COMPANY ACCOUNTS

❖ DEFINITION OF COMPANY

- A company is an artificial being, invisible, intangible and existing only in the contemplation of law".
- "An artificial person created by law with a perpetual succession and a common seal".
- Artificial person", invisible, intangible, created by or under law, with a discrete legal personality, perpetual succession, and a common seal. It is not affected by the death, insanity, or insolvency of an individual member

❖ TYPES OF COMPANIES

1. GOVERNMENT COMPANY:-
According to Section 2(45) of the Companies Act, 2013, "Government company" means any company in which **not less than fifty one per cent of the paid-up share capital is held by the Central Government,** or **by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments,** and includes a company which is a subsidiary company of such a Government company.

2. FOREIGN COMPANY:-
According to Section 2 (42) of the Companies Act, 2103, **"Foreign company" means 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.

3. PRIVATE COMPANY:-
Section 2(68) of the Companies Act, 2013 defines 'Private company' as a company having **a minimum paid-up share capital of one lakh rupees or such higher paid-up share capital** as may be prescribed, and which by its articles,—

(i) Restricts the right to transfer its shares;
(ii) Except in case of One Person Company, limits the number of its members to two hundred: Provided that where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this sub-clause, be treated as a single member:

Provided further that—
(A) persons who are in the employment of the company; and
(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, shall not be included in the number of members; and
(iii) 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.

4. PUBLIC COMPANY:-
Section 2(71) of the Companies Act, 2013 defines Public Company as a company which—
(a) is not a private company;
(b) **has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital,** as may be prescribed.

5. ONE PERSON COMPANY:-

Section 2 (62) of the Companies Act, 2013 defines "One Person Company" as a company **which has only one person as a member;**

6. SMALL COMPANY

Section 2(85) of the Companies Act, 2013 defines **"Small company"** means a company, other than a public company, -

(i) paid-up share capital of which **does not exceed 50 lacs rupees or such higher amount** as may be prescribed which shall not be more than five crore rupees; or

(ii) turnover of which as per its last profit and loss account **does not exceed 2 crore rupees or such higher amount** as may be prescribed which **shall not be more than 20 crore rupees**:

7. LISTED COMPANY

As per Section 2 (52) of the Companies Act, 2013, "listed company" means a company which has any of its securities listed on any recognised stock exchange.

The company, whose shares are not listed on any recognised stock exchange, **is called ''Unlisted Company''.**

In case of private companies, shares are not listed in any stock exchange.

8. UNLIMITED COMPANY:-

Section 2 (92) of the Companies Act, 2013 defines Unlimited company" means **a company not having any limit on the liability of its members.**

9. COMPANY LIMITED BY SHARES:-

As per Section 2(22) of the Companies Act, 2013, **"Company limited by shares" means a company having the liability of its members limited by the memorandum to the amount,** if any, unpaid on the shares respectively held by them.

10. COMPANY LIMITED BY GUARANTEE:-

As per Section **2(21) of the Companies Act, 2013,** "company limited by guarantee" means 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.

11. HOLDING COMPANY

According to Section 2 (46) of the Companies Act, 2103, "Holding company", in relation to one or more other companies, means a company of which such companies are subsidiary companies.

12. SUBSIDIARY COMPANY

Section 2(87) of the Companies Act, 2013 defines **"subsidiary company"** as a company in which the holding company:

(i) Controls the composition of the Board of Directors; or

(ii) 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:

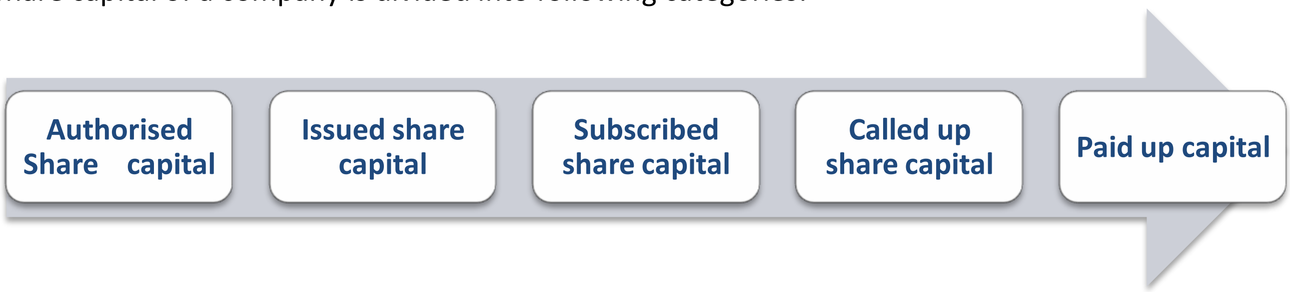
❖ SHARE CAPITAL

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.**

The fixed value of a share, printed on the share certificate, is called nominal/par/face value of a share.

