COMPANY ACCOUNTS - I

1.0 INTRODUCTION

"A Company is an artificial person created by law, having separate entity with a perpetual succession and a common seal".

1.1 Features of a Joint Stock Company

2.0 Types of Companies

Based on Incorporation	Based on Ownership	Based on Liability
1. Charted Company 2. Statutory Company 3. Registered Company 4. Foreign Company	1. Private Company 2. Public Company 3. Government Company 4. Holding Company	1. Company limited by Shares. 2. Company Limited by Guarantee 3. Company with unlimited liability 4. Subsidiary Company

💡 **On the basis of Incorporation**

1. **Charted Company:** It is a company created by kings, emperor, Head of State. **Example** East India Company.
2. **Statutory Company:** Company which is **created by special act** passed by State and Central legislature. **Example** Life Insurance Corporation of India.
3. **Registered Company:** A company which is **registered under companies act. Example:** NTPC, WIPRO.
4. **Foreign Company**: Company which is **incorporated outside India** but has business in India example: Hongkong and Shanghai Banking Corporation Ltd.

On the basis of Ownership

1. **Private Company:** As per Section **2(68) of Companies Act, 2013**, a private company is one which by its Article of Association

- Restricts the right to transfers its shares.
- Limits the number of its members to 200 (exclusive of past and present employee)
- Prohibits any invitation to the public to subscribe for any securities i.e. shares or debentures of the company.

The name of every private company must end with the words **'Private Limited'.**

2. **Public Company**: As per **Section 2(71)** of Companies Act, 2013, a public company means a company which is not a private company.
3. **Government Company**: Any company in which government holds not less **than 51% of the paid-up capital.**
4. **Holding Company**: Defined under **sec 2(46)** of companies act 2013. A holding company is a type of financial organization that owns a controlling interest (min 50%) in other companies, which are called subsidiaries.
5. **Subsidiary Company: Sec 2(87)** companies act 2013 defines subsidiary in which holding Co.:
    a. Controls composition of Board of Directors or:
    b. Controls more than 50% of the total share capital.
6. **Associate Company**: It is company in which a parent company has a stake that is typically **20% to 50%.**
7. **One Person Company:** An OPC means a private limited company with only one person as its member.Defined under **sec 2(62) companies act 2013**.

2.1 Difference between Private and Public Company

Basis	**Private Company**	**Public Company**
Number of members	Minimum- 2 Maximum- 200	Minimum- 7 Maximum- No limit
Invitation to public	Cannot invite	Can invite
Transfer of shares	Restricted	No restrictions
Preparation of Articles	Mandatory	*Not Mandatory
Number of Directors	At least 2	At least 3
Statutory Meeting	Not required	Required to hold **within 6 months** of its getting the Certificate of commencement of Business
Use of word 'Limited'	Compulsory to use the words **'Private Limited'** at the end of its name.	Only the word **'Limited'** is used at the end of its name.

💡 **On the basis of Liability**

1. **Company limited by Share**: According to **Section 2 (22)** of the Companies Act 2013, a company that is limited by shares is refers to a company that has the **liability of the members limited by such an amount that is unpaid on their respectively held shares.**
2. **Company Limited by guarantee:** It is a company in which **liability of the members is fixed** to certain amount and he is liable to pay that amount in the event of winding up of the company. These are essentially for non-profit making organisation.
3. **Company with unlimited liability:** It is a company in which the liability of a member is unlimited.

2.2 Difference between Partnership and Limited Liability Company

Basis	Partnership	Limited Liability Company
Formation	Easy to form	Many legal Formalities
Registration	Not compulsory	Compulsory
Membership	Min 2 Max 50	Pvt Co. Min 2 Max 200 Pub Co. Min 7 Max- Unlimited
Liability	Unlimited	Limited by face value of share
Perpetual Existence	Not have perpetual existence	Perpetual existence
Transfer	Cannot transfer share without consent of other partners.	Freely transferable

3.0 CLASSES OF SHARE CAPITAL

Preference shares – A preference share are shares, which enjoys the preferential rights in matter of payment of dividend and repayment of capital. They are paid before the equity shareholders.

