VIDYA BHAWAN BALIKA VIDYA PITH

शक्तिउत्थानआश्रमलखीसरायबिहार

Class 12 commerce   Sub. ACT Date 29.8.2020

Teacher name – Ajay Kumar Sharma

Accounting for Share Capital

Kinds of a Company Companies can be classified either on the basis of the liability of its members or on the basis of the number of members. On the basis of liability of its members the companies can be classified into the following three categories:

(i) **Companies Limited by Shares:** In this case, the liability of its members is limited to the extent of the nominal value of shares held by them. If a member has paid the full amount of the shares, there is no liability on his part whatsoever may be the debts of the company. He need not pay a single paise from his private property. However, if there is any liability involved, it can be enforced during the existence of the company as well as during the winding-up.

(ii) **Companies Limited by Guarantee:** In this case, the liability of its members is limited to the amount they undertake to contribute in the event of the company being wound up. Thus, the liability of the members will arise only in the event of its winding up.

(iii) **Unlimited Companies:** When there is no limit on the liability of its members, the company is called an unlimited company. When the company's property is not sufficient to pay off its debts, the private property of its members can be used for the purpose. In other words, the creditors can claim their dues from its members. Such companies are not found in India even though permitted by the Companies Act, 1956. On the basis of the number of members, a company can be divided into two categories as follows:

(i) Public Company: A public company means a company which

(a) is not a private company,
(b) has minimum capital of Rs. 5 lakh on such higher paid-up capital may be prescribed, and
(c) is a private company which is a subsidiary of which is not a private company.

(ii)Private Company: A private company is one which has a minimum paid up capital of Rs. 1 Lakh or such higher paid-up capital as may be prescribed by its Articles :
(a) restricts the right to transfer its shares;
(b) limits the number of its members to fifty (excluding its employees);
(c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company.

(d) prohihibits any invitation or acceptance of deposits from person other than its members, directors, and relatives.

Share Capital of a Company A company, being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital. Since the number of shareholders is very very large, a separate capital account cannot be opened for each one of them. Hence, innumerable streams of capital contribution merge their identities in a common capital account called as 'Share Capital Account'.

Categories of Share Capital From accounting point of view the share capital of the company can be classified as follows:

- Authorized Capital: Authorized capital is the amount of share capital which a company is authorized to issue by its Memorandum of Association. The company cannot raise more than the amount of capital as specified in the Memorandum of Association. It is also called Nominal or Registered capital. The authorized capital can be increased or decreased as per the procedure laid down in the Companies Act. It should be noted that the company need not issue the entire authorized capital for public subscription at a time. Depending upon its requirement, it may issue share capital but in any case, it should not be more than the amount of authorized capital.
- Issued Capital: It is that part of the authorized capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum. The authorised capital which is not offered for public subscription is known as 'unissued capital'. Unissued capital may be offered for public subscription at a later date.
- Subscribed Capital: It is that part of the issued capital which has been actually subscribed by the public. When the shares offered for public subscription are subscribed fully by the public the issued capital and subscribed capital would be the same. It may be noted that ultimately, the subscribed capital and issued capital are the same because if the number of share, subscribed is less than what is offered, the company allot only the number of shares for which subscription has been received. In case it is higher than what is offered, the allotment will be equal to the offer. In other words, the fact of over subscription is not reflected in the books.
- Called-up Capital: It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares. For example, if the face value (also called nominal value) of a share allotted is Rs. 10 and the company has called up only Rs. 7 per share, in that scenario, the called up capital is Rs. 7 per share. The remaining Rs. 3 may be collected from its shareholders as and when needed.
- Paid-up Capital: It is that portion of the called up capital which has been actually received from the shareholders. When the share holders have paid all

the call amount, the called-up capital is the same to the paid-up capital. If any of the shareholders has not paid amount on calls, such an amount may be called as 'calls in arrears'. Therefore, paid-up capital is equal to the called-up capital minus call-in-arrears.

- Uncalled Capital: That portion of the subscribed capital which has not yet been called-up. As stated earlier, the company may collect this amount any time when it needs further funds.

- Reserve Capital: A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.