

# Accounts

## Chapter 10 - Company accounts

Unit - 1 → introduction to Company accounts.

Intro → while the invention of steam power ignited the human imagination to build big machines for the mass production of goods, the need to separate the management from ownership gave birth to form of organization today known as 'Company'

### Meaning of Company

The word Company is derived from the Latin word 'Com' with together and panis i.e., bread.

According to Justice Marshall "A Corporation is an artificial being, invisible, intangible and existing only in contemplation of law."

Lord Justice Hanay has defined a Company as 'an artificial person created by law with a perpetual succession and a common seal.'

### Salient features of a Company

- incorporated Association :
- Separate legal Entity

- Perpetual Existence
- Common Seal
- limited liabilities
- Distinction b/w ownership and management.
- Not a citizen.
- Transferability of share.
- maintenance of books
- Periodic audit.
- Right of access to information.

## Types of Companies

1. Government Companies → Company which not less than 51% of paid up share capital held by
  - Central govt. & stat. govt.
2. Foreign Company Section 2(45) Company act 2013  
"Corporate or incorporated outside india".
3. Private Company Section 2(68)
  - Restrict the right to transfer its share.
  - not listed at stock exchange.
  - prohibits any invitation to the public to subscribe.
4. OPC 2(62) only one member.
5. Small Company 2(85)  
Share capital not exceed 50 lakh.  
Higher amount not more than 10 Crore rupees.
6. Listed Company (2(52)) listed on any recognised stock exchange.

Public Company  $\Rightarrow$  2(71) Listed public company.  
Minimum paid up capital  
Private Company - 1000000  
Public Company - 5000000

8 unlimited Company  $\rightarrow$  2(92) not having any limits on the liabilities.

9. Company limited by share 2(22)  $\rightarrow$  company having the liability of its member limited by memorandum to the amount.

10 limited by guarantee 2(21)

11 Holding Company 2(46)  $\rightarrow$  in relation to one or more companies.

12 Subsidiary Company 2(87)  $\rightarrow$  company which is holding company.

• Control more than one half of the total share capital either at its own or together with one or more than of its subsidiary company.

### Preparation of financial statement

as per Section 2(49)

- bal. sheet.
- Profit and loss a/c
- Cash flow statement ~~(CF)~~ (CFS)
- Statement of change in equity.
- Notes to Accounts

Bal. sheet as per form set out in part I of  
Schedule III and statement of profit and  
loss as per part II of Schedule III.

tit

mit 2 issue, forfeiture and Re-issue of share

Section 53 → Company cannot issue share at discount.

Share capital

Total Capital of the Company is divided into a number of small indivisible units of a fixed amount and each such unit is called a share.

→ issue price need not be equal to market price.

Share capital of Company divided into following

- (i) Authorised share capital or Nominal Capital
  - Maximum capital requirements.
- (ii) Issued share capital → portion of capital which is issued by a Company 'issued Company'
- (iii) Subscribed Capital → part of issued capital, and subscribed by public.
- (iv) Called-up share capital → Company receives the issue price of share in installment ~~Company~~ Company had demand and called.
- (v) paid-up share capital → paid by shareholders, ~~up~~ unpaid call is call in arrears.
- (vi) Reserve Share Capital: Portion of the uncalled capital which a company has decided to call only in case of liquidation of the company is called Reserve Capital.

Reserve Capital is different from Capital Reserve, Capital Reserve are not part of "Reserve and Surplus" and refer to those reserves which are not available for declaration of dividend.

## Types of shares

(i) Preference shares (Sec. 43)

Preferential dividend at a fix rate during the life of the company.

(a) Payment of Dividend

(b) Repayment of Capital

## Type of preference share

(a) Cumulative preference share,

- dividend payable at out of of future profit.
- Right to vote

(b) Non-cumulative preference share.

- dividend fixed
- not Right to vote

(c) participating preference share

- right to participate in surplus profit.

