Module I

1

INTRODUCTION TO COMPANY ACCOUNTS - I

Unit structure

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2.0 OBJECTIVES

After studying the unit students will be able to:

- Know the meaning, features and types of company
- Understand the procedure of Formation of the company.
- Discuss about the meaning, types of shares.
- Know the meaning and classification of share capital.
- Explain the Balance sheet of the company
- Understand the meaning of forfeiture of shares

2.1 INTRODUCTION

- **Meaning and Definition**

Company is a type of commercial organisation, Lord Justice Hanay had said company is an artificial person created by law having perpetual

succession and a common seal. It is owned by shareholders and managed by directors.

Definition: Sec 2(20) of the Companies Act 2013 states that, "A company means a company formed and registered under that Act or under any previous Companies Act."

- **Features of Company:**

From above meaning and definition we can identify following features of the company:

i. **Registered / Incorporation**: The company need to be formed and registered under the Companies Act, this process is known as Incorporation of the company. Without such incorporation company cannot come into existence.

ii. **Artificial Person**: The Company is considered as artificial person so it has power to acquire, hold and sale all types of properties, it can enter into legal agreements, it can file a case or case can be filed against the company.

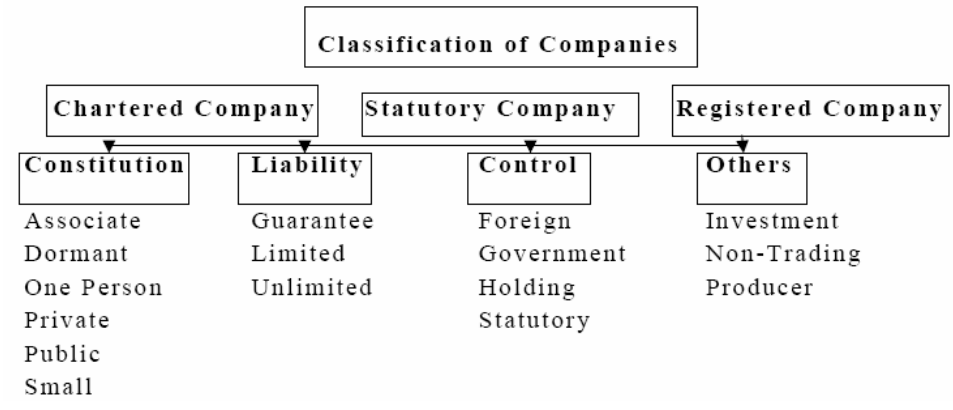
iii. **Separate Legal Entity:** A company is considered as separate legal entity hence its existence is not affected due death, insolvency of its members or transfer of shares by the members. A member of company is not liable for act of the company and vice versa.

iv. **Perpetual Succession:** A company is created by following process of law and it cease to exist only upon the process of law. It enjoys perpetual (permanent) existence. Companies existence is independent of death, insolvency or changes in membership of the company.

v. **Common Seal:** It is the most important property, common seal act as signature of company and use to authenticate the documents. If the common seal if affixed on any document by the authorised person it becomes a legal document

- **Types of Companies**

There are various types of companies which are described in following diagram.



Companies are basically classified as Chartered Company, Statutory Company and Registered Company.

1. Chartered Companies: These companies come into existence by Royal Charter which is issued by Head of State. For eg. East India Company.

2. Statutory Companies: These are formed under special statute of the parliament or the state legislature. These are public undertakings and form with main objective to serve social need not earn profit. For eg. RBI, LIC, SBI UTI etc.

3. Registered Companies: These are the companies which are registered under Indian Companies Act 2013, or any other previous Indian Companies Act. These companies are divided on the basis of Constitution Control and Other Liability.

