12. COMPANY ACCOUNTS

1. INTRODUCTION

Capital funding process for types of business forms can be summarised as follows:

Business Organization	Ownership	Type of Capital	Liability of Owners
Sole - Proprietorship	Proprietor	Capital	Unlimited
Partnership	Partners	Partners' Capital	Unlimited
Company	Shareholders	Share Capital	Limited to issue price of shares held

2. 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. However a company can issue shares at a price different from the face value of shares. The liability of holder of shares (called shareholders) is limited to the issue price of shares acquired by them.

Authorised Share Capital: A company estimates its maximum capital requirements. Registrar of Companies puts a limit on the amount of capital, which a company is authorised to raise during its lifetime and is called 'Authorised Capital'. It is also referred to as 'Registered Capital or Nominal Capital'

Issued Share Capital: Portion of the share capital issued by the company is called 'Issued Capital'. Issued capital means and includes the nominal values of shares issued by the company for: Cash, and Consideration other than cash to Promoters of a company and Others. The remaining portion of the authorised capital may be termed as **'Un-issued Capital'**

Subscribed Share Capital: It is that part of the issued share capital, which is subscribed by the public. It includes the face value of shares issued by the company for consideration other than cash.

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

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 call in arrears' To calculate paid up capital, the amount of installment in arrears is deducted from called up capital. In balance sheet called- up and paid capital are shown together.

Reserve Share Capital: A company may decide by passing a special 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 Liability/ Reserve Capital.

Reserve Capital is different from Capital Reserve, Capital reserve are part of 'Reserve and surplus' and refer to those reserves which are not available for declaration of dividend. These reserves may be used to write off capital losses such as discount on issue of shares. These can also be used to issue bonus shares, subject to the condition, that reserve is realized in cash. 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 profits only.

Preference Shares:

Persons holding preference shares, called preference shareholders. They enjoy preferential rights in the matter of Payment of dividend at a **fixed rate**. Repayment of capital in case of holding up of the company.

3. TYPES OF PREFERENCE SHARES:

Cumulative Preference Shares: A cumulative preference share is one that carries the right **to a fixed amount of dividend or dividend at a fixed rate**. Such a dividend is payable even out of future profit if current year's profits are insufficient for the purpose.

Non-Cumulative Preference Shares: A non Cumulative preference share carries with it the right to a fixed amount dividend. In case no dividend is declared in a year due to any reason, the right to receive such dividend for that year expires.

Participating Preference Shares: This category of preference share confers on the holder the right to participate in the surplus profits, if any, after the equity shareholders have been paid dividend at a stipulated rate.

Non- Participating Preference Shares: A share on which only a **fixed rate of dividend** is paid every year, without any accompanying additional rights in profits and in the surplus on winding up is called 'Non Participating Preference Shares'

Redeemable Preference Shares: These are shares that a company may issue on the condition that the company will repay after the fixed period or even earlier at company's discretion. **The repayment on these shares is called redemption and is governed by Section 55 of the Companies Act, 2013.**

Non-Redeemable Preference Shares: The preference shares, which do not carry with them the arrangement regarding redemption, are called Non-redeemable Preference Shares. **According to Section 55, no company limited by shares shall issue irredeemable preference shares or preference shares redeemable after the expiry of 20 years from the date of issue.** However a Company may issue preference shares redeemable after 20 years for such infrastructure projects as may be specified, under the Companies Act, 2013.

Convertible Preference Shares: Shares give the right to the holder to get them converted into equity shares at their option according to the terms and conditions of their issue.

Non-Convertible Preference Shares: When the holder of a preference share has not been conferred the right to get his holding converted into equity share, it is called Non-convertible Preference Shares.

Equity Shares:

Equity shares are those shares, which are not preference shares. It means that they do not enjoy any preferential rights in the matter of payment of dividend or repayment of capital. The rate of dividend on equity shares is recommended by the Board of Directors and may vary from year to year. Companies Act 2013 permits issue of equity share capital with differential rights as to dividend, voting or otherwise.

4. ISSUE OF SHARES FOR CASH:

A public company issues a prospectus inviting general public to subscribe for its shares. On the basis of prospectus, applications are deposited in a scheduled bank by the interested parties along with the amount payable at the time of application, in cash. First installment paid along with application is called 'Application Money' Application money cannot be less than 5% of the face value of shares. A company cannot proceed to allot shares unless minimum subscription is received by the company.