(d) Non participating preference share.

- fix dividend Rate
- Right to profit on winding up.

(e) Redeemable preference share :

(f) Non Redeemable preference share ~~to be~~ ~~Red~~  
Non Repayment till a limited time.

(g) Convertible preference share

(H) Non convertible preference share

(ii) Equity share :

- Not Right of dividend or repayment of Capital.
- Carry voting Right
- issue by Company or other than  
↳ for Cash or other than cash.

### issue of share for cash

As per Section 39 of the Companies act., Application money must be at least 5% of the nominal value of shares.

### Minimum subscription

As per the guidelines of the ~~Sec~~ (SEBI) the minimum subscription to be received on issue shall not be less than 90 percent of the ~~off~~ offer thought offer document, ie the company does not receive the minimum subscription of 90% of the issue. all application money received shall be refunded to the applicants forthwith, but not later than.

## Journal Entries

(i) Receipt of application money

Bank a/c Dr  
To Share application a/c  
(Being application money received)

(ii) due application money

Share application a/c Dr  
To Equity share capital a/c  
(due on application money T.F. to Capital a/c)

(iii) Allotment money due

Share allotment a/c Dr  
To Share Capital a/c  
(due on allotment money)

(iv) Allotment money Received

Bank a/c Dr  
To allotment a/c  
(Being allotment money Received)





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~~Account~~

### Accounting treatment

- (i) Bank a/c Dr      (App. money + Premium Amt)  
     to share app. a/c
- (ii) share app. / Allot a/c Dr  
     to Securities Premium a/c  
     to share Capital a/c
- (iii) Bank a/c Dr  
     to Allot. a/c

### Call's in arrears

Int Rate on arrears is 10%

#### Entry

Call's in arrears a/c Dr  
 Bank a/c Dr  
 to share allotment a/c Dr  
 to Call's a/c

### Call's in advance

Int Rate on advance 12%

(i) Bank a/c Dr  
 to Call in advance.

(ii) when call is actually due

Call in advance a/c Dr  
 Bank a/c Dr  
 to Particular call / Allot. a/c

Int. on arrears is an income for Company  
Entry is Shareholder a/c

To Int. on calls in arrears a/c Dr

(ii) Bank a/c

To share holder a/c Dr

Int. on advance is expenses of Company

Entry is Int on calls in advance a/c

To share holder a/c Dr

(ii) share holder a/c

To Bank a/c Dr

### Forfeiture of shares

Failure to pay call money results in forfeiture of shares.

if the premium has already received by the company, it cannot be cancelled even if the shares are forfeited in the future

if premium is not received

Share Capital a/c  
Securities premium a/c  
To share Allotment a/c  
To calls a/c  
To forfeited share account

Dr (Called up value)  
Dr (Amt Not Received)  
    (Amt due but Not paid)  
    (Amt due but not paid)  
    (Paid Amt)

if premium received entry will will Security Premium.

### Reissue of forfeited shares

#### Accounting Entries

- (a) Bank a/c Dr (Actual Amt received)  
forfeited share a/c Cr (Less on re-issue)  
    To share capital. a/c
- (b) Forfeited share Account Dr  
    To Capital Reserve a/c  
    \* being profit on Re-issue t.t. to Capital Reserve

### Issue of share for consideration other than cash.

Asset a/c Dr  
    To Vender's a/c

Vender's a/c Dr  
    To equity share capital. a/c

## Unit - 3 - issue of debenture

Learning → the most common method of supplementing the capital available to Company is to issue debenture.

Section 2(30) of the Companies Act, 2013 defines debentures as "Debenture" includes debenture stock, bonds or any other instrument of a Company evidencing a debt, whether constituting a charge on the company or not.

## Distinction B/w Debenture & share

### Types of Debenture

(i) Security

(a) Secured debenture ⇒ Secured by a charge upon some or all asset of the Company charge may be fix or floating.

(b) unsecured or Naked debenture ⇒ These type of debenture is very Risky by the view point of investor.

