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CA FOUNDATION

Principles & Practice of Accounting

Introduction to Company Accounts

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CHAPTER-10
COMPANY ACCOUNTS

UNIT : 1

COMPANY ACCOUNTS

INTRODUCTION

1. Definition - A Company

Definitions as per Judicial Decisions

Haney : A Company is an Incorporated Association, which is an Artificial Person created by law, having a Separate Entity, with a Perpetual Succession and a Common Seal.

Marshall : A Company is a person, artificial, invisible, intangible and existing only in the eyes of Law. Being a mere creature of law, it possesses only those properties which the Charter of its creation confers upon it, either expressly or as incidental to its very existence.

Lindley

- A Company is an **association** of many persons, who contribute money or money's worth to a **common stock,** and employ it in some common **trade or business,** and who **share** the profit or loss (as the case may be) arising therefrom.
- The Common Stock so contributed is denoted in money, & is the **Capital** of the Company.
- The Persons who contribute it, or to whom it belongs, are **Members.**
- The Proportion of Capital to which each Member is entitled is his **Share.**
- Shares are always **transferable** although the right to transfer them is often more or less restricted.

2. Characteristic features of a Company [Sec.9]

1. **Artificial Person**

   (a) A Company comes into existence by the operation of law.

   (b) By sanction of law, a Company is granted certain rights and obligations as that of a person. Thus, Company is an artificial person, incorporated under law.

2. **Separate Legal Entity**

   (a) The Company is a separate legal entity and an artificial person known by its own name. Members cannot in any way, claim to be the same as that of Company.

(b) Upon Registration, the Association of Persons becomes a Body Corporate by the Name contained in the Memorandum of Association.

(c) A Company is **distinct and separate** from the members who constitute it.

3. **Person, not Citizen**

(a) A Company is not a citizen either under - (a) the Constitution of India or (b) the Citizenship Act, 1955.

(b) The Constitution provides certain fundamental rights to its citizens. A Company cannot enjoy those fundamental rights, which are expressly available to **citizens** only.

(c) However, the Company can claim those fundamental rights which are available to all **persons,** whether citizens or not, e.g. Right to own property, Right to Equality, etc.

4. **Perpetual Succession**

(a) A Company is an artificial person and has a separate legal entity.

(b) Hence, death, insolvency or retirement of its Members does not affect the Company.

(c) The shares of a Company being transferable, members may change during the lifetime of the Company. However, that does not change the status of the Company.

(d) The Company goes on forever and continues to exist, till it is wound up and dissolved.

5. **Separate Property**

(a) As per law, the Shareholders of a Company are **not part owners** of the undertaking.

(b) The Company, being a separate entity, is entitled to hold property in its **own name.**

(c) Members of the Company cannot claim ownership of Company's property.

(d) Dealings by or with the Company are carried out in its own name and not as the collective agent of its Shareholders.

6. Common Seal

(a) Common Seal is the official signature of a Company. The Company's name is engraved on the Seal.

(b) The Articles of Association may provide for the documents that require the signature of-the Company, i.e. the Common Seal. Where any document is affixed with the Common Seal, it amounts to being signed by the Company.

7. **Capacity to Sue**

(a) The Company is a separate legal entity known by its name and hence all actions of the Company shall be done in its name. In any suit, the Company shall sue or be sued in its **own name.**

(b) When the Creditors remain unpaid, their action as to claim stops with the Company. They cannot proceed against the Shareholders, individually or as a Group.

8. **Ownership vs Management**

(a) The Board of Directors is the elected representative body of the Shareholders of the Company, and manages the affairs of the Company.

(b) Generally, every Shareholder / Member does not participate in the day-to-day affairs of working and administration of the Company. Hence, Ownership of Company is different from that of its Management.

9. **Right of Access**

Shareholders are entitled to have access to information, and inspect the Registers and Records maintained by the Company, in the manner specified in the Companies Act.

10. **Limited**

    (a) The liability of a Member of a Company may **be limited by Shares or Guarantee. (In rare cases, the liability may be defined as unlimited by its Memorandum).**

    (b) In case of Company limited by Shares, the Member's liability is **limited** to the amount unpaid on Shares. If such Shares are fully paid, he has no further liability.

    (c) In case of Company limited by Guarantee, the Member's liability is **limited** to the amount guaranteed by him in the Memorandum.

11. **Transfer ability of Shares**

    (a) Shares of a Company are always transferable, although the right to transfer them is sometimes restricted, e.g. in the case of a Private Company.

    (b) Since Shares are transferable, Members can dissociate themselves from the Company by transferring their Shares at any time, in the manner provided in its Articles.

12. **Accounts and Audit**

    (a) **Accounts:** A Company has to maintain the prescribed books of accounts under accrual system, and double-entry system of book-keeping only.

    (b) **Audit:** A Company's accounts are subject to annual audit. The appointment of Auditors shall be in accordance with the provisions of the Companies Act.

    Note: In case of Company does not frame its Article of Association, the Format of AOA shall be adopted from **Schedule I** u/s 5(6) of Companies Act, 2013.

3. Kinds of Companies

(1) Incorporation

- **Chartered Companies** -Formed by a Charter, i.e. Order of the King or Queen.
- **Statutory Companies** - Formed by or under a Statute of the Legislature / Parliament, e.g. LIC, Reserve Bank of India, State Bank of India, etc.
- **Registered Companies** - Formed and Registered under the Companies Act, 2013 or any earlier Companies Act.

(2) Owner-ship

- **Government Companies** - Means not less than **51%** of a Paid-Up Capital of a Company is held by the Central Government, or any State Government(s), Governments, or partly by Central Government and partly by one or more State Governments and includes a company which is a subsidiary Company of such a Government Company.
- **Companies controlled by others,** i.e. Regular Registered Companies.

(3) Liability

- **Limited Companies** - Liability of Members is limited, either - (a) By Shares, (b) By Guarantee.
- **Unlimited Companies** - Liability of Members is unlimited.

(4) Share Capital

- Companies **with** Share Capital.
- Companies **without** Share Capital.

Note: Only Public / Private Companies having Unlimited Liability or Limited by Guarantee can be formed without Share Capital.

(5) Listing

- **Listed Companies** - A Public Company which has any of its Securities listed in any recognized Stock Exchange.
- **Unlisted Companies** - A Company whose Securities are not listed on any recognized Stock Exchange. **[Note:** Shares of Private Companies are not listed in any Stock Exchange.]