- **On the basis of Constitution**

a) **Associate Company S2(6):** A company is said to be associate company of other, if other company had control on 20% of total voting power in the company or have control over business decisions of the company under an agreement. However an Associate Company is not subsidiary company.

b) **Dormant Company S455:** Where a company is formed for future projects or to hold an asset or intellectual property and do not have significant financial transactions for atleast 2 years may obtain status of Dormant Company by applying to Registrar.

c) **One Person Company S2 (62):** It is a new type of company introduced in the Companies Act 2013. It can be formed with only one member and have only one director. However the Act prescribed maximum in respect of amount of Share Capital and Turnover if One Person Company is exceeding that limit it need to be converted into Private or Public Company.

d) **Private Company :** It is a types of company which is formed with minimum two shareholders and two directors, Another crucial condition of a private limited company is that it by its articles of association restricts the right to transfer its shares & also prohibits any invitation to the public to subscribe for any securities of the company. A private company is exempted from various provisions of the Companies Act 2013 in comparison with the public company.

e) **Public Company S2 (71):** A company which is not a Private Company is a Public Company. A Public Company had minimum 7 members; there is no any restriction for minimum paid up capital for Public Company. Its shares are freely transferable. It can also invite public to subscribe its shares.

f) **Small Company S2(85):** Small company means a company other than a public company and should fulfil the following criteria:

a. Paid-up share capital of which does not exceed 50 Lakh Rupees or anything higher than that as may be prescribed will not be more than five crore rupees, and;

b. Turnover of last profit and loss statement should not exceed 2 Crore Rupees or such higher amount as may be prescribed.

- **On the basis of Liability:**

a) **Company Limited by Guarantee S2(21):** Each member promises to pay a fixed sum of money, specified in Memorandum of Association in the event of liquidation or payment of debt. This promised amount is called as guarantee. If a company insert such clause in its Memorandum the said company is Limited by Guarantee.

b) **Limited Company:** In these types of companies shareholders are bound to pay a fixed amount per share i.e. face value of shares either at the time of subscription or in instalments.

c) **Unlimited Liability Company:** If a company does not have any limit for liability of its members then such company is called as unlimited company. In this case members are liable to pay full amount of debt at the time of winding up of the company.

- **On the basis of Control**

a) **Foreign Company:** It is a company which is incorporated outside India and having its place of business in India has a place of business in India whether by itself or through an agent, physically or through electronic mode; and conducts any business activity in India in any other manner.

b) **Government Company:** It is the company whose minimum 51% paid up capital is held by government, i.e. State or Central Government or subsidiary of Government Company.

c) **Holding Company:** It is the company which has control over other company. If any company held more than 51% of the share capital of another company then it is called as holding company.

d) **Subsidiary Company:** It is the company which is controlled by another company i.e. Holding Company.

- **Other Companies:**

a) **Investment Company:** It is the company whose main business is to acquire shares, debentures, or other securities.

b) **Non Trading Company:** This is also called "association not for profit or charitable companies" These companies are registered under special license issued by government. The object of the company is to promote arts, science, sports, education, research, social welfare, religion etc.

c) **Producer Company:** In generic terms, producer companies can be said to be a way to improve the standard of living of those involved in the agricultural sector. Such companies are deemed to possess the goodness of co-operatives and the dynamicity of companies. A producer company is a company incorporated under Companies Act 2013 (formerly the Companies Act 1956) and shall carry on prescribed activities as mentioned in Section 581B of Companies Act 1956, to name few, Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of the Members or import goods for their benefit. Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members. Manufacture, sale or supply of machinery, equipment or consumables mainly to its Members. Promoting mutual assistance, financial services and welfare measures of producers or their primary produce.

2.2 FORMATION OF COMPANY

Company is generally formed by the promoters. Promoter is a person who conceives a business idea and to bring it into reality he take initiative to Form and Register the company.

- **Steps in formation**

Following Steps are taken in respect of registration of company.

1. **Name:** The promoter may propose name of the company for registration, they can propose up to six names. If name is available further process is carried out.

2. **Memorandum of Association and Articles of Association**: Promoter should prepare Memorandum of Association and Articles of Association. Promoters should sign both and submit it to Registrar of Companies.

