# VIDYA BHAWAN BALIKA VIDYA PITH

## शक्तिउत्थानआश्रमलखीसरायबिहार

## Class 12 commerce   Sub. ACT Date 05.07.2021

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### Accounting for Share Capital

*Question 1:*

What is public company?

*ANSWER:*

A public company is defined as a company that offers a part of its ownership in the form of shares, debentures, bonds, securities to the general public through stock market. There must be atleast seven members to form a public company. As per the section 3 (1) (iv) of Companies Act 1956, public company means a company which:

a) is not a private company,

b) has a minimum paid up capital of Rs 5,00,000 or such higher paid up capital, as may be prescribed,

c) is a private company, being a subsidiary of a company which is not a private company.

A public company should not be mistakenly understood as a publicly-owned company, as the latter is exclusively owned and controlled by the government. A public company issues its share to general public without any restriction on maximum number of persons. A public company can be segmented into two types:

***1. Listed Company***- A Company whose shares are listed and traded in the stock exchange like, Tata Motors, Reliance, etc.

***2. Unlisted Company***- A Company whose shares are not listed in the stock exchange and thereby these shares cannot be traded in the stock exchange.

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*Question 2:*

What is private limited company?

*ANSWER:*

Private limited company is a company that is limited by shares or by guarantee by its members. A private limited company is defined as a company that has a minimum paid up share capital of Rs 1,00,000. As defined by the Section 3 (1) (iii) of Companies Act 1956, private limited company is defined by the following characteristics:

a) It restricts the right to transfer its shares.

b) There must be atleast two and a maximum of 50 members (excluding current and former employees) to form a private company.
c) It cannot invite application from the general public to subscribe its shares, or debentures.
d) It cannot invite or accept deposits from persons other than its members, Directors and their relatives.
Unlike public company, a private company cannot issue its shares or debentures to general public at large as shares of these companies are not traded in the stock exchange, for example, Coca-Cola India Private limited, etc.

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*Question 3:*

When can shares be Forfeited?

*ANSWER:*

When a shareholder fails to pay the allotment money or any subsequent calls, then the company informs the shareholder by giving him/her a proper notice.If even after the notice, the shareholder fails to pay the due money, then the company forfeits the shares allotted to him/her

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*Question 4:*

What is meant by Calls-in-Arrears?

*ANSWER:*

When shareholder fails to pay all the instalments in due time, then company expects the shareholder to pay the outstanding amount in the later stages (or calls). Such amount of money that is being paid at the later stages is termed as Calls-in-Arrears

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*Question 5:*

What do you mean by a listed company?

*ANSWER:*

Those public companies whose shares are listed and can be traded in a recognised stock exchange for public trading like, Tata Motors, Reliance, etc are called Listed Company. These companies are also called Quota Companies. The listing of securities (shares) helps the investor to determine the increase/decrease in value of their investment in a concerned listed company. This provides ample indication to the potential investors about the goodwill of the company and facilitates them to take various investment decisions and also to assess the viability of their investment in a company.

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*Question 6:*

What are the uses of securities premium?

*ANSWER:*

As per the Section 78 of the Companies Act of 1956, the amount of securities premium can be used by the company for the following activities:

1. For paying up un issued shares of the company to be issued to members (shareholders) of the company as fully paid bonus share,
2. For writing off the preliminary expenses of the company,
3. For writing off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company,
4. For paying up the premium that is to be payable on redemption of preference shares or debentures of the company.
5. Further, as per the Section 77A, the securities premium amount can also be utilised by the company to Buy-back its own shares.

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*Question 7:*

What is meant by Calls-in-Advance?

*ANSWER:*

Calls-in-Advance refers to a situation when a shareholder pays the whole amount or a part of the amount of shares before it become due, i.e. before the company calls for it. So, the amount of money that is being paid in advance at the earlier stages is termed as Calls-in-Advance.

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*Question 8:*

Write a brief note on 'Minimum Subscription'.

*ANSWER:*

When shares are issued to the general public, the minimum amount that must be subscribed by the public so that the company can allot shares to the applicants is termed as Minimum Subscription. As per the Company Act of 1956, the Minimum Subscription of share cannot be less than 90% of the issued amount. If the Minimum Subscription is not received, the company cannot allot shares to its applicants and it shall immediately refund the entire application amount received to the public.

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