The liability of holder of shares (called shareholders) is limited to the issue price of shares acquired by them.

Share capital of a company is divided into following categories:



❖ TYPES OF CAPITAL

1. Authorised Share Capital or Nominal Capital :

This amount of capital is mentioned in **'Capital Clause' of the 'Memorandum of Association'** registered with the Registrar of Companies. It puts a limit on the amount of capital, which a company is authorised to raise during its lifetime. **It is shown in the balance sheet at face value.**

2. Issued Share Capital: A company **need not issue total authorised capital.** Whatever portion of the share capital is issued by the company, it is called 'Issued Capital'. Issued capital means and includes the **nominal value of shares** issued by the company for:

1. Cash, and
2. Consideration other than cash to:

(i) Promoters of a company; and

(ii) Others.

It is also shown in the balance sheet at nominal value.

The remaining portion of the authorised capital which is not issued either in cash or consideration may be termed as **'Un-issued Capital'**. It is **not** shown in the balance sheet.

3. Subscribed Share Capital: It is that part of the issued share capital, which is **subscribed by the public i.e., applied by the public and allotted by the company.** It also includes the face value of shares issued by the company for consideration other than cash.

4. **Called-up Share Capital:** Companies generally receive the issue price of shares in installments. The portion of the issue price of shares which a company has demanded or called from shareholders is known as 'Called-up Capital' and the balance, which the company has decided to demand in future, may be referred to as **Uncalled Capital**.

5. **Paid-up Share Capital:** It is the portion of called up capital which is paid by the shareholders. Whenever a particular amount is called by the company and the shareholder(s) fails to pay the amount fully or partially, it is known as 'unpaid calls' or 'installments (or Calls) in Arrears'. Thus, installments in arrears mean the amount not paid although it has been demanded by the company as payment towards the issue price of shares. To calculate paid-up capital, the amount of installments in arrears is deducted from called up capital. In balance sheet, called-up and paid-up capital are shown together.

6.Reserve Share Capital : As per Section 65 of the Companies Act, 2013, a Company may decide by passing a resolution that a certain portion of its subscribed uncalled capital shall not be called up except in the event of winding up of the company. 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 reserves are part of 'Reserves and Surplus' and refer to those reserves which are not available for declaration of dividend. Thus, reserve capital which is portion of the uncalled capital to be called up in the event of winding up of the company is entirely different in nature from capital reserve which is created out of capital profits only.

❖ ISSUE OF SHARES FOR CASH

To issue shares, private companies depend upon **'Private Placement'** of shares. Public companies issue a 'Prospectus' and invite general public to subscribe for shares. First installment paid along with application is called **'Application Money'.**

As per Section 39 of the **Companies Act, 2013,** Application money **must be atleast 5% of the nominal value of shares.**

After the closing date of the issue (the last date for filing applications), company decides about allotment of shares in consultation with the SEBI and stock exchange concerned. According to the Companies Act, 2013, a company **cannot proceed to allot shares unless minimum subscription is received by the company.**

Minimum Subscription:

A public limited company cannot make any allotment of shares unless the amount of minimum subscription stated in the prospectus has been subscribed and the sum payable as application money for such shares has been paid to and received by the company.

The amount of minimum subscription to be disclosed in prospectus by the Board of Directors **taking into account the following:**

(a) Preliminary expenses of the company,

(b) Commission payable on issue of shares,

(c) Cost of fixed assets purchased or to be purchased,

(d) Working capital requirements of the company, and

(e) Any other expenditure for the day to day operation of the business.

❖ IMPORTANT POINTS

Applicability of minimum subscription	Quantum of minimum subscription	Refund of money
• The requirement for minimum subscription is applicable for **public and right issue**, and not in case of offer for sale of securities.	• As per guidelines of the Securities Exchange Board of India (SEBI), a company must receive a **minimum of 90% subscription** against the entire issue (including devolvement on underwriters in case of underwritten issue) before making any allotment of shares or debentures to the public.	• If the Company does not receive the minimum subscription of **90%** of the issue, the entire subscription shall be refunded to the applicants **within 15 days after the date of closure of issue** in case of non-underwritten issue and **7 days after the date of closure of issue** in case of underwritten issue.

