COMPANY ACCOUNTS

COMPANY

- A company is legal entity or organization formed to **carry out business activities.**
- It is a **distinct and separate entity from its owners or shareholders**, with its own legal rights and obligations.

FEATURES OF A COMPANY

Separate Legal Entity

It is a separate **legal entity from its owners or shareholders**. This means it has its **own legal rights, obligations, and liabilities**, distinct from those of its owners.

Limited Liability

Shareholders or owners are typically **not personally responsible for the company's debts and obligations** beyond their investment in the company.

Perpetual Existence

Companies have the ability to **exist indefinitely**, even if **there are changes in ownership or management**. The company's existence is not dependent on the life of its owners or shareholders.

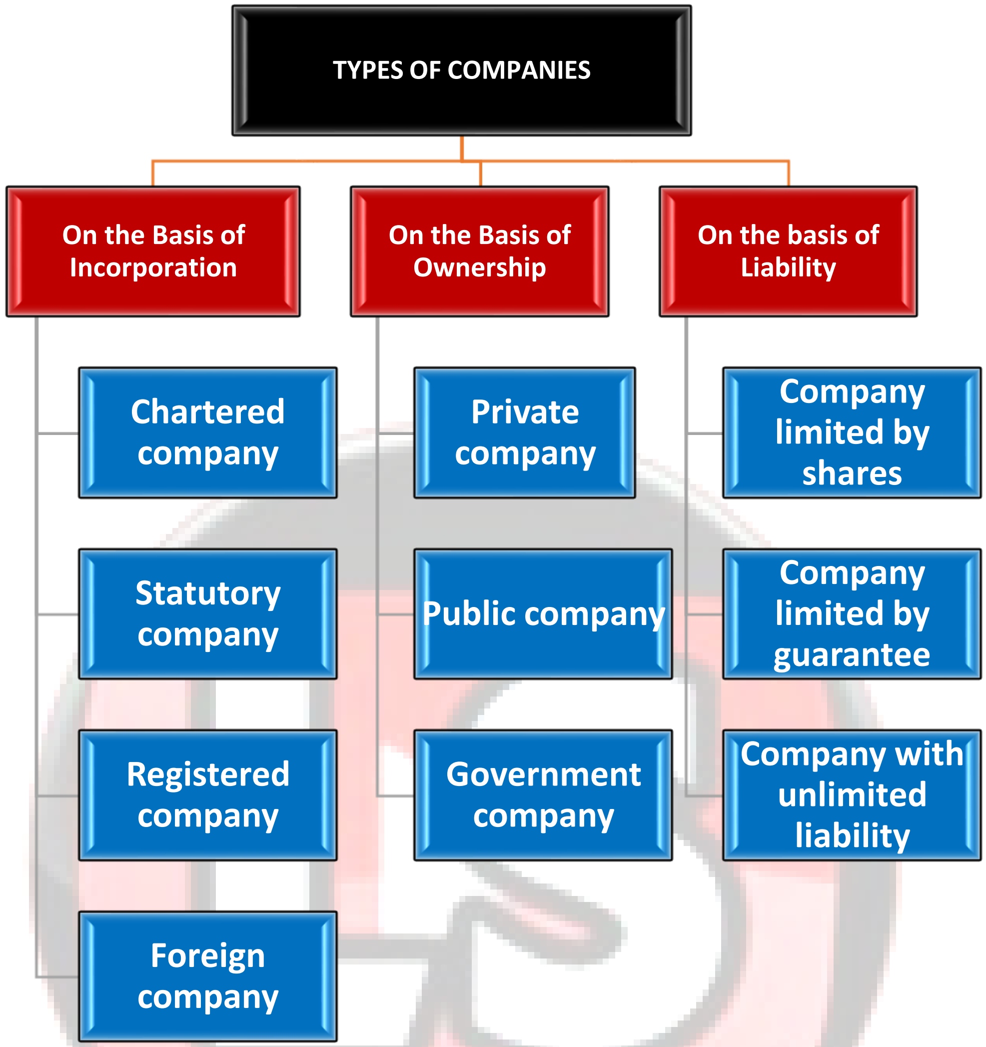
Transferability of shares

Shares in a company are **generally transferable,** allowing shareholders or members to buy, sell, or transfer their ownership rights.

