



Module-B Unit-3

JAIIB PAPER-3

Accounting & Financial Management for Bankers(AFM)



JAIIB AFM Module B Unit 3- Company Accounts-1

Company

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. It is created by law and effected by law. It is a legal person just as much as much as an individual but with no physical existence.

Section 20 of the Companies Act, 2013, defines a company as A company incorporated under this act, or under any previous company law.

Features of a Joint stock Company

- Incorporated association
- Artificial person
- Perpetual succession
- Common seal
- Limited liability
- Separation of management from ownership
- Transferability of shares
- Separate legal status
- Large membership
- Minimum paid up capital: It is Rs 1 lakh Private LTD. Company and 5 lakhs for a Public LTD company.

Types of companies

On the basis of incorporation	On the basis of ownership	On the basis of liability
Chartered company	Private company	Company limited by shares
Statutory company	Public company	Company Ltd. by guarantee
Registered company	Government company	Company with unlimited liability
Foreign company	Holding company	

- **Chartered company:** A chartered company is one that is established under a special charter issued by the King or Emperor or a Head of State. Such companies are not found in India. Chartered companies established in European countries are East India Company, Bank of England.
- **Statutory company:** A statutory company is one that is created or incorporated by a special Act passed by the Central or State Legislature. The Statutory companies are owned by Government and are given independent legal status, e.g. Life Insurance Corporation of India, Air India, Food Corporation of India, etc.
- **Registered company:** A company registered under the provisions of Companies Act is known as a registered company. In India, examples of companies registered under the Indian Companies Act are Tata Consultancy Services Ltd., WIPRO Ltd., Videocon International Ltd., Reliance Industries Ltd., and so on.
- **Foreign company:** A Foreign company is a company which is incorporated outside India but has a place of business in India, e.g. Hongkong and Shanghai Banking Corporation Ltd.
- **Private company:** A private company is a company that by its articles: (a) except in case of one person company limits the number of its members to two hundred, (b) restricts the right to transfer its shares, and (c) prohibits any invitation to the public to subscribe for any security of the company.
- **Public company:** Section 2 (71)(Chapter I) of the Indian Companies Act, 2013, defines a public company as a company which is not a private company. This means there is no restriction on the number of members and shares are freely transferable.
- **Government company:** Any company in which not less than 51 per cent of the paid-up share capital is held by the Central Government or by any State Government or partly by Central Government and partly by one or more State Governments, is a Government Company.
- **Holding company:** Section 2 (46) (Chapter I) of the Companies Act 2013: a Holding company, in relation to one or more subsidiary companies, means a company of which such companies are subsidiary companies.
- **Associate Company:** In relation to another company, Associate Company means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.
- **One Person Company:** One Person Company means a company which has only one person as a member.
- **Subsidiary company:** Section 2(87) (Chapter I) of the Companies Act, 2013 defines a subsidiary company as 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.
- **Company limited by shares:** It is a company in which liability of its members is limited by memorandum to the amount, if any, unpaid on the shares respectively held by them. Most of the companies in India are companies with limited liability.

- **Company limited by guarantee:** It is a company in which liability of a member is fixed to a certain amount and he is liable to pay that much amount in the event of winding up of the company. This amount is called the 'Guarantee'. Such companies are generally floated for the promotion of sports, education, religion, fine art, etc., and are essentially non-profit making organisations.
- **Company with unlimited liability:** It is a company in which the liability of a member is unlimited. Such a company can be incorporated with or without share capital.

Partnership Vs Limited Liability Partnership (LLP)

BASIS FOR COMPARISON	PARTNERSHIP	LIMITED LIABILITY PARTNERSHIP (LLP)
Meaning	Partnership refers to an arrangement wherein two or more person agree to carry on a business and share profits & losses mutually.	Limited Liability Partnership is a form of business operation which combines the features of a partnership and a body corporate.
Governed By	Indian Partnership Act, 1932	Limited Liability Partnership Act, 2008
Registration	Optional	Mandatory
Charter document	Partnership deed	LLP Agreement
Liability	Unlimited	Limited to capital contribution, except in case of fraud.
Contractual capacity	It cannot enter into contract in its name.	It can sue and be sued in its name.
Legal Status	Partners are collectively known as firm, so there is no separate legal entity.	It has a separate legal status.
Name of firm	Any name	Name containing LLP as suffix
Maximum partners	100 partners	No limit
Property	Cannot be held in the name of firm.	Can be held in the name of the LLP.
Perpetual Succession	No	Yes

Audit of accounts	Not mandatory	Mandatory, only if turnover and capital contribution overreaches 40 lakhs and 25 lakhs respectively.
Relationship	Partners are agents of firm and other partners as well.	Partners are agents of LLP only.

Classes of Share Capital

Share capital of a company limited by shares can be two kinds

- Equity share
- Preference share

Equity share capital means that part of share capital which is not preference share capital. Preference shares can be further classified as under:

- Cumulative
- Redeemable
- Participating

Share capital can be classified in a different way as to:

- Authorised capital
- Issued capital
- Subscribed Capital
- Called up capital
- Paid-up capital

Issue of Shares