Equity shares- Equity shares are those shares which are not preference shares.

Basis	Equity Shares	Preference Shares
Meaning	Equity shares are the ordinary shares of the company representing the part ownership of the shareholder in the company.	Preference shares are the shares that carry preferential rights on the matters of payment of dividend and repayment of capital.
Payment of dividend	The dividend is paid after the payment of all liabilities.	Priority in payment of dividend over equity shareholders.
Repayment of capital	In the event of winding up of the company, equity shares are repaid at the end.	In the event of winding up of the company, preference shares are repaid before equity shares.
Rate of dividend	Fluctuating	Fixed
Voting rights	Equity shares carry voting rights.	Normally, preference shares do not carry voting rights. However, in special circumstances, they get voting rights.
Types	These are considered as ordinary shares and thus they do not have any types	These come in various types like: · Convertible and non-convertible · Cumulative and non-cumulative · Non participatory, etc.

💡 **Types of Preference Shares**

Title	Description
Cumulative Preference Shares	The holders are entitled to **recover arrears of preference dividend,** before any dividend is paid on equity shares.
Non-Cumulative Preference Shares	The holders **get a fixed amount of dividend** out of the profits of each year. They cannot claim unpaid dividend of any year in any subsequent year.
Participating Preference Shares	In addition to the fixed preference dividend, carry a **right to participate in the surplus profits,** if any, after dividend at a stipulated rate has been paid to equity shareholders.
Non-Participating Preference Shares	The holders get only a **fixed rate of dividend** every year. The preference shares are usually non-participating.
Redeemable Preference Shares	These will be **repaid by the Company within a stipulated period** in accordance with the terms of issue and the fulfilment of certain conditions.
Irredeemable Preference Shares	These **cannot be refunded before winding up.** No company limited by shares, shall issue any preference share which is irredeemable or is redeemable after

	the expiry of **20 years & 30 Years for infrastructure projects** from the date of its issue.
Convertible Preference Shares	These shares **can be converted into equity shares** according to the terms of issue.
Non-Convertible Preference Shares	Holders of these shares have **not been conferred the right of getting converted into equity shares**.

4.0 Share Capital

Authorized, Registered or Nominal Capital

It is the amount which is **stated in the Memorandum of Association**. This is the maximum capital for which a Company is authorized to issue shares during its lifetime.

Issued Capital

It is that part of Authorized Capital which is **actually offered to the public** for subscription.

> **Subscribed Capital**

It is that part of Issued Capital which has been **subscribed for by the public.**

It is shown in the Balance Sheet under two heads:

- Subscribed and fully paid up.
- Subscribed but not fully paid up.

> **Called up Capital.**

It means such part of Subscribed Capital, which has been **called by the directors** from shareholders for payment.

Paid-up Capital

It refers to the portion of called-up **capital which has been actually received** from the shareholders.

> **Reserve Capital**

As per **Section 65** of the Companies Act, 2013, only an **unlimited company having a share capital while converting into a limited company, may have reserve capital**.

In such a case, the company by a resolution may:

- Increase the nominal amount of its share capital by increasing the nominal amount of each of its shares, and determine that no part of the increased capital shall be called up except in the event of winding up of the company; or
- Provide that a specified portion of its **uncalled share capital shall not be called except in the event of winding up of the company**.

> **Capital Reserves**

They are the reserves which are **created out of Capital profits**. Capital profits which are not earned in the normal course of business. These reserves **cannot be utilized for the distribution of dividends.**

> **Following items give rise to Capital profits and hence, Capital reserves**

- Profit on sale of fixed assets
- Profit on revaluation of fixed assets
- Premium on issue of shares and debentures
- Profit on redemption of debentures
- Profit earned by a company prior to its incorporation.
- Profit on forfeiture and re-issue of shares.

Capital Reserves are shown on the **liabilities side of the Balance Sheet** under the head “Reserves and Surplus”.