Separate Management

A **company is managed by a board of directors**, elected by the shareholders, who oversee the company's affairs and make strategic decisions.

TYPES OF COMPANIES



ON THE BASIS OF INCORPORATION

Chartered company: A chartered company is **established through a special charter granted by a Head of State**. In India, such companies are not commonly found.

Statutory company: A statutory company is **created or incorporated by a specific Act** passed by the Central or State Legislature. These companies are owned by the government.

Registered company: A registered company is one that is incorporated and **registered under the provisions of the Companies Act**

Foreign company: This is a company that is **incorporated and registered in a country other than** the one in which it conducts its business operations.

ON THE BASIS OF OWNERSHIP

Private company

Section 2(68) of Companies Act, 2013 defines private companies. According to that: -

- A private company can have a **minimum of two members** except one Person Company and a **maximum of up to 200 members**.
- Private companies **cannot freely transfer their shares** to the public like public companies.
- Private companies **cannot issue any security** of the company to the **public to subscribe**.
- All private companies must include the **words "Private Limited"** or "**Pvt. Ltd." in their names**.

Public company

- This is a type of business entity that **offers its shares to the public and is listed on a stock exchange**.
- Public company can have a **minimum of Seven members with no maximum limit.**

Government company Any company in which at **least 51% of the paid-up share capital** is held by the Central Government or by any **State Government or both.**

ON THE BASIS OF LIABILITY

Company limited by shares: In an LLC, the **liability of its members is limited** to the face value of the shares they have purchased.

Company limited by guarantee: This type of company **limits the liability** of its members to a **specific amount that they have guaranteed**.

Company with unlimited liability: It is a company in which the liability of a **member is unlimited**.

DISTINCTION BETWEEN PARTNERSHIP AND COMPANY

BASIS	PARTNERSHIP	COMPANY
Formation	The formation of partnership firm is **relatively easy by way of agreement among partners.**	The formation of a limited company is difficult **because too many legal formalities are involved**

Registration	Registration of a Partnership **firm is not compulsory**	Registration of a company **is compulsory**.
Liability	Liability of partners of a firm is **unlimited**	Liability of a shareholder is generally **limited to the face value of shares** held by him
Ownership/ Management	In partnership firm, ownership, and management **rest with the partners.**	In a company there is a **separation of ownership and management**
Perpetual succession	partnership does not have a perpetual succession	Limited company enjoys perpetual succession
Regulation	Partnerships in India are primarily regulated by the **Indian Partnership Act, 1932**	Companies in India are primarily regulated by the **Companies Act, 2013**.

SHARE CAPITAL

Share capital is the money a **company raises by issuing Equity shares or Preference Shares or both.**

Authorised capital: The "Memorandum of Association" of a company **specifies the capital amount** known as the Authorized Capital. This represents the **maximum limit up to which the company can raise capital**.

Issued capital: Issued capital refers to the **portion of the authorized capital that has been issued by the company**.

Subscribed capital: Subscribed capital represents the part of the issued capital that has been **actually subscribed to by the public**.

Called up capital: Called-up capital refers to the **amount that the company has requested its shareholders to pay**. It represents the portion of subscribed capital that shareholders are required to contribute.

Paid-up capital: That **amount of capital** which has actually **been paid by the shareholders**. It can never be more than the called-up capital.

TYPES OF SHARES

Equity Shares

Preference Shares

Equity Shares

- Equity shares also known as **ordinary shares or common shares**. The holders of these shares are the **real owners of the company.**
- Equity shareholders have control **over the working of the company,** and they have voting rights.
- The **equity shares** which are issued by the company are **permanent and are non-redeemable.**

- Equity shareholders receive a **dividend on the shares**. The amount of the **dividend depends upon the profit made by the company.**

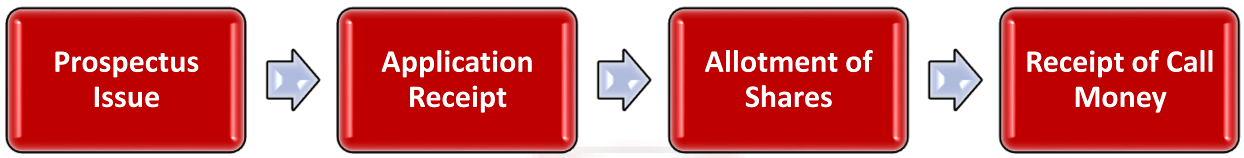
Preference Shares

- Preference shares **represent ownership in a company**. They are secondary owners of a business.
- Preference shareholders enjoy the **preference over common shareholders** in the payment of dividends and capital.
- **Fixed rate of dividend** is paid to the preference share holder.