(6) Member-ship

- Public Companies.
- Private Companies.
- One Person Company (OPC)

(7) Control

- Holding Company.
- Subsidiary Company.
- Associate Company.

(8) Others

- Foreign Companies - Incorporated outside India, and has a place of business in India
- Sec.8 Companies - Association with Charitable Objects.
- Other Definitions - Banking Company, Listed Company, Small Company

4. Holding Company and its Subsidiary

1. **Holding Company [Sec.2(46)]:** in relation to one or more other Companies, means a Company of which such Companies are Subsidiary Companies.
2. **Subsidiary Company or Subsidiary [Sec.2(87)]:** in relation to any other Company (that is to say the Holding Company), means a Company in which the Holding Company -
   (a) controls the composition of the Board of Directors, or
   (b) exercises or controls more than one-half of the Total Share Capital either at its own or together with one or more of its Subsidiary Companies.

Note:

- A Company shall be deemed to be a Subsidiary Company of the Holding Company even if the control referred to above is of another Subsidiary Company of the Holding Company.
- The composition of a Company's Board of Directors shall be deemed to be controlled by another Company, If that other Company by exercise of some power exercisable by it at its discretion can appoint or remove = majority of the Directors.
- The expression "Company" includes any Body Corporate.
- "Total Share Capital" means, the aggregate of - (a) Paid-up Equity Share Capital, and (b) Convertible Preference Share Capital.
- Shares held by a Company or power exercisable by it in another Company in a 'fiduciary capacity' shall not be counted for the purpose of determining the Holding-Subsidiary or Associate relationship.

5. 'Private Company'; `Public Company'; One Person Company

(1) Private Company [Sec.2(68)]

Company having a minimum Paid-Up share Capital of ` **1,00,000** or such higher prescribed amount, and which by its Articles-

1. **Restricts** the right to transfer it-Shares,
2. **Limits** the number of its Members to 200 [except in case of an OPC],
3. **Prohibits** any invitation to the public to subscribe for any Securities of the Company.

(2) Public Company [Sec. 2(71)]

Company which -

1. is **not** a Private Company,
2. has a minimum Paid-Up Capital of ` **5 Lakhs,** or such higher amount, as may be prescribed,
3. is a Private Company which is a **Subsidiary** of a Public Company

(3) One Person Company [Sec,3]

Meaning: One Person Company (OPC) is a type of Private Company formed by 1 person subscribing his name to a Memorandum, *and complaying* with the other requirement of the Act and rules. **Sole Member:**

(a) OPC requires a subscriber to incorporate (i.e. Sole Member) and a Nominee for the Sole Member.

(b) Memorandum of OPC shall indicate the names of the other-person (Nominee), who shall, in the event of the subscriber's death or his incapacity to contract, become the Member of that OPC.

Notes:

(a) Where two or more persons hold one or more shares in a Company **jointly,** they shall, for the purpose of membership, be treated a single member.

(b) Companies Act makes only a **restriction** on transfer of shares in case of Private Company but does not **prohibit** transfer.

(c) If a Company, private or public, fails to enhance its Minimum Paid-Up Capital to the required amount (i.e. ` 1 Lakh or ` 5 Lakhs, as the case may be) each Director / Manager / Shareholder will have **unlimited liability.**

6. Books of Accounts to be maintained by a Company [Sec. 128]

1. **Proper Books of Account:** Sec.128 requires that a Company shall maintain proper books of account with respect to the following items -

   (aj all sums of money received and expended by the Company and matters in respect of which receipt and expenditure take Place.

   (b) all sales and Purchases of goods by the Company,

   (c) the assets and liabilities of the Company ,and

2. **Nature of Books:** A Company shall keep proper books of account -

   (a) to give a **true and fair view** of the state of the affairs of the Company or Branch Office, as the case may be, and to explain its transactions, and

   (b) on **accrual** basis, and

   (c) according to the **double entry** system of accounting.

7. Preparation of Financial Statements by a Company

1. **Annual Accounts and Balance Sheet:** The Board of Directors shall lay before the Company at every Annual General Meeting (AGM) -

(a) a **Balance Sheet** as at the end of the period, and

(b) a **Profit and Loss Account** for that period.

[Note: For a Company not carrying on business for profit, an Income and Expenditure Account shall be laid at the AGM, instead of the P & L Account.]

2. **Provisions as to Balance Sheet and P&L Account:**

	Particulars	**Balance Sheet**	**P&L Account**
(a)	Contents	Compliance with Schedule III, **Part I** is required.	Compliance with Explanations in Schedule III, **Part II** is required.
(b)	Focus	B/S sheet should give true and fair view of the state of affairs of the Company.	P&L A/c should give true and fair view of the profit and loss for the financial year.

8. FORM OF BALANCE SHEET -Schedule III, Part I

Particulars	**Note**	**Figures as at the end of Current Reporting Period**	**Figures as at the end of the Previous Reporting Period**
1	**2**	**3**	4
I. EQUITY AND LIABILITIES			
(1) **Shareholders' Funds**			
(a) Share Capital			
(b) Reserves & Surplus			
(c) Money Received against Share Warrants			
(2) Share Application money pending allotment			
(3) Non-Current Liabilities			
(a) Long Term Borrowings			
(b) DTL (Net)			
(c) Other Long Term Liabilities			
(d) Long Term Provisions			
(4) **Current Liabilities**			
(a) Short Term Borrowings			
(b) Trade Payables			
(c) Other Current Liabilities			
(d) Short Term Provisions			
TOTAL			

	Particulars Note	Figures as at the	Figures as at the end of Current Reporting Period	end of the Previous Reporting Period
1		**2**	**3**	4
II	**ASSETS**			
1.	**Non -Current Assets**			
	(a) Fixed Assets			
	(i) Tangible Assets			
	(ii) Intangible Assets			
	(iii) Capital WIP			
	(iv) Intangible Assets under Development			
	(b) Non-Current Investments			
	(c) DTA (Net)			
	(d) Long Term Loans & Advances			
	(e) Other Non-Current Assets			
II	**Current Assets**			
	(a) Current Investments			
	(b) Inventories			
	(c) Trade Receivables			
	(d) Cash & Cash Equivalents			
	(e) Short Term Loans & Advances			
	(f) Other Current Assets			
	TOTAL			