3. **Filling of Documents**: Following documents need to be filled with registrar for the purpose of registration

a) Memorandum of Association and Articles of Association

b) A declaration by advocate or practicing professional (CA, CS etc) regarding compliance.

c) Affidavit from each subscriber from each person named as first director.

d) Address for correspondence till its registered office is not established

e) Details of each subscriber

f) Details of first director

g) Required amount of registration fees and any other document if required

4. **Incorporation Certificate:** Once all these required documents are received Registrar of the company will issue Incorporation Certificate for the company.

2.3 SHARES

- **Meaning & Definition:**

Share is the smallest part of the share capital of the company. As per section 2(84) of the Companies Act "A Share in the share capital of a company and includes stock except where a distinction between stock and share is expressed or implied."

Shares are considered as movable property and can be transferred as per procedure laid down in Articles of the company. Each and every share has a predetermined value which is called as face value.

- **Shareholder:**

The owner of the shares is called as shareholder. Company issues a share certificate to the holder having his name along with other details such as no of shares and their distinct no. The share holders are co-owners of the company he has right to attend meeting and to receive dividend. He has right to receive back his capital at the time of winding up of the company.

- **Stock:**

Stock is a bundle of fully paid shares. A limited can company can convert its fully paid shares into stock. Stock can be divided into any fractions and subdivisions regards to the face value.

- **Types of Shares**

There are two types of shares, 1. Equity Shares, 2. Preference Shares

1. **Equity Shares:** Explanation to section 43 It is that part of share capital which is not preference share capital.

Equity shares are of two types:

a) **With voting rights:** These are normal equity shares having equal rights regards to voting at meeting, dividend and same rights in each and every aspect.

b) **With differential voting rights:** Company can issue equity shares with differential rights as to dividend, voting rights etc. However such must can be done subject to Rule 4 of Companies (Share Capital and Debentures) Rules 2014.

2. **Preference Shares:** These are the shares having preferential rights in respect of dividend and receiving back their capital at the time of

winding up of the company. Preference Shares will receive dividend at fix rate before any dividend is paid to equity shares and receive back their capital before equity shares.

Types of Preference Shares:

a) **Cumulative and Non-cumulative Preference Shares:** If any year company does not pay dividend Cumulative preference shares will receive dividend for that year from the profits of following year. However Non-cumulative preference shares do not enjoy such benefits.

b) **Participating and Non-participating Preference Shares:** Participating Preference Shares are entitled to participate in surplus profits remaining after payment of dividend of both types of shares.

c) **Convertible and Non-convertible Preference Shares:** Convertible Preference Shares can be converted into equity shares whereas non-convertible preference shares are not converted into equity shares.

d) **Redeemable and Non-redeemable Preference Shares:** Redeemable preference shares are redeemed (paid back) during life time of the company whereas Non-redeemable Preference shares are not redeemed during life time of the company they are redeemed at the winding up of the company.

2.4 SHARE CAPITAL

Capital of the company is collected by issue of shares, there is no any limit for maximum no of members / shareholders of the company and shares are freely transferable so it's impossible to have separate capital account for each shareholder. The company maintain a share capital account in its books representing amount collected from all shareholders.

- **Classification of Share Capital**

1. **Authorised Capital:** Authorised Capital or Nominal Capital is capital which is mentioned in memorandum and company cannot issue shares exceeding this amount.

2. **Issued Capital:** It is the no shares issued by the company for subscription. Company can issue full or part of its authorised capital.

3. **Subscribed Capital:** It is the part of issued capital, it refers to the no of shares actually subscribed or taken u by general public.

4. **Called up Capital:** Called up capital is the amount of subscribed capital which is actually called by the company. (demanded by the company)

5. **Paid up Capital:** Paid up capital is the amount received against called up capital amount by the company.

6. **Reserve Capital:** It is the uncalled amount of share subscribed capital which company will demand at the time of emergency or liquidation of company.

