

UNIT-1

Q. Issue of shares:–

Shares are said to have been issued for cash when the company receives cash against shares.

Issue price is payable either:

- i. In lump sum amount along with the application money.
- ii. Or in instalments at different stages (application money, allotment money and call money)

Q. A company may issue shares:–

At par

It means shares have been issued at their face value.

At premium

- It means shares have been issued at a value that is higher than the face value of the share, i.e. issue price is more than the face value.
- The amount of premium received is credited to securities premium account.
- Securities premium is a capital receipt and not a free reserve, hence it can't be used to pay dividend.
- Securities premium account is shown in liabilities side of balance sheet under the head reserves and surplus.

At discount

- It means shares have been issued at a value that is less than the face value of the share, i.e. issued price is lower than face value.
- The amount of discount allowed to shareholder is debited to discount on issue of shares.
- It is a loss of the company.
- Discount on issue of shares is shown in the asset side of balance sheet under the head 'Miscellaneous Expenditure'.
- It is a fictitious asset.

Q. Under subscription of shares:–

The shares are said to be undersubscribed if the number of shares applied for is less than the number of shares issued to the public for subscription.

In case of under subscription, accounting entries are made on the basis of shares applied for, since allotment is made in full to all the applicants.

Q. Over subscription of shares:–

The shares are said to be oversubscribed if the number of shares applied is more than the number of shares issued to the public for subscription.

In case of oversubscription, the company can't allot share to all the applicants in full.

Q. Calls –in-advance:–

- i. When a company accepts money from the allotments against the calls not yet made such amount is known as calls-in-advance.
- ii. It does not form a part of company's share capital and thus dividend is not payable on such amount.
- iii. It is shown in the liability side of the balance sheet, as the amount received in not yet due, under the main head of current liabilities.
- iv. Interest on calls-in-advance is 12% p.a.

Q. Calls-in-arrear:–

- i. The amount which is not paid by defaulting shareholders due on allotment or any calls according to the terms is called calls-in-arrear.
- ii. It shows debit balance.
- iii. Interest on calls-in-arrear is 10% p.a.
- iv. The calls in arrear is deducted from called up capital in the liabilities side of balance sheet. The amount left is called paid up capital.

Q. Surrender of shares:–

- i. It means the voluntary return of shares to the company. When a shareholder is not in a position to pay the calls on the shares, he may voluntarily return the shares to the company. The effect of surrender of shares is the same as that of forfeiture of shares.
- ii. It is possible when there is sufficient provision in the articles of association.

Q. Forfeiture of shares:–

- i. Forfeiture of share means depriving a shareholder of his rights to the shares. In other words cancellation of share capital and compulsory termination of membership of a shareholder for non-payment of any instalment is called forfeiture of shares. When a shareholder fails to pay the amount due on allotment or/ and on any call within the specified date or even after giving a notice of 14 days, the Board of Directors may profit such shares according to the provisions of Articles of Association by passing a resolution to that effect.

- ii. On forfeiture, the shares are cancelled and to that extent the share capital is reduced. The amount already paid by the shareholders is no/ returned to him.
- iii. Unless the forfeited shares are reissued the balance on the forfeited shares account is added to the paid-up capital on the liabilities side of the balance sheet.

Q. Reissue of forfeited shares:–

- i. Forfeited shares become the property of the company and the Board of Directors have the authority to re-issue at any price, i.e. at par, at premium or at discount. However when the shares are re-issued at discount, the amount of discount allowed on the reissue of forfeited share must not to exceed the amount forfeited on such shares.
- ii. The main aim is to avoid any kind of loss on account of reissue.
- iii. After the reissue of forfeited shares the balance of shares forfeited account is a capital profit and shall be transferred to capital reserve account.

Q. Capital reserve:-

Any reserve which is created out of capital profits and not readily available for distribution as dividend among the shareholders is called capital reserve. E.g. Profits prior to incorporation, premium on issue of shares or debentures etc.

Q. Prospectus:–

A prospectus is a document which invites the public to provide funds to the company by way of deposits and subscription to the shares and debentures. It is issued by the public company only.

Q. Application money:–

The amount received by the company from the applicants of shares is along with application form is called application money.

It should not be less than 5% of the nominal value of shares.

Q. Allotment money:–

The money to be paid by the shareholders on the allotment of shares is called allotment money.

Q. Call money:–

The balance left after application and allotment money is called call money. The call money may be called in lump sum or in one or two instalments.

Q. Promoters:-

Promoters are the person who conceive the idea of the company & translate it into a working reality. Promoters constitute the association of individuals that makes the plan, arranges the basic infrastructure, incurs the initial expenses & manages the affairs of the company. A heavy responsibility rests on the promoter & he undertakes a lot of risk because if the company does not come into being, all his effort & expense go to serve no purpose. “A promoter is one who undertakes to form a company with reference to a given project & to get it going & takes the necessary steps to accomplish that purpose.

Q. MOA:- The Memorandum of Association (MOA) is a principal documents in relation to a company without which a company cannot be brought into existence. The company being an artificial person, devoid of the capacity to think can do only those acts which it is allowed to do by its memorandum. It contains the fundamental conditions upon which alone the company is allowed to be incorporated hence which cannot be violated. Any act which is beyond the powers of the company as set out in its memorandum is void. Memorandum of association of a company is one on the most important documents required to be filed with the register of companies at the time of formation of a company. It refers to that document which defines the principal condition upon which the company is incorporated.

Q.AOA The Articles of Association embodies rules regulations & by laws for internal administration & management of the company. According to section 5 “articles of a company shall contain the regulation for management of the company.” In other words the articles association of a company & its bye laws or rules & regulation that govern the management of its internal affairs with regard to conduct of business. Section 2 (5) defines articles thus “articles” means the articles of association of a company as originally framed or as altered from time to time in pursuance of any previous company law or of this act. The articles play a role subsidiary to the memorandum of association (MOA). The articles play a role subsidiary to the memorandum of association. The memorandum

defines the area beyond which the actions of the company cannot go inside that area the shareholders may make such regulation for their own management as they think fit in the form of articles of association (Lord Cairns) where there is any ambiguity is silent on any point the articles may serve to explain the memorandum.