26

COMPANY : AN INTRODUCTION

You may have come across the name of organisation with suffix limited (Ltd.), for example Hindustan Motors Ltd. or Hindustan Aeronautics Ltd. etc. Have you ever thought what does this indicate? Names of organisations with Ltd. indicate that these are forms of oganisations which are different from sole proprietorship or partnership. These are called joint stock companies.

As you know that the sole proprietorship and partnership forms of business organisations could not meet the growing needs of huge capital and managerial skills required for increased scale of business and growing economic activities. The liability of owner/owners of these organisations is unlimited. In order to overcome these problems a new form of business organisation known as 'company' came into existence.

In this lesson, we shall study about company, its features and the methods of raising capital through issue of shares.

OBJECTIVES

After studying this lesson you will be able to :

- state the meaning of company as a form of business organisation;
- describe the characteristics of company;
- describe various types of companies;
- distinguish between public and private company;

- explain various types of shares;
- distinguish between equity shares and preference shares; and
- explain the types of share capital.

Notes

26.1 COMPANY–MEANING AND CHARACTERISTICS

A company is a voluntary association of individuals formed to carry on business to earn profits or for non profit purposes. These persons contribute towards the capital by buying its shares in which it is divided. A company is an association of individuals incorporated as a company possessing a common capital i.e. share capital contributed by the members comprising it for the purpose of employing it in some business to earn profit.

> As per Companies Act 1956, a company is formed and registered under the Companies Act or an existing company registered under any other Act".

Characteristics of a Company

Following are the main characteristics of a company:

- **Artificial Legal Person :** A company is an artficial person as it is created by law. It has almost all the rights and powers of a natural person. It can enter into contract. It can sue in its own name and can be sued.
- **Incorporated Body :** A company must be registered under Companies Act. By virtue of this, it is vested with corporate personality. It has an identity of its own. Although the capital is contributed by its members called shareholders yet the property purchased out of the capital belongs to the company and not to its shareholders.
- **Capital Divisible into Shares :** The capital of the company is divided into shares. A share is an indivisible unit of capital. The face value of a share is generally of a small denomination which may be of ₹ 1, ₹ 2, ₹ 5, ₹ 10, ₹ 25 or ₹ 100 etc.
- **Transferability of Shares :** The shares of the company are easily transferable. The shares can be bought and sold in the stock market.
- **Perpetual Existence :** A company has an independent and separate existence distinct from its shareholders. Changes in its membership due to death, insolvency etc. does not affect its existence and its continuity.

- **Limited Liability :** The liablity of the shareholders of a company is limited to the extent of face value of shares held by them. No shareholder can be called upon to pay more than the face value of the shares held by them. At the time of winding up, if necessary, the shareholders may be asked to pay the unpaid value of shares.

- **Representative Management :** The number of shareholders is so large and scattered that they cannot manage the affairs of the company collectively. Therefore they elect some persons among themselves to manage and administer the company. These elected representatives of shareholders are individually called the 'directors' of the company and collectively the Board of Directors.

- **Common Seal :** A common seal is the official signature of the company. Any document bearing the common seal of the company is legally binding on the company.

Nature of Company

In the beginning, the size of business firms were very small. Sole proprietorship was therefore, the usual form of business organisation. Later on partnership become popular when the size of business firms increased. But sole proprietorship and partnership could not meet the growing demand of big size business because of their limitations such as limited capital, limited managerial ability, unlimited liability and other drawbacks. Therefore, in the present days of business world, it is only the Joint stock company form of business organisation which proved to be useful.

A company is a voluntary association of persons formed for some common purpose, with capital divisible into parts, known as shares and with a limited liability. It is created by law and is known as an artificial person with a perpetual succession and a common seal. It has a separate legal entity.

INTEXT QUESTIONS 26.1

I. Fill in the blanks with correct word/words relating to the characteristics of the company:

(i) A company is created by law. Hence a company is ....

(ii) An indivisible unit of capital of a company is called a ....

(iii) .... is the official signature of the company.

(iv) The shareholders elect some persons of their choice to manage the company's affairs. It explains the .... character of the company.

II. Identify the correct statement by marking (√) and incorrect one by marking (×):

(i) The property of a company belongs to its shareholders.

(ii) The liability of every member of company is restricted to the face value of shares held by them.