ISSUE OF SHARES

This is a process by which a **company offers its shares to potential investors or shareholders** in exchange for capital or other forms of consideration.

PROCESS OF ISSUE OF SHARES



Prospectus Issue

An enterprise releases a **prospectus to the public**. Prospectus provides detailed information about the company, its business operations, financials, risk factors, and terms of the share issue.

Application Receipt

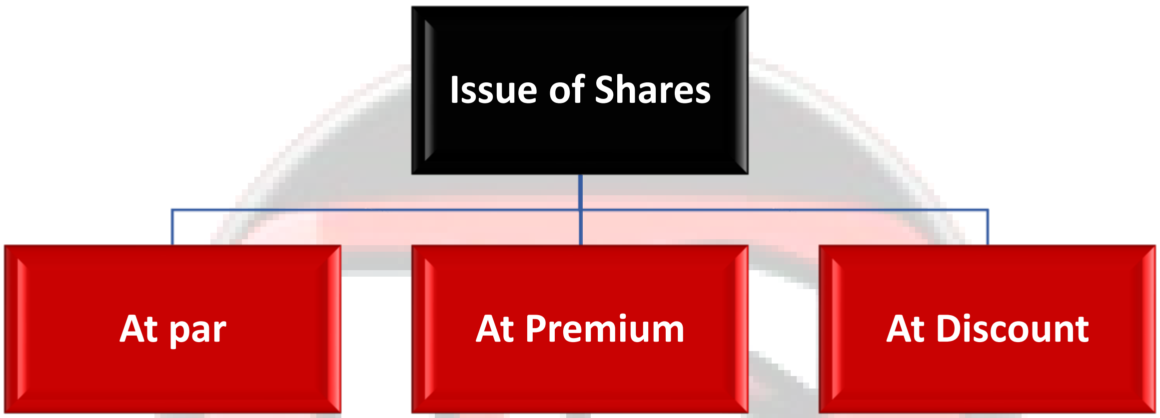
This involves receiving applications from **investors who are interested in purchasing shares of the company**.

Allotment of Shares

This is a process of **assigning shares to the applicants** who have applied for shares during a share issuance.

Receipt of Call Money

After the shares are allotted to the shareholders, the company **may issue a notice known as a "call notice" or "call letter"** specifying the amount and due date for the subsequent payments, which are called "calls.



ISSUE OF SHARES AT PAR

Issue of Shares at Par means to issue the shares for an **amount equal to the face value of shares.**

ISSUE OF SHARES AT A PREMIUM

- When shares are issued at **higher than the face value of the shares**, they are said to be issued at a premium.
- The amount of premium is **decided by the Board of Directors** as per guidelines issued by the SEBI.

ISSUE OF SHARES AT A DISCOUNT (Section 53 of Companies Act 2013)

- When shares are issued at **lower than the face value of the shares**, they are said to be issued at a discount.
- Except as provided in **section 54 (issue of sweat equity)**, a company shall **not issue shares at a discount**.

JOURNAL ENTRY IN CASE SHARES ISSUED

ABC Ltd. Issued 20000 shares of Rs.10 each payable as follows

Application Rs.4 Allotment Rs. 4 Final call Rs. 2

➢ **For entry is made by the company on receiving the application money**

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 4) Dr **To Share application A/c (20000 x 4)**		**80000**	**80000**

➢ **For Application money is transferred to Share Capital A/c**

Date	Particulars	L.F	Dr	CR
	Share application A/c (20000 x 4) Dr		**80000**	**80000**

	To Share Capital A/c (20000 x 4)			

- **For making allotment for money due**

Date	Particulars	L.F	Dr	CR
	Share allotment A/c (20000 x 4) Dr To Share capital A/c (20000 x 4)		80000	80000

- **For receipt of allotment money**

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 4) Dr		80000	80000

	To Share allotment (20000 x 4) A/c			

- **For entry is passed for call money due**

Date	Particulars	L.F	Dr	CR
	Share final call A/c (20000 x 2) Dr To Share Capital A/c (20000 x 2)		40000	40000

- **For receipt of call money**

Date	Particulars	L.F	Dr	CR
	Bank A/c (20000 x 2) Dr To Share final call A/c (20000 x 2)		40000	40000

OVERSUBSCRIPTION

- Oversubscription of shares occurs when the **demand for shares in a company exceed**s the number of shares available for allocation.
- In the case of over-subscription, it is **not possible for the company to allot shares to every applicant** in the number that he desires.

