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Advanced Corporate accounting

(M.Com) Sem. - 1

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Advanced Corporate accounting

Q.1:- What do you mean by joint stock company? Discuss its feature.

Ans:- In the beginning, the size of business firms were small sale proprietorship was, therefore the useful form of business organisation. Partnership become popular when the size of business 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 liabilities such as limited capital limited managerial ability, unlimited liabilities and other drawback. Therefore in the present days of business world, it was only the joint stock company form of business organisation which proved to be useful.

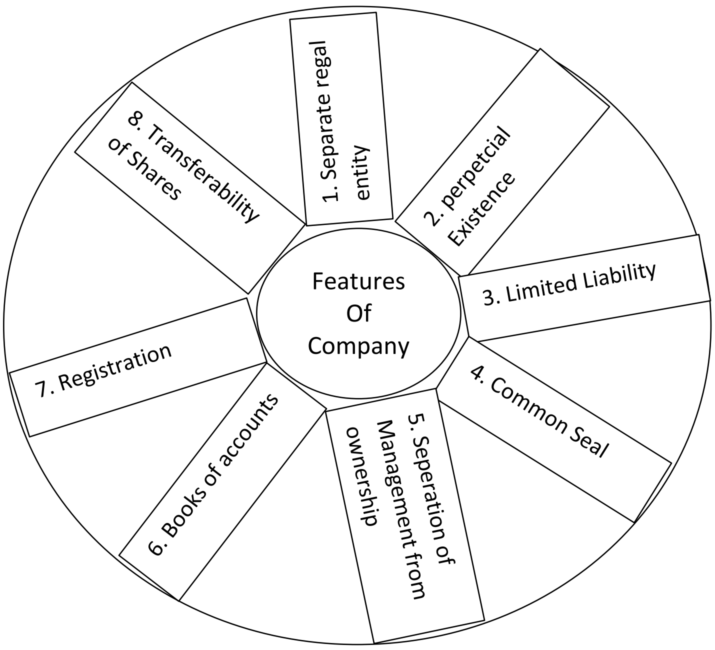
Joint Stock Company is also called company. A company is voluntary association of persons formed for some common purpose with capital divisible into parts, known as shares and with limited liability. It is created by law and is known as an artificial person with a perpetual succession and a common seal. It has a separate legal entity. It must be completely registered. It means a Company is an artificial person created by law having a separate legal entity with perpetual succession and common seal.

According to company Act 1956:- “A company mean a company formed and registered under this act or an existing company.”

According to Haney:- “ A company is an artificial person created by law, having a separate entity with perpetual succession and a common seal.”

Above meaning & definitions. We can say that A company is an association of persons who contribute money or money’s worth to a common stock and use it for common purpose in corporate by law and has a perpetual success a common seal and distinct legal entity

Characteristics / Features of a company:-



Following are the essential features of a company:

1. Separate legal entity:- A Company has a legal entity separate from its members. It can purchase and self properties in its own name can open a bank, account and can enter into contract and conduct a lawful business.

2. Perpetual existence:- The existence of company is not affected by the death, lunacy or insolvency of its members. The company has got permanent life, that is why it is said that members may members may come but company goes on for ever. Unless would up awarding to the company act.

3. Limited liability:- The liability of every shareholder is limited to the face value of shares (Which is not paid by the shareholders held by him)

4. Common Seal:- The common seal acts as the official signature of the company since the company has no physical existence so it acts through its directors All documents prepared by the directors must been the common seal of the company.

5. Separation of management from ownership:- Shareholders are the true owners of the company since there number's quite large, so it is not possible for every member to participate in the management. Therefore, company is managed by the 'Board of Directors' elected by the shareholders.

6. Book of accounts:- It is compulsion for every company to maintain its book if accounts as required by law at his head office.

7. Registration:- A company cannot come into existence unless it is registered under the company act 1956.

8. Transferability of shares:- The capital of the company is divided into small parts known as shares these shares are freely transferable subject to certain conditions

Q.No (2) :-What is meant by share capital? Explain different types of share capital with the help of an illustration. Also differentiate between Reserve capital and capital Reserve.

Ans:- Every company must have capital in order to finance. Its activities. The company raises this company capital by issue of shares. This is why the capital of the company is called as "Shares Capital".

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.

Divisions of share capital

Or

Classification of share capital

The information relating to the share capital of the company is found in the Balance sheet under the following headings:

(1) Authorised/Nominal/Registered Capital:- Authorised Share Capital of a company is the maximum amount of share capital which a company is authorised to raise throughout its life. This amoun company under the capital clause.

(2) Issued Capital:- It is that part of the authorise capital which is offered to the public for subscription and allotment.

(3) Subscribed Capital:- It is that part of issued share capital of a company, for which the public has applied. If the Public purchases or applies for all the shares issued, then issue capital and subscribed capital will be same.

