

Unit 3- Company Accounts



Company

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. It is created by law and effected by law. It is a legal person just as much as an individual but with no physical existence.

Section 2 (20) of the Companies Act, 2013, defines a company as A company incorporated under this act, or under any previous company law.

⇒ Incorporate
⇒ Registered } ⇒ Comp. Act-

Features of a Joint stock Company

- Incorporated association
- Artificial person \Rightarrow Created by law
- Perpetual succession \Rightarrow "Existence do not depends on its shareholders"
- Common seal \Rightarrow Signature of CO. \Rightarrow Not Req.
- Limited liability \Rightarrow upto Asset \rightarrow BOD \rightarrow Shareholder
- Separation of management from ownership
- Transferability of shares \Rightarrow Ownership transferable
- Separate legal status
- Large membership = $\begin{cases} \Rightarrow \text{Pvt.} = 2-200 \\ \Rightarrow \text{Public} = 7 - \text{No limit} \end{cases}$
- Minimum paid up capital: It is Rs 1 lakh Private LTD.
- Company and 5 lakhs for a Public LTD company. \Rightarrow Not Req. Now

"order of king/queen"

- ✓ • **Chartered company:** A chartered company is one that is established under a special charter issued by the King or Emperor or a Head of State. Such companies are not found in India. Chartered companies established in European countries are East India Company, Bank of England. → "Sep. law"
- ✓ • **Statutory company:** A statutory company is one that is created or incorporated by a special Act passed by the Central or State Legislature. The Statutory companies are owned by Government and are given independent legal status, e.g. Life Insurance Corporation of India, Air India, Food Corporation of India, etc. SBI, PNB

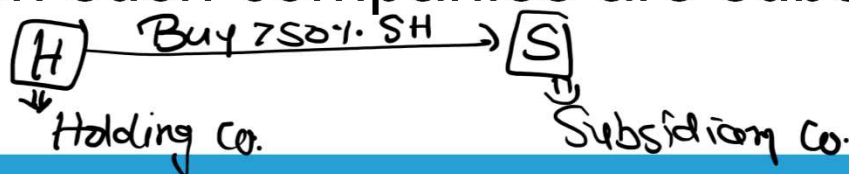
→ Co. Act.

- **Registered company**: A company registered under the provisions of Companies Act is known as a registered company. In India, examples of companies registered under the Indian Companies Act are Tata Consultancy Services Ltd., WIPRO Ltd., Videocon International Ltd., Reliance Industries Ltd., and so on.
- **Foreign company**: A Foreign company is a company which is incorporated outside India but has a place of business in India, e.g. Hongkong and Shanghai Banking Corporation Ltd.
 [⇒ Not Incorporated in INDIA
 ⇒ Have a place of business in India] ⇒ Google, HSBC, Facebook

TOPIC

- **Private company**: A private company is a company that by its articles: (a) except in case of one person company limits the number of its members to two hundred, (b) restricts the right to transfer its shares, and (c) prohibits any invitation to the public to subscribe for any security of the company.
 - min. 2 - MAX. 200 Member
 - min. director 2
 - Name: Private Limited
 - Issue share and Public deposit Not allowed
- **Public company**: Section 2 (71)(Chapter I) of the Indian Companies Act, 2013, defines a public company as a company which is not a private company. This means there is no restriction on the number of members and shares are freely transferable.
 - min. 7 - MAX. No limit
 - min. director - 3
 - Name: Limited
 - Issue share and Public deposit allowed

- **Government company**: Any company in which not less than 51 per cent of the paid-up share capital is held by the Central Government or by any State Government or partly by Central Government and partly by one or more State Governments, is a Government Company.
- **Holding company**: Section 2 (46) (Chapter I) of the Companies Act 2013: a Holding company, in relation to one or more subsidiary companies, means a company of which such companies are subsidiary companies.





- **Associate Company**: In relation to another company, Associate Company means a company in which that other company has a significant influence but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- **One Person Company**: One Person Company means a company which has only one person as a member.
 - Type of Private Co.:
 - ⇒ min. max. only 1 member (1 nominee)
 - ⇒ min. 1 director
 - ⇒ Name: OPC Limited

- **Subsidiary company:** Section 2(87) (Chapter I) of the Companies Act, 2013 defines a 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.
- **Company limited by shares:** It is a company in which liability of its members is limited by memorandum to the amount, if any, unpaid on the shares respectively held by them. Most of the companies in India are companies with limited liability. \Rightarrow "Max. Investor loss is upto money invested"

⇒ 'MAX. loss upto guarantee given'

- **Company limited by guarantee**: It is a company in which liability of a member is fixed to a certain amount and he is liable to pay that much amount in the event of winding up of the company. This amount is called the 'Guarantee'. Such companies are generally floated for the promotion of sports, education, religion, fine art, etc., and are essentially non-profit making organisations.)
- **Company with unlimited liability**: It is a company in which the liability of a member is unlimited. Such a company can be incorporated with or without share capital. ⇒ 'MAX. loss upto Person's Asset'