The company has the following three alternatives.

- Accept some applications in full and reject the others totally.
- Make Pro-Rata Allotment.
- Adopt a combination of the above two.

ACCEPT SOME APPLICATIONS IN FULL AND REJECT THE OTHERS TOTALLY.

When some applications are **accepted in full** by drawing lots and **some are rejected in full,** the **amount received on applications accepted is transferred to share capital account**. The amount received on rejected applications is refunded.

PRO RATA ALLOTMENT

- Pro rata allotment refers to the **allocation of shares in proportion** to the number of **shares applied for by each investor or shareholde**r.

- It ensures a **fair distribution of shares** among applicants based on the principle of proportionality.

WHERE SOME APPLICATIONS ARE ACCEPTED IN FULL, SOME REJECTED IN FULL AND THE REMAINING APPLICATIONS ARE ACCEPTED ON A PRO RATA BASIS,

- Application money on **rejected applications is refunded.**
- The **excess amount** paid by the applicants who have been allotted shares on pro-rata basis is **adjusted towards allotment dues**.

FORFEITURE OF SHARES

This is a **process** by which a **company cancels and reacquires the shares** of a shareholder due to non-payment or non-compliance with certain obligations or requirements.

- **The journal entry on forfeiture of shares will be as under**

Date	Particulars	L.F	Dr	CR
	Share capital A/c (1000 x 10) Dr **To Calls in arrear A/c (1000 x 2)** **To Share forfeiture A/c (1000 x 8)**		**10000**	 **2000** **8000**

RE-ISSUE OF SHARES

Forfeited shares can be re-issued by the company at any time. But such **shares cannot be re-issued at a price which is lower than the amount in arrears.**

Date	Particulars	L.F	Dr	CR
	Bank A/c (1000 x 9) Dr		9000	
	Share forfeiture A/c (1000 x 1)		1000	
	To Share capital A/c			10000

Forfeiture Amount transferred to Capital Reserve

Date	Particulars	L.F	Dr	CR
	Share forfeiture A/c (1000 x 1) Dr To Capital Reserve A/c		7000	 7000

CALLS IN ADVANCE

- Calls in advance" refers to a situation in which a **company requests its shareholders to make payment** for their shares before the scheduled payment date.
- The company can pay interest on calls in advance as per the terms of its articles but **cannot pay interest of more than 6% p.a.**

JOURNAL ENTRY

When call in advance is received?

Date	Particulars	L.F	Dr	CR
	Bank A/c Dr To Calls in Advance A/c		40000	40000

When call is made, calls in advance account is adjusted

Date	Particulars	L.F	Dr	CR
	Calls in Advance Dr To Calls A/c		40000	40000

BONUS SHARES

The company can **issue shares to its existing equity shareholders without consideration,** if the Articles of Association provides, these are called bonus shares.

A company may issue Bonus equity shares if the following conditions are fulfilled, namely:

- The Bonus issue shall be **authorized by Articles of Association**.
- The issue of bonus shares shall be **previously authorized in the General meeting of the Company**.

- The Company **cannot issue bonus shares** to the Shareholders holding partly paid-up shares.
- The company 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 respect of the payment of **statutory dues of the employees**, such as, contribution to provident fund, gratuity, and bonus.
- The bonus shares shall **not be issued in lieu of dividend**.

SWEAT EQUITY SHARES

'Sweat Equity' Shares means equity shares issued by the company **to employees or directors** at a discount or for consideration other than cash.

A company may issue sweat equity shares if the following conditions are fulfilled, namely:

- **The issue is authorised by a special resolution** passed by the company
- The resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;
- The company must have been in **business for a minimum of one year prior to the issuance of these shares** .

