

Unit 1: INTRODUCTION TO COMPANY ACCOUNTS

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"Failure is simply the opportunity to begin again, this time more intelligently, There are those who dream and wish and there are those who dream and work."

COMPANY - BASICS**DEFINITION : COMPANY**

Companies Act, 2013	A Company mean company which is formed and incorporated under the Companies Act, 2013 or an existing company formed and registered under any of the previous company laws.
Hanay	A Company is an Artificial Person created by law, having a Separate Entity, with a Perpetual Succession and a Common Seal.

CHARACTERISTICS / FEATURES OF A COMPANY

Feature	Explanation
Artificial Person (Incorporated Association)	<ul style="list-style-type: none"> • A Company comes into existence by the operation of law. • 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.
Separate Legal Entity	<ul style="list-style-type: none"> • A Company is a separate legal entity & artificial person known by its own name • A Company is distinct and separate from the members who constitute it. • A Company can contract, sue & be sued in its incorporated name & capacity.
Person, not Citizen	<ul style="list-style-type: none"> • A Company is not a citizen either under – (a) the Constitution of India or (b) the Citizenship Act • The Constitution provides certain fundamental rights to its citizens. A Company cannot enjoy the citizenship rights and duties as are enjoyed by natural citizens
Perpetual Succession	<ul style="list-style-type: none"> • A Company is an artificial person and has a separate legal entity. • Hence, death, insolvency or change of its Members does not affect the Company. • The shares of Company being transferable, members may change during the lifetime of the company. However, that does not change the status of the Company. • The Company goes on forever and continues to exist, till it is wound up and dissolved.
Common Seal	<ul style="list-style-type: none"> • Common Seal is the official signature of a Company. The Company's name is engraved on the Seal. • The Articles of Association may provide for the documents that require the signature of the Company, i.e. the Common Seal. Where any

	<p>document is affixed with the Common Seal, it amounts to being signed by the Company.</p> <ul style="list-style-type: none"> Now, use of common seal has been made optional. All such documents which required affixing the common seal may now instead be signed by two directors or one director and a company secretary of the company.
Ownership Vs Management	<ul style="list-style-type: none"> The Board of Directors is the elected representative body of the Shareholders of the Company, and manages the affairs of the Company. 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.
Right of Access	The right of the shareholders of a company to inspect its books of account, with the exception of books open for inspection under the Statute, is governed by the Articles of Association. The shareholders have a right to seek information from the directors by participating in the meetings of the company and through the periodic reports.
Limited Liability	The liability of every shareholder of a company is limited to the amount he has agreed to pay to the company on the shares allotted to him. If such shares are fully paid-up, he is subject to no further liability.
Transferability of Shares	The capital is contributed by the shareholders through the subscription of shares. Such shares are transferable by its members except in case of a private limited company, which may have certain restrictions on such transferability.
Maintenance of Books	A limited company is required by law to keep a prescribed set of account books and any failure in this regard attracts penalties.
Periodic Audit	A company has to get its accounts periodically audited through the chartered accountants appointed for the purpose by the shareholders on the recommendation of board of directors

TYPES OF COMPANIES

TYPE	EXPLANATION
Government Company	Any company in which not less than 51% of Paid-up Capital of a Company is held by the Central Government, or State Government(s), 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.
Foreign Company	Any company or body corporate incorporated outside India which – a) has a place of business in India whether by itself or through an agent physically or through electronic mode; and b) conducts any business activity in India in any other manner.
Private company	A company which by its articles, – a) restricts the right to transfer its shares; b) except in case of One Person Company, limits the number of its members to 200. This number does not include present and former employees who are also members. Moreover, ≥ 2 persons who own shares jointly are treated as single member. c) prohibits any invitation to the public to subscribe for any securities of the company. Shares of a Private Company are not listed on Stock Exchange

Public Company	<p>A company which is not a private company and has minimum paid capital as may be prescribed; provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.</p> <p>A company which is a listed public company if it gets unlisted continues to be a public company.</p>
One Person Company	A company which has only one person as a member
Small Company	<p>A company, other than a public company, -</p> <p>a) paid-up share capital of which does not exceed 4 crore rupees or such higher amount as may be prescribed which shall not be more than 10 crore rupees; or</p> <p>b) turnover of which as per its last profit and loss account does not exceed 40 crore rupees or such higher amount as may be prescribed which shall not be more than 100 crore rupees</p> <p>Provided that nothing in this clause should apply to:</p> <p>(A) a holding company or a subsidiary company</p> <p>(B) a company registered under section 8</p> <p>(C) a company or body corporate governed by any special Act</p>
Listed Company	A company which has any of its securities listed on any recognised stock exchange.
Unlisted Company	<p>The company, whose shares are not listed on any recognised stock exchange</p> <p>An unlisted company can be a public company or a private company.</p>
Unlimited Company	A company not having any limit on the liability of its members
Company limited by Shares	Company having the liability of its members limited by the memorandum to the amount, if any, unpaid on the shares respectively held by them.
Company limited by Guarantee	A company having the liability of its members limited by the memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up.
Holding Company	In relation to one or more other companies, means a company of which such companies are subsidiary companies.
Subsidiary company	<p>A company in which the holding company:</p> <p>a) controls the composition of the Board of Directors; or</p> <p>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</p> <p>A company shall be deemed to be a subsidiary company of holding company even if there is indirect control through the subsidiary company (ies).</p> <p>The control over the composition of a subsidiary company's Board of Directors means exercise of some power to appoint or remove all or a majority of the directors of the subsidiary company.</p>

