

1. Features and Types of Companies

A **company** is an association of persons who contribute money or money's worth to a common inventory for a common purpose.

It is an **artificial person** that is invisible, intangible, and exists only in the eyes of the law. Being a creation of law, it possesses only the properties conferred upon it by its charter of creation.

The capital of a company is contributed by **shareholders**, who are the real owners, though management is usually conducted by an elected **Board of Directors**.

Key Features of a Company

- **Body Corporate:** It is formed and registered according to the provisions of the law, generally the Companies Law in India.
- **Separate Legal Entity:** A company is distinct from its members and can hold property, enter contracts, and open bank accounts in its own name.
- **Limited Liability:** The liability of members is limited to the unpaid amount of the shares they hold or the amount they guarantee to contribute upon winding up.
- **Perpetual Succession:** As an artificial person, its existence is not affected by the death, insanity, or insolvency of its members; it can only be terminated by law.
- **Common Seal:** This acts as the official signature of the company, and any document not carrying it is generally not binding.
- **Transferability of Shares:** Shares of a public limited company are freely transferable

without the consent of other members, subject to the company's Articles.

- **Capacity to Sue and be Sued:** A company can enforce contractual rights and be held liable for breaches in its own name.

Classification of Companies

Companies can be classified based on **liability**:

1. **Companies Limited by Shares:** Liability is limited to the nominal value of shares held; once fully paid, no further liability exists.
2. **Companies Limited by Guarantee:** Liability arises only during winding up and is limited to the amount members undertook to contribute.
3. **Unlimited Companies:** There is no limit on member liability; private property can be used to settle company debts.

Classification based on **number of members**:

1. **Public Company:** A company that is not a private company and not a subsidiary of a private company.
2. **Private Company:** Its Articles restrict share transfer, require at least two members (except for One Person Companies), and limit membership to 200 persons.
3. **One Person Company (OPC):** Defined as a company with only one person as a member, who must be a natural person and an Indian citizen. It has limits on paid-up capital (Rs. 50 Lakhs) and average annual turnover (Rs. 2 Crores).



2. Share Capital: Meaning, Nature, and Types

Share capital refers to the total amount collected by a company from several persons known as shareholders. Because the number of shareholders is large, their contributions are merged into a single **Share Capital Account**.

Categories of Share Capital

From an accounting perspective, capital is classified into:

- **Authorised/Nominal/Registered Capital:** The maximum amount a company is authorised to issue by its Memorandum of Association.
- **Issued Capital:** The part of authorised capital actually offered to the public for subscription, including shares for vendors.
- **Subscribed Capital:** The portion of issued capital actually subscribed by the public. This is further divided into "Subscribed and fully paid-up" and "Subscribed but not fully paid-up".

- **Called-up Capital:** The portion of the face value the company has asked shareholders to pay.
- **Paid-up Capital:** The actual amount received from shareholders (Called-up Capital minus Calls in Arrears).
- **Reserve Capital:** A portion of uncalled capital reserved to be called only in the event of the company's winding up.

Nature and Classes of Shares

A **share** is a fractional part of the share capital and forms the basis of ownership interest. The classes of shares and their rights are prescribed by the **Articles of Association**.

1. **Preference Shares:** These carry a preferential right to a **fixed dividend** and the **repayment of capital** before equity shares during winding up. They can be cumulative, non-cumulative, participating, non-participating, redeemable, or irredeemable.
2. **Equity Shares:** These do not enjoy preferential rights regarding dividends or capital repayment. Dividend rates vary based on available profits, and they typically carry voting rights.

3. Accounting for Share Capital

The capital is often collected in easy instalments: **Application, Allotment, First Call, Second Call, etc..**

The Issue Process

1. **Issue of Prospectus:** An invitation to the public containing information about the company and the fund collection method.

- 2. Receipt of Applications:** Investors apply with application money, which must be at least 5% of the face value.
- 3. Minimum Subscription:** A company must raise at least **90% of the issued amount** to proceed with allotment. If not met within 120 days, the application money must be refunded.
- 4. Allotment of Shares:** Once minimum subscription is met, allotment letters are sent, creating a valid contract between the company and allottees.

Subscription Scenarios

- **Full Subscription:** Applications received equal the shares offered.
- **Under Subscription:** Applications are fewer than shares offered; allotment is limited to the number applied for.
- **Over Subscription:** Applications exceed shares offered. Directors may reject excess applications, make a **pro-rata allotment** (proportionate allotment), or a combination of both. Excess application money is usually adjusted against allotment or calls.