9. STATEMENT OF PROFIT AND LOSS - Schedule III, Part II

	Particulars Note	Figures as at the	Figures as at the end of Current Reporting Period	end of the Previous Reporting Period
1		**2**	**3**	**4**
i	Revenue from Operations		XXX	**xxx**
ii	Other Income		XXX	**xxx**
in	Total Revenue (i + ii)		**XXX**	**XXX**
iv	**Expenses:**			
	Cost of Materials Consumed		XXX	XXX
	Purchases of Stock-In-Trade		XXX	XXX
	Changes in Inventories of Finished Goods / Work-in-Progress and Stock-In-Trade		XXX	XXX
	Employee Benefits Expense			

	Finance Cost			
	Depreciation and Amortization Expense			
	Other Expenses			
		Total Expenses	**XXX**	**XXX**
v	Profit before Exceptional & Extraordinary Items & Tax (III-IV)		XXX	XXX
vi	Exceptional items		xxx	xxx
vii	Profit before Extraordinary Items and Tax (v-vi)		xxx	xxx
viii	Extraordinary Items		xxx	xxx
	Profit before Tax (VII-VIII)		xxx	xxx
X	Tax Expense:			
	(1) Current Tax		xxx	xxx
	(2) Deferred Tax		xxx	xxx
xi	Profit/(Loss) from Discontinuing Operations (After Tax) (XII-XIII)		XXX	XXX
XII	Profit / (Loss) from Discontinuing Operations	XXX	XXX	
XIII	Tax Expense of Discontinuing Operations		XXX	XXX
XVI	Earnings per Equity Share:		xxx	xxx
	(1) Basic		xxx	xxx
	(2) Diluted	xxx	xxx	

CLASS WORK

MULTIPLE CHOICE QUESTIONS

1. Which of the following statement is not a feature of a Company?
   (a) Separate legal entity
   (b) Perpetual Existence
   (c) Members have unlimited liability
2. In a Government Company, the holding of the Central Government in paid-up capital should not be less than
   (a) 25% (b) 50 % (c) 51%
3. Which of the following statement is true in case of a Foreign Company?
   (a) A Company incorporated in India and has place of business outside India.
   (b) A Company incorporated outside India and has a place of business in India.
   (c) A Company incorporated in India and has a place of business in India.
4. Which of the following statements is not a feature of a private company?
   (a) Restricts the rights of members to transfer its shares.
   (b) Does not restrict on the number of its members to any limit.
   (c) Does not involve participation of public in general.

HOME WORK

1. Explain salient features of a company in brief.
2. Write short note on:
   (i) Foreign company.
   (ii) Small company.
   (iii) Company limited by guarantee.

UNIT : 2

ISSUE, FORFEITURE AND RE-ISSUE OF SHARES

INTRODUCTION

Funds provided by the owner(s) into a business are recorded as capital. Capital of the business depends upon the form of business organisation. Proprietor provides capital in a sole-proprietorship business. In case of a partnership, there is more than one proprietor, called partners. Partners introduce capital in a partnership firm. As the maximum number of members in a partnership rm is restricted, therefore only limited capital can be provided in such form of businesses. Moreover, the liability of the proprietor(s) is unlimited in case of non-corporate business, namely, sole-proprietorship and partnership.

1. Share

Meaning : Share" is the basic unit into which the Capital of a Company is divided. It is an interest measured by a **sum of** money. **Example:** A Company with a Total Capital of ` 1 Crore is divided into 1 Lakh Units of ` 100 Each unit of ` 100 is called a Share of the Company.

Sec. 2(84) : A Share is a Share in the Share Capital of the Company, and includes Stock

2. Two kinds of Shares recognized in the Companies Act, 2013

The Share Capital of a Company limited by Shares can only be of two kinds -

1. **Equity Share Capital** - (a) with Voting Rights, or (b) with differential rights as to dividend, voting or otherwise in accordance with the prescribed Rules i.e. Companies (Issue of Share Capital with Differential Voting Rights) Rules, 2001.
2. **Preference Share Capital,** i.e. Priority for Dividend at Fixed Rate + Priority for repayment of Capital.

3. Preference Share Capital and Equity Share Capital

(1) Preference Share Capital [PSC] :

Carries a Preferential Right as to -

(a) **Dividend:** Either a Fixed Amount or at a Fixed Rate, free or subject to Income Tax, and

(b) **Capital:** Upon a winding up or repayment of Capital, preference as to repayment of amount of Paid-Up Capital, whether or not there is a preferential right to payment of -

- **Dividends remaining Unpaid** Upto date of winding up or repayment of Capital, and
- Fixed Premium specified in the MOA or AOA of the Company.

(2) Deemed Preference Capital :

Capital is **deemed** to be Preference Capital, if they fulfil the above conditions, irrespective of whether it **is** entitled to any of the following additional rights -

- **Dividend:** Participation, with Equity Shares in profits (fully or to limited extent) of the Company after-payment of Dividends to Equity Shares. **Example:** After payment of dividend of 25% to Equity Shares, balance surplus will be shared equally by Preference and Equity Shareholders.
- **Capital:** Participation (fully or to limited extent) with Ordinary Capital in any surplus remaining after repayment of entire capital. They are **entitled to surplus assets** of the Company after repayment of Equity Capital.

(3) Equity Share Capital :

(a) **Meaning:** All such Share Capital that is **not** Preference Share Capital is called Equity Share Capital.

(b) **Features:** It may be with - (i) Voting Rights, or (ii) Differential Rights as to Dividend, Voting or otherwise in accordance with rules and subject to prescribed conditions.

4. Preference Shares and Equity Shares

(1) Definition

Preference Shares : Shares that carry a Preferential Right as to payment of - (a) Dividend, and (b) Repayment of Capital.

Equity Shares : Shares that are not Preference Shares are called Equity Shares.

(2) Return

Preference Shares : Fixed Rate or Fixed Amount.

Equity Shares : Based on profits available for distribution.

(3) Dividend

Preference Shares : Priority over Equity Dividend, i.e. paid first.

Equity Shares : After payment of Preference Dividend.

(4) Repayment of Capital

Preference Shares : Paid before repayment of Equity Capital.

Equity Shares : Paid after entire Preference Capital is repaid.

(5) Arrears of Dividend

Preference Shares : Generally accumulates unless specifically said to be non-cumulative.

Equity Shares : No accumulation of Unpaid Dividend. No Profits means no Dividend.

(6) Redemption

Preference Shares : Redeemable as per terms of issue and provisions of Act.