The issue price of shares is generally received by the company in instalments and these instalments are known as under:

- Issue price
  - 1st Installment: Application money
  - 2nd Installment: Allotment money
  - 3rd Installment: First call money
  - 4th Installment: Second call money
  - 5th Installment Final call money

As per Section 39 of the Companies Act 2013, application money must be at least 5% of the face value of shares. However, as per SEBI Regulations, the minimum application moneys to be paid by an applicant along with the application money **shall not be less than 25% of the issue price.** According to Section 24 of the Companies Act, 2013 matters related to issue and transfer of securities will be administered by the SEBI and not by the Company Law Board.

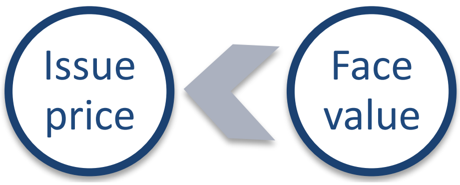
❖ SUBSCRIPTION OF SHARES

Full Subscription	• Issue is fully subscribed if the number of shares offered for subscription and the number of shares actually subscribed by the public are same.
Under Subscription	• It means the number of shares offered for subscription is more than the number of shares subscribed by the public.
Over Subscription	• If an issue is over-subscribed, some applications may be rejected and application money refunded or excess amount received can be utilised towards allotment or call money which has fallen due or will soon fall due for payment.

Offered shares	Applied shares	Types of subscription
10,000	10,000	Full subscription
10,000	8,000	Under subscription
10,000	12,000	Over subscription

❖ SHARES ISSUED AT DISCOUNT

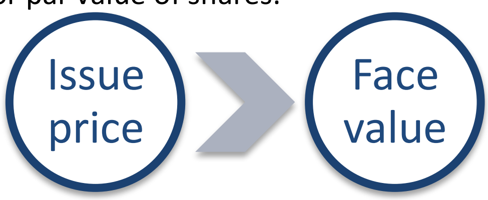
Shares are said to be issued at a discount, if issue is at an amount less than the nominal or par value of shares. The excess of the nominal value over the issue price represents discount on the issue of shares. For example, when a share of the nominal value of Rs. 100 is issued at Rs. 98, it is said to have been issued at a **discount of 2 per cent.**



According to **Section 53 of the Companies Act, 2013,** a ***Company cannot issue shares at a discount*** except in the case of issue of sweat equity shares (issued to employees and directors). **Thus any issue of shares at discount shall be void.**

❖ SHARES ISSUED AT PREMIUM

When a company issues its securities at a price more than the face value, it is said to be an issue at a premium. Premium is the excess of issue price over face value of the security. It is quite common for **the financially strong and well-managed companies to issue their shares at a premium,** i.e. at an amount more than the nominal or par value of shares.



When shares are issued at a premium, the premium amount is credited to a separate account called **"Securities Premium Account"** because it is not a part of share capital. Rather, it represents a **gain of a capital nature** to the company.
Being a credit balance, Securities premium Account is shown under the heading, "Reserves and Surplus". However, 'Reserves and Surplus' is shown as **'shareholders' funds in the Balance Sheet as per Schedule III.**

According to Section 52 of the Companies Act, 2013, Securities Premium Account may be used by the company:

(a) Towards issue of un-issued shares of the company to be issued to members of the company as fully paid bonus securities.

↓

(b) To write off preliminary expenses of the company.**

↓

(c) To write off the expenses of, or commission paid, or discount allowed on any of the securities or debentures of the company.

↓

(d) To provide for premium on the redemption of redeemable preference shares or debentures ofthe company.**

↓

(e) For the purchase of own shares or other securities.

**Note: It may be noted that certain class of Companies as prescribed under Section 133 of the Companies Act, 2013, whose financial statements comply with the accounting standards prescribed for them, can't apply the securities premium account for the purposes (b) and (d) mentioned above.

CALLS-IN-ARREARS :-

Sometimes shareholders fail to pay the amount due on allotment or calls. The **total unpaid** amount on one or more instalments is known as **<u>Calls-in-Arrears or Unpaid Calls.</u>** Such amount represents the uncollected amount of capital from the shareholders; <u>hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital.</u>

Called up capital − Calls in arrears = Paid up capital

The Articles of Association of a company usually empower the directors to charge interest at a stipulated rate on calls-in-arrears. According to **Table F** interest at the **<u>rate of 10 per cent</u>** per annum is to be charged on unpaid calls for the period intervening between **<u>the due date of the call and the time of actual payment.</u>**

However, the directors have the authority **to waive** the application of this rule in individual cases at their discretion or **<u>charge at a higher rate of interest.</u>**

