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NO-PAR shares carry the implication that the value of the assets which they produce upon issuance, fixes the amount of capital which they bring into the enterprise.

This theory recognizes no such factor as discount. It dismisses from consideration any financing spread between the public offering price and the settlement price under an underwriting agreement. It ignores any cost to the corporation, such as commission, or over-the-counter expense. It considers only the effective capital as represented by the amount of net proceeds received by the corporation.

Whether or not this procedure is permissible is a matter of statute in each case. But so far as is known there are no statutes which prohibit such practice. Generally, the statutes applicable to no-par shares permit their issuance for such consideration as may be fixed by directors, or by shareholders, or both. Such shares issued legally are deemed full-paid and non-assessable.

Whether or not the theory of effective capital is sound economically, perhaps is subject to debate. If profits are to be subjected to charge for the use, by the enterprise, of contributed capital, there might be some justification for setting up any expense incident to the acquisition of the capital and deferring such expense so as to spread it over some future period. This procedure, however, is tantamount to recovering a part of the capital out of future earnings and finds little in the nature of sound theory to recommend it.

Further, in considering the matter from this angle, there is likely to be confusion between the practice of making a charge against profits for the purpose of having contributed capital earn an interest return on investment, and recovering out of future earnings, by means of arbitrary pro-ration, loss of capital incident to the acquisition of certain capital.

The outstanding factor controlling a decision with respect to treating as discount the capital stock financing expense in connection with sales of no-par shares, is found in the word "acquisition." Expense incident to acquisition of capital should be differentiated, it seems, from expense incident to the use of capital. Financing expense for underwriting, or commissions, or selling shares over the counter, seems clearly to be incurred in acquiring the capital.

Previous to the introduction of statutes governing the issuance of shares without par value, no latitude was permitted as to the discount factor. True, the discount did not appear as such, but it was in the accounts under some other description.

The present statutes authorizing the issuance of no-par shares generally imply that the expense may be deducted before the amount of effective capital is credited to capital account. Expense sustained in acquiring capital is not related to the future use of that capital. The deferring of such expense distorts the true earning power of the effective capital. It is misleading to show as capital invested in an enterprise, an amount, a part of which must be recovered out of earnings before it becomes effective capital. The return to proprietary capital in enterprise is profit; not interest. There is no point in placing capital derived from no-par shares on a quasi-par stock basis.

The capital attributed to no-par shares should be the net amount of consideration received for such shares. It may seem desirable, from a historical point of view, to first record the financing expense in an expense account. But once so recorded the expense account should be closed out to the capital stock account, so that the latter will reflect, for balance sheet purposes, only the effective capital employed in the enterprise.