

*Rajeev's*  
*Sahitya*  
*Bhawan*

# SPECIALISED ACCOUNTING



**Dr. S.K. Singh**



visit us at : [www.sahityabhawan.com](http://www.sahityabhawan.com)

---

---

# **SPECIALISED ACCOUNTING**

---

---

**(B. Com. IInd Year)**

**Book Code : 9623**

**Price : ₹ 375.00**

**ISBN : 978-93-82883-88-3**

# SPECIALISED ACCOUNTING

---

**Dr. S. K. Singh**

M. Com., Ph. D.

Retd. University Professor,

Head and Dean and Financial Advisor

**B. N. Mandal University, Madhepura**

(Recipient of Rashtriya Gaurav Award,  
Asian Admirable Achiever, Also included  
in Asia/Pacific Who's Who (2012))

---



## SBPD PUBLICATIONS

© Author & Publisher

Latest Edition

Printing and Publishing rights with the Publisher.

The material in this publication is copyrighted. No part of this book may be reproduced or copied in any form or by any means without the written permission of the author/publisher. Breach of this condition is liable for legal action.

Book Code : 9623

ISBN : 978-93-82883-88-3

“The reading of all good books is like a conversation with the finest man.”

Price : ₹ 375.00 Only

**Note:** Due care and diligence has been taken while editing and printing the book, neither the author nor the publisher of the book hold any responsibility for any mistake that may have inadvertently crept in.

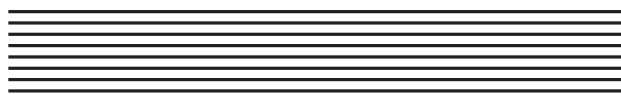
---

**S B P D Publications**

3/20B, Agra-Mathura Bye Pass Road, Near Tulsi Cinema, Agra-282 002

Ph. : (0562) 2854327, 2527707, 3257009, 3208010, 4042977 Mob. : 09358177555, 09412258082-85

Fax : (0562) 2858183; e-mail : sbpd.publications@gmail.com; website : www.sahityabhawan.com



# Contents

<i>Chapter</i>	<i>Page No.</i>
1. Issue, Forfeiture and Re-issue of Shares .....	1—89
2. Redemption of Preference Shares .....	90—122
3. Issue of Debentures .....	123—152
4. Redemption of Debentures .....	153—188
5. Final Accounts of Companies .....	189—238
6. Disposal of Profits (Including Dividend) .....	239—268
7. Accounting for Amalgamation of Companies as per AS-14 .....	269—369
8. Accounting for Reconstruction of a Company .....	370—420
9. Liquidation of Company (Voluntary Liquidation Only) .....	421—469
10. Holding and Subsidiary Companies : Preparation of Consolidated Balance Sheet .....	470—556
11. Profit or Loss Prior to and After Incorporation .....	557—575
12. Issue of Bonus Shares .....	576—584
13. Accounts of Banking Companies .....	585—648
14. Accounting of Non-Trading Organisations/Institutions .....	649—707
15. Insolvency Accounts .....	708—760
● Examination Paper	

# 1

## ISSUE, FORFEITURE AND REISSUE OF SHARES

### Meaning and Definition of a Company

A company is a voluntary association of persons formed for some common purpose having a capital divided into transferable shares. It is created by law and effected by law. A company may be defined as *an artificial person created by law, having a perpetual succession and a common seal*.

In the words of *L. H. Haney*, "A company is an artificial person created by law having a separate entity with a perpetual succession and a common seal. It is a voluntary association of individuals for profits, having a capital divided into transferable shares, ownership of which is the condition of membership."

According to *Section 2(20) of Companies Act, 2013*, "*Company means a company incorporated under this Act or under any previous Company Law*".

### Essential Features of a Company

Following are the essential features (characteristics) of a company :

1. **Association of Persons** : A company is an association of persons, usually for profit.
2. **Artificial Person** : It is an artificial person created by law.
3. **Separate Legal Entity** : It has a separate legal entity from its members. So it can sue and can be sued in its own name. It can own or dispose off property in its own name.
4. **Limited Liability** : It has limited liability. Liability of members is limited to the extent of the face value of shares held by them.
5. **Perpetual Succession** : A company, being an artificial person never dies. It has continuous existence. It is a *creation of law*. So, its existence can be terminated only by law. It is not affected by death of its members.
6. **Common Seal** : It has a common seal which acts as official signature of the company. Any document without common seal of the company is not binding on the company.
7. **Transferability of Shares** : The capital of a company is divided into shares. The shares of a company are freely transferable except in case of a private company.
8. **Separation of Ownership and Management** : In companies there is a divorce between ownership and management. It is owned by members (*i.e.*, shareholders) but it is managed by the Board of Directors who are elected by shareholders. Members of a company can not directly participate in management of the business of the company.