5. SHARES ISSUED AT PAR

No	Particulars	LF	Dr. Rs	Cr. Rs.
1	For application money received Bank / Cash A/c To Equity Share application A/c			
2	At the time of Allotment of shares Equity Share Application A/c To Equity Share Capital A/c			
3	To record amount due on allotment Equity share Allotment A/c To Equity Share Capital A/c			
4	For Allotment money received Bank A/c To Equity Share allotment A/c			
5	When First & Final call is made Equity share First & Final call A/c To Equity Share Capital A/c			
6	On receiving the call money Bank A/c To Equity share First & Final Call A/c			

6. 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. i.e. at an amount more than the nominal or par value of shares. Thus, where a share of the nominal value of` 100 is issued at` 105, it is said to have been issued at a premium of 5 per cent.

When the issue is at a premium, the amount of premium may technically be called at any stage of share capital transactions. However, premium is generally called with the amount due on allotment, sometimes with the application of money and rarely with the call money.

Securities Premium Account may be used by the company

- To issue bonus shares
- To write off preliminary expenses of the company
- To write off the expenses of or commission paid, or discount allowed on any of the securities or debentures of the company
- To pay premium on the redemption of reference securities or debentures of the company.

When shares are issued at a premium, the journal entries are as follows

No	Particulars	LF	Dr.Rs.	Cr.Rs.
a)	Premium amount called with Application money			
I.	Bank A/c Dr. To Share Application A/c [Money received on application for _shares @ Rs.per Shares including premium]			
II.	Share Application A/c Dr. To Security Premium A/c To Share Capital A/c			
b)	Premium amount called with Allotment money			
I.	Share Allotment A/c Dr. To Share Capital A/c To Securities Premium A/c [Amount due on allotment of Shares @ Rs. Per share including premium]			
II.	BankA/c Dr. To Share Allotment A/c [Money received including premium consequent upon allotment]			

7. SHARESISSUED AT DISCOUNT

If shares are issue 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 ₹ 100 is issued at ₹ 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.

8. SUBSCRIPTION OF SHARES

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.

As per guidelines of the Securities Exchange Board of India (SEBI) a company must receive a **minimum of 90% subscription against the entire issue**., the subscription shall be refunded to the applicants **within 42 days** from the date of closure of issue.

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. It must be remembered that shares can be allotted, in this case, only when the minimum subscription is received.

Over Subscription

Over subscription is the application money received for more than the number of shares offered to the public by a company.

Shares can be allotted to the applicants by a company in any manner it thinks proper.

- The company may reject some applicants in full i.e. no shares are allotted to some applicants and application money is refunded.
- Usually multiple applications by the same persons are not considered.
- A third alternative is that a company may allot shares to the applicants on pro-rata basis. Pro-rata allotment means allotment in proportion of shares applied

Under pro-rata allotment, the excess application money received is adjusted against the amount due on allotment or calls.The entries are

No	Particulars	LF	Dr. Rs.	Cr. Rs.
1	On refund of application money to applicants to who shares have not been allotted.			
	Share application A/c Dr.			
	To Bank A/c			
2.	When only part of shares applied for are allowed			
	Share application A/c Dr.			
	To Share Allotment A/c Dr.			
	To share calls in advance A/c			

9. CALLS IN ADVANCE and CALLS IN ARREARS

Calls-in-Arrears

Sometimes shareholders fail to pay the amount due on allotment or calls. The total unpaid amount on one or more installments is known as Calls-in-Arrears or Unpaid Calls. hence, it is shown by way of deduction from 'called-up capital' to arrive at paid-up value of the share capital. For recording 'Calls-in-Arrears', the following journal entry is recorded :

Calls-in-Arrears A/c Dr.	[Amount of Unpaid Calls]
Bank A/c Dr.	[Amount received]
To Share Allotment A/c	[Total allotment money due]
To Share Calls A/c	[Total Call money due]

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. **According to Table F, interest at a rate not exceeding 12 per cent p.a. is to be paid on such advance call money**. This amount is credited in Calls-in-Advance Account. The following entry is recorded:

Bank A/c Dr.	[Call amount received in advance]
To Call-in-Advance A/c	

When calls become actually due, calls-in-advance account is adjusted at the time of the call. For this the following journal entry is recorded:

Calls-in-Advance A/c Dr.	[Call amount received in advance]
Bank A/c Dr.	[Remaining call money received, if any]

To Particular Call A/c	[Call money due]

(Being call in advance adjusted and call money due received)

10. INTEREST ON CALLS-IN-ARREARS AND CALLS-IN-ADVANCE

Interest on calls in arrears is recoverable and that in respect of calls in advance is payable, according to provisions in this regard in the articles of the company, at the rates mentioned therein or those to be fixed by the directors, within the limits prescribed by the Articles. Table F prescribes 10% and 12% p.a. as the maximum rates respectively for calls in arrears and those in advance.