CALLS-IN-ADVANCE :-

Some shareholders may sometimes pay a part, or whole, of the amount not yet called up, such amount is known as Calls-in-advance. **<u>According to Table F, interest at a rate not exceeding 12 per cent p.a.</u>** is to be paid on such **<u>advance call money.</u>** This amount is credited in Calls-in-Advance Account. **<u>Calls received in advance are not entitled to any dividend.</u>**

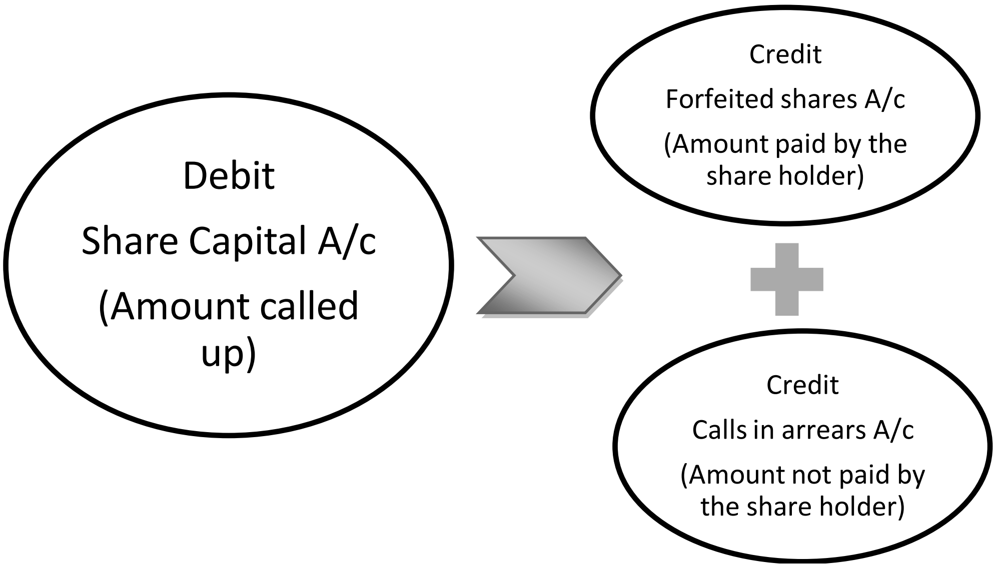
FORFEITURE OF SHARES :-

If one or more shareholders fail to pay their allotment and/or calls on the due dates. Failure to pay call money results in forfeiture of shares. **<u>Forfeiture of shares is the action taken by a company to cancel the shares.</u>**

The directors are usually empowered by the Articles of Association to forfeit those shares by serving proper notice to the defaulting shareholder(s).

When shares are forfeited, the title of such shareholder is **<u>extinguished but the amount paid to date is not refunded to him.</u>** The shareholder then has no further claim on the company.

Following are the important points while accounting forfeiture transaction:-



RE-ISSUE OF FORFEITED SHARES :-

In connection with re-issue, the following points are important:

- Loss on re-issue should not exceed the forfeited amount.
- If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
- The forfeited amount on shares (amount originally paid-up) not yet reissued should be shown under the heading 'share capital.'
- When only a portion of the forfeited shares are re-issued, then the profit made on reissue of such shares must be transferred to Capital Reserve.
- When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account".
- If the shares are re-issued at a price which is more than the face value of the shares, the excess amount will be credited to Securities Premium Account.
- If the re-issued amount and forfeited amount (taken together) exceeds the face value of the shares re-issued, it is not necessary to transfer such amount to Securities Premium Account.