- **Dividend**

Dividend is part of profit distributed among shareholders by the company. Dividend can be classified as final dividend and Interim dividend. The dividend can be paid as % of paid up capital or at a fixed amount per share.

1. **Final Dividend:** Final dividend is proposed by directors and declared at annual general meeting of the company. It should be noted that proposed dividend will be considered as contingent liability and will not be recorded in balance sheet. Once the dividend is declared it will be considered as liability and should be paid off in stipulated time.

2. **Interim Dividend:** Interim dividend is declared by board of directors in between two annual general meetings. Any dividend declared over and above the final dividend will be considered as Interim dividend.

2.5 FORMAT OF BALANCE SHEET

The company need to prepare its financial statements i.e. Profit & Loss A/c and Balance Sheet in the format prescribed by Companies Act 2013. Schedule 3 of Companies Act provide format for the financial statements. Any requirement of Accounting Standard will override the requirements of the schedule 3 of the Companies Act.

The balance sheet needs to be prepared in vertical format along with notes to accounts.

Part I – Form of Balance Sheet

Name of the Company:- _____

Balance Sheet as at:- _____

(Rupees in _____)

Particulars	Note No	Figures as at the end of the current reporting period	Figures as at the end of the previous reporting period
EQUITY AND LIABILITIES			
Shareholders Fund			
Share Capital			
Reserves Surplus			
Money Received against Share Warrants			
Share Application Money Pending Allotment			
Non Current Liabilities			
Long Term Borrowings			
Differed Tax Liabilities (Net)			
Other Long Term Liabilities			
Long Term Provisions			
Current Liabilities			
Short Term Borrowings			
Trade Payable			
Other Current Liabilities			
Short Term Provisions			
Total			
ASSETS			
Non-Current Assets			
Fixed Assets			
Tangible Assets Intangible Assets Capital work in Progress Intangible Assets under developments			
Non-Current Liabilities			
Differed Tax Assets (Net)			
Long Term Loans and Advances			

Other Long Term Assets			
Current Assets			
Current Investments			
Inventories			
Trade Receivables			
Cash and Cash Equivalents			
Short Term Loans and Advances			
Other Current Assets			
Total			

The balance sheet of the company is presented along with relevant notes to accounts providing detailed information regarding the particular item. The notes accounts are presented as follows.

Notes to accounts	**Rs.**
A. Share Capital • Authorised shares (Par Value per Share : Rs…..) • Issued, subscribed, called up & fully paid shares • Subscribed but not fully paid shares Less : Calls unpaid – By Directors – By Officers – By Others • Forfeited Shares • Forfeited Shares reissued • Reconciliation of Shares Outstanding **B. Reserves and Surplus** a. Capital Reserves b. Capital Redemption Reserve c. Securities premium d. Debenture Redemption Reserve e. Revaluation Reserve f. Share Options Outstanding Account g. Other Reserves h. General Reserves i. Surplus	

– Balance b/d Add : Profit for Year Less : Appropriations	
C. Long Term Borrowings a. Bonds / Debentures b. Term Loans i. Term Loans from Banks ii. Term Loans from Other Parties c. Deferred Payment Liabilities d. Deposits i. Public Deposits (GN) ii. Inter-Corporate Deposits (GN) e. Loans and Advances from Related Parties f. Long Term Maturities of Finance Lease Obligations g. Other Loans and Advances	
D. Other Long Term Liabilities a. Trade Payables b. Other Payables i. Trade Deposits (GN) ii. Security Deposits (GN)	
E. Long Term Provisions a. Provision for Employee Benefits b. Others – Provision for Warranties (GN)	
F. Short Term Borrowings a. Loans Repayable on Demand i. From Banks ii. From Other Parties b. Loans and Advances from Related Parties c. Deposits d. Other Loans and Advances	
G. Other Current Liabilities a. Current Maturities of Long Term Debt b. Current Maturities of Finance Lease Obligations c. Interest Accrued but not Due on Borrowings d. Interest Accrued and Due on Borrowings	