(iii) The members of a company cannot transfer their shares freely.

(iv) A company can enter into contract in its own name.

26.2 TYPES OF COMPANIES

Companies can be classified under the following heads:

1. On the basis of formation.
2. On the basis of liability.
3. On the basis of ownership.

1. On the basis of Formation

On the basis of formation companies can be categorised as :

(a) Statutory Company : A company formed by a Special Act of parliament or state legislature is called a Statutory Company. Reserve Bank of India, Industrial Financial Corporation of India, Life Insurance Corporation of India, Delhi State Finance Corporation are some of its examples.

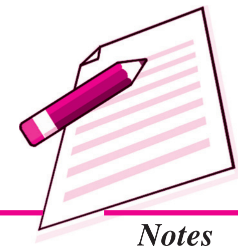
(b) Registered Company : A company formed and registered under the Companies Act, 1956 or earlier Companies Acts is called a Registered Company. The working of such companies is regulated by the provisions of the Companies Act.

2. On the basis of Liability

On the basis of liabilty, companies can be categorised as:

(a) Company Limited by Shares : The liability of the member of such company is limited to the face value of shares held by him/her.

(b) Company Limited by Guarantee : The liabilty of each member of such company is limited to the extent of guarantee undertaken by the member. It may arise in the event of it being wound up.



Notes

(c) **Unlimited Company :** The company not having any limit on the liability of its members, is called an unlimited company. Liability in such a case extends to the personal property of its shareholders. Such companies do not use the word 'limited' at the end of their name.

(d) **Company Under Section 25 :** A company created under section-25 is to promote art, culture and societal aims. Such companies need not use the term limited at the end of their name. Punjab, Haryana, Delhi chambers of commerce, etc. are the examples of such companies.

3. On the basis of Ownership

On the basis of ownership, companies can be catagorised as :

(a) **Private Company :** A private company is one which by its Articles of Association :

- (i) restricts the right of members to transfer its shares;
- (ii) limits the number of its members to fifty (excluding its past and present employees);
- (iii) prohibits any invitation to the public to subscribe to its shares, debentures.
- (iv) The minimum paid up capital of the company is one lakh rupees (₹ 100000).

The minimum number of shareholders in such a company is two and the company has to add the words 'private limited' at the end of its name. Private companies do not involve participation of public in general.

(b) **Public Copmpany :** A company which is not a private company is a public company. Its Articles of association does not contain the above mentioned restrictions.

Main features of a public company are :

- (i) The minimum number of members is seven.
- (ii) There is no restriction on the maximum number of members.
- (iii) It can invite public for subscription to its shares.
- (iv) Its shares are freely tansferable.
- (v) It has to add the word 'Limited' at the end of its name.
- (vi) Its minimum paid up capital is five lakhs rupees (₹ 500,000).

Notes

(c) **Government Company :** A Government company is one in which not less than 51% of its paid up capital is held by (1) Central Government or (2) State Government, or (3) partly by Central Government and partly by State Government. Example of a Government company is Hindustan Machine Tools Limited, (HMT) State Trading Corporation (STC). Minerals and metals trading corporation (MMTC).

(d) **Foreign Company :** A foreign company is one which is incorporated outside India but has a place of business in India, for example Philips, L.G, etc.

(e) **Holding Company and Subsidiary Company :** A holding company is a company which controls another company (called subsidiary company) either by acquiring more than half of the equity shares of another company or by controlling the composition of Baord of Directors of another company or by controlling a holding company which controls another company.

(f) **Listed Company and Unlisted Company :** A company is required to file an application with stock exchange for listing of its securities on a stock exchange. When it qualifies for the admission and continuance of the said securities upon the list of the stock exchange, it is known as listed company. A company whose securities do not appear on the list of the stock exchange is called unlisted company.

Difference between public company and private company :

The major differences between public company and private company are as follows:

Difference between Public Company and Private Company

Basis of Difference	*Public Comapany*	*Private Company*
1. Minimum Number of Members	Minimum mumber of members required to form a public company is **seven.**	Minimun number of members required to form a private company is **two.**
2. Maximum number of Members	No limit on miximum number of members.	Maximum number of members is **fifty.**
3. Name	The word 'Limited' is used at the end of the company's name.	The word 'Private Limited' is used at the end of the company's name.