MAINTENANCE OF BOOKS OF ACCOUNTS (Sec 128 of Companies Act, 2013)

Every company shall prepare and keep at its registered office books of account and other relevant books and papers and financial statement for every financial year which give a true and fair view of the state of the affairs of the company, including that of its branch office or offices, if any, and explain the transactions effected both at the registered office and its branches and such books shall be kept on accrual basis and according to the double entry system of accounting.

Provided further that the company may keep such books of account or other relevant papers in electronic mode in such manner as may be prescribed.

PREPARATION OF FINANCIAL STATEMENTS

Under Section 129 of the Companies Act, 2013, the financial statements shall give a true and fair view of the state of affairs of the company or companies, comply with the notified accounting standards and shall be in the form or forms as may be provided for different class or classes of companies, as prescribed in Schedule III.

The Board of Directors of the company shall lay financial statements at every annual general meeting of a company which include:-

- a) Balance Sheet as at the end of the period, and
- b) 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 that AGM, instead of the P & L Account.]

- c) Cash flow statement for the financial year
 - d) Statement of changes in equity, if applicable; and
 - e) Any explanatory note annexed to, or forming part of, any document referred above
- Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Requisites of Financial Statements It shall give a true and fair view of the state of affairs of the company as at the end of the financial year.

Provisions Applicable

(1) Specific Act is Applicable

For instance any

- a) Insurance company
- b) Banking company or
- c) Any company engaged in generation or supply of electricity or
- d) Any other class of company for which a Form of balance sheet or Profit and loss account has been prescribed under the Act governing such class of company

(2) In case of all other companies

Balance 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

Compliance with Accounting Standards

As per Section 129 of the Companies Act, it is mandatory to comply with accounting standards notified by the Central Government from time to time.

Schedule III of the Companies Act, 2013

As per Section 129 of the Companies Act, 2013, Financial statements shall give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under Section 133 and shall be in the form or forms as may be provided for different class or classes of companies in Division I of Schedule III under the Act.

PART I – BALANCE SHEET

Name of the Company.....

Balance Sheet as at

	PARTICULARS	Note No.	Figures as at the end of current Reporting period	Figures as at the end of previous reporting period
A.	EQUITY AND LIABILITIES			
1.	Shareholder's funds			
a	Share capital			
b	Reserves and surplus			
c	Money received against share warrants			
2.	Share application money pending allotment			
3.	Non-Current Liabilities			
a	Long-term borrowings			
b	Deferred tax liabilities (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			
B.	ASSETS			
1.	Non-Current Assets			
a	PPE & Intangible Assets			
i.	Property, Plant & Equipment (PPE)			
ii.	Intangible assets			
iii.	Capital work-in-Progress			
iv.	Intangible assets under development			
b	Non-current investments			
c	Deferred tax assets (net)			
d	Long-term loans and advances			
e	Other non-current assets			
2.	Current Assets			
a	Current investments			
b	Inventories			
c	Trade receivables			
d	Cash and cash equivalents			
e	Short-term loans and advances			
f	Other current assets			
	TOTAL			

PART II – STATEMENT OF PROFIT AND LOSS

Name of the Company.....

Profit and loss statement for the year ended

	PARTICULARS	Note No.	Figures for the current Reporting period	Figures for the previous reporting period
I.	Revenue from operations			
II.	Other income			
III.	Total Revenue (I + II)			
IV.	Expenses:			
	Cost of materials consumed			
	Purchases of Stock-in-Trade			
	Changes in inventories of finished goods, work-in-progress and Stock-in-Trade			
	Employee benefits expense			
	Finance costs			
	Depreciation and amortization expense			
	Other expenses			
	Total Expenses			
V.	Profit before exceptional and extraordinary items and tax (III-IV)			
VI.	Exceptional items			
VII.	Profit before extraordinary items and tax (V - VI)			
VIII.	Extraordinary Items			
IX.	Profit before tax (VII- VIII)			
X	Tax expense:			
	(1) Current tax			
	(2) Deferred tax			
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			
XII.	Profit/(loss) from discontinuing operations			
XIII.	Tax expense of discontinuing operations			
XIV.	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)			
XV	Profit (Loss) for the period (XI + XIV)			
XVI.	Earnings per equity share:			
	(1) Basic			
	(2) Diluted			