### Classification (or Types) of Companies

Joint stock companies may be classified as under :

#### 1. On the basis of Formation

On the basis of formation, there are three kinds of companies :

(i) Chartered Companies, (ii) Statutory Companies, (iii) Registered Companies.

(i) **Chartered Companies** : Those companies which are incorporated under a special Charter by the King or Queen or Sovereign such as East India Company or the Bank of England.



Such companies are rarely formed now-a-days as trading companies. It is not possible to have such companies in India now.

(ii) **Statutory Companies** : A company established by a specific Act of the Legislature or Parliament is called a statutory company. Examples of statutory companies are : The Reserve Bank of India, The Industrial Finance Corporation of India, The Life Insurance Corporation of India, etc.

(iii) **Registered Companies** : Companies which are formed and registered under the Companies Act, are known as registered companies. Of all the companies, the registered ones are the most common.

## 2. On the basis of Liability of Members

From the point of view of liability of members there are three kinds of companies :

(i) Unlimited Company, (ii) Company Limited by Guarantee, (iii) Company Limited by Shares.

(i) **Unlimited Company** : "Unlimited Company" means a Company having any limit on the liability of its members. [Sec. 2(92)]. An unlimited company is very much like a partnership firm. Such companies are now extremely rare.

(ii) **Company Limited by Guarantee** : The members of a company limited by guarantee have limited liability. Here the liability of members is limited by the Memorandum to the such amount which they undertake to pay in the event of the company's winding-up. In fact, companies limited by guarantee are formed for the promotion of art, science, culture, religion, sports, literature, or for any other similar purpose. [Sec. 2(21)]

(iii) **Company Limited by Shares** : "Company limited by shares" means a Company having the liability of its members limited by Memorandum to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. The great majority of companies now-a-days are of this type. [Sec. 2(22)]

## 3. On the basis of Public Involvement (Investment)

On the basis of public involvement (or public investment), companies may be divided into two categories :

(i) Private Company and (ii) Public Company.

(i) **Private Company** : A Private Company' means a company which has minimum paid-up share capital of ₹ 1,00,000 or such higher paid-up share capital as may be prescribed and which by its Articles :

(a) restricts the right to transfer its shares; (b) limits the number of its members to *two hundred* (exclusive of past and present employees); (c) prohibits any invitation to the public to subscribe for any shares in, or debentures of, the company. [Sec. 2(68)]

It needs to be mentioned that there should be at least *two* persons to form a private company. Except in case of one person company, the number of members cannot exceed two hundred.

A private company is required to add the words 'Private Limited' (or Pvt. Ltd.) at the end of its name.

(ii) **Public Company** : A public company means a company which (a) is not a private company, (b) has a minimum paid-up capital of ₹ 5,00,000 or such higher paid-up capital as may be prescribed, (c) is a private company, which is a subsidiary of a company, which is not a private company. [Sec. 2(71)]

A public company may be either a listed company or an unlisted company.

**Listed Company** : A listed company is that public company whose securities are listed in any recognised stock exchange of India. This means that its securities (shares and debentures) are traded in the stock exchanges. [Sec. 2(52)]

**Unlisted Company :** An unlisted company is that public company whose securities are not listed in any recognised stock exchange in India. Thus, the shares or other securities are not traded in the stock exchanges.

A public company may consist of any number of persons (members) but not less than seven. It can offer shares to the public for subscription. Its shares are freely transferable. The name of every public limited company must end with the word '*Limited*' (or Ltd.).

(iii) **One Person Company :** "One Person Company" means a company which has only one person as a member. [Sec. 2(62)]

#### 4. On the basis of Ownership

On the basis of ownership companies may be classified into the following two categories :

(a) **Government Company :** A government company is a company in which at least 51% of the share capital is held by the Central Government or by any State Government or Governments or jointly by the Central Government and one or more State Governments.

[Sec. 2(45)]

(b) **Non-Government Company :** The companies which are not government companies are called non-government companies. All the companies (whether public limited company or private limited company) working in the private sector are non-government companies.