(ii) Convertability

(a) Convertible (b) Non convertible.

(iii) Permanence

(a) Redeemable Debenture ⇒ repayable at fix time.

(b) irredeemable  $\rightarrow$  repayment at winding up the company.  
These are also called perpetual debenture.

#### (4) Negotiability

(a) Registered Debenture  $\rightarrow$  These debentures are repayable to a registered holder whose name, address, and particulars of holding is recorded in the Register of Debenture holder.

(b) Bearer Debentures  $\rightarrow$  These debentures are transferable by delivery.

#### (5) Priority

(a) First mortgage debenture is payable first out of the property charged.

(b) Second Mortgage debenture  $\rightarrow$  ~~is~~ payable after satisfying the first mortgage.

Issue of debenture

(i) Debenture issue at par and Redeemable at par.

(a) Bank a/c Dr  
    To Debenture Application a/c

(b) Debenture Application a/c Dr  
    To - - % Debenture a/c

(ii) issue at Discount and Redeemable at par.

(a) Bank a/c Dr  
    To Debenture Application a/c

(b) Deb. App. a/c Dr  
    Discount on issue of Deb a/c Dr  
    To - - % Debenture a/c

(iii) issue at premium & Redeemable at Discount

(a) Bank a/c Dr  
    To Deb. App. a/c

(b) Deb. app. a/c Dr  
    To - - % Deb. a/c  
    To Security premium a/c

(iv) issue at par & Redeemable at premium.

(a) bank a/c Dr  
    To Debenture app. / allot. a/c

(b) Deb. app. / allot. a/c Dr  
 Loss on issue of Deb. a/c Dr  
 To - - % Deb. a/c  
 To Deb. redeemable at premium a/c

(5) issue at Discount & Redeemable at premium

(a) Bank a/c Dr  
 To Debenture's app. / Allot. a/c

(b) Debenture's app. / Allot. a/c Dr  
 Loss on issue of Deb Dr  
 To Debenture a/c  
 To Deb. Redemption premium a/c  
 To Securities premium

(6) issue at premium & Redemption at premium

(a) Bank a/c Dr  
 To Debenture app. / allot.

(b) Debenture's app. / Allot. a/c Dr  
 Loss on issue of Deb. a/c Dr  
 To Debenture a/c  
 To Deb. Redemption at premium a/c  
 To Securities premium a/c



Ex if issue of debenture at a discount slightly increases the true rate of int. payable. For example  $\rightarrow$  12% Deb. of ₹ 100 issued at a discount of 10%. The Company have to pay ₹ 12 for a loan of ₹ 90. therefore the true rate of int. is  $\frac{12}{90} \times 100 = 13.33\%$

Notes if a deb. with a nominal rate of 100 is issued at 10% premium where company receives at 110 ~~where~~ where investor get slightly less int. rate than stated in debenture for example. Example 12% Deb. of ₹ 100 issued at a premium of 10%. the investor will get ₹ 12 p.a for his investment of 110 therefore for effective rate of int. on invest. is  $\frac{12}{110} \times 100 = 10.91\%$

Issue of Debenture as a Collateral Security

Sometime companies issue their own debenture as Collateral Security for a loan or fluctuating overdraft. when loan is repaid on the due date, these deb. are at once released with the main security.

Note the holder of such ~~debt~~ debenture is entitled to int. only on the amount of loan, but not on the debentures

Accounting entries

① Method 1  $\rightarrow$  No entry made in the books of account. in the 'Notes to Accounts' of bal. sheet the fact of debenture being issued and its shown by a note under the liabilities

Method 2

Entry

Debiture Suspance a/c, Dr  
To — % Debiture a/c.

\*  
Loss / Discount on issue of Deb. transfer to  
Profit & loss a/c,

Unit - 4 - Accounting for bonus issue and Right issue

Bonus shares → issue of additional share to existing share holders at free of cost.

out of

- (i) free Reserve
- (ii) Securities premium a/c
- (iii) Capital redemption reserve a/c (CRR)

Not should be out of Revaluation Reserve.