CLASSIFICATION OF BALANCE SHEET ITEMS :-

	Item	Main head	Sub head
1	**Share forfeited amount**	Shareholders' Funds	Share capital
2	Capital Reserve, Securities Premium, Capital Redemption Reserve, Revaluation Reserve, balance in Statement of Profit and Loss	Shareholders' Funds	Reserves and Surplus
3	**Share Options Outstanding Account**	Shareholders' Funds	Reserves and Surplus
4	Debentures, Long Term Loans	Non-current Liabilities	Long Terms borrowings
5	Deferred Tax Liabilities	Non-current Liabilities	Deferred Tax Liabilities
6	**Provision for employee benefits**	Non-current Liabilities	Long Term provisions
7	Provision for Warranties	Non-current Liabilities	Long Term provisions
8	Loans repayable on demand from banks and other parties,	Current Liabilities	Short term borrowings
9	Deposits	Current Liabilities	Short term borrowings
10	Loans and advances from related parties	Current Liabilities	Short term borrowings
11	Creditors	Current Liabilities	Trade Payables
12	**Bills Payable**	Current Liabilities	Trade Payables
13	Interest accrued and due/ not due on borrowings	Current Liabilities	Other Current Liabilities
14	income received in advance	Current Liabilities	Other Current Liabilities
15	**Calls in advance**	Current Liabilities	Other Current Liabilities
16	**Unpaid Dividend**	Current Liabilities	Other Current Liabilities
17	Land , Building, Plant and Equipment , Furniture & Fixture , Office Equipments **(Tangible Assets)**	Non-current Assets	Fixed Asset- Tangible Assets
18	Goodwill , Trademarks, Brands, Computer Software , Copyrights, Patents, Franchise **(Intangible Assets)**	Non-current Assets	Fixed Asset- Intangible Assets
19	Investment property, Investment in Mutual Funds, Equity Instrument, Preference shares, Government Securities, Debentures **(more than 12 months)**	Non-current Assets	Non Current Investments
20	Capital Advances , Security Deposits	Non-current Assets	Long-term Loans and Advances
21	Investment in Equity Instrument, Preference shares, Government Securities, Debentures **(less than 12 months)**	Current Assets	Current Investments
22	Inventories of Raw material, Work-in-progress, Finished goods	Current Assets	Inventories
23	Stores and spares , Loose tools	Current Assets	Inventories
24	Debtors	Current Assets	Trade Receivable
25	**Bills Receivable**	Current Assets	Trade Receivable
26	**Prepaid expenses**	Current Assets	Other Current Assets
27	**advance taxes**	Current Assets	Other Current Assets
28	Balances with banks	Current Assets	Cash and Cash Equivalents

29	Cheques, drafts on hand	Current Assets	Cash and Cash Equivalents
30	Cash on hand	Current Assets	Cash and Cash Equivalents
31	**Preliminary Expenses**	Non-current Assets	Other Non-current Assets
32	**Underwriting commission**	Non-current Assets	Other Non-current Assets
33	**Discount on issue of debenture, Loss on issue of debenture**	Non-current Assets	Other Non-current Assets

FORMAT OF BALANCE SHEET

BALANCE SHEET of …………Company Limited as on 31st March……….

Particulars	Note No.	Amount (Rs.)
I.EQUITY AND LIABILITIES		
1 Shareholders' Funds:		
(a) Share Capital		
(b) Reserves and surplus		
(c) Money received against share warrants		(Not to be evaluated)
2 Share Application Money pending allotment:		(Not to be evaluated)
3 Non - Current Liabilities:		
(a) Long-term borrowings		
(b) Deferred Tax Liabilities (Net)		(Not to be Evaluated)
(c) Other Long Term Liabilities		(Not to be Evaluated)
(d) Long-term provisions		
4 Current Liabilities:		
(a) Short-term borrowings		
(b) Trade payables		
(c) Other current liabilities		
(d) Short-term provisions		
TOTAL [1 +2+3+4]		
II.ASSETS		
1Non-Current Assets:		
(a)**Fixed Assets**		
(i) Tangible Assets		
(ii) Intangible Assets		
(b)**Non-Current Investments**		
(c) **Long Term Loans &Advances**		
(d) **Other Non-Current Assets**		
2Current 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 [1 + 2]		

PART II – Form of STATEMENT OF PROFIT AND LOSS

Name of the Company……………………

Profit and loss statement for the year ended ………………………

(₹ in………..)

Particulars		Note No.	Figures for the current reporting period		Figures for the previous reporting period	
I.	Revenue from operations			xxx		xxx
II.	Other income			xxx		xxx
III.	Total Revenue (I + II)			xxx		xxx
IV.	Expenses:			xxx		xxx
	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					
	Employee benefits expense					
	Finance costs					
	Depreciation and amortization expense					
	Other expenses					
Total expenses				xxx		xxx
V.	Profit before exceptional and extraordinary items and 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
IX.	Profit before tax (VII- VIII)			xxx		xxx
X.	Tax expense:					
	(1) Current tax		xxx		xxx	
	(2) Deferred tax		xxx	xxx	xxx	xxx
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)			xxx		Xxx
XII.	Profit/(Loss) from discontinuing operations			xxx		Xxx
XIII.	Tax expense of discontinuing operations			xxx		Xxx
XIV.	Profit/(Loss) from Discontinuing operations (after tax) (XII-XIII)			xxx		Xxx
XV.	Profit (Loss) for the period (XI + XIV)			xxx		xxx
XVI.	Earnings per equity share:					
	(1) Basic			xxx		xxx
	(2) Diluted			xxx		xxx