VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce   Sub. ACT Date 15.10.2020

Teacher name – Ajay Kumar Sharma

Accounting for Share Capital

Topic 1: Introduction

1. Company A joint stock company is an artificial person, created by law, having separate entity distinct from its members with a perpetual succession and a common seal.

2. Characteristics or Features of a Company

(i) Artificial person
(ii) Voluntary association
(iii) Created by law
(iv) Capital divisible into transferable shares
(v) Limited liability
(vi) Perpetual succession
(vii) Common seal
(viii) Separate legal entity from its members
(ix) May sue or be sued

3. Kinds of Companies (i) Private companies According to Section 2 (68) of the Companies Act, 2013, it is a company with minimum paid-up share capital of ^ 1,00,000 or such higher amount as may be prescribed in the Companies Act, 2013 and which by its Articles of Association (a) Restricts the right to transfer its shares, if any. (b) Except in one person company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them. If any share is held jointly by two or more persons, they shall be treated as a single member. (c) Prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is two. The name of a private company ends with the words, 'Private Limited'.

(ii) Public company As per Section 2 (7) of Companies Act, 2013, public company is a company which. (a) is not a private company. (b) has minimum capital of Rs 5 lakh or such higher paid-up capital as may

be prescribed. (c) is a private company, which is a subsidiary of a public company. Minimum requirement of a public company is seven persons. (iii) One person company is a company which has only one person as a member. It is a company incorporated as a private company which has only one member. Rule 3 of the Companies (Incorporation) **Rules, 2014 provides that:**
(a) Only a natural person being an Indian citizen and resident in India can form one person company or can be nominee for the sole member of one person company. (b) One person can form only one 'one person company' or become nominee of one such company.(c) It cannot be formed for charitable purpose. (d) It cannot carry out non-banking financial investment activities including investment in securities of any body corporate. (e) Its paid-up share capital is not more than Rs 50 lakhs. (f) Its average annual turnover should not exceed Rs 2 crores.
4. Share According to Section 2 (84) of the Companies Act, 2013, share means a share in the share capital of a company and includes stock. The capital of company is divided into a number of equal units. Each unit is called a share. A company may divide its capital into share of Rs 100, Rs 50, Rs 10, Rs 5 or even Rs 1 each.
5. Types of Shares (i) Preference shares According to Section 43 (b) of the Companies Act, 2013, preference shares are the shares which carry the following two preferential rights: (a) Preferential right of dividend to be paid as fixed amount or an amount calculated at a fixed rate, which may either be free of or subject to income tax. (b) Return of capital on the winding up of the company before that of equity shares. Holders of preference shares are called preference shareholders. (ii) Equity shares According to Section 43(a) of the Companies Act 2013, equity share is that share which is not a preference share. Equity shares are the most commonly issued class of shares which carry the maximum 'risks and rewards' of the business. The risks being losing part or all of the value of shares if the business incurs losses, the rewards being payment of higher dividends and appreciation in the market value.
6. Share Capital It is that part of the capital of a company, which is represented by the total nominal value of shares, which it has issued.
7. Kinds of Share Capital (i) Authorised share capital According to Section 2(8) of Companies Act, 2013, 'authorised capital' or 'nominal capital' means such capital as is authorised by the memorandum of a company to be the maximum amount of share capital of a company. (ii) Issued capital According to Section 2(50) of the Companies Act, 2013, issued capital means such capital as the company issues from time to time for subscription.

Subscribed capital According to Section 2(86) of the Companies Act, 2013, ‘subscribed capital’ means such part of the capital which is for the time being subscribed by the members of a company. (a) Subscribed and fully paid-up Shares are said to be ‘subscribed and fully paid-up’ when the entire nominal (face) value is called and also paid-up by the shareholders. (b) Subscribed but not fully paid-up Shares are said to be ‘subscribed but not fully paid-up’ when • the company has called-up the entire nominal (face) value of the share but has not received it. • the company has not called-up the entire nominal (face) value of share. A reference has been made two terms • Called-up capital According to Section 2(15) of the Companies Act, 2013, ‘called-up capital’ means such part of the capital, which has been called for payment. Thus, it means the amount of nominal (face) value called-up by the company to be paid by the shareholders towards the share capital. • Paid-up share capital According to Section 2(64) of the Companies Act, 2013, ‘paid-up share capital’ or ‘share capital paid-up’ means the amount that the shareholder has paid and the company has received against the amount ‘called up’ against the shares towards share capital. 8. Reserve Capital It is that portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the company being wound up.

9. Capital Reserve ‘Capital reserve’ is the reserve which is not free for distribution as dividend. It is mandatory to create capital reserve in case of capital profits earned by the company. Reserves which are created out of capital profits are not readily available for distribution as dividend among the shareholders, e.g. premium on issue of shares of debentures, profits on re-issue of shares, profits prior to incorporation, premium on redemption of debentures.

10. Minimum Subscription It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instruments, security cannot be allotted.

11. Presentation of Share Capital in Company’s Balance Sheet As per Schedule III of Companies Act, 2013, share capital is to be disclosed in company’s balance sheet in the following manner

Balance Sheet
as at..............

Particulars	Note No.	Current Year (₹)	Previous Year (₹)
I. **EQUITY AND LIABILITIES**			
Shareholders' Funds			
(a) Share Capital*		....	

*As per Revised Schedule VI, disclosure requirements pertaining to share capital are to be provided in notes to accounts.

Notes to Accounts

Particulars		Amt (₹)
1. **Share Capital**		
Authorised Capital		
... Shares of ₹ ...each		
Issued Capital		
... Shares of ₹ ...each		...
Subscribed Capital		
Subscribed and Fully Paid-up		
... Shares of ₹ ...each		...
Subscribed but not Fully Paid-up		
... Shares of ₹ ... each ... Called-up	...	
(–) *Calls-in-arrears (if any)	(...)	...
(+) Shares Forfeited A/c		...
		...