Interest on Calls in Arrears	Interest on Calls in Advance
• It is payable by shareholders to company on the calls due but remaining unpaid.	• It is payable by the Company to Shareholders on the call money received in advance but not yet due.
• As per Table F maximum prescribed rate is 10%.	• As per Table F maximum prescribed rate is 12%.
• Period considered : From the date call money was due to the date money is finally received.	• Period considered: From the date money was received to the day call was finally made due.
• Directors have a right to waive off such interest in individual cases at their own discretion.	• Shareholders are not entitled for any dividend on calls in advance.
• It is a nominal account in nature and is credited to statement of profit and loss as an income.	• It is a nominal account in nature with interest being an expense for the company.

The journal entries for calls-in-arrears are as follows :

No	Particulars	LF	Dr. Rs.	Cr. Rs.
1	**For interest receivable on calls-in-arrears**			
	Shareholders' A/c Dr.			
	To Interest on calls-in-arrears A/c			
	(Being interest on calls in arrears at the rate of ...% made due)			
2.	**For receipt of interest**			
	Bank A/c Dr.			
	To Shareholders' A/c			

The accounting treatment of interest on Calls-in-Advance is as follows

No	Particulars	LF	Dr. Rs.	Cr. Rs.
1	**For Interest Due**			
	Interest on Calls-in-AdvanceA/c Dr.			
	To Shareholders' A/c c			
	(Being interest on calls in advance made due)			
2.	**For payment of interest**			
	Shareholders' A/c Dr.			
	To Bank A/c			
	(Being interest paid on calls-in-advance)			

II. FORFEITURE OF SHARES

Failure to pay call money results in forfeiture of shares. Forfeiture of shares is the action taken by a company to cancel the shares on account of non-payment of a call or interest thereon after serving him a prior notice as prescribed by the Articles.

Forfeiture of Shares Which Were Issued At Par

No	Particulars	LF	Dr.Rs.	Cr. Rs.
1	Share Capital Account Dr.			
	To Forfeited Shares A/c			
	To Share Allotment A/c			

	To Share First Call A/c			
	To Share Final Call A/c			

Where all amounts due on allotment, first call and final call have been transferred to Calls-in- Arrears Account, the entry will be:

No	Particulars	LF	Dr.Rs.	Cr. Rs.
1	Share Capital Account Dr.			
	To Calls-in-Arrear A/c			
	To Forfeited Shares A/c			

Forfeiture of Shares Which Were Issued At A Premium

In this case, Share Capital Account will be debited with the called-up value of shares forfeited. If the premium on such shares has not been paid by the shareholders, the Securities Premium Account will be debited to cancel it. (if it was credited earlier). Allotment, Calls and Forfeited Accounts will be credited in the usual manner. If the premium has already received by the company, it cannot be cancelled even if the shares are forfeited in the future.

Forfeiture of Fully Paid-Up Shares

Fully paid up shares may be forfeited for realisation of debts of the shareholder if the Articles specifically provide it.

12. RE-ISSUE OF FORFEITED SHARES

A forfeited share is merely a share available to the company for sale and remains vested in the company for that purpose only. Reissue of forfeited shares is not allotment of shares but only a sale. Forfeited shares can be issued at any price so long as the total amount received (from the original allotted and the second purchaser)

Reissue of forfeited shares is not allotment of shares but only a sale.

No	Particulars	LF	Dr.	Cr.
a)	Bank A/c Dr.			
	Forfeited Shares A/c			
	To Share Capital A/c			
	(Being the re-issue of .... Shares @ Rs........... each as per Board's Resolution No.......Dated)			
b)	Forfeited Shares A/c Dr.			
	To Capital Reserve A/c			

	(Being the profit on re-issue, transferred to capital reserve)			

Calculation Of Profit On Re-issue Of Forfeited Shares

The credit balance of forfeited shares account cannot be considered a surplus until the shares forfeited have been re-issued, because the company may, on re-issue allow the discount to the new purchaser equivalent to the amount held in credit in this regard in the forfeited shares account.

Points for Consideration:

In connection with re-issue the following points are important

1. Loss on re-issue should not exceed the forfeited amount
2. If the loss on re-issue is less than the amount forfeited, the surplus should be transferred to Capital Reserve.
3. The forfeited amount on shares not yet reissued should be shown in the Balance Sheet as an addition to the share capital
4. 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.
5. When the shares are re-issued at a loss, such loss is to be debited to "Forfeited Shares Account"
6. 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.
7. 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.

13. ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

Sometimes a company may issue shares in a direct exchange for land, buildings or other assets. Shares may also be issued in payment for services rendered by promoters, lawyers in the formation of the company. In the Balance Sheet, these shares should be shown separately.

No	Particulars	LF	Dr. Rs.	Cr. Rs.
a)	**When assets are purchased in exchange of shares**			
	Assets A/c Dr.			

	To Share Capital A/c			
b)	When shares are issued to promoters			
	Goodwill A/c Dr.			
	To Share Capital A/c			

14. ALTERATION OF SHARE CAPITAL BY SUB-DIVISION OR CONSOLIDATION OF SHARES

If authorised by its Articles a company may, in a general meeting, decide to sub divide or consolidate the shares into those of a smaller or higher denomination than that fixed by the Memorandum of Association.

Example: of Sub - Division2, 00,000 Equity Shares of Rs. 100 each be sub-divided into 20,00,000 Equity Shares of Rs. 10each

Accounting Entry:

No	Particulars	LF	Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (Rs.100 each) Dr.		2,00,00,000	2,00,00,000
	To Equity Share Capital A/c (Rs. 10 each)			

Example of Consolidation 5,00,000 Equity shares of Rs. 10 each be consolidated into 50,000 Equity Shares of Rs. 100each

Accounting Entry:

No	Particulars	LF	Dr. Rs.	Cr. Rs.
	Equity Share Capital A/c (Rs.10each) Dr. To Equity ShareCapitalA/c(Rs. 100 each)		50,00,000	50,00,000

15. DEBENTURES

1. It is a document which evidence a loan made to a company.
2. It is a fixed interest bearing security where itself falls due on specific dates.
3. Interest is payable at a predetermined fixed rate, regardless of the level of profit.
4. The original sum is repaid at a specified future date or it is converted into shares or other debentures.

*** Discount on issue of Debenture A/c**

A company issues debentures at a discount when the market rate of interest is higher than the debenture interest. The difference between the nominal value of debentures and cash received is transferred to "Discount on Issue of Debentures A/c".

16. ISSUE OF DEBENTURES AS COLLATERAL SECURITY

Collateral security means secondary or supporting security for a loan, which can be realised by the lender in the event of the original loan not being repaid on the due date.

When the loan is repaid on the due date, these debentures are at once released with the main security. In case, the company cannot repay its loan and the interest thereon on the due date, the lender becomes the debenture holder who can exercise all the rights of a debenture holder. The holder of such debentures is entitled to interest only on the amount of loan, but not on the debentures.

Accounting entries:

There are two methods of showing these types of debentures in the accounts of a company.

Method 1

No entry is made in the books of account of the company at the time of making issue of such debentures. In the Balance Sheet the fact of the debentures being issued and outstanding is shown by a note under the liability secured.

Method 2

Under this method, the following entry is made to record the issue of such debentures:

No	Particulars	LF	Dr. Rs.	Cr. Rs.
	Debentures Suspense A/c Dr. To % Debentures A/c (Being the issue of ....debentures collaterally ......as per Board's Resolution No.........Dated)			

When the loan is repaid, the entry is reversed in order to cancel it.

17. ISSUE OF DEBENTURES IN CONSIDERATION OTHER THAN FOR CASH

Debentures can also be issued for consideration other than for cash, such as for purchase of land, machinery etc. In this case, the following entries are passed:

No	Particulars	LF	Dr. Rs.	Cr. Rs.
1	**On purchase of business assets** Sundry Assets A/c (Assets taken over) Dr. To Sundry Liabilities A/c (Liabilities assumed) To Vendors A/c (Purchase Consideration) (Being the assets and liabilities are taken over)			
2	**On issue of debentures** Vendors A/c Dr. To % Debentures A/c (Being the issue of ......debentures to satisfy purchase consideration)			

CLASS WORK

1. A Ltd. issued 3,50,000, 12% Debentures of ₹100 each at par payable in full on application by 1st April, Application were received for 3,85,000 Debentures. Debentures were allotted on 7th April. Excess money refunded on the same date.
You are required to prepare necessary Journal Entries (including cash transactions) in the books of the company. **(RTP Nov 2018)**

Solution

In the books of A Limited

Journal Entries

Date	Particulars		Dr. ₹ '000	CR. ₹ '000
April 1	Bank A/c	Dr.	38,500	
	To 12% Debentures Application A/c			38,500
	(Being money received on 3,85,000 debentures)			
April 7	12% Debentures Application A/c	Dr.	3,500	
	To Bank A/c			3,500
	(Being money on 35,000 debentures refunded as per Board's Resolution No.....dated...)			
April 7	12% Debentures Application A/c	Dr.	35,000	
	To 12% Debentures A/c			35,000
	(Being the allotment of 3,50,000 debentures of ₹ 100 each at par, as per Board's Resolution No....dated...)			