Right issue → Rights issue is an issue of rights to a Company's existing shareholders that entitled them to buy additional share directly from the company in proportion to their existing holding, within a fixed time.

issue of bonus shares

Bonus is issue is also know as "capitalisation of profits"  
Capitalization of profit or refers to the process of

Journal Entries

(A) " upon the sanction of an issue of bonus shares

CRR a/c	Dr
Security premium a/c	Dr
General Reserve a/c	Dr
Profit & loss a/c	Dr
To Bonus to shareholder a/c	

(2) upon issue of bonus share

Bonus to shareholder a/c Dr  
    to share capital a/c

(B) i) upon the sanction of bonus by converting  
partly paid share into fully paid share.

i) General Reserve a/c Dr,  
    Profit & Loss a/c Dr,  
    to Bonus to shareholder a/c

(ii) on making the final call due  
share final call a/c Dr  
    to share capital A/c

(iii) on adjustment of final Call  
Bonus to share holder a/c Dr  
    to share final call a/c

Effect of bonus issue

- increase the share capital
- Reduction in EPS per share value
- favorable act considered by market
- Adjustment in market price.
- Reduction in accumulated profit

## Right issue

$$\text{Value of Right} = \text{Cum - Right value of share} - \text{Ex - Right value of share}$$

$$\text{Book value of a share} = \frac{\text{Net worth (as per books)}}{\text{No. of shares}}$$

$$\begin{aligned} \text{Ex Right value of the share} &= \frac{\text{[ Cum - right value of the existing share } \\ &\quad * (\text{Right share} \times \text{issue price})}{\text{Existing No. of share}} \div * \text{No. of share Right.} \end{aligned}$$

### Accounting for right issue

Bank a/c Dr  
to Equity share capital a/c a/c

at premium

Bank a/c Dr  
to ESC a/c  
to Security premium a/c

## Unit - 5 - Redemption of preference shares

Redemption is process of repaying an obligation, at rearranged amounts and timings.

~~Pro~~

Purpose of issuing redeemable preference shares.

- raising finance
- Company may face difficulty in raising share capital.
- share may be redeemable when there is a surplus.
- No profit No Divident  
but Int is ~~not~~ Compulsory.

### Provision of the companies act (Section 55)

#### Method of Redemption of fully Paid-up shares

Preference share issued by Company must be redeemed within maximum period (normally 20 years) allowed under the act. Thus a company can not issue irredeemable preference shares.

#### Method of Redemption of preference share

- (a) Process of a fresh issue of shares
- (b) Capitalisation of undistributed profit (by CPR)
- (c) Combination of a and b.

## ⇒ Redemption of Preference share by fresh issue of shares

A company can issue new share and the proceeds from such new shares can be used for redemption of preference shares.

Securities premium a/c may applied by Company (Section 52)

- toward issue of un-issued shares
- write off preliminary exp, exp., Comision paid or discount allowed.
- provide for premium on the redemption of redemable preference share.
- Purchase of its own share or other Securities.

## Reason for issue of new equity shares

- when a company has come to realise that the capital is needed permanently.
- liquidity position is not good.

## advantage

- No cash outflow of money
- New equity share may be valued at premium
- share holder retain their equity interest.

## Disadvantage

- dilution for future earnings.
- share holding of Company is changed.

Ex 11

Accounting entries

1 when new share issued at par

Bank a/c Dr  
    to share capital a/c

2 at Premium

Bank a/c Dr  
    to share capital a/c  
    to Securities premium a/c

3 Preference share are redeemed at par

Redeemed Preference share Capital a/c Dr  
    to Preference share holder a/c

4 at premium

Redeemed. PSC a/c Dr  
Premium on Redemption of Preference share a/c  
    to Preference share holder

5 when payment is made to preference shareholder

Preference share holder a/c Dr  
    to Bank a/c

6. for adjust of premium on redemption

Profit & loss a/c Dr  
    to Premium on Redemption of Preference share a/c



Minimum proceeds of fresh issue of shares :-

Nominal value of preference share to be redeemed  
- maximum amt. of Reserve and Surplus available for Redemption.