4.	Commencement of Business	It can start its business only after getting a certificate of commen-cement of business.	It can commence its business as soon as it obtains certificate of Incorporation.
5.	Invitation to Public	It invites public to subscribe to its shares.	It cannot invite public to subscribe to its shares.
6.	Transfer of Shares	There is no restriction on transfer of its shares.	There is restriction on the transfer of its shares.
7.	Number of Directors	It must have at least **three** directors.	It must have at least **two** directors.
8.	Minimum Capital	It must have a minimum paid up capital of five lakh rupees (₹ 500000)	It must have a minimum paid up capital of one lakh rupees (₹ 100000).

Notes

INTEXT QUESTIONS 26.2

I. Fill in the blanks with correct words/figures given in brackets :

(i) The minimum number of members in a public limited company is …………(two, five, seven)

(ii) A Government company is one in which not less than …......…of its paid up capital is held by government. (50%, 51%, 75%)

(iii) The minimum paid up capital of a private limited company is……. (rupees one lakh, rupees five lakh, rupees Ten lakh)

(iv) A foreign company is one which is incorporated ....…….. (In India, Outside India).

II. Name the type of company in the following cases :

(i) A company that imposes restriction on transfer of its shares by its Articles of Association.

(ii) A company with a liability of its members limited to the extent of the amount unpaid on its shares.

(iii) A company formed by a Special Act enacted by parliament or state legislature.

(iv) A company not having any limit on the liability of its members.

(v) A company which controls another company.

26.3 SHARES-MEANING AND ITS KINDS

A joint stock company divides its capital into units of equal denomination. Each unit is called a share. These units i.e. shares are offered for sale to raise capital. This is termed as issuing shares. A person who buys share/shares of the company is called a shareholder and by acquiring share or shares in the company he/she becomes one of the members of the company.

Thus, a share is an indivisible unit of capital. It expresses the proprietory relationship between the company and the shareholder. The denominated value of a share is its face value. The total capital of a company is divided into number of shares.

Kinds of Shares

According to the Companies Act, a company can issue the following types of Shares:

(i) Preference Shares (ii) Equity Shares

(i) Preference Shares : A preference share is one which carries following preferential rights over other type of shares called equity shares in regard to the following :

- Payment of dividend
- Repayment of capital at the time of winding up of the company.

Characteristics of Preference Shares

i. Such type of shareholders have priority in the payment of dividend before any other class of shareholders get their payment of dividend.

ii. The rate of dividend of such shares are pre-determined.

(ii) Equity Shares : All shares which are not preference shares are equity shares. Holders of these shares receive dividend out of the profits of the company after the payment of dividend has been made to the preference shareholders.

Characteristics of Equity Shares

i. Its dividend rate can change from year to year.

ii. Dividend on Equity shares is paid after the payment of dividend to preference shareholders.

iii. In the event of winding up of company the repayment of capital to equity shareholder is made at last.

iv. They are real owners of the company.

Equity shareholders have the right to elect directors of the company. Equity shares are the permanent source of capital.

Difference between Equity Shares and Preference Shares

Basis of Difference	Equity Shares	Preference Shares
1. Rate of Dividend	Rate of dividend on these shares is not fixed and depends upon the decision of the Board of directors.	Rate of dividend on these shares is fixed.
2. Payment of Dividend	Dividend on these shares is paid after payment of dividend to preference shareholders.	Dividend on these shares is paid before payment of dividend to equity shareholders.
3. Refund of Share Capital on Winding up of the Company	On winding up of the company equity share holders get refund of capital only after preference share holders have been paid off.	Preference shareholders have a preference over equity shareholders in regard to refund of capital in case of winding up of the company.
4. Voting Rights	Shareholders have voting rights in all matters.	Shareholders can vote only in special circumstances.
5. Redemption	Shares cannot be redeemed during the life of the company.	Shares can be redeemed as per terms of issue.

Notes

Illustration 1

Alok Ltd. issued 12000 share of ₹ 10 each. The amount payable on shares was ₹ 2 on application, ₹ 4 on allotment and ₹ 4 on First & Final Call. All the shares were subscribed & all calls were received on due dates.

Pass the necessary Journal entries in the books of the company.