Equity Shares : Not Redeemable till winding-up. Even in winding-up, will be repaid after Pref.Shares.

(7) Voting Rights

Preference Shares : Generally restricted. Carries right to vote on all matters if dividend remains unpaid for the prescribed period.

Equity Shares : Unrestricted, i.e. Holder can vote at any matter at any Meeting, or the Shares may be issued with varying voting rights.

(8) Further Issue of Shares

Preference Shares : Principles relating to Rights or Bonus Issue is Not Applicable.

Equity Shares : Fresh Issue to be offered first to existing holders, i.e. Rights Issue and fully paid Bonus Shares offered to all members.

(9) Control / Management

Preference Shares : No right to take part in Management.

Equity Shares : Equity Shareholders are the real owners, hence have a right to control the Management of Company.

5. Different types of Share Capital

(i) Authorised Share Capital [Sec.2(8)]

(a) It is the maximum amount of Share Capital which can be raised by the Company.

(b) The Authorised Share Capital is also known as the **"Registered Capital"** or **"Nominal Capital"** and is authorised by Memorandum of Association of Company.

(c) Authorised Capital is shown in the Balance Sheet at **Nominal Value** (Face Value).

(d) **Example:** Authorised Capital = 10,000 Shares of ` 100 each, Total = ` 10,00,000.

(ii) Issued Share Capital [Sec.2(50)]

(a) It represents that part of Authorised Share Capital which has been given or issued or offered to Shareholders.

(b) Issued Capital includes Shares issued for - (i) Cash, and (ii) Consideration other than cash, to Promoters and Others.

(c) Issued Share Capital is shown in the Balance Sheet at Nominal Value (Face Value).

(d) **Example:** Issued Capital = 9,000 Shares of ` 100 each, Total = ` 9,00,000.

Note: The remaining portion of Authorised Capital, which is not issued for cash or other consideration, is called as **Unissued Capital.** It is **not shown** in the Balance Sheet.

(iii) Subscribed Share Capital [Sec 2(86)]

(a) Subscribed Capital is the part of Issued Share Capital which has been subscribed (i.e. applied for) by the Public / Shareholders, and allotted by the Company.

(b) **Example:** Out of 9,000 Shares issued 8,000 Shares are subscribed by public.

Note: The remaining portion of Issued Capital, which is not subscribed, is **not shown** in the Balance Sheet.

(iv) Called Up Share Capital [Sec.2(15)]

(a) Companies generally receive the Issue Price of Shares in instalments, e.g. application stage, allotment stage, First Call, Second Call, etc.

(b) The portion of the Face Value of Shares which a Company has demanded or called from Shareholders is known as "Called-Up Capital".

(c) The balance portion which the Company has decided to call / demand in future is called as **Uncalled Capital.**

(d) **Example:** Out of ` 100 per Share, the Company has called up ? 70 per Share. In such case, the Uncalled Capital is ` 30 per Share.

(v) Paid-Up Capital [Sec. 2(64)]

(a) It is that portion of Called Capital which has been actually paid by the Shareholders.

(b) The unpaid portion is called **"Unpaid Calls"** or **"Calls in Arrears".**

(c) So, Paid Up Capital = Called up Capital **-** Calls in Arrears.

(d) **Example:** If out of ` 70 per Share called up, only ` 60 has been paid by Shareholders, the remaining ` 10 per Share constitutes Calls in Arrears.

(vi) Reserve Capital [Sec. 65]

(a) a Company may decide by passing a special resolution, that a certain portion of Subscribed Uncalled Capital shall be called up only in the event of winding-up / liquidation.

(b) That portion is called **Reserve Capital.** It is **not shown** in the Balance Sheet.

6. Procedure for Issue of Shares for Cash

1.

(a) Public Company shall issue a **Prospectus,** i.e. invitation to general public, to subscribe for Shares.

(b) Prospectus shall comply with the provisions of Companies Act, and SEBI Guidelines..

(c) Private Companies do not issue Prospectus. They depend upon "Private Placement" of Shares.

2.

(a) On the basis of Prospectus, **Applications** are deposited in a Scheduled Bank by the interested parties along with the amount payable at the time of application.

(b) Minimum Application Money is as specified in the Companies Act and as per SEBI Guidelines. **[Note:** Companies Act is applicable for all Companies, while SEBI Guidelines is applicable only for Listed Companies]

3.

(a) After the last date for filing applications (i.e. Closing Date), the Company decides about Allotment of Shares in consultation with SEBI and Stock Exchange concerned.

(b) Allotment is the **acceptance of a Company to give Shares to the Investor** in response to an offer for purchase of Shares made by him for a consideration.

(c) Allotment can be done only when Minimum Subscription has been received by the Company

4.

(a) Successful Applicants become Shareholders of the Company and are required to pay the next instalment which is known as **"Allotment Money".** Unsuccessful Applicants get back their money.

(b) In case of delay in refunding the excess money, the Company is liable to pay interest at 15 % p.a. on the amount of refund.

(c) Retention of Over-Subscription is **not** allowed under any circumstances except to the extent necessary because of proportional allotment, but not exceeding 10% of Issue Size.

5.

(a) The Company calls up the balance amount from the Shareholders, called **"Calls".** Call refers to the **demand** for Share Money other than those by *way* of application and allotment.

(b) Call may be made at any time - *(i) during the lifetime of the Company, or (ii) during its winding* up.

(c) When Issue Size exceeds ` 500 Crores, amount to be called up on application, allotment and on various calls **should not exceed 25%** of the Total Quantum of Issue in each case.

(d) Generally, the following conditions in Table A of Companies Act, 1956 will apply -

- A period of **1 month** must elapse between two calls.
- A notice of 14 days period should be given to the Shareholders to pay the amount.
- Calls should be on uniform basis, within Shares of the same class.
- The amount of one calls should not be more than 25% of the Face Value of the Share.

7. Minimum Subscription

1. **Meaning:** Minimum Subscription is the **minimum** amount stated in the Prospectus, which in the opinion of Directors, must be raised by the issue of Share Capital to start with.

2. **Requirement under Companies Act and SEBI Guidelines:**

   Minimum Subscription [Sec.39(l)]

   Companies Act

   Condition: Allotment of Securities can be made only if the amount stated in the prospectus as minimum subscription is received.