2. Riya Limited issued 20,000 14% Debentures of the nominal value of ₹1,00,00,000 as follows:
   a) To sundry per sons for cash at 90% of nominal value of ₹ 50,00,000.
   b) To a vendor for purchase of fixed assets worth ₹ 20,00,000 – ₹ 25,00,000 nominal value.
   c) To the banker as collateral security for a loan of ₹ 20,00,000 – ₹ 25,00,000 nominal value.

You are required to prepare necessary journal entries Journal Entries. **(RTP May 2018)**

Solution

In the books of Riya Company Ltd.

Journal Entries

Sr.No	Particulars		Dr. ₹	Cr. ₹
(a)	Bank A/c	Dr.	45,00,000	
	To Debentures Application A/c			45,00,000
	(Being the application money received on 10,000 debentures @ ₹ 450 each)			
	Debentures Application A/c	Dr.	45,00,000	
	Discount on issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			50,00,000
	(Being the issue of 10,000 14% Debentures @ 90% as per Board's Resolution No....dated....)			
(b)	Fixed Assets A/c	Dr.	20,00,000	
	To Vendor A/c			20,00,000
	(Being the purchase of fixed assets from vendor)			
	Vendor A/c	Dr.	20,00,000	
	Discount on Issue of Debentures A/c	Dr.	5,00,000	
	To 14% Debentures A/c			25,00,000
	(Being the issue of debentures of ₹25,00,000 to vendor to satisfy his claim)			
(c)	Bank A/c	Dr.	20,00,000	
	To Bank Loan A/c (See Note)			20,00,000
	(Being a loan of ₹ 20,00,000 taken from bank by issuing debentures of ₹25,00,000 as collateral security)			

Note: No entry is made in the books of account of the company at the time of making issue of such debentures. In the "Notes to Accounts" of Balance Sheet, the fact that the debentures being issued as collateral security and outstanding are shown by a note under the liability secured.

3. On Ist April, 2017, Pehal Ltd. issued 64,500 shares of ₹ 100 each payable as follows:

₹ 30 on application, ₹ 30 on allotment, ₹ 20 on Ist October, 2017; and ₹ 20 on Ist February, 2018.

By 20th May, 60,000 shares were applied for and all applications were accepted. Allotment was made on Ist June. All sums due on allotment were received on 15 th July; those on Ist call were received on 20th October. You are required to prepare the Journal entries to record the transactions when accounts were closed on 31st March, 2018. **(RTP Nov 2018)**

Solution

Book of Pehal Ltd.

Journal Entries

Date 2017	Particulars		Dr. ₹	Cr. ₹
May 20	Bank Account	Dr.	18,00,000	
	To Share Application A/c			18,00,000
	(Application money on 60,000 shares at ₹ 30 per share received.)			
June 1	Share Application A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(The amount transferred to Capital Account on 60,000 shares ₹ 30 on application. Directors' resolution no........ dated....)			
	Share Allotment A/c	Dr.	18,00,000	
	To Share Capital A/c			18,00,000
	(Being share allotment made due at ₹ 30 per share. Directors' resolution no dated)			
July 15	Bank Account	Dr.	18,00,000	
	To Share Application and Allotment A/c			18,00,000
	(The sums due on allotment received.)			
Oct. 1	Share First Call Account	Dr.	12,00,000	
	To Share Capital Account			12,00,000
	(Amount due from members in respect of first call-on 60,000 shares at ₹ 20 as per Directors, resolution no... dated...)			
Oct. 20	Bank Account	Dr.	12,00,000	
	To Share First Call Account			12,00,000

	(Receipt of the amounts due on first call.)		
2018			
Feb. 1	Share Second and Final Call A/c Dr. To Share Capital A/c (Amount due on 60,000 share at ₹ 20 per share on second and final call, as per Directors resolution no… dated…)	12,00,000	12,00,000
Mar. 31	Bank Account Dr. To Share Second & Final Call A/c (Amount received against the final call on 60,000 shares at`20 per share.)	12,00,000	12,00,000