Minimum No. of share

Minimum proceeds to comply with Section 85  
Face value of one share.

Redemption of preference share by capitalisation of undistributed Divisible Profits

When share are redeemed by utilising distributable profit, an amt. equal to face value of share redeemed is transferred to CRR ac by debiting the distributable profit

Advantage

- No change in % of equity share-holding of the Company.
- Surplus funds can be used.

Disadvantage

- Reduce in liquidity.

Accounting treatment

1 for transferring nominal amount of share redeemed to capital Redemption Reserve accounts

General Reserve a/c	
Profit and loss a/c	Dr
any other Divisible profit	Dr
To CRAR a/c	Dr

2 when share are redeemed at par

Redeemable preference share capital a/c	Dr
To Preference shareholder a/c	

3 at Premium

Premium on Redemption of Preference share a/c	Dr
Redeemable preference share capital a/c	Dr
To Preference shareholder a/c	
<del>To S</del>	

4 Payment made to share holder

Preference shareholder a/c	Dr
To Bank a/c	

5 for adjustment of premium of redemption

Divisible Profit a/c	
To Premium on Redemption of preference shareholder a/c	Dr

## Redemption of PS by combination of fresh issue and Capitalisation of undistributed divisible Profit.

(i) Amt. T.F. to CIR  $\Rightarrow$

face value of share redeemed	xxx
less: Proceeds from new share	<u>xxx</u>

(iii) Proceeds to be collected from new issue  $\Rightarrow$

face value of share redeemed.	xxx
less: Profits available for distribution as dividend	<u>xxx</u>
	xxx

fully called but partly paid-up.

(i) Bank's a/c Dr  
 To Calls in arrears

forfeited share

(i) Preference share capital a/c Dr  
 To call in arrears a/c  
 To share forfeited a/c

(ii) share forfeited a/c Dr  
 To Capital Reserve a/c

## Unit - 6 - Redemption of Debenture

A Debenture is an instrument issued by a Company under its seal, acknowledging a debt and containing provision as regards repayment of the principal & int.

Sec 71(1) Convert such Deb. into share, either wholly or partly at the time of Redemption.

Sec. 71(2) Carry any voting Right

Basic provision

- nature of charge
- the assets charge.

Redemption of Reserve

may be

- after a fix charge of years.
- after a certain No. of years has elapsed.
- giving a specified notice
- by annual drawing.

Debenture Redemption Reserve (DRR)

A Company issuing debenture may be required to create a debenture redemption reserve account out of the profit available for distribution of Dividend and Amt Credited to such acc cannot be utilised by the Company for any other purpose except for redemption of Debenture.

Journal Entries

after allotment of Debenture

(a) for setting aside the fixed amount of profit for redemption

Profit and loss a/c Dr  
To DRR a/c

(b) for investing the amount set aside for redemption

DRR investment a/c Dr  
To Bank a/c

(c) for Receipt on int on DRR invest.

Bank a/c Dr  
To Int. on DRR invest.

(d) T.F of int on DRR invest a/c

Int. on DRR invest a/c Dr  
To Profit and loss a/c

2 at the time of redemption of Debenture  
for encashment of DRR invest

(a) Bank a/c Dr  
To DRR invest. a/c

(b) for amt. Due to Debenture holder on redemption.

Debenture a/c Dr  
To Debenture holder.

(c) for payment of Debenture holder

Debenture holder a/c Dr  
To Bank a/c

(d) after redemption of Debenture, DRR should be T.F. to general Reserve

DRR a/c Dr  
To General Reserve

Thank's for Seen

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