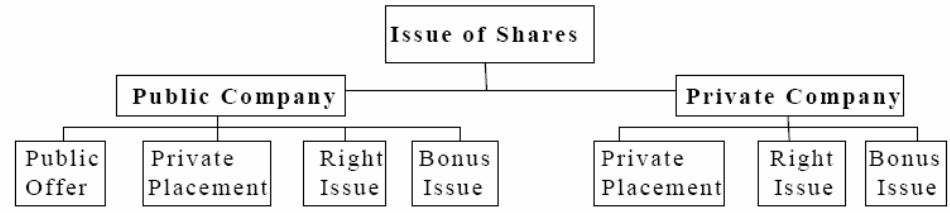
	e. Income Received in Advance f. Unpaid Dividends g. Application Money Refund and Interest Due h. Unpaid Matured Deposits and Interest Accrued thereon i. Unpaid Matured Debentures and Interest Accrued thereon j. Other Payables – Calls-in-Advance (GN) – Non-Trade Payables (GN) – Taxes Payable (GN)	
H.	**Short Term Provisions** a. Provisions for Employee Benefits b. Others –Provision for Tax (Net of tax payments) (FAQ)	
I.	**Tangible Assets** a. Land b. Buildings c. Plant and Equipment d. Furniture and Fixtures e. Vehicles f. Office Equipment g. Others (specify nature)	
J.	**Intangible Assets** a. Goodwill b. Brands / Trademarks c. Computer Software d. Mastheads and Publishing Titles e. Mining Rights f. Copyrights, Patents, etc. g. Recipes, Formulae, Models, Designs and Prototypes h. Licenses and Franchise i. Others (specify nature)	
K.	**Non-Current Investments** a. Investments in Property b. Investment in Equity Instruments c. Investments in Preference Shares	

d. Investments in Government or Trust Securities e. Investments in Debentures or Bonds f. Investments in Mutual Funds g. Investments in Partnership Firms h. Other Non Current Investments	
L. Long Term Loans and Advances a. Capital Advances b. Security Deposits c. Loans and Advances to Related Parties d. Other Loans and Advances – Advances Tax (Net of provision) (FAQ) – CENVAT Credit Receivable (GN) – VAT Credit Receivable (GN) – Service Tax Credit Receivable (GN)	
M. Other Non Current Assets a. Long Term Trade Receivables b. Others	
N. Current Investments a. Investments in Equity Instruments b. Investments in Preference Shares c. Investments in Government or Trust Securities d. Investments in Debentures or Bonds e. Investments in Mutual Funds f. Investments in Partnership Firms g. Other Investments	
O. Inventories a. Raw Materials b. Work-in-progress c. Finished Goods d. Stock-in-Trade e. Stores and Spares f. Loose Tools g. Others	
P. Trade Receivables a. Secured, Considered Good b. Unsecured, Considered Good	

i. More than 6 months ii. Other c. Doubtful Less : Provision for Bad and Doubtful Debts **Q. Cash and Cash Equivalents** a. Balances with Banks b. Cheques, Drafts on Hand c. Cash on Hand d. Others (specify nature) – Other Bank Balances – Earmarked (Unpaid Dividend A/c) – Margin Money Deposit – Deposits Maturing After 12 Months **R. Short Term Loans and Advances** a. Loans and Advances to Related Parties b. Others – Prepaid Expenses (GN) – Tax Refund Receivable vide A.O. (FAQ) **S. Other Current Assets** • Non-Trade Receivables (GN) • Unamortized Expenditure (GN) • Unbilled Revenue (GN)	

2.6 ISSUE OF SHARES

Company issue shares for formation of its on capital. There are several modes for issue of shares such as public offer, private placement, right issue etc. However regulations of Companies Act lay don guidelines in respect of these modes. Depending upon type of company modes of issue will be applicable for issue of shares.