#### 5. On the basis of Nationality

On the basis of nationality, companies may be divided into two categories : (a) Indian Companies, (b) Foreign Companies.

(a) **Indian Companies :** Those companies which have been incorporated in India under the Companies Act, 2013 or any previous Law are Indian companies.

Indian companies may carry on their business outside India and may have foreigners as their shareholders.

(b) **Foreign Companies :** The companies which have been incorporated outside India but carry on business in India are called foreign companies.

#### 6. On the basis of Control

(a) Holding Company, (b) Subsidiary Company.

(a) **Holding Company :** "Holding Company" means a company of which has one or more subsidiary companies. [Sec. 2(46)]

A company is said to be a holding company if it holds more than 50% (say 51% or more) of the equity share capital of some other company, or companies. Holding company has controlling voice in the management of the subsidiary company.

(b) **Subsidiary Company :** "Subsidiary Company" or "Subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors, or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies. [Sec. 2(87)]

### Important Documents of a Company

The following are the important documents of a company :

1. Memorandum of Association, 2. Articles of Association, 3. Prospectus.

**Memorandum of Association :** The Memorandum of Association is the fundamental document of a company. It defines the company's powers and provides the frame-work within which it has to operate. It lays down the basic condition on which the company is incorporated. It defines the relationship of the company with the outside world. It is divided into six clauses (including capital clause), viz., (i) Name clause, (ii) Place clause, (iii) Object clause, (iv) Liability clause, (v) Capital clause, (vi) Association clause.



This document should be signed by at least seven persons in case of public company and by two persons in case of private company.

**Articles of Association :** The Articles of Association contain a set of rules and regulations of the company. The articles govern the internal working of the company. Among other matters the articles should cover issue of shares, their forfeiture and reissue, election of directors, maintenance of books, division of profit, calling of meetings, etc.

If a public company does not prepare its own Articles, it is governed by the regulations contained in Table F, G, H, I and J of Schedule I of the Companies Act, 2013.

**Prospectus :** *A prospectus means any document described or issued as a prospectus.* It includes a red herring prospectus referred to in Sec. 32 or self-prospectus referred to in section 31 or any notice, circular, advertisement or other document inviting offers from the public for subscription of any securities of a body corporate. [Sec. 2(70)]

Prospectus is like a key hole through which an investor can have short quick look where the company stands and what it promises to be like in future. Hence, it contains various facts relating to capital, present position and future prospects of the company. It contains the terms and conditions regarding issue of shares.

The prospectus is the basis of agreement between the company and the shareholders who take the shares on the strength of the prospectus. If they have been misled by any statement in or omission of a material fact from the prospectus, he may.

- hold the directors responsible for the loss that he may have suffered and
- may rescind the contract for taking the shares.

Therefore, the prospectus must be truthfully drawn up. Intentional mis-statements or omissions are punishable with fine and imprisonment.

It should be noted that a copy of prospectus signed by the directors must be filed with the Registrar on or before the date of its publication. It must contain certain particulars statutorily.

**Statement in Lieu of Prospectus :** If prospectus is not issued, a company is required to file with the Registrar of Companies a statement in lieu of prospectus. A statement in lieu of prospectus is prepared on the same line and contains more or less same particulars as given in the prospectus paper. This provision does not apply to private company.

#### **Shelf Prospectus [Section 31(1)]**

Section 31(1), focuses on 'Shelf Prospectus'. Now any public financial institution, public sector bank or scheduled bank, whose main object is financing, shall file a shelf prospectus. '*Shelf Prospectus*' means prospectus issued by any financial institution or bank for one or more issues of the securities or class of securities specified in that prospectus. A company filing a shelf prospectus with the Registrar, shall not be required to file prospectus afresh at every stage of offer of securities by it within a validity of such shelf prospectus. It shall simply be required to an information memorandum on all material facts relating to new changes created, changes in the financial position as have occurred between the first offer of securities, previous offer of securities and the succeeding offer of securities. But this should be done within such time as may be prescribed by the Central Government, prior to making of a second or subsequent offer of securities under the shelf prospectus.

**Information Memorandum :** Information Memorandum means "A process undertaken prior to the filing of a prospectus by which a demand for the securities proposed to be issued by a company is elicited and the price and the terms of issue for such securities is assessed, by means of a notice, a circular, advertisement or document."