Notes

Solution :

Journal

Date	Particulars	L.F.	₹ (Dr.)	₹ (Cr.)
	Bank A/c Dr. To Share Application A/c (Being application money received)		24,000	 24,000
	Share Application A/c Dr. To Share Capital A/c (Being application money transferred to share capital A/c)		24,000	 24,000
	Share Allotment A/c Dr. To Share Capital A/c (Being allotment money due)		48,000	 48,000
	Bank A/c Dr. To Share Allotment A/c (Being allotment momey received)		48,000	 48,000
	Share First & Final Call A/c Dr. To Share Capital A/c (Being First & Final Call money due)		48,000	 48,000
	Bank A/c Dr. To Share First & Final Call A/c (Being First & Final Call money received)		48,000	 48,000

INTEXT QUESTIONS 26.3

Fill in the blanks with suitable word/words.

i. In a company, main source of finance is ....

ii. A .... is an indivisible unit of capital

iii. .... have the right to elect directors of the company

iv. .... have the preferential right as the refund of capital in case of winding up of company over ....

26.4 SHARE CAPITAL–MEANING AND ITS TYPES

Notes

A joint stock company estimates its future capital requirements. The amount of the capital is mentioned in the capital clause of the Memorandum of Association registered with the Registrar of the Companies. Total capital is divided into a number of small indivisible units of fixed amount and each such unit is called a share. A share is nothing but a part in the share capital of the company. As the total capital of the company is divided into shares, the capital of the company is called share capital. Share capital of the company is divided into following categories:

- **Nominal/Authorised/Registered Capital :** It refers to the maximum amount of share capital which a company is authorised to issue as per its Memorandum of Association.

- **Issued Capital :** Issued capital is that part of the authorised capital which the company offers to public, that may include vendors, for subscription or purchase. A company may issue its entire authorised capital or may issue it in parts from time to time as per the needs of the company. It means and includes the nominal value of shares issued by the company for (a) cash, and (b) consideration other than cash to (i) promoters of a company, and (ii) others.

- **Subscribed Capital :** It is that part of issued capital which is taken up or subscribed by those who are offered for subscription. Company may receive application for equal to, more than or less than shares issued. This capital can be equal to or less than the issued capital. The portion of nominal value of the issued share capital which is actually paid (or subscribed) by the shareholders forms part of the subscribed capital.

- **Called up Capital :** It is that part of the issued/subscribed capital which is called up by company to pay on the allotted shares and is to be paid by the shareholders. The portion of the issue price of the shares which a company has demanded or called from shareholders is known as called up capital

- **Uncalled Capital :** Uncalled Capital is that portion of the issued/subscribed capital that is not called up by the company on the shares allotted.

- **Paid up Capital :** It is the portion of called up capital which has been paid by the shareholders, to calculate the paid up capital, the amount of instalments in arrears is deducted from the called up capital.

- **Unpaid Capital :** That part of the called up capital which has been called but has not been paid by the shareholders is called unpaid capital. *i.e.* calls-in-arrears.

- **Reserve Capital :** Company may keep some part of its share capital uncalled and keep in reserve to be called only in case of need at the time of its winding up. This is known as Reserve capital. For this, a special resolution will have to be passed by the company. Thus, it is that portion of the uncalled capital which a company has decided to call only in case of liquidation of the company.

INTEXT QUESTIONS 26.4

I. Fill in the blanks with suitable word/words :

(i) Share capital is the amount of capital raised through …………..

(ii) Capital stated in the capital clause of the Memorandum of Association is called …………..

(iii) That part of the authourised capital which is offered to public for subscription is called …………..

(iv) That part of the uncalled capital which is kept in reserve to be called only on winding up of the company is termed as ………..

II. Write 'correct' for correct statement and 'wrong' for incorrect statement for the following :

(i) Subscribed capital is either equal to or less than issued capital

(ii) Issued capital is stated in the capital clause of Memorandum of Association

(iii) Liability of a shareholder is limited upto the face value of the share

(iv) Reserve capital can be called by the company at any time.

26.5 PRIVATE PLACEMENT OF SHARES

According to **Section 81 (1A)** of Companies Act, 1956 private placement of shares implies issue and allotment of shares to a selected group of persons.