   Quantum: Amount stated in prospectus

   Time Limit: 30 days from date of issue (or) Time limit given under SEBI Guidelines

   Effect of Non-Receipt: Application Money shall be refunded within 15 days from the date of closure.

   SEBI Guidelines

   (a) Quantum : 90% of Total issue size

   (b) If Issue underwritten:

   - **Time limit:** Date of Closure (i.e) Closing of subscription list
   - **Effect of Non-Receipt:** Application Money shall be refunded within 15 days from the date of closure.

   (c) If Issue is not underwritten:

   - **Time limit:** within 6o days from the date of closure
   - **Effect of Non-Receipt:** Application Money shall be refunded within 10 days. Any refund after 70 days it shall be made with interest @ 15% P.A.

Note: Any Default in repayment of Minimum Subscription, all Directors of company who are officers in default will be Joint & Severally Liable with interest.

Application Money [sec.39(2)]

Quantum: Minimum Amount Payable on application of any security shall be

- Not less than 5% of nominal amount of security or
- Percentage or amount specified by SEBI

Quantum:

- Minimum amount payable on application shall be **25% of nominal value of security**
- Minimum amount for subscription shall be ` **10,000/-**

Note: Penalty for default [Sec.39(5)]: ` 1000 per day of default up to maximum of ` 1 lakh

3. **Application of Minimum Subscription:** Amount should be utilised to meet the following expenditure

   (a) Purchase Price of Property bought or to be bought,

   (b) Any Preliminary Expenses,

   (c) Underwriting Commission,

   (d) Repayment of money borrowed by the Company for the above purposes,

   (e) Working Capital, and

(f) Any other expenditure stating the nature and purpose with estimated amount in each case.

8. Issue of Shares at Premium. [Sec.52]

1. **Meaning:** Premium refers to the **excess** of the Share Issue Price over its Face Value / Par Value. A Company can issue Shares at a premium, i.e. at a price above its Face Value. **Example:** If a Share of Face Value ` 10 is issued at a price of ` 120, there is a premium of ` 110 per Share.
2. **Cash or Kind:** Shares can be issued at a Premium which may be received in Cash or in Kind. Sec.52 of the Act uses the words "at a premium, whether for cash or otherwise". **[Head Henry & Co. Ltd. vs. Ropner Holding Ltd]**
3. **Rate of Premium:** Rate or Amount of Premium is decided by the Board of Directors. Under SEBI Guidelines, justification for the premium should be disclosed in the **Offer Document.**
4. **Securities Premium Account:** The aggregate amount / value of the Premiums received should be transferred to Securities Premium Account. The provisions of the Act relating to reduction of Share Capital shall apply, as if the Securities Premium were Paid-Up Share Capital of the Company.
5. **Application of Securities Premium:** Securities Premium Account can he used only for -
   (a) Issuing **Fully Paid Bonus Shares** to Members.
   (b) Writing-off the **Preliminary Expenses** of the Company.
   (c) Writing off the - (i) Expenses Incurred, or (ii) Commission Paid, or (iii) Discount Allowed, on the Issue of Shares or Debentures of the Company
   (d) Providing for **premium payable** on redemption of any Redeemable Preference Shares or Debentures of the Company.
   (e) **Buy-back** of own Shares or Other Securities u/s 68.

   Note: For **specified class of Companies** whose Financial Statements comply with the Accounting Standards prescribed u/s 133, Securities Premium can be used only for___
   (a) Issuing **Fully Paid Bonus Shares** to Members.
   (b) Writing off the - (i) Expenses Incurred, or (ii) Commission Paid, or (iii) Discount Allowed, on the Issue of **Equity** Shares of the Company
   (c) **Buy-back** of own Shares or Other Securities u/s 68.

9. Prohibition on Issue of Shares at a Discount [Sec.53]

Prohibition : A Company **shall not** issue shares at a Discount except as Sweat Equity shares U/s 54.

Void : Any Share issued by a company at a discounted price shall be void, (except for Sweat Equity)

Effect of Default

(a) Company is punishable with fine of Minimum ` 1,00,000 and Maximum ` 5,00,000
(b) Every officer in default is Punishable with -
   - Imprisonment of maximum 6 months or
   - Fine of Minimum ` 1,00,000 and Maximum ` 5,00,000 or
   - both

10. Calls in Advance [Sec.50]

1. **Meaning:** Calls in Advance is the surplus money received by the Company from the allottees, i.e. its Shareholders.

2. **Calls in Advance:** A Company, if permitted by its Articles, may accept from members either the whole or part of the amount remaining unpaid on any shares held by him as Calls in Advance.
3. **No Voting Rights:** The Member shall not be entitled to any voting rights on Calls in Advance, until the same becomes presently payable and duly appropriated.
4. **Disclosure:** Calls in Advance will always have a Credit Balance and will be shown under the Liabilities Side. It is **not added** to the amount of Paid-Up Capital.
5. **Interest:** The Company is liable to pay interest on the amount of Calls in Advance from the date of receipt till the date when the Call is due for payment, at the Maximum rate of 12% p.a. the amount received in advance of calls is not refundable.
6. **Dividend [Sec. 51]:** A Company, if so authorised by its Articles, it can pay dividends on advance money received on calls
7. **Priority:** In the event of winding up the shareholder ranks after the creditors but calls in advance must be paid along with the interest if any before the other shareholders are paid off.

11. Calls in Arrears

1. **Meaning:** Calls in Arrears is the money remaining unpaid by the shareholder on the calls raised by the Company in respect of the shares held by him.
2. **Disclosure:** Calls in Arrears always have a Debit Balance and are shown as a deduction from Share Capital in the Liabilities Side of the Balance Sheet.
3. **Interest:** The Company can recover interest on the amount of calls in arrears from the date it became due till the date when the call is received at the rate not exceeding 10% p.a. (if Table F is adopted as Articles of Association).
4. **Waiver of Interest:** The Directors may also be empowered to waive the Interest on Calls in Arrears, subject to certain conditions laid down in the Articles.

12. Shares issued for Consideration other than Cash

1. **Meaning:** A Company can issue shares for valuable Consideration other than Cash. For example, Shares may be issued to - (a) Vendors towards payment of Purchase Consideration, (b) Promoters towards reimbursement of Preliminary Expenses incurred by them for incorporation, (c) Underwriters towards payment of Underwriting Commission, etc.
2. **Disclosure:** Shares issued for Consideration other than Cash shall be separately disclosed in the Balance Sheet of the Company, as required by Part I of Schedule III.
3. **Deemed Cash Receipt:** Where allotment is made in adjustment of a bonafide debt payable in money at once, the allotment should be considered as against cash. **[Spargo's Case]**
4. **Subsequent Cash Receipt:** Where Shares are allotted on cash basis, it will constitute a issue for cash, even if the amount is received by the later, in the normal course of its activity.