### Share Capital of a Company

No trading concern can run without capital. Hence, on obtaining the certificate for commencement of the business, the public limited company can commence its business or exercise its borrowing power for raising funds. A company has to depend on outside investors for the purpose of financing its activities. Funds from investors may be raised by a company by issue of shares and debentures.

Share capital refers to the capital raised by a company by the issue of shares. In fact, the capital of the company is divided into shares. Hence, the capital of the company is called share capital.

**Divisions of Share Capital/Kinds of Share Capital**

The share capital of the company may be classified into the following categories :

(1) **Authorised or Nominal or Registered Capital** : Authorised capital is the capital stated in the Memorandum of Association at the time of registration. This is the maximum amount of capital which the company is authorised to raise. This capital is also called as 'Nominal Capital' or 'Registered Capital'. [Sec. 2(8)] For example, Ratnesh & Co. was registered with a capital of ₹ 10,00,000 divided into 10,000 shares of ₹ 100 each. Here authorised capital is ₹ 10 lakhs. Authorised capital can be increased or decreased by following prescribed procedure.

(2) **Issued Capital** : Issued capital is that part of the authorised capital which is offered to the public for subscription and allotment. [Sec. 2(50)] For example, if Ratnesh & Co. offers to the public 9,000 shares of ₹ 100 each, its issued capital will be ₹ 9,00,000. The remaining portion not yet offered to the public for subscription is called the unissued capital.

**Distinction between Authorised Capital and Issued Capital**

<i>Basis of Difference</i>	<i>Authorised Capital</i>	<i>Issued Capital</i>
(i) <b>Meaning</b>	It is the amount with which a company is registered. It is the maximum amount of share capital.	It is the part of the authorised capital which is issued to the public for subscription.
(ii) <b>Disclosure</b>	It is required to be disclosed in Memorandum of Association.	It is not required to be disclosed in the Memorandum of Association.
(iii) <b>Determination</b>	It is determined on the basis of present and future requirements.	It is determined after considering the present requirements.
(iv) <b>Quantity</b>	Authorised capital can exceed issued capital.	Issued capital cannot exceed authorised capital.

(3) **Subscribed Capital** : It is that part of issued capital, which is actually taken up (or subscribed) by the public. [Sec. 2(36)] For example, if the applications are received for 8,000 shares and duly allotted, subscribed capital will be ₹ 8,00,000. The balance of issued capital not subscribed for by the public is called *unsubscribed capital*.

(4) **Called-up Capital** : It represents that part of subscribed capital which has been called-up by the company (directors) for payment from shareholders. [Sec. 2(15)] For example, ₹ 80 per share has been called-up on 8,000 shares, the called-up capital will be  $8,000 \times ₹ 80 = ₹ 6,40,000$ . Generally, the company does not ask for entire amount of the share at once. The shareholder is generally required to pay it in two or three instalments which are called 'calls'.

(5) **Paid-up Capital** : It is that part of the called-up capital which is actually paid by the shareholders to the company. Therefore, paid-up capital is equal to the called-up capital *minus* calls in-arrear. The sum which is still to be paid is known as *Calls-in-arrear*. [Sec. 2(64)] For example, when ₹ 80 per share has been called-up on 8,000 shares and the money is duly received with the exception of one shareholder holding 100 shares on first call of ₹ 20 each, the paid-up capital will be as under :

8,000 Shares of ₹ 100 each ₹ 80 per Share Called-up	₹ 6,40,000
Less : Calls-in-arrear (100 Shares × ₹ 20)	2,000
Paid-up Capital	<u>6,38,000</u>

*Paid-up capital is the real capital of the company.*

(6) **Uncalled Capital** : It is uncalled portion of the subscribed capital. It is thus, difference between the subscribed capital and called-up capital.

(7) **Reserve Capital** : A limited company may determine that any portion of the uncalled capital shall not be called-up during the life time of the company. It happens when a special resolution to this effect is passed. It can be called-up only in the event of winding-up. The uncalled capital so ear-marked is known as '*Reserve Capital*'.

**Capital Reserve** : Capital reserve means that reserve, which is created out of capital profits *i.e.*, profits other than general profits. Capital reserve is shown on the liabilities side of

# Specialised Accounting English Language



31%  
OFF

Publisher : **Sbpd Publications** ISBN : 9789382883883

Author : **Dr. S. K. Singh**

Type the URL : <http://www.kopykitab.com/product/3956>



## Get this eBook