Issue of Shares

1. Public Offer: In this case company offer shares to general public for subscription it need to follow a prescribed procedure laid down by companies act and rules in respect of the issue of shares. Public offers are classified as follows.

a) Initial Public Offer (IPO): When company offer its shares to public for subscription through prospectus for the first time it is called as initial public offer. Generally such offer is made by unlisted companies. This enables listing and trading of companies shares at stock exchange.

b) Further Public Offer (FPO): When an existing listed company makes a fresh issue of securities to the public through an offer document it is called as Further Public Offer.

c) Offer for Sale of Securities (OFS): Offer for sale of securities is different from IPO and FPO. It is used to reduce promoters holding or to provide exit route to venture capitalist. In this case shares offered to public are shares held by promoters of the company. In this case balance sheet of the company is not affected as new shares are not issued.

2. Private Placement: In case of private placement company does not offer its shares to general public instead it offers its shares to selected group of persons. Such offer is made through issue of a private placement offer letter. However company need to satisfy various conditions mentioned in section 42 of the Companies Act 2013.

3. Right Issue: Right Issue referrers to offer given by company to its existing equity shares to subscribe for additional shares. However such offer will be given to the shareholder for limited no of shares in proportion to shares already held by him. Section 62(1) (a) of the Companies Act 2013 provide guidelines for right issue.

4. Bonus Shares: Bonus shares are free gift given by company to its existing equity share holders. In this case company allot fully paid shares to its existing equity share holders for free increasing their shareholding and companies share capital. Company can issue bonus shares by utilising its free reserves, securities premium or capital redemption reserve. Section 63 of the Companies Act provides guidelines for issue of bonus shares.

2.7 ISSUE OF SHARES ON PREFERENTIAL BASIS

Section 62(1)(c) of the Companies Act and Rule 13 of Companies (Share Capital and Debentures) Rule 2014 enable the company to issue shares on preferential basis. However the company need to comply with section 42 of the Companies Act while issuing shares on preferential basis. Apart from compliance of various provisions of Companies Act, a special resolution is also required for issue of shares on preferential basis

Meaning: "PREFERENTIAL ALLOTMENT" means an issue of shares or other securities, by a Company to any select person or group of persons on preferential basis and does not include shares or other securities offered through a public issue, right issue, employee stock option scheme, employee stock purchase scheme or an sweet equity issue or bonus issue or depository receipts issued in a country outside India or foreign securities.

Price: The price of shares or other securities to be issued on preferential basis shall be determined on the basis of valuation report of a registered valuer or Independent Valuer having 10 year of experience.

Consideration other than Cash: Company can issue shares on preferential basis as consideration for other than cash. However valuation of such consideration shall be done by registered valuer who need to submit a valuation report to the company giving justification for the valuation.

2.8 EMPLOYEE STOCK OPTION (ESO)

Meaning

Section 2(37) of the Companies Act, 2013 Employees Stock Option means the option given to the directors, officers, or employees of a company or of its holding company or subsidiary company or companies, if any, which gives such directors, officers nor employees the benefit or right to purchase or to subscribe for the shares of the company at a future date at a predetermined price.

Section 62(1)(b) of the Companies Act enable the company to offer shares to its employees through Employee Stock Option. A special resolution is required for such issue and company also need to comply with Rule 12 of Companies (Share Capital and Debentures) rules 2014.

For this purpose employee means

1. A permanent employee of the company
2. A director of the company excluding independent director
3. A employee (1 or 2 mentioned above) in subsidiary company of Indian Holding Company.

Employee does not include following

1. An employee who is promoter of the company or belonging to promoter group
2. A director himself or through his relative hold directly or indirectly more than 10% of share capital of the company.

Following are important point in respect of Employee Stock Option

1. Company can offer these shares at any price to its employees
2. There should be time gap of atleast 1 year between granting of option and vesting of option.

