Regulation and Company Financing Operations

There's usually a bunch of shareholders who use the financial information.

Proprietary companies must have share capital.

Annual Reports:

- Financial statements and notes
- Directors declaration
- Directors report
- Auditors report

General Purpose Financial Reports:

- Statement of comprehensive income
- Statement of changes in equity
- Balance sheet
- Cash flow statement

People run companies with money they might not have so they can issue shares, get a loan/bond or debentures.

A prospectus is issued which discloses information and the intention to raise funds. However the accounting treatment doesn't occur until money is received from the shareholders/applicant.

Shares

The issue of shares can be:

- Fully subscribed
- Oversubscribed - in which there is excess money. This may lead to refunds or holding it to offset future amounts payable.
- Undersubscribed - in which there is less money. This may lead to problems as there's less money than they need, thus the company may agree with an underwriter, who consumes the shares at a cost. However there is the benefit of no refunds

This is based on how much you get compared to your prediction, and is based on market predictions.

The underwriter who creates demand and these costs are recorded as a reduction of share capital. This occurs for other associated costs.

The accounts used in the sale of shares are:

- Cash
- Cash trust
- Application (the first payment)
- Allotment (occurs when the share is paid in installments, this is the 2nd - 2nd last payment)
- Call (the last payment)

Dividends are only paid from profit and they can be declared at any time and paid in cash, shares or assets.

Interim Dividend: a dividend declared partway through the financial year.
It has the debits of retained earnings, and the credit of cash.

Final Dividend: paid at the end of a period.

When it's declared it has the debit of retained earnings and the credit of dividend payable, and when it's paid it has the debit of dividend payable and the credit of cash.

Issues of shares:

- Initial (the steps that occur above)
- Rights issue: current shareholders can buy ore in the same proportion of what they own. The issue price is usually less than the market price. There is no new advertising or investment costs to the business
    - Renounceable: means they the shareholder has the option to take, leave or sell
    - Non-renounceable: means the shareholder can only take or leave it.
    - The journal entry is debit cash and credit share capital.
- Bonus issue: the company issues in the same proportion ton current shareholders at no cost.
- Private Placement: issued to specific investors. This is rare as it's not popular with investors.

Share options: give the holder the right to buy or sell a certain number of shares by a set date at a stipulated price. They are usually given to employees of companies. The share option may be purchased or free for the recipient but they still have to pay for the actual share.
There's also company issued or exchange/traded options.
This is part of equity.

Preference Shares: these can be equity or liability or both.
There may be a redemption option in which the shareholder can redeem or sell the shares back. This is more of a liability. This uses the shareholders redemption account, and may come out of profit or shares and comes at a premium.
Cumulative Preference shares: get dividends each year, which accumulates whenever they don't get it. It can be a liability.
Participatory Preference Share: gets additional dividends.

The balance of share capital can't be reduced.