share.

   When a company issue shares at a premium the value of the premium on these shares shall be transferred to an account called SHARE PRENUM ACCOUNT and which must be classified in the balance sheet as a capital reserve. When shares are issued at premium a share premium account is credited.

c. **SHARES ISSUED AT A DISCOUNT:** This is when shares are issued at a price lower than the par value, the difference between the issue price and par value is the discount on shares which is debited to a SHARE DISCOUNT ACCOUNT.

PERIOD II & III

Topic: Issue of Shares
Sub: Topic: Terms of Payment for Shares

Content of the Lesson
TERMS OF PAYMENT FOR SHARES

Shares issued for subscription to the general public may be payable for.

a. Immediately in full on Application
b. By instalments.

A. Shares Payable Immediately In Full On Application: This is when shares issued are payable for in full on application, separate accounts must be opened for each class of share holders and also for each kind of shares capitals. Total amount due are forwarded with the application, excess application moneys are refunded without delay.

B. Shares Payable by Instalment: Shares are most frequently issued and payable by instalment at certain intervals. In such cases a separate account is opened for the amount due on application and allotment and on each call.

The stages in instalment after the initial invitation has been made to the public are as follows.

1. Applications are received together with application monies
2. The application are vetted and shares allotted on pro-rata basis where the shares has been oversubscribed and letters of allotment sent out
3. The excess application monies received from unsuccessful applicants or where the application monies received exceed both the application and allotment money required the partly unsuccessful application are returned to them.
4. Allotment monies are received or balanced.
5. The next instalment known as first call is requested.
6. Monies are received from the first call
7. The next instalment known as the second call is requested
8. The monies received from the second call

This continues until the full amount of calls have been made and the reason for payments by instalment is to preserve and protect funds as the company may not require the immediate use of all the fund to be raised by the issue knowing fully well that cash is a liquid asset, it can easily be lost or stolen or misappropriated. When all the calls are made and paid then such shares are said to be fully paid.

CALLS IN ARREARS
PUBLIC ISSUE
This is the issue of shares of a company to members of the public. This issue is normally preceded by the issue of a prospectus by the company

PRIVATE PLACEMENT
This is the issue of shares of company to selected persons. Private placement is not usually preceded by the issue of prospectus.

BONUS ISSUE
This is the issue of fully paid shares of a company to existing shareholders in proportion to their existing shareholding. Bonus issue are issued to shareholders free of charge. Bonus issue are sometimes referred to as capitalization issue or SCRIP ISSUE.

RIGHT ISSUE
This is the issue of shares of a company to existing shareholder in proportion to their existing shareholding proportion at a price known as RIGHT PRICE. The right price is usually higher than the par value but lower than the market value.

CONVERSION ISSUE
This is the issue of shares of a company in exchange for convertible securities of a company such as convertible debentures.

WEEK 5

Topic: Methods of Raising Capital

Content of the Lesson

METHODS OF RAISING FUND FROM THE CAPITAL MARKET

The following are methods of raising fund from the capital market.

1. **OFFER OF SUBSCRIPTION:** This is the issue of a company's shares to members of the public. This is usually preceded by the issue of a prospectus which gives the details of the company.

2. **RIGHT ISSUE:** This is the issue of shares of a company to existing shareholders in proportion to their existing shareholding at a price known as RIGHT PRICE. The right price is usually higher than the par value but lower than the market value

3. **PRIVATE PLACEMENT:** This is the issue of the shares of a company to selected persons. A private placement is not usually preceded by a prospectus.

4. **OFFER FOR SALE:** This type of issue related to issue for subscription where the company issues its shares to the public for subscription.

WEEK 6

Topic: Requirement for Accessing the Capital Market.

Content of the Lesson

REQUIREMENTS FOR ACCESSING THE CAPITAL MARKET

1. The company must be a public company
2. The intending company must appoint market operators and consultants
3. The company must have 5 years trading records
4. The company's shareholders must not be less than 300
5. Application for listing must be sponsored by one of the dealing members of the exchange.
6. The intending company must present company's audited account
7. Annual quotation fees are based on the share capital of the company
8. Not less than 25 percent of the issued capital must be made available to the public.
9. The date of the latest audited report must not be more than 9 months.

A company needs to comply with the listing requirements of the Nigerian Stock Exchange before its capital or market instrument can be traded on the floor of the exchange.

WEEK 8

Topic: Benefits of Capital Market

Content of the Lesson

BENEFITS OF THE CAPITAL MARKET

Benefits to individual investors

1. **DIVIDEND:** It gives the opportunity for dividend sharing to shareholders which is part of company's profit.
2. **CAPITAL APPRECIATION:** This is evident as market prices of shares increase
3. **BONUS SHARES:** Bonus shares are also given. These are the extra shares fully paid out of the reserves which are distributed to existing shareholders in proportion to their existing equity holding
4. There is right to attend annual general meetings of shareholders and participate in their deliberation as voting members.
5. **COLLATERAL:** Shares/stocks could be used by investors as collaterals to obtain loans.
6. **INVESTMENTS:** Purchase of shares of a company by an individual investor from his personal savings serves as an investment for the individual.

WEEK 9

Topic: Benefit of the Capital Market to the Government

Content of the Lesson

BENEFITS OF THE CAPITAL MARKET TO THE GOVERNMENT

1. Raising of capital for developmental project. Government raises long term finances through the issuance of bonds in the capital market for financing capital projects which in turn bring about development in the economy
2. Capital market provides Alternative Avenue for deficit financing
3. Capital market enhances tax revenue. Government obtain additional tax revenue from the resulting increase in economy
4. It increases mobilization of saving and therefore improves efficiency and volume of investments, economic growth and development.
5. Capital market provides equity capital and infrastructure development capital that has strong socio-economic benefit through development of road, water etc.