

CHAPTER - COMPANY ACCOUNTS

BASICS OF COMPANY ACCOUNTS

1. Meaning of 'company' and features

The word "company" is derived from two Latin words - 'Com' and 'Panis', where 'Com' means 'together' and 'Panis' means 'bread'.

Thus, a Company means "an association of persons formed for some common purpose or object".



Important Tip

Key Features of a company

- ❖ Separate legal entity
- ❖ Incorporated association
- ❖ Perpetual succession
- ❖ Limited liability of member
- ❖ Common seal
- ❖ Transferability of shares
- ❖ Separation of ownership and management
- ❖ Compulsory maintenance of books and audit thereof

2. Types of companies

Statutory company: Companies which operate under the special act passed by the state legislature or parliament are called statutory companies. Such companies are governed by their respective acts and are not required to have any memorandum or articles of association. Such companies are not required to use the word "Limited" with their names.

For example, LIC, RBI, SBI etc

Government company: According to section 617 of the companies Act, 1956, "A government company means any company in which not less than 51% of the paid-up capital is held by the Central Government, or by any state government or governments, or partly by

the central government and partly by one or more state governments and includes a company which is a subsidiary of a government company”.

For example, Hindustan Aeronautics Limited (HAL), Bharat Electronics Limited (BEL) etc

Foreign Company: A Foreign company is one that is incorporated outside India but has a place of business or business operations in India.

For example, A company incorporated in UK can set up a branch in Bengaluru, India. The branch established in Bengaluru will be treated as a Foreign company.

Registered company: A company that is registered under the companies act, 1956, is called a registered company.

Limited liability Company: In case of a company limited by shares, the liability of the members is limited to the unpaid value of the shares. In case of a company limited by guarantee, the liability of the members is limited to such an amount as the member may undertake to contribute to the assets of the company in the event of winding up.

Unlimited Liability Company: A company not having any limit on the liability of its members is termed as an unlimited liability company. Such companies are not allowed in India

Private company: According to section 3(1) (iii) of the companies Act, 1956, a private company means a company which has a **minimum paid-up capital of Rs 1 Lakh** or such higher paid-up capital as may be prescribed, and by its articles:

- (a) Restricts the rights of members to transfer its shares
- (b) Limits the number of its members to 50 excluding persons who are/ were in employment of the company and have been allotted shares
- (c) Prohibits any invitation to the public to subscribe to its shares or debentures
- (d) Prohibits any invitation or acceptance of deposits from public

Public company: According to section 3(1)(iv) of the act, public company means a company which-

- ✓ Is not a private company;
- ✓ **Has a minimum paid-up capital of Rs. 5 lakhs** or such higher paid-up capital;
- ✓ Is a private company but is a subsidiary of a company which is not a private company

Listed and unlisted company: A public company which has any of its securities listed in any recognized stock exchange is called listed company.

An unlisted company is one whose securities are not listed on any recognized stock exchange

for trading. A Private Company is always an unlisted company

3. Differences between private and public companies

Particulars	Private company	Public company
Minimum paid-up capital	Rs. 1,00,000	Rs. 5,00,000
Minimum number of members	2	7
Maximum number of members	50	No maximum limit
Transferability of shares	Restriction on transferability of shares	No restriction on transferability of shares
Invitation to public to subscribe to shares and debentures	Prohibited	Not prohibited. Can issue prospectus to public
Minimum number of directors	2	3
Commencement of business	Can commence its business immediately after incorporation	Can commence its business only after obtaining certificate of commencement of business

4. Books of Accounts and Financial statements of companies

Every company must maintain books of accounts so as to give a **true and fair view** of the state of affairs of the company.

The Financial statements of a company consist of the following:

- ✓ Trial Balance
- ✓ Profit and Loss Account
- ✓ Balance Sheet
- ✓ Notes to Accounts

ISSUE, FORFEITURE AND REISSUE OF SHARES

1. Share capital

A company may issue two types of shares - Equity shares and Preference shares

- ✓ A preference share is a share which is entitled to a fixed rate of dividend and carries a preferential right to repay capital before equity shareholders in the event of liquidation.
- ✓ An equity share is a share other than a preference share.

2. Journal entries for issue of shares

On receipt of application money

Bank A/c	Dr.
To Share Application A/c	

On allotment of shares

Share Application A/c	Dr.
To Share Capital A/c	

On allotment money becoming due

Share Allotment A/c	Dr.
To Share Capital A/c	

On receipt of allotment money

Bank A/c	Dr.
To Share Allotment A/c	

On call being made

Share Call A/c	Dr.
To Share Capital A/c	

On receipt of call money

Bank A/c	Dr.
To Share Call A/c	



Important Tip

- ❖ When any shareholder does not pay any part of his allotment/ call money, it is debited to Calls in Arrears Account and the shareholder is liable to pay interest to the company
- ❖ Where any shareholder pays money before it is called for, it is credited to Calls in Advance and the company is liable to pay interest to the shareholder
- ❖ **As per Table A**, interest shall be collected by the company at 5% on Calls in Arrears and shall be paid at 6% on Calls in Advance
- ❖ Calls in Arrears are entitled to dividend whereas Calls in Advance do not get dividend
- ❖ Calls in Arrears is deducted from share capital whereas Calls in Advance is shown as a separate item under paid up capital and is not included in paid up capital

3. Issue of shares at a premium

A company may issue shares at a price higher than face value. In such a case, it is known as issue of shares at a premium. For eg, face value Rs 10, issue price Rs 12. Therefore, premium is Rs 2.