A private company limited by shares is prohibited by the Companies Act from issue of shares for public subscription. It also need not file a statement in lieu of prospectus. Its shares are issued privately to a small number of persons known as promoters or related to them by family connections. This is an easy way of raising capital which involves less legal formalities. **However, a public company can also raise the capital by placing the shares privately and without inviting the public for subscription.** Such Private Placement requires special resolution to be passed by the company or consent of Central Government. An underwriter or broker finds clients who wish to buy shares. Since, no public offer is made, there is no need to issue prospectus. Statement in lieu of prospectus should be filed with registrar of companies in such a case.

Accounting treatment of private placement is similar to the public subscription.

Salient Features of Private Placement are as follows :

i. The company needs to prepare a draft prospectus known as "Statement in lieu of Prospectus" and must file with the registrar atleast 3 days before the allotment of shares or debentures.

ii. Private Placement of shares and debentures is carried only in the case where the company does not want to raise capital through public subscription.

iii. In the case of private placement of shares the allotees will not sell their shares for a minimum period of 3 years from the date of allotment. This period is known as **lock-in period**.

Illustration 2 : (Under Subscription)

Sukriti Ltd. was registered with an authorised capital of ₹ 10,00,000 divided into shares of ₹ 10 each. Company issued 60,000 shares to public and amount was payable as follows : ₹ 3 on application; ₹ 2 on allotment & ₹ 5 on call

Application for 55000 shares were received, which were allotted. Full amount received on due dates. Pass Journal enteries in the Books of Sukriti Ltd.

Solution :

Journal

Date	*Particulars*	*L.F.*	*₹ (Dr.)*	*₹ (Cr.)*
	Bank A/c Dr. To Share Application A/c (Being Application money received)		1,65,000	 1,65,000

Notes

	Share Application A/c Dr. To Share Capital A/c (Being Application money transferred to share Capital A/c)		1,65,000	1,65,000
	Share Allotment A/c Dr. To Share Capital A/c (Being Allotment money due)		1,10,000	1,10,000
	Bank A/c Dr. To Share Allotment A/c (Allotment money received)		1,10,000	1,10,000
	Share Call A/c Dr. To Share Capital A/c (Share Call money due)		2,75,000	2,75,000
	Bank A/c Dr. To Share Call A/c (Being Call money received)		2,75,000	2,75,000

Illustration 3 : (Over Subscription)

Bhiwani Ltd. issued a prospectus for inviting application from the public for 10,000 equity shares of ₹ 10 each. The amounts were payable as follows:

₹ 2 on Application, ₹ 3 on Allotment & the balance as and when called.

Applications were received for 12,000 shares & the allotment was made as follows: Full Allotment on applications for 8,000 shares; 2,000 shares on applications for 3,000 shares. No allotment was made on applications for 1,000 shares. Pass Journal entries in the books of the company assuming that all allotment money was received and the call was not made.

Journal

Date	*Particulars*	*L.F.*	*₹ (Dr.)*	*₹ (Cr.)*
	Bank A/c Dr. To Share Application A/c (Being application money received for 12000 @ ₹ 2)		24,000	24,000

Notes

	Share Application A/c Dr.		24,000	
	To Share Capital A/c			20,000
	To Share Allotment A/c			2,000
	To Bank A/c			2,000
	(Being transfer of application Money to Capital A/c on 10000 shares alloted & refund on application money on 1000 shares received)			
	Share Allotment A/c Dr.		30,000	
	To Share Capital A/c			30,000
	(Being the amount on allotment due)			
	Bank A/c Dr.		28,000	
	To Share Allotment A/c			28,000
	(Being the receipts of allotment money due)			

INTEXT QUESTIONS 26.5

State whether the following statements are true or false :

i. A joint stock company is an artificial person created by law.

ii. The liability of the share holders of the company is unlimited.

iii. Registration is not compulsory in the case of a Joint Stock Company.

iv. Preference shareholders get dividend after the equity shareholders.