💡 **DISTINCTION BETWEEN RESERVE CAPITAL AND CAPITAL RESERVES**

Basis	**Reserve Capital**	**Capital Reserve**
Meaning & Creation	It refers to that portion of increased nominal capital or uncalled share capital which shall not be called up, except in the event of winding up.	It is that reserve which is created out of Capital profits.
Necessity	Not necessary	Necessary
Resolution	Required for its creation.	Not required.
Realized or Not realized	It refers to the amount which has not been received.	It refers to the amount which has already been received.
Disclosure in Balance Sheet	Not shown in the Company’s Balance Sheet.	Shown under the head, ‘Reserves and Surplus’ on the equity and liabilities side of the balance sheet.
Time when it can be used	Only at the time of winding up of company.	It can be used to write off Capital losses or to declare a share bonus any time during the lifetime of a company.

5.0 ISSUE OF SHARES

Parties Responsible to ensure fair & proper allotment of shares.

- Stock Exchange
- Merchant Banker
- Registrars to the issue

Steps for issue of shares

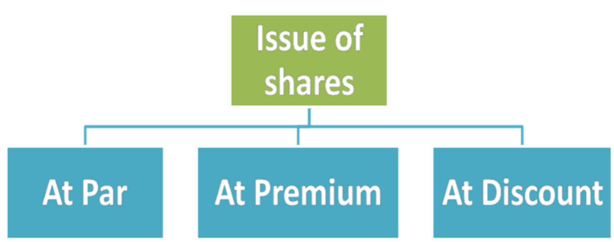
Prospectus: It is an invitation to the public. It contains all the information of the company to attract public.

Receive Application: It is the amount received from the public after reading the prospectus.

The application amount called should not be less than **25% of the issue price** of each share.

Allotment of Shares:

To make Calls: Calls



Issue of shares at par – It means shares are **issued at face value of share**.

Issue of shares at discount – Shares are **issued at a price lower than the face val**ue of the share.

💡 **As per sec 53 of companies act 2013** no company shall issue shares at a discount **except** sweat equity shares**. Sweat equity shares are equity shares which are issued by a company to its directors' employees at a discount or for consideration other than cash.**

Issue of shares at premium - Shares are issued at a **price higher than the face value** of the share. For example, X ltd, issue shares at premium of Rs 3 i.e., issue shares at Rs 13 per share

The Money received on premium is transferred to **Security Premium Reserve (SPR) account**.

Utilization of Security Premium Reserve (SPR)

- **Write off preliminary expenses of the company**
- **Issue of fully paid bonus shares to the shareholders**
- **Writing off securities issue expenses, commission paid, discount on issue of securities**
- **Premium payable on redemption of Redeemable preference shares or debentures of the company**
- **For Buy back of its own shares**

Calls in arrear- Amount **called but not paid** by the shareholder Company charge interest **10 % on the amount unpaid by shareholders.**

Calls in advance- Amount paid more than what shareholders are asked to pay is called as call-in advance. Company will pay **12% interest** on the amount advance paid by shareholders**.**

Private Placement of Shares- Shares offered to a **selected group of persons**, not to the public through public, subject to prior approval of existing shareholders.

Employee stock option plan (ESOP) - ESOP or sweat equity share refers to option granted by any company to its **employee to subscribe** its shares at a **price lesser than market price**.

💡 **JOURNAL ENTRIES REGARDING SHARES**

For issue of shares at par	
On application	Bank A/c Dr. To Share Application A/c
On allotment (For transfer of Application Money to share capital, refund application money for rejected applications and transferring excess application money to allotment)	Share Application A/c Dr. To Share Capital A/c To Bank A/c To Share Allotment A/c
For Amount Due on Allotment	Share Allotment A/c Dr. To Share Capital A/c

For Receipt of Allotment Money	Bank A/c Dr. To Share Allotment A/c
For Call Amount Due	Share Call A/c Dr. To Share Capital A/c
For Receipt of Call Amount	Bank A/c Dr. To Share Call A/c