The amount of premium collected is to be credited to Securities Premium A/c.

4. Issue of shares at a discount

A company may issue shares at a price lower than face value. In such a case, it is known as issue of shares at a discount.

The conditions to be satisfied for issuing shares at a discount given u/s 79 of the Companies Act, 1956 are as follows:

- ✓ The shares must belong to a class already issued
- ✓ The issue must be authorized by an ordinary resolution of the company
- ✓ The sanction of central Government is to be obtained
- ✓ The maximum rate of discount should not exceed 10%
- ✓ At least one year must have elapsed since the date on which the company was entitled to commence business
- ✓ The issue must be made within two months from the date of receipt of sanction



Important Tip

- ❖ Due to the above conditions, new companies cannot issue shares at a discount
- ❖ The Central Government may approve a discount rate of more than 10% if it deems fit
- ❖ Discount on issue of shares will appear on the assets side of the balance sheet under the head 'Other Non Current Assets'. It is a fictitious asset and is to be written off by charging it to Securities Premium A/c or Profit & Loss A/c over a period of time

5. Subscription of shares

A public company issues prospectus inviting the general public to subscribe for its shares. Based on the prospectus, those who are interested in the subscription of shares apply for it along with the application money.

Concept of Minimum Subscription

The company, as per SEBI guidelines, can allot the shares to the applicants only after ensuring that a minimum of 90% of the shares offered have been subscribed by the public. If the company does not receive the minimum subscription, the entire application money must be refunded to the applicants within 15 days from the date of closure of issue. In case of delay in refunding the money, the company is liable to pay interest ranging from 4% p.a. to 15% p.a.

If minimum subscription criteria is complied with, the company may go ahead with allotment. There can be any of the following scenarios when shares are issued for subscription:

Scenario 1- Shares subscribed to by the public is lower than shares offered (Under Subscription)

Scenario 2- Shares subscribed to by the public is equal to shares offered (Full Subscription)

Scenario 3- Shares subscribed to by the public is higher than shares offered (Over Subscription)

6. Issue of shares to vendors (for consideration other than cash)

Shares may also be issued for consideration other than cash. For instance, in exchange for purchase of machinery, shares may be issued to the vendor.

8. Forfeiture of shares

Forfeiture means cancellation of shares allotted to a shareholder when the shareholder fails to pay the money due on the shares.



Important Tip

- ❖ Forfeiture must be done in accordance with the articles of the company
- ❖ At least 14 days' notice should be given before the shares are being forfeited
- ❖ On forfeiture, the forfeited shares become the property of the company and can be reissued
- ❖ The balance of share forfeiture/ forfeited shares account is shown as an addition to total paid up capital under the dead share capital on the liabilities side of the balance sheet
- ❖ When a shareholder voluntarily returns shares to the company, it is known as Surrender of Shares and NOT Forfeiture of Shares

Forfeiture of shares which are issued at Par

Share capital A/c	Dr. (Total amount credited to share capital till date)
To forfeited shares A/c	(Total amount received till date)
To share allotment A/c	(Allotment money not received)
To share calls A/c	(Call money not received)

If the allotment/ call money not received has been transferred to calls in arrears, then the following entry may be passed:

Share capital A/c	Dr. (Total amount credited to share capital till date)
To forfeited shares A/c	(Total amount received till date)
To Calls in Arrears A/c	(Allotment/ call money not received)

Forfeiture of shares which are issued at a premium and premium is not collected

Share capital A/c	Dr. (Total amount credited to share capital)
Securities premium A/c	Dr. (Amount of uncollected premium)
To forfeited shares A/c	(Total Amount received till date)
To share allotment/ calls A/c	(Allotment/ call money not received)

Forfeiture of shares which are issued at a premium and premium is already collected

Share capital A/c	Dr. (Total amount credited to share capital)
To forfeited shares A/c	(Total Amount received till date)
To share allotment/ calls A/c	(Allotment/ call money not received)

Forfeiture of shares which are issued at a discount

Share capital A/c	Dr. (Total amount credited to share capital)
To forfeited shares A/c	(Total Amount received till date)
To share allotment/ calls A/c	(Allotment/ call money not received)
To discount on issue of shares	(Discount on shares issued)

Note: At the time of issue, Discount on issue of shares is debited, hence it is credited on forfeiture

9. Re-issue of forfeited shares

A company can re-issue forfeited shares in accordance with the provisions contained in the articles. It must be noted that it is not a re-allotment but a resale of existing shares. Some important principles to be kept in mind are:

- ✓ The forfeited shares may be re-issued at par, premium or discount
- ✓ If re-issued at a discount, the discount must be debited to the amount standing to the credit of 'Forfeited Shares A/c'
- ✓ If the shares were previously issued at a discount, discount on reissue to the extent of discount given earlier must be debited to 'Discount on issue of shares A/c' and only the balance must be debited to the amount standing to the credit of 'Forfeited Shares A/c'
- ✓ Max Discount on re-issue = Amount available in Forfeited Shares A/c
- ✓ After re-issue, balance in 'Forfeited Shares A/c' must be transferred to Capital Reserve
- ✓ All of the above must be done proportionately

The journal entry to be passed is

Bank A/c	-Dr	(Amount collected on reissue)
Share Forfeiture A/c	-Dr	(Discount on reissue, if any)
To Share Capital A/c		(Face Value of shares reissued)
To Securities Premium		(Premium, if any)