26.6 ISSUE OF SHARES FOR CONSIDERATION OTHER THAN CASH

The company purchases certain assets from vendors (sellers or suppliers) on credit. Instead of making payment to vendors in cash, the company issues them certain agreed number of shares at the agreed rate as a consideration (payment in exchange) of assets purchased. Shares may be issued to vendors at par, at premium or at discount. The requisite journal entry to be passed is as under:

On Purchasing the Assets

Particular Asset A/c	Dr.	
or Sundry Asset A/c	Dr.	(If name of assets is not given)
To Vendors A/c		
(Being purchase of assets on credit)		

Issue of Shares to Vendors

At Par

Vendor A/c	Dr.
To Share Capital A/c	

(Being issue of __ number of shares to vendors @ ₹ - Per share)

At Premium

Vendor A/c	Dr.
To Share Capital A/c	
To Securities Premium Reserve	

$$\text{No. of Shares} = \frac{\textit{Amount Due}}{\textit{Face Value} + \text{Premium}}$$

At Discount

Vendor A/c	Dr.
Discount on issue of Shares A/c	Dr.
To Share Capital A/c	

$$\text{No. of Shares} = \frac{\textit{Amount Due}}{\textit{Face Value} - \textit{Discount}}$$

Illustration 4 : (Issue of Shares for Consideration other than Cash)

The Hindustan Limited was registered with a share capital of ₹ 5,00,000 in ₹100 shares. Pass Journal Entries in the following cases :

i. The company purchased the business of Ram & Company for ₹ 1,50,000 payable ₹ 20,000 in cash and the balance in equity shares of ₹ 100.

ii. The company purchased Building and issued 2,000 shares of ₹ 100 each as purchase consideration.

Solution :

Journal

Date	*Particulars*		*L.F.*	*₹ (Dr.)*	*₹ (Cr.)*
(i)	Sundry Assets A/c	Dr.		1,50,000	
	To Ram & Company A/c				1,50,000
	(Being purchase of the business of Ram & Company)				
	Ram & Company A/c	Dr.		1,50,000	
	To Bank A/c				20,000
	To Equity Share Capital A/c				1,30,000
	(Being payment to Ram & Company by issue of 1,300 shares of ₹ 100 each and ₹ 20,000 in cash)				
(ii)	Building A/c	Dr.		2,00,000	
	To Vendor's A/c				2,00,000
	(Being purchase of Building on credit)				
	Vendor's A/c	Dr.		2,00,000	
	To Share Capital A/c				2,00,000
	(Being issue of 2000 shares of ₹ 100 each to vendors)				

Illustration 5

Simran Ltd. purchased assets of Charu Ltd. for ₹ 99,000. The purchase consideration was agreed to be paid in terms of equity shares of Simran Ltd. You are required to pass necessary Journal Entries in the following cases :

i. Shares issued at par of ₹ 10 each.

ii. Shares issued at premium of 10%.

iii. Shares issued at discount of 10%.

Notes

Solution :

Journal

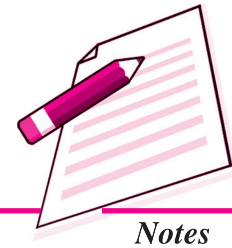
Date	*Particulars*		*L.F.*	*₹ (Dr.)*	*₹ (Cr.)*
	Sundry Assets A/c	Dr.		99,000	
	To Charu Ltd. A/c				99,000
	(Being the purchase of assets from Charu Ltd.)				
(i)	*At Par*				
	Charu Ltd. A/c	Dr.		99,000	
	To Equity Share Capital A/c				99,000
	(Being purchase consideration paid by issue of 9,900 shares at ₹ 10 each)				
(ii)	*At Premium 10%*				
	Charu Ltd. A/c	Dr.		99,000	
	To Equity Share Capital A/c				90,000
	To Securities Premium A/c				9,000
	(Being 9,000 shares issued at ₹ 10 to each at 10% premium to Charu Ltd.)				
(iii)	*At Discount 10%*				
	Charu Ltd. A/c	Dr.		99,000	
	Discount on issue of Equity Shares A/c	Dr.		11,000	
	To Equity Share Capital				1,10,000
	(Being 11000 Equity shares issued of ₹ 10 each at 10% discount to Charu Ltd.)				

Working Notes

i. No. of Shares $= \dfrac{99{,}000}{10} = 9{,}900$ shares

ii. No. of shares $= \dfrac{99{,}000}{11} = 9{,}000$ shares

iii. No. of shares $= \dfrac{99{,}000}{9} = 11{,}000$ shares



Notes

26.7 ISSUE OF SHARES TO PROMOTERS

Promoters are those persons, firms or companies, who promote the company. They are entrusted with the work of the formation of the company. Promoters are paid remuneration for their services. This remuneration can be paid in the form of shares also. In such cases companies issue shares to their promoters without payment. The journal entry to be passed is as under :

Goodwill A/c Dr.