3. Option granted to employee is non transferable
4. The company need to maintain a separate register for Employee Stock Option in prescribed form.
5. If company is listed on any recognised stock exchange, then Employee Stock Option Scheme shall be issued in accordance with the regulations made by SEBI.

2.9 SWEAT EQUITY SHARES

- **Meaning**

According to Section 2(88) of the Companies Act 2013, SWEAT equity shares means such equity shares issued by a company to its directors, or employees at a discount or for consideration other than cash, for providing their knowhow or making available rights in the nature of intellectual property or value additions, by whatever name called. It should be noted that SWEAT Equity is different from Employee Stock Option Scheme and Employee Stock Purchase Scheme.

- **Conditions to be fulfilled by the company**

Section 54 of the Companies Act prescribed conditions to be fulfilled by the company for issue of SWEAT Equity Shares which are as follows

1. A special resolution is required for issue of SWEAT Equity Shares.
2. The resolution must specify no. of shares, market price, consideration and details of directors or employees to whom such shares are issued.
3. The Company must have started its business for at least 1 year not less than that.
4. If the equity shares of the company is listed on recognised stock exchange issue of SWEAT Equity Shares will be done as per guidelines issued by SEBI. If company is not listed it will be issued as per Chapter IV of the Companies Act 2013.

2.10 ESCROW ACCOUNT

- **Meaning**

Escrow means depositing funds with third party to be used latter on compliance of certain conditions. Company use this system at the time of IPO, it is used to put Share Application Money received at the time of receiving applications from public for an IPO.

Escrow account is the dedicated bank account, it is opened with Escrow Collections Bank which is used for collection of application money at the time of public offer. The company need to enter into escrow agreement.

Escrow Agreement is an agreement between issuer company, registrar of issue, and escrow collection bank for collection of application money and its refund whenever applicable.

- **Escrow Mechanism**

1. Company open one or more escrow account with Escrow Collections Bank for collection of application money. Application money received from public along with applications is deposited in escrow account. The company also open Public Issue Account and Refund Account with Bankers of Issue.
2. The money received will be held by the Escrow Collection Bank on behalf of issuing company till date of allotment.
3. On date of allotment money as per size and terms of issue will be transferred from escrow account to Public Issue Account.
4. The balance left in escrow account will be transferred to refund account. The amount will be refunded to all unsuccessful applicants, and applicants who have paid excess application money after adjusting for allotment money within 15 days from closing date of issue. If it fails to repay on time, company need to pay 15% interest on the amount to the applicants.

2.11 ISSUE OF SHARES AT PAR, AT PREMIUM AND AT DISCOUNT

The company can issue shares at any price. It can issue shares at Par, at Premium or at Discount.

a. At par: When shares are issued at its face value, they are said to be issued at par.

b. At premium: When shares are issued at a price more than its face value, they are said to be issued at premium.

c. At Discount: When shares are issued at price less than its face value, they are said to be issued at discount.

- **Oversubscription and Under subscription**

Public Company issue shares to general public, for this purpose it invites applications from interested investors by issuing prospectus. Interested investors need to subscribe for the shares as per procedure described in prospectus. Oversubscription or Under subscription relates to the response received from general public for companies offer for issue of shares.

Under subscription:

It is the situation in which number of shares subscribed by public is less than no of shares offered by company. In this case shares can be allotted only when minimum subscription received. However applications are received more than minimum subscription shares can be allotted.

Oversubscription:

When no of applications received are more than shares offered by company then it is called as oversubscription. In case of oversubscription shares can be allotted in following ways:

i. **Partial Allotment:** The directors may decide to fully accept some applications and reject remaining excess applications.

ii. **Pro-rata Allotment:** Pro-rata allotment means proportionate distribution of shares available for allotment among the applicants for the shares.

iii. **Combination:** Company can combine both the above methods where it rejects few applications and allots shares on prorate basis among remaining applicants.