Combined account for share application and share allotment	
For Receipt of Application and Allotment	Bank A/c Dr. To Share Application and Allotment A/c
For Transfer of Application Money and Allotment Amount	Due Share Application and Allotment A/c Dr. To Share Capital A/c
* Other entries will be same	

Calls in Arrears	
Calls in Arrears	Calls in Arrears A/c Dr. To Share Call Account A/c
On receipt of the call amount together with interest	Bank A/c Dr. To Calls in Arrears A/c To Interest on Calls in Arrears A/c

Calls in Advance	
Amount received on call in advance	Bank A/c Dr. To Calls in Advance A/c
On the due date of the calls	Calls in Advance A/c Dr. To share Call A/c
For Payment of Interest	Interest on Calls in Advance A/c Dr. To Bank A/c OR Interest on Calls in Advance A/c Dr. To Sundry Shareholder's A/c Sundry Shareholder's A/c Dr. To Bank A/c

For issue of shares at premium	
On application	Bank A/c Dr. To Share Application A/c
On allotment	Share Application A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c To Bank A/c To Share Allotment A/c
For Amount Due on Allotment	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c
* other entries will be same	

Under and Over Subscription

Under subscription: Shares offered by the company > Shares subscribed by the company.
Can't allot unless minimum subscription received.

Over Subscription: Shares subscribed by the shareholder> Shares offered by the company.
Eighther reject excess application and refund money or allot Pro rata basis

Minimum Subscription:

💡 As per SEBI Guidelines, minimum subscription is to receive **subscription for at least 90% of the shares issued,** if not received it must refund the application money to the subscribers.

Meaning of Oversubscription:

In such case, allotment can be done by any of the 3 alternatives available:

1) First Alternative: Under this alternative, some applications are accepted, and **excess applications are rejected.**

2) Second Alternative: Under this alternative, all applicants are allotted **shares in proportion** which is known as Partial or Pro-rata Allotment.

3) Third Alternative: Under this alternative, a **combination of the above two alternatives** may be adopted.

💡 **Meaning of Pro-rata Allotment of Shares**

As per this alternative, all applicants are **allotted shares in proportion** which is called Partial or Pro rata Allotment.

Treatment of Surplus Application Money on Pro-rata Allotment:

o If the question is silent or states that **'excess application money received is to be adjusted against allotment',** surplus application money is adjusted against allotment money due and excess application money, if any is refunded.

o If the question requires that surplus **application money is to be refunded after adjustment of Allotment Money and Call Money**, then the amount is transferred to Shares Allotment Account and Calls-in Advance Account. The balance, if still left, is refunded.

Computation of Amount not Received on Allotment in Case of Pro-rata:

Steps to calculate amount not received on allotment:

Step 1: Compute the number of shares applied or allotted

When the shares allotted are given:

Number of Shares Applied are: (Total Shares Applied ¸ Total Shares Allot) ´ total Number of Shares Allotted

---

Step 2: Calculate the Allotment Amount not paid by defaulting shareholders:

Amount due on Allotment (Shares Allotted x Allotment Money per Share)	
Less: Excess Application Money Adjusted on Allotment	
(Shares Applied – Shares Allotted) x Application Money per share	
Allotment Amount due but not paid	

Journal entries for the following in the event of Oversubscription of Shares

Date	Particulars	L.F	Dr.	Cr.
	Bank A/c ....Dr. To Shares Application A/c (Being application money received)			
	Shares Application A/c ....Dr. To Share Capital A/c (Being application money for allotted shares)			
	Shares Application A/c ...Dr. To Bank A/c (Being excess application money refunded)			
	Share Application A/c ...Dr. To Shares Allotment A/c To Calls in Advance A/c (Being excess application money adjusted with allotment and calls)			
	Shares Application A/c ...Dr. To Share Capital A/c To Bank A/c To Shares Allotment A/c To Calls-in-Advance A/c (Being excess and refund and adjusted in application)			