Classes of Share Capital

Share capital of a company limited by shares can be two kinds

- Equity share \Rightarrow owner's money = $\begin{cases} \Rightarrow \text{Voting} \\ \Rightarrow \text{Dividend} \\ \Rightarrow \text{Residual Value} \end{cases}$
- Preference share \Rightarrow Priority = $\begin{cases} \Rightarrow \text{Dividend (Fixed)} \\ \Rightarrow \text{Repayment} \end{cases} \Rightarrow \text{over ESH}$

Preference shares can be further classified as under:

- Cumulative \Rightarrow Div. accumulates in Capital $\Rightarrow \frac{PS + Div.}{100 + 10} = \frac{PS + Div.}{110 + 11} = \frac{PS}{121}$
- Redeemable \Rightarrow Repaid after fix tenure $\Rightarrow \begin{cases} \Rightarrow \text{MAX. Red. Period} = 20 \text{ year} \\ \Rightarrow \text{Infra. Project} = 30 \text{ year} \end{cases}$
- Participating $\Rightarrow \begin{cases} \Rightarrow \text{Fixed P.S. Dividend} \\ \Rightarrow \text{Equity Dividend} \end{cases}$

Share capital can be classified in a different way as to:

- Authorised capital := MAX. Capital to be issued = 1000 cr.
 - Issued capital := Offered to Public = 800 cr.
 - Subscribed Capital = Applied by Public = 750 cr.
 - Called up capital = Asked from Public = 600 cr.
 - Paid-up capital = Money Paid by public = 580 cr.
- $\Rightarrow 150 \text{ cr.} = \text{Reserve Capital}$
 \Downarrow
 "Can be asked by company any time before winding up"
 \Downarrow
 20 cr.
 \Downarrow Calls-in-Arrear.
 \Downarrow
forfeiture of shares

1

TOPIC

Issue of Bonus shares

=> Sec. 63 => Free of cost SH to existing SH.

Source
CRR + SP + CR + GR + PIL

<ul style="list-style-type: none"> Capital Redemption Reserve A/c Share premium A/c Capital reserve A/c Gen Reserve A/c Profit & Loss A/c <u>Bonus to shareholders A/c</u> 	<ul style="list-style-type: none"> Debited Debited Debited Debited Debited 	<ul style="list-style-type: none"> <u>Credited</u>
<ul style="list-style-type: none"> Bonus to shareholders A/c Equity share capital A/c 	<ul style="list-style-type: none"> <u>Debited</u> 	<ul style="list-style-type: none"> <u>Credited</u>

- (a) it is authorised by its articles; => AoA => Rules and Regulation ✓
- (b) it has, on the recommendation of the Board, been authorised => BOD
- (c) it has not defaulted in payment of interest or principal
- (d) It has not defaulted in respect of the payment of statutory dues
- (e) the partly paid-up shares, are made fully paid-up

Section 43 of the Companies Act 2013, Provided that share capital of the company shall consist of the following:

- Equity shares with voting rights \Rightarrow No-voting but excess Dividend
- Equity shares with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed; and
- Preference share capital \rightarrow Fav $\geq 75-1$.
 - # Condition
 - ① AoA have Power
 - ② Pass Special Resolution
 - ③ Give all other Rights \rightarrow Bonus \rightarrow Div. \rightarrow meeting
 - ④ Allowed to only Public Co.
 - ⑤ MAX. 25% of Paid up \Rightarrow eg:- Paid up 100cr. \rightarrow Non Voting Share Max. 25cr.
 - ⑥ Conversion = $\begin{cases} \Rightarrow \text{Non-voting} \rightarrow \text{Voting} \Rightarrow \text{Allowed} \\ \Rightarrow \text{Voting} \rightarrow \text{Non-voting} \Rightarrow \text{Not Allowed} \end{cases}$

TOPIC

Section 52 \Rightarrow $\frac{\text{Face Value}}{100} \xrightarrow{\text{₹ 20 Premium}} \frac{\text{Issue}}{120}$

Issue of Shares at a Premium

Premium amount can be utilised only for the following purposes:

(a) Buy back of shares.

(b) Issue of fully paid bonus shares.

(c) Writing off preliminary expenses

(d) Paying premium on redemption of preference shares or debentures.

It is recorded on liabilities side of balance sheet under the head Reserves and Surplus. Share premium amount is a capital profit

\Rightarrow Show Sep. in B/s

\Rightarrow R/S

\Rightarrow Use of S.P.:

- B.B.
- Bonus
- Prel. Exp.
- Red. Premium

\Rightarrow Journal:

Sh. Application/Allotment A/c Dr. 120

TO Sh. Capital A/c

100

TO Sec. Premium A/c

20