- **Issue of Shares for Consideration Other than Cash**

A company can issue shares for consideration other than cash. Such issue can be at par, at premium or at discount. Following are some of the cases in which company can issue shares for consideration other than cash.

Vendors: The vendors may be an individual, a firm or company whose business is taken over by the company. The purchasing company may issue its shares to vendors from whom their business is purchased.

Promoters: Shares may be issued to promoters of the company as remuneration for the services rendered for the formation of the company.

Underwriters: Shares may be issued to underwriters in lieu of underwriting commission payable to them.

Directors or Employees: A company can SWEAT Equity Shares to its directors or employees as consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value additions.

- **Forfeiture and Re-Issue of Forfeited Shares**

On issue of shares company can collect entire money at the time of application or it can collect it in instalments, at the time of application, allotment and balance in calls. If any shareholder fails to pay allotment or call money, company can forfeit his shares, i.e. take back his shares without paying any compensation.

Forfeiture of Shares

Forfeiture of shares can be referred as compulsory termination of membership of shareholder by the company die to non-payment of allotment or call money. In this case shareholder ceases to be member of company and company take back its shares and confiscate any amount paid by the shareholder against those shares. Company need to follow the

procedure laid down by Articles of Association of the company to forfeit the shares of any shareholder.

Re-Issue of Forfeited Shares

A company can re-issue the forfeited shares. Re-issue of shares though called as re-issue it is 'sale' of shares not 'issue' of shares. Company need to follow the procedure laid down in its Articles of Association in respect of re-issue of shares. The company can re-issue the forfeited shares at par, at premium or at discount; however re-issue of shares cannot have allotment, calls etc.

2.12 EXERCISE

Descriptive Questions

1. What is mean by Company? Explain its features
2. Describe different type of companies.
3. Define Shares? Explain different types of Shares
4. Explain different types of Preference Shares
5. Explain Share Capital
6. Explain different modes for issue of shares.
7. Explain Equity & Liabilities of Balance Sheet as per Schedule-III of Companies Act 2013.
8. Explain Forfeiture and re-issue of forfeited shares.

Short Notes

1. One Person Company
2. Private Company
3. Public Company
4. SWEAT Equity
5. ESCROW Account
6. Share
7. Bonus Shares
8. Right Shares

Objective Questions

1) Fill in Blanks.

1. A Public company may be formed by _____ or more persons.
2. One Person company may have _____ person as director.
3. _____ Preference Shares are converted into equity shares.
4. Profit distributed by the company among shareholders is called as ___

5. Preference Shareholders are entitled to receive dividend at _____ rate.
6. Inventories appear under _____ in Balance Sheet.
7. Creditors are recorded under _____ in Balance Sheet.
8. Forfeiture of shares results in _____ termination of membership.
9. SWEAT Equity shares can be issued to directors & _____ of the company.
10. A share denotes a _____ part of company's share capital.

(seven, one, Redeemable, dividend, fixed, Current Assets, Trade Payable, compulsory, employees, smallest)

2. Match Pairs

Group A	**Group B**
Authorised Capital	Creditors of the company
One Person Company	Receive dividend at fixed rate
Debenture holders	Can be formed with only 1 member.
Preference Shares	Compulsory termination of membership
Forfeiture of shares	Minimum 7 members
Public Company	Shares issued to vendor for purchase of its business.
Shares issued for consideration other than cash	Memorandum of Association

(a – 7, b – 3, c – 1, d – 2, e – 4, f – 5, g – 6)

3. True or False

1. Only a natural person can form one person company.
2. A stock can be transferred in any fractions.
3. Right issue is made to existing shareholders only.
4. Forfeited shares cannot be reissued.
5. Company can issue bonus shares out of capital reserve.
6. Company has perpetual life.
7. ESCROW is a special bank account used specifically for public offer.
8. Offer for Sale of securities is not fresh issue of shares.

(True – 1, 2, 3, 6, 7, 8) (False – 4, 5)

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