> Example

Rishab Ltd. was registered with 40,000 shares @ ₹10 each and 10% premium. It invited applications for 30,000 shares payable as follows:

₹3 on Application

₹2 on Allotment (including premium)

₹2 on First Call

₹4 on Second & Final Call

The applications were received for 70,000 shares and the allotment was made as follows:

To Applicants for 15,000 shares: Full

To Applicants for 40,000 shares : 15,000

To Applicants for 15,000 shares: Nil

Solution:

Share Issued	Share Applied	Shares Allotted	Application money received	Application money due	Excess	Adjustment with allotment	First Call
1	2	3	4	5	6	7	8
30,000	15,000	15,000	45,000	45,000	-	-	
	40,000	15,000	1,20,000	45,000	75,000	30,000	30,000
	15,000	Nil	45,000	Nil	45,000		

Date	Particulars	L.F.	Dr.	Cr.
	Bank A/C (70,000*3)..........................Dr. To Share Application (Being share application money received)		2,10,000	2,10,000
	Share Application A/C (70,000*3)......................Dr. To Share Capital (30,000*3) To Bank To share Allotment		2,10,000	90,000 45,000

	To call in advance (Being application money transferred to share capital and excess money adjusted)			30,000 45,000
	Share allotment A/C............Dr To share Capital A/C To Securities Premium A/C (Being allotment money due on 30,000 shares @Rs1 each with premium Rs 1)		60,000	30,000 30,000
	Bank A/C...........................Dr. To share Allotment (Being share allotment received and 30,000 already received on application adjusted)		30,000	30,000
	Share 1st Call A/C........................Dr. To Share Capital (Being Share first call money due on 30,000shares @ Rs 2 each)		60,000	60,000
	Bank A/c..........................Dr. Call in Advance A/C.............Dr. To Share First Call A/C (Being share 1st call money received and 30,000 already received on application adjusted)		30,000 30,000	60,000
	Share 2nd Call A/C.....................Dr. To Share Capital A/C (Being share second &final call money due on 30,000 @4 each)		1,20,000	1,20,000
	Bank A/c ....Dr. Call in advance A/c.................Dr. To share 2nd and final call A/c (Being share second & final call A/C)		1,05,000 15,000	1,20,000

6.0 FORFEITURE OF SHARES

When shareholders fail to pay one or more instalments, viz. allotment money and/or call money. In such circumstances, the company can forfeit their shares, i.e. cancel their allotment and treat the amount already received thereon as forfeited to the company.

Forfeiture of Shares	
Forfeiture of Shares issued at Par	Share Capital A/c (Called up amount) Dr. To Share Forfeiture A/c (Paid up amount) To Share Allotment A/c To Share Calls A/c
Forfeiture of shares issued at a premium on which premium has not been fully received	Share Capital A/c Dr. Securities Premium Reserve A/c Dr. To Share Forfeiture A/c To Share Allotment A/c To Share Calls A/c
If shares were initially issued at a premium and the premium amount has been fully realised, but some of the shares are forfeited due to non-payment of call money, the accounting treatment for forfeiture shall be on the same pattern as in the case of shares issued at par	

6.1 Reissue of Forfeited Shares

- The company can **either cancel or re-issue the forfeited shares**. Forfeited shares may be reissued as fully paid at a par, premium, and discount.

- The **amount of discount allowed cannot exceed the amount that had been received on forfeited shares** at the time of initial issue, and that the discount allowed on reissue of forfeited shares should be debited to the 'Forfeited Share Account'.
- The balance, if any, left in the Share-Forfeited Account relating to reissued Shares, should be **treated as capital profit and transferred to Capital Reserve Account**.