(4) Called up capital : -It is that part of subscribed capital which has been called up by the board of directors from the Public.

(5) Paid-up capital:- It is that part of capital or the called-up capital which has been received by the company.

(6) Reserve Capital:- According to sec.99 of the Company Act 1956: a Company by passing a special resolution can decide that certain portion of the unissued capital to be kept as reserve. Such a portion is known as reserve capital.

Distinguish b/w Reserve capital & Capital Reserve

Basis	Reserve Capital	Capital Reserve
1. Meaning 2. Special Resolution	It refers to that Portion of uncalled share capital which shall not be called up except in the event of winding-up A special resolution is required for its creation	But Capital Reserve is that reserve which is created out of capital Profits such as Profit on sale of fixed assets, profit on redemption of Debentures Profit on revaluation of fixed assets, Premium on issue of shares & Debentures etc. These profits are not

		earns in the normal course of Business But no special resolution is required for the creation of capital Reserve.
3. Amount	It refers to the amount which has not been received.	It refers to the amount which has already been received.
4. Necessity	It is not necessary to create Reserve Capital	It is necessary to capital Reserve in case of capital profit.
5. Disclosure in Balance sheet	It is not shown in the company's Balance sheet.	It is shown under the hence Reserve & surplus' on the liabilities side of the Balance sheet
6. Use	It can be used only at the time of winding up of the company	It can be used to write off capital losses or to declare a share bonus

According to schedule VI, Part-I of the company Act 1956 the share capital of a company is shown, in the Balance sheet as given below:-

Balance Sheet of a Company as on…………..

Liabilities	Amounts ₹	Assets	Amount ₹
Share Capital: Authorised Capital 1,00,000 share @ ₹ 10 each	10,00,000	Cash at Bank	2,99,000
Issued Capital: 50,000 shares @ ₹ 10 each	5,00,000		
Subscribed Capital: 30,000 shares @ ₹ 10 each	5,00,000		
Called- up Capital 50,000 shares @ ₹ 10 each ₹ 6 per share called-up	3,00,000		

Paid – up Capital 50000 shares @ ₹ 10 each ₹ 6 per share called up 3,00,000 Less: Calls in Arrears (500 x2) 1,000 Add: Calls in advance Share Forfeiture A/c	 2,99,000 ……….. ………..		
	2,99,000		2,99,0000

Q.No. (3) :- What do you mean by share? Explain its types and also differentiate between Equity shares and preference shares.

Ans:- The Capital of a company is divided into units of small denomination. Each unit is called a share. The word share implies a unit of a share capital having property rights.

For example: If the capital of a company is ₹ 2,00,000 and is divided into 20,000 units of ₹ 10 each. Each unit of ₹ 10 will be called a share of company.

Nature of share:-

1. A share is a fractional part of the share capital
2. It provides for ownership of in the company
3. It gives some rights & Liabilities to the shareholder
4. Share is the movable property
5. Share is treated as goods loss per sale of goods act-1920)
6. Share is transferable in accordance with the provision in the A.A of the Company.

<u>Types or kinds of shares</u>

According to sec 43 of the company act 2013 a company can issue two types of shares, namely: (1) Preference shares & (2) Equity shares

(1) Preference shares (Sec 43cb]

Preference shares are those shares on which there is a preferential rights as (a) to dividend during the life time of the company (b) to repayment of Capital on the winding-up of the company and (c) at a fixed rate before any dividend is paid equity share holders. These shares are considered best form the point of view of safe investment, Permanent income and less risk.

(2) Equity shares [sec 43la]

Equity shares are those shares which are not preference shares. Equity shares carry no special rights in respect of annual dividend and return of capital in case of winding up of the company. There will be no fixed rate of dividend on equity shares. Equity shareholders receive dividend when there is sufficient profit to the company. As regards to return of capital equity share capital is returned only when preference share capital is fully returned.

Difference between

Preference shares and equity shares

Basis	Preference shares	Equity shares
1. Right of Dividend	Preference shares have preferential right to get dividend. They get dividend before any dividend is paid to equity shares.	But Dividend on equity share Paid after the payment of preference shares or dividend.
2. Rate of dividend	The rate of dividend on preference shares is fixed.	But the rate of dividend on equity shares is not fixed.
3. Payment of Capital	At the time of winding up of company they receive their capital money before any capital return to equity shareholders.	But Equity share capital is paid only when preference share capital is paid out fully.
4. Arrears of dividend	If dividend is not paid in any year the arrears of dividend may accumulate	But Dividend can not be accumulated.
5. Participation in Management	They do not participate in management of company	But They have full rights to Participate in management of company
6. Voting Right	Preference shareholders can vote only in special circumstances	But Equity shareholders have full right to vote in all circumstances.
7. Redemption		

	Preference shares are to be redeemed within the period of 20 years or(as per terms0	Equity share can not be redeemed during the life of company.

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