13. Forfeiture of Shares

1. **Meaning:** Forfeit = Taking away of property, on breach (non-fulfillment) of a condition. In the context of Shares, Forfeiture of Shares refers to the action taken by the Company, to cancel the Shares.

2. **Situation:** When Shareholders fail to pay Allotment or Call Money due, the Directors may forfeit the Shares in the bonafide interests of the Company, and in accordance with the Articles of Association. Proper Notice should be served to the defaulting Shareholder, before forfeiture.

3. **Effect:** When Shares are forfeited, the title of such Shareholder is extinguished, but the amount paid by him till such forfeiture, is not refunded to him. The Shareholder has no further claim on the Company. The amount actually received from the Shareholder is transferred to "Shares Forfeited A/c".

4. **Treatment:** Till Forfeited Shares are re-issued, the amount is shown as an addition to Share Capital, on the Liabilities Side of the Balance Sheet.

14. Re-issue of Forfeited Shares

Shares forfeited is re-issued by the Company, subject to the following considerations -

1. **Sale, not Allotment:** Re-issue of Forfeited Shares is **not an allotment,** it is only a Sale. So, the Company need not file a Return of Allotment, with the Registrar of Companies.

2. **Auction Sale:** After *forfeiture, the Forfeited Shares vest in the Company for the purpose of sale. The* Company is under an obligation to dispose it off, generally by auction.

3. **Minimum Re-Issue Price:** Forfeited Shares may be re-issued at any price, but the Total sum paid by Former Shareholder + Amount paid by Acquirer on Re-Issue + Amount remaining unpaid on the shares should **not** be less than face value of the shares. It is less than Face Value , it would amount to issue at a discount and discount on Re-issue should not exceed the amount forfeited on those shares.

4. **Loss on Re-issue:** Loss on Re-issue shall be debited to "Forfeited Shares" A/c.

5. **Condition for Re-issue:** Loss on Re-issue of Forfeited Shares should **not** exceed the Forfeited Amount, i.e. amount paid by Original Allottee, excluding premium, if any.

6. **Surplus:** Surplus arising on the Re-issue of Forfeited Shares (i.e. Forfeited Amount > Loss on Re-issue), should be transferred to **Capital Reserve A/c.** In case only a portion of Shares are re-issue, the amount of profit attributable to such Re-issued Shares should only be transferred to Capital Reserve Account.

7. **Re-issue at Premium:** When Forfeited Shares are re-issued at a **price higher than its Face Value,** the excess amount should be credited to **Securities Premium A/c.** However, if the Re-issued Amount + Forfeited Amount exceeds the Face Value, it is not necessary to transfer such amount to Securities Premium Account.

CLASS WORK

MULTIPLE CHOICE QUESTIONS

1. The excess price received over the par value of shares, should be credited to __________.
   (a) Calls-in-advance account
   (b) Share capital account
   (c) Securities premium account
2. The Securities Premium amount may be utilized by a company for __________.
   (a) Writing off any loss on sale of xed asset
   (b) Writing off any loss of revenue nature
   (c) Writing off the expenses/discount on the issue of debentures
3. When shares are forfeited, the share capital account is debited with ________ and the share forfeiture account is credited with __________.
   (a) Paid-up capital of shares forfeited; Called up capital of shares forfeited
   (b) Called up capital of shares forfeited; Calls in arrear of shares forfeited
   (c) Called up capital of shares forfeited; Amount received on shares forfeited
4. T Ltd. proposed to issue 6,000 equity shares of `100 each at a premium of 40%. The minimum amount of application money to be collected per share as per the Companies Act, 2013
   (a) `5.00 (b) `6.00 (c) `7.00
5. Dividends are usually paid as a percentage of ______.
   (a) Authorized share capital (b) Net profit (c) Paid-up capital
6. As per the SEBI guidelines, on issue of shares, the application money should not be less than
   (a) 2.5% of the nominal value of shares
   (b) 2.5% of the issue price of shares
   (c) 25.0% of the issue price of shares
7. G Ltd. acquired assets worth `7,50,000 from H Ltd. by issue of shares of `100 at a premium of 25%. The number of shares to be issued by G Ltd. to settle the purchase consideration = ?
   (a) 6,000 shares (b) 7,500 shares (c) 9,375 shares

THEORETICAL QUESTIONS

1. Write short notes on:
   (i) Utilization of securities premium account
   (ii) Re-issue of forfeited shares
2. Distinguish between:
   (i) Calls-in-Arrears and Calls-in-advance
   (ii) Issue of shares for cash and Issue of Shares for Consideration other than Cash
3. Can a company issue shares at discount?

HOME WORK

Q-1 X Ltd. invited applications for 10 lakhs shares of ` 100 each payable as follows :

	`
On Application	20
On Allotment (on 1st May, 2016)	30
On First Call (on 1st Oct., 2016)	30
On Final Call (on 1st Feb., 2017)	20

All the shares were applied for and allotted. A shareholder holding 20,000 shares paid the whole of the amount due along with allotment. Journalise the transactions, assuming all sums due were received. Interest was paid to the shareholder concerned on 1st February, 2017.

Q-2 A limited Company, with an authorized capital of ` 20,00,000 divided into shares of ` 100 each, issued for subscription 10,000 shares payable at ` 25 per share on application, ` 30 per share on allotment, `20 per share on first call three months after allotment and the balance as and when required.

The subscription list closed on January 31, 2016 when application money on 10,000 shares was duly received and allotment was made on March 1, 2016.

The allotment amount was received in full but, when the first call was made, one shareholder failed to pay the amount on 1,000 shares held by him and another shareholder with 500 shares paid the entire amount on his shares.

Give journal entries in the books of the Company to record these share capital transactions assuming that all amounts due were received within one month of the date they were called.

Q-3 B Ltd. issued 20,000 equity shares of ` 100 each at a premium of ` 20 per share payable as follows: on application ` 50; on allotment `50 (including premium); on final call ` 20. Applications were received for 24,000 shares. Letters of regret were issued to applicants for 4,000 shares and shares were allotted to all the other applicants. Mr. A, the holder of 150 shares, failed to pay the allotment and call money, the shares were forfeited. Show the Journal Entries and Cash Book in the books of B Ltd.