Reissue of Forfeited Shares (when the forfeited shares which were originally issued at par or a premium are reissued)	
(a)When the forfeited shares are issued at par value	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c
(b) When forfeited shares are issued at premium	Bank A/c Dr. To Share Capital A/c To Securities Premium Reserve A/c
(c) When forfeited shares are issued at discount	Bank A/c Dr. Share Forfeiture A/c Dr. To Share Capital A/c
(2) transfer of profit on reissue of forfeited shares if all forfeited shares have been issued #	Share Forfeiture A/c Dr. To Capital Reserve A/c
# **Only the proportionate amount of balance that relates to the forfeited shares reissued which should be transferred to capital reserve**, ensuring that the remaining balance in share forfeiture account is proportionate to the amount forfeited on shares not yet reissued.	

Illustration 1: Mohit, who was the holder of 200 equity shares of Rs 100 each, on which Rs 75 per share has been called up could not pay his dues on Allotment and First call each at Rs 25 per share. The Directors forfeited the above shares and reissued 150 of such shares to Anil at Rs 65 per share paid up as Rs 75 per share.

Share capital a/c (200 * 75) Dr. **To share allotment a/c** **To share first call a/c** **To forfeited share a/c**	**15,000**	**5,000** **5,000** **5,000**
Bank a/c (150*65) Dr. **Forfeited shares a/c (150*10) Dr.** **To share capital a/c**	**9,750** **1,500**	**11,250**
Forfeited shares a/c Dr. **To capital reserve a/c**	**2,250**	**2,250**

Calculation of amt transferred to capital reserve:

Forfeited amt per share (5,000 / 200) = Rs 25

Loss on re-issue (75 – 65) = Rs 10

Surplus per share re-issued = 15

T/f to capital reserve (15*150) = 2,250

7.0 ISSUE OF BONUS SHARES

> 💡 Sec 63 of Companies act, 2013

- **Bonus shares** are whose shares which are issued to existing shareholders without charging any cost to them, based upon the number of shares they hold.
- **Capitalisation of profits** refers to a process of converting excess profits and reserves into paid up capital, as in case of issue of bonus shares.
- Company can capitalize its profits or reserves by two methods
  - Case 1 – By issuing fully paid bonus shares to existing members
  - Case 2 – By paying the remaining amount of partly paid shares i.e. converting partly paid shares into fully paid shares.

> 💡 **Case 1 – By issuing fully paid bonus shares to existing members**

A company can issue fully paid-up bonus shares to its members out of

- Its free reserves
- The securities premium account
- The capital redemption reserve account

Free reserves mean such reserves which are available for distribution as dividend.

> **But it does not include**

- any amount representing **unrealised gains, notional gains or revaluation of assets**
- any **change in carrying amount of an asset or of a liability** recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value,

Bonus share cannot be issued by capitalising reserves created by the revaluation of assets.

> **Conditions for issuing bonus shares**

- it is authorised by its articles
- it has been recommended by the Board and approved at a general meeting
- it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it
- it has not defaulted in the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus
- Partly paid-up shares, if any, outstanding on the date of allotment, are made fully paid-up.

> **Effects of bonus issue**

- Share capital gets increased but the net worth remains the same.
- Liquidity in stock increases.
- Effective earning per share will reduce
- Accumulated profits get reduced.

Accounting entries,

Bonus declared	Profit & Loss A/c Dr. Securities Premium Reserve A/c Dr. Capital Redemption Reserve A/c Dr.

	General Reserve A/c Dr. To bonus to shareholders A/c
Bonus utilised to issue fully paid up bonus shares	Bonus to shareholders A/c Dr. To share capital A/c

💡 **Case 2 – By paying the remaining amount of partly paid shares i.e. converting partly paid shares into fully paid shares.**

Accounting entries,

Bonus declared	Profit & Loss A/c Dr. Securities Premium Reserve A/c Dr. Capital Redemption Reserve A/c Dr. General Reserve A/c Dr. To Bonus to shareholders A/c
Making final call due	Share final call A/c Dr. To Share Capital A/c
Adjustment of final call	Bonus to shareholders A/c Dr. To Share final call A/c

8.0 NON-VOTING SHARES

A non-voting share is a share in the capital of a company that belongs to a class that has no voting rights. The company issues these shares so that it can raise capital without losing management control.

8.1 Conditions for Non Voting Equity Shares