PRACTICE QUESTIONS**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.
- 5) Under Schedule III of the Companies Act, assets and liabilities are to be disclosed based on:
 - (a) Current/ non-current.
 - (b) Financial /non-financial.
 - (c) Owned /not-owned.
- 6) Schedule III of the Companies Act prescribes the format and content of
 - (a) Balance sheet and statement of profit and loss
 - (b) Auditors' report.
 - (c) Directors' report.
- 7) A company is required to maintain its books of accounts at
 - (a) its registered office.
 - (b) its largest branch office.
 - (c) Managing Director's residence.
- 8) Cash flow statements are not required for
 - (a) Private company.
 - (b) One person company.
 - (c) Public company.
- 9) The presentation and disclosure requirements of a company are prescribed by
 - (a) Schedule III.
 - (b) Schedule II.
 - (c) Schedule I

- 10) Following is an example of current assets
 (a) Inventories.
 (b) Property, Plant & Equipment.
 (c) Intangible Assets.
- 11) Earnings per share (EPS) is to be disclosed in which of the following section of the financial statements
 (a) Balance Sheet.
 (b) Statement of Profit and Loss.
 (c) Cash Flow Statements.
- 12) Following is NOT an example of a company under Companies Act, 2013
 (a) Small company.
 (b) Private company.
 (c) Large company.

ANSWERS MCQs

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|--------|--------|---------|---------|---------|--------|--------|
| 1. (c) | 2. (c) | 3. (b) | 4. (b) | 5. (a) | 6. (a) | 7. (a) |
| 8. (b) | 9. (a) | 10. (a) | 11. (b) | 12. (c) | | |

TRUE / FALSE

State with reasons whether the following statement is true or false:

- 1) Every public company is a listed company.
- 2) Shares of a private company are not listed on stock exchange.
- 3) It is not mandatory to incorporate a company under the companies act.
- 4) Company is an artificial, legal person created by law.
- 5) Death, insolvency or change of members affects the existence of a company.
- 6) If the shares are fully paid-up by the shareholder, he is subject to no further liability.
- 7) Public limited company has restrictions on transferability of shares.
- 8) Financial statements of company show the financial position of the business.
- 9) Schedule I gives proforma of Balance Sheet.
- 10) Schedule III prescribes the format of Directors' Report
- 11) Financial statements need to be true and correct as per Companies Act.
- 12) According to the Companies Act, 2013, Statement of Profit & Loss of a company is prepared as per Part II of Schedule III
- 13) According to the Companies Act, 2013, Balance Sheet of a company is prepared as per Part II of Schedule III
- 14) Schedule I gives proforma of Balance Sheet.
- 15) "Listed company" means a company which has its securities only listed with National stock exchange.

Solution

- 1) False: Listed companies are those which are listed on the stock exchange. Shares of listed companies are open to general public. Every listed company is a public company but every public company is not a listed company.
- 2) True: Only the shares of public company are listed on stock exchange. Every listed company is a public company.

- 3) False: It is mandatory to incorporate a company under the Companies Act. Without such incorporation, a company cannot come into existence.
- 4) True: Company comes into existence through the operation of law. It is a separate entity distinct from its members.
- 5) False: Company is a separate legal entity created by law. Death, insolvency or change of member does not affect its existence.
- 6) True: Liability of shareholders is limited to the extent of the unpaid share capital. So, if shares are fully paid-up, he is subject to no further liability.
- 7) False: Shares of public company are freely transferable. Transferability of shares is restricted in a private limited company.
- 8) True: Financial statements give a true & fair view of the state of affairs of the company. Financial statements include profit and loss account, balance sheet, etc.
- 9) False: Schedule III Part I explains proforma of Balance Sheet.
- 10) False: Schedule III Part I explains proforma of Balance Sheet and Profit and Loss.
- 11) False: As per Section 128, every company shall prepare financial statement for every financial year which give a true and fair view of the state of the affairs of the company.
- 12) True: According to the Companies Act, 2013, Statement of Profit & Loss of a company is prepared as per Part II of Schedule III
- 13) False: According to the Companies Act, 2013, Balance Sheet of a company is prepared as per Part I of Schedule III
- 14) False: Schedule III Part I explains form of Balance Sheet.
- 15) False: As per Companies Act, 2013, "listed company" means a company which has any of its securities listed on any recognised stock exchange.