ISSUE OF DEBENTURES

INTRODUCTION

In the earlier units of this chapter, we have studied the issue of share capital as a means of raising funds for financing the business activities. But with increasing and ever growing needs of the corporate expansion and growth, equity source of financing is not sufficient. Hence corporates turn to debt financing through various means. Issuing debt instruments by offering the same for public subscription is one of the sources of financing the business activities. Debt financing does not only helps in reducing the cost of the capital but also helps in designing appropriate capital structure of the company. Debenture is one of the most commonly used debt instrument issued by the company to raise funds for the business.

1. Debenture - Definition and its important features

1. **Definition:**

   (a) Debenture includes Debenture Stock, Bonds and any other instrument of a Company evidencing a debt, whether constituting a charge on the assets of the Company or not. **[Sec. 2(30)]**

   (b) It is a document issued by a Company indicating its **indebtedness.**

2. **Features:**

(a) **Debt:** Debenture is a document which evidences a loan made to a Company. The term Debenture refers to an acknowledgment of a debt, and obligation to repay, which is accompanied by some charge or security.

(b) **Under Common Seal:** Though not mandatory, a Debenture is issued under the Company's Seal.

(c) **Interest:** The Company pays a fixed rate of interest on Debentures, due on specific dates. Such interest is payable, irrespective of whether the Company has earned profit or not.

(d) **Date of maturity / redemption:** Generally Debentures are issued for a specified period of time, after which they ***mature or have to*** **be** redeemed ***by the Company by paying the*** money. Sometimes, they may **be** converted into Equity Shares, after .the maturity period.

(e) **Creation of Charge:** Most Debentures are secured by way of a charge on the assets / part of the assets of the Company. However, there may also be unsecured Debentures.

(f) **Movable Property [Sec.44]:** Like Shares, Debentures are also movable property, capable of being transferred in the manner provided in the AOA of the Company.

(g) **Trading:** Debentures may be bought or sold through the Stock Exchange, at a price above or below the face value. Hence, Debentures may be traded, in the same manner as Shares.

(h) **No Voting Rights [Sec. 71(2)]:** Debenture Holders are mere lenders to the Company, who are generally secured for payment. Hence they **do not have any right as to voting** in meetings. The Company shall not issue any Debentures carrying voting rights.

(i) **Specific performance [Sec.71(12)] :** A contract with a company to take up and pay for any debentures of the company may be enforced by a decree of Specific Performance.

2. Issue of Debentures as Collateral Security

1 Meaning:

(a) Collateral Security means **secondary or supporting security** for a loan, which can be realized by the Lender, when the original loan is not paid on due date.

(b) Companies may issue their Own Debentures as Collateral Security for a Loan or Overdraft facility taken from Bank / other Lenders.

2. **Effect:**

(a) If the Company repays the loan on the due dates, the Debentures will be released, along with the main security.

(b) If the Company is not able to repay the loan or the interest thereon, the Lender will become the Debentureholder of the Company. However, such Debentureholder will receive interest only to the extent of Loan Amount, and not on the amount of debentures.

Note: The Holder of Debentures are entitled to interest only on amount of loan but not on value of Debentures.

3. **Accounting Treatment:** There are two methods of showing Debentures issued as Collateral Security

Situation	**Method I**	**Method II**
Journal Entry for issue of Debentures as Collateral Security	No Entry. It is only a Memorandum Method.	Debenture Suspense A/c Dr. To ....% Debentures A/c
Disclosure in the Balance Sheet till Loan is settled	The issue of Debentures and Loan Outstanding is shown as a **Note** under "Secured Loans".	➲ Debenture Suspense A/c will appear **on** the Assets Side. ➲ Debentures A/c will appear on **the** Liabilities Side under Secured Loans.
Treatment after settlement of Loan	The Note given as above will be discontinued.	The Journal Entry given above will **be reversed** in order to cancel Debentures.

3. Treatment for Discount / Loss on Issue of Debentures.

1. **Treatment:** Discount / Loss on Issue of Debentures is **written-off** or **amortized** over the period between the date of issue and date of redemption.

2. **Determination of write-off amount:**

Situation	**Amount written off is computed as under -**
(a) Debentures redeemed at lumpsum at the end of a given period	Total Amount of Discount / Loss should be written off **equally** over **the** life of debentures, i.e. **Straight Line Method** is used

(b)	Debentures redeemed in different / unequal instalments	Total Amount of Discount / Loss should be written off in in the **ratio of benefit derived** from Debenture Loan in any particular year, i.e. **Sum of Digits Method** is used in this case.
(c)	Debentures are irredeemable	Total Amount of Discount / Loss should be written off gradually over a **long period.**

3. **Journal Entry:**

Profit and Loss Account Dr.

To Discount / Loss on Issue of Debentures A/c

Note: The unamortized amount is shown on the Assets Side of the Balance Sheet, under the heading Miscellaneous Expenditure (to the extent not written off or adjusted)

4. Accounting treatment for payment of Interest on Debentures

1. **Interest:** Interest on Debentures is a charge against the profits of the Company. Interest is paid at specified dates, (e.g. on half-yearly or annual basis) on the **Nominal Value** of Debenture.
2. **Tax Deducted at Source:** The Company will pay interest to the Debentureholders after deducting the amount of tax, as specified in the Income Tax Rules. The Company is under an obligation to deduct tax at source and deposit the deducted tax amount with the Income Tax Authorities.
3. **Journal Entries:**

	Transaction	**Journal Entry**
(a)	Debentures redeemed at lumpsum at the end of a given period	Interest on Debentures A/c Dr. To To Debentureholders A/c
(b)	Payment of Interest after deduction of tax at source (TDS)	Debentureholders A/c Dr. To TDS Payable A/c To Bank A/c
(c)	Remittance Tax Deducted at Source with Government	TDS Payable A/c Dr. To Bank A/c
(d)	Transfer of Interest on Debentures to P& L A/c	Profit and Loss A/c Dr. To Interest on Debentures A/c

MULTIPLE CHOICE QUESTIONS

1. Premium on redemption of debentures account appearing in the balance sheet is _______.

(a) A nominal account - expenditure

(b) A nominal account - income

(c) A personal account ______.