Pricing of Shares

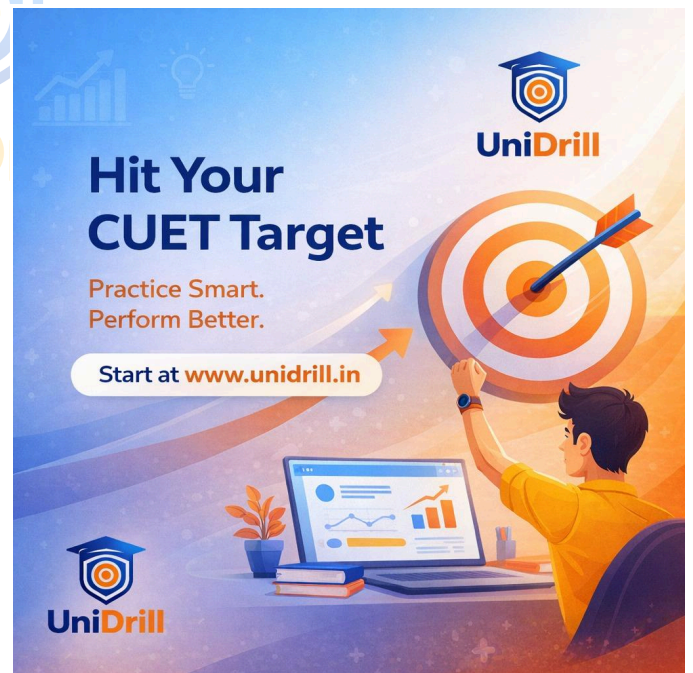
- **Issue at Par:** Issue price equals nominal value.
- **Issue at Premium:** Issue price is more than nominal value. The excess is credited to the **Securities Premium Account**. This account can only be used for specific purposes: issuing bonus shares, writing off preliminary expenses/issue expenses, paying redemption premiums, or buy-back of shares.
- **Issue at Discount:** Shares issued below nominal value. Generally, the Companies Act 2013 prohibits the issue of shares at a discount except for **sweat equity shares** and reissue of forfeited shares.

Accounting Entries for Issue

- 1. Receipt of Application:** Bank A/c Dr. To Share Application A/c.
- 2. Transfer to Capital:** Share Application A/c Dr. To Share Capital A/c (and To Securities Premium if applicable).
- 3. Allotment Due:** Share Allotment A/c Dr. To Share Capital A/c.
- 4. Receipt of Allotment:** Bank A/c Dr. To Share Allotment A/c.
- 5. Calls Due/Received:** Similar entries using Share Call A/c.

Calls in Arrears and Advance

- **Calls in Arrears:** Failure by a shareholder to pay the amount due on allotment or calls. Interest may be charged up to **10% p.a.** (as per Table F).
- **Calls in Advance:** Payment by a shareholder of amounts not yet called up. It is a liability shown under "Other Current Liabilities". Interest is payable up to **12% p.a.**



Issue for Consideration Other than Cash

Companies may issue shares to vendors for purchasing assets or businesses. The number of shares is calculated as $\frac{\text{Amount Payable}}{\text{Issue Price}}$.

- **Entry:** Vendor Dr. To Share Capital A/c (and To Securities Premium if applicable).

4. Forfeiture and Re-issue of Shares

Forfeiture of Shares

If a shareholder fails to pay calls, the company may forfeit the shares, cancelling the allotment and treating the received amount as forfeited.

- **At Par:** Share Capital A/c (Called-up) Dr. To Share Forfeiture A/c (Paid-up) To Calls in Arrears A/c.
- **At Premium:** If premium was received, it is not reversed. If premium was due but not received, the Securities Premium Reserve A/c must be debited.

Re-issue of Forfeited Shares

Forfeited shares can be reissued at par, premium, or discount. The maximum discount allowed cannot exceed the amount already received (and forfeited) on those shares.

- **Entry for Re-issue:** Bank A/c Dr. Share Forfeiture A/c (Discount) Dr. To Share Capital A/c.
- **Transfer of Profit:** Any surplus in the Share Forfeiture Account relating to the reissued shares is transferred to the Capital Reserve Account.

5. Debentures: Meaning, Nature, and Types

A **debenture** is a written instrument acknowledging a debt under the company's common seal. It contains a contract for repayment of principal and interest at a fixed rate. Finance raised through debentures is known as **borrowed capital** or long-term debt.

Types of Debentures

- **Security:** Secured (Mortgage) debentures (fixed or floating charge on assets) vs. Unsecured (Naked) debentures.

- **Tenure:** Redeemable (repayable after a specific period) vs. Irredeemable (Perpetual) debentures.

- **Convertibility:** Convertible (can be changed into shares) vs. Non-convertible debentures.

- **Coupon Rate:** Specific Rate vs. Zero Coupon Rate (issued at deep discount with no specific interest).

- **Registration:** Registered (details in company records) vs. Bearer (transferable by delivery).

6. Accounting for Issue of Debentures

Debentures can be issued for cash, for consideration other than cash, or as collateral security.

Issue for Cash and Terms of Redemption

Debentures can be issued at par, premium, or discount. When issued, the terms of redemption (at par or premium) must be considered:

1. **Issued at Par, Redeemable at Par:** Bank Dr. To Debenture Application & Allotment; then to Debentures A/c.
2. **Issued at Discount, Redeemable at Par:** The discount is debited to Discount on Issue of Debentures A/c.
3. **Issued at Par, Redeemable at Premium:** The future premium is a loss; entry: Loss on Issue of Debentures A/c Dr. To Premium on Redemption of Debenture A/c.

Debentures as Collateral Security

This refers to debentures issued as a secondary or subsidiary security to a lender (usually a bank) for a loan.

- **First Method:** No journal entry; only a note is added in the Balance Sheet under the loan item.
- **Second Method:** Debenture Suspense A/c Dr. To Debentures A/c. The suspense account is deducted from debentures in the Balance Sheet.

Interest on Debentures

Interest is a **charge on profits** and must be paid even if the company incurs a loss. It is usually calculated on the nominal value.

- **Entry:** Debenture Interest A/c Dr.
To Debentureholders A/c.

Writing off Discount/Loss on Issue

Discount or loss on issue is a capital loss. It is written off from the **Securities Premium Reserve** or the **Statement of Profit and Loss**.