To Share Capital A/c

Goodwill A/c is debited on the assumption that promoter's function has resulted in forming the company into profitable unit.

Alternatively, conservative treatment is as under :

Preliminary Exp. / Incorporation Costs A/c Dr.

To Share Capital A/c

Incorporation costs A/c should be written off against P/L Account as early as possible.

Illustration 6 : (Issue of Shares for consideration other than Cash)

ABC Ltd. was registered with a nominal capital of ₹ 10,00,000 divided into shares of ₹ 10 each. The company purchased Machinery for ₹ 27,000 from XYZ Co. Ltd and issued fully paid equity shares of ₹ 10 each in satisfaction of the claim. Shares of ₹ 10,000 were issued at par to the promoters for their services.

Give Journal entries of the above transactions if to XYZ shares were issued (i) at par (ii) at 20% permium & (iii) at 10% discount.

Solution :

Journal

Date	*Particulars*	*L.F.*	*₹ (Dr.)*	*₹ (Cr.)*
A.	**For Purchase of Machinery :**			
	Machinery A/c Dr.		27,000	
	To XYZ Co. Ltd. A/c			27,000
	(Being Machinery purchased from XYZ Co. Ltd)			

Notes

(i)	**If Shares are issued at Par :**			
	XYZ Co. Ltd A/c Dr.		27,000	
	To Share Capital A/c			27,000
	(Being 2700 shares of ₹ 10 each issued to XYZ Co. Ltd.)			
(ii)	**If Shares are issued at Premium :**			
	XYZ Ltd. A/c (2250 x 12) Dr.		27,000	
	To Share Capital A/c (2250 x 10)			22,500
	To Securities Premium Reserve(2250 x 2)			4,500
	(Being 2250 shares of ₹ 10 each issues at 20% premium)			
	No. of Shares = 27000 ÷ 12 = 2250			
(iii)	**If Shares are issued at Discount :**			
	XYZ Co. Ltd A/c (3000 x 9) Dr.		27,000	
	Discount on Issue of Shares A/c (3000 x 1) Dr.		3,000	
	To Share Capital A/c (3000 x 10)			30,000
	(Being 3,000 Shares of ₹ 10 each issued at 10% Discount)			
	Hint : No. of Shares = 27,000 9 = 3,000			
B.	**For Issue of Shares to the Promoters :**			
	Goodwill A/c Dr.		10,000	
	To Share Capital A/c			10,000
	(Being Shares issued at par to the promoters)			

INTEXT QUESTIONS 26.6

Choose the correct option :

i. When shares are issued to the vendors at par as consideration of assets purchased, the total value of shares issued will be:

   a) More than the purchase consideration.

   b) Less than the purchase consideration.

   c) Equal to the purchase considerations.

   d) None of the above.

Notes

ii. When shares are issued to the vendors at premiums as consideration of assets purchased, the total value of shares issued will be:

a) Equal to the purchase consideration.

b) More than the purchase considerations

c) Less than the purchase considerations.

d) None of the above

iii. When shares are issued to the vendors at discount as consideration of assets purchased, the total value of shares issued will be:

a) Less than the purchase considerations.