2. Debenture interest

(a) Is payable before the payment of any dividend on shares

(b) Accumulates in case of losses or inadequate profits

(c) Is payable after the payment of preference dividend but before the payment of equity dividend ___.

3. F Ltd. purchased Machinery from G Company for a book value of ` 4,00,000. The consideration was paid by issue of 10% debentures of ` 100 each at a premium of 25%. The debenture account was credited with ______.

(a) ` 4,00,000 (b) ` 5,00,000 (c) ` 3,20,000

4. Which of the following is not a characteristic of Bearer Debentures?

(a) They are treated as negotiable instruments

(b) Their transfer requires a deed of transfer

(c) They are transferable by mere delivery

5. When debentures are issued as collateral security, the final entry for recording the collateral debentures in the books is __________.

(a) Credit Debentures A/c and debit Cash A/c.

(b) Debit Debenture suspense A/c and credit Cash A/c.

(c) Debit Debenture suspense A/c and credit Debentures A/c.

6. When debentures are redeemable at different dates, the total amount of discount on issue of debentures should be written off

(a) Every year by applying the sum of the year's digit method

(b) Every year by applying the straight line method

(c) To profit and loss account in full in the year of final or last redemption

THEORY QUESTIONS

1. Distinguish between debentures and shares.

2. Explain the purpose for raising of debenture by the company. Also give the main features of debentures.

HOME WORK

Q-1 Country Crafts Ltd. issued 1,00,000, 8% debentures of ` 100 each at premium of 5% payable fully on application and redeemable at premium of ` 10 Pass necessary journal entries at the time of issue.

Q-2 Koinal Chemicals Ltd. issued 20,00,000, 10% debentures of `50 each at premium of 10%, payable as ` 20 on application and balance on allotment. Debentures are redeemable at par after 6 years. All the money due on allotment was called up and received. Record necessary entries when premium money is included in allotment money.

Q-3 Kapil Ltd. issued 50,000, 12% Debentures of `100 each at a premium of 10% payable in full on application by 1st March, 2017. The issue was fully subscribed and debentures were allotted on 9th March, 2017.

Pass necessary Journal Entries (including cash transactions).

Q-4 On 1st April 2017 Sheru Ltd. issued 1,00,000 12% debentures of `100 each at a discount of 5%, redeemable on 31 March 2022. Issue was oversubscribed by 20,000 debentures, who were refunded their money. Interest is paid annually on 31 March. You are required to prepare:

(i) Journal Entries at the time of issue of debentures.

(ii) Discount on issue of Debenture Account

(iii) Interest account and Debenture holder Account assuming TDS is deducted @ 10%.

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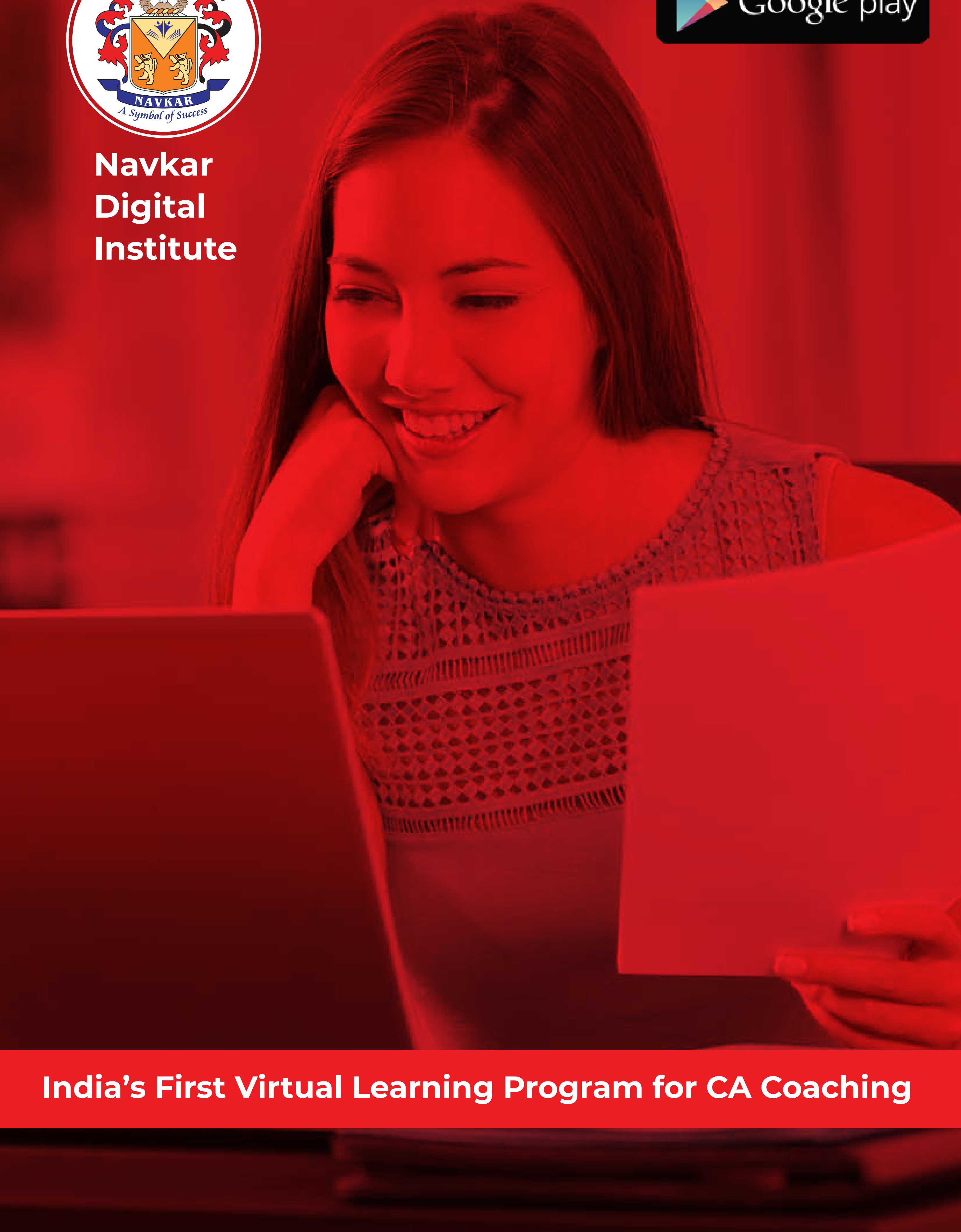

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