EMPLOYEES STOCK OPTION SCHEME (ESOS)

- ESOS means a scheme under which the company **grants option** (a right but not an obligation) **to an employee to apply for shares** of the company at a pre-determined price.
- The SEBI has issued guidelines for ESOS for listed companies.

NON-VOTING SHARES

This is a type of equity shares **that do not carry voting rights**. These shares are **issued by a company to investors or shareholders**, granting them ownership in the company but without the ability to vote on matters related to the company's governance or decision-making processes.

CONDITIONS

- issue should be **authorised by the Articles of Association** of the company and **approved by the shareholders** at their general body meeting by passing a special resolution.
- **Special resolution** must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
- Such shareholders are **entitled to all rights and bonus shares** but do not enjoy voting rights.
- **Only 25 per cent of the paid-up capital of the company can be issued as equity shares without voting rights.**
- Only a public company limited by shares can issue
- **No company will be permitted to convert shares with voting rights into shares without voting rights.**

Sr no.	Questions	Answer
1	What is a key feature of a company that distinguishes it from its owners?	Separate entity
2	What term is used to describe the limited personal responsibility of shareholders in a company?	Limited liability
3	What characteristic allows a company to exist indefinitely, irrespective of changes in ownership or management?	Perpetual existence
4	What is the term for the ability to buy, sell, or transfer ownership rights in a company?	Share transferability
5	Who is responsible for overseeing a company's affairs and making strategic decisions?	Board of directors
6	What type of company is established through a special charter granted by a Head of State?	Chartered company
7	How is a statutory company created or incorporated?	Passing Legislative Act
8	What term is used to describe a company that is incorporated and	Registered company

	registered under the provisions of the Companies Act?	
9	What is a foreign company?	Overseas incorporation
10	How many minimum members are required for a private company according to the Companies Act, 2013?	2 members
11	How many members are required for a public company?	7 members
12	Share capital represents the money a company raises by issuing equity shares only.	False
13	Authorized capital is the maximum limit up to which a company can raise capital.	True
14	Issued capital refers to the portion of the authorized capital that has been subscribed to by the public.	False
15	Subscribed capital represents the part of the issued capital that has been actually paid by the shareholders.	False
16	Called-up capital is the amount that the company has requested its shareholders to pay.	True
17	Paid-up capital can be greater than the called-up capital.	False
18	Equity shares provide voting rights to the shareholders.	True

19	Equity shares are non-redeemable and permanent in nature.	True
20	Preference shareholders have preference over common shareholders in the payment of dividends and capital.	True
21	Fixed rate of dividend is paid to the equity shareholders.	False
22	Preference shares are redeemable, meaning they can be repurchased by the company at a predetermined price.	True
23	Preference shareholders have voting rights in the company	False
24	What is the purpose of issuing shares?	Capital raising
25	What information does a prospectus provide during the issuance of shares?	Company and shares details
26	What is the next step after receiving applications from interested investors?	Review Application
27	What is the process of allotting shares to applicants called?	Share allotment
28	What is the meaning of issuing shares at par?	Face value
29	What does it mean to issue shares at a premium?	Premium issuance
30	Under what circumstances can shares be issued at a discount?	Limited cases

31	What happens when the demand for shares exceeds the available allocation?	Oversubscription
32	________________is the process of canceling and reacquiring.	Forfeiture of shares
33	The journal entry for forfeiture involves debiting the shareholder's account and crediting the ______________.	forfeited shares account.
34	Forfeited shares can be re-issued by the company, but not at a price lower than the _______________.	amount in arrears
35	Calls in advance refer to the situation where shareholders are requested to make payment for their shares before the _______________.	scheduled payment date.
36	The company may pay interest on calls in advance, but not exceeding______________.	6% per annum
37	______________shares are issued to existing equity shareholders without consideration.	Bonus Shares
38	Bonus shares must be authorized by the Articles of Association and previously authorized in a _________________of the company	General meeting
39	Bonus shares cannot be issued to shareholders holding ________________.	Partly paid-up shares.

40	Bonus shares cannot be issued in________________.	lieu of dividend
41	Sweat equity shares are issued to employees or directors at a_____________.	Discount
42	Non-voting shares do not carry_________________.	Voting rights