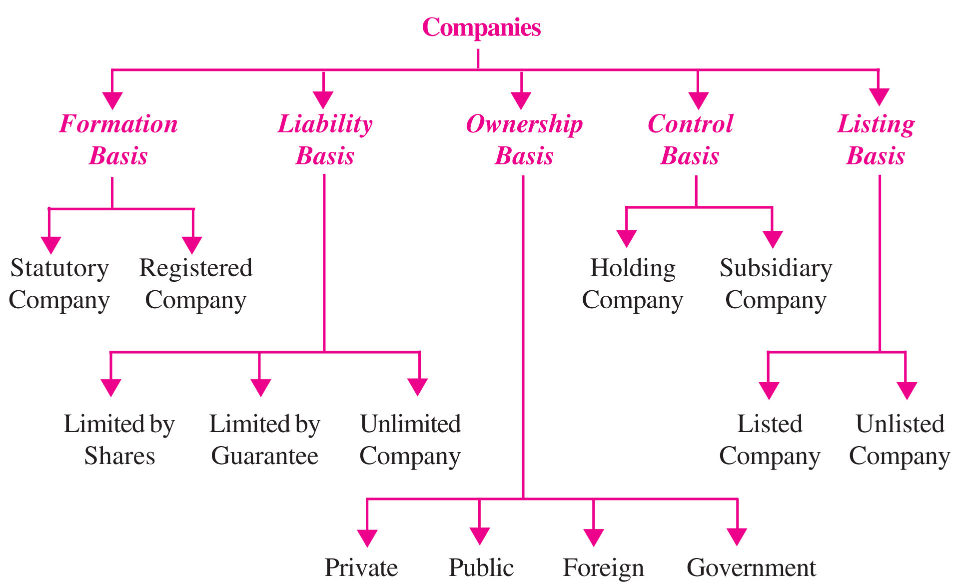
b) More than purchase considerations.

c) Equal to purchase considerations.

d) None of the above

WHAT YOU HAVE LEARNT

- Company is an association of persons who contribute to its capital and is registered under Companies Act, 1956
- Characteristics of a company are : Seperate Legal Entity; Incorporated Body; Perpetual Existence; Limited Liability; Common Seal.
- Types of companies are:



- Private companies are companies which by their Articles of Association
  - (i) Restrict the maximum number of members to fifty
  - (ii) Restrict the transferability of shares
  - (iii) Put restriction on inviting public to buy its shares
  - (iv) Minimum paid up capital of such company is one Lakh rupees.
- Private company must add the words 'Private Limited' as a suffix to its name.
- Companies that are not private companies are public companies.
- Company raises its capital through issue of shares.
- Shares are of two types : Equity shares and preference shares. Preference shares carry preference over other shares with regard to payment of dividend and refund of capital in case of its winding up. Shares other than preference shares are called 'equity shares'.
- Share Capital : Authorised/Nominal; Issued; Subscribed; Called up; Uncalled Paid up; Unpaid; Reserve
- Share : Share means to possess a right on specific amount of Share Capital.
- Types of Shares : Equity Shares and Preference Shares shares may be issued to vendors as purchase considerations for purchase of assets. Such shares can be issued at par, at premium or at discount.
- When shares are issued to a selected lot of people without issuing of prospectus it is called private placement of shares.

TERMINAL EXERCISE

1. Define company. Explain in brief its characteristics.
2. What are preference shares? Distinguish between equity share and preference shares.
3. List the various restrictions on a private company. Distinguish between a public company and a private company.
4. What is share capital? Explain different types of share capital.

5. Explain different types of companies.
6. What is meant by a Joint Stock Company?
7. Explain the characteristics of a company.
8. State the characteristics of equity shares.
9. What is meant by private placement of shares?
10. Describe the features of private placement of shares.
11. Distinguish between equity shares and preference shares.
12. Give the meaning of issue of shares to vendors.
13. What is meant by issue of shares to promoters?

ANSWERS TO INTEXT QUESTIONS

26.1 I. (i) an artificial person (ii) share
(iii) common seal (iv) representative

II. (i) × (ii) √ (iii) × (iv) √

26.2 I. (i) Seven (ii) 51% (iii) one Lakh (iv) outside India

II. (i) private (ii) company limited by shares
(iii) Statutory company (iv) unlimited liability company
(v) Holding company

26.3 (i) share capital (ii) share (iii) Equity shareholders
(iv) Preference shareholders, Equity shareholders

26.4 I. (i) issue of shares (ii) Authorised capital
(iii) Issued capital (iv) Reserve capital

II. (i) Correct (ii) Wrong (iii) Correct (iv) Wrong

26.5 (i) True (ii) False (iii) False (iv) False

26.6 (i) c (ii) c (iii) b

Notes

ACTIVITY

Your father is a shareholder of a company. Every year he receives report from the company. This report is called annual report of the company. After going through the report for a year, find out the following:

1. Name of the company with suffix Ltd. or Private Ltd.
2. Mention the amount of capital :
   - (a) Authorised ....
   - (b) Issued ....
   - (c) Called up ....
   - (d) Call in Arrears ....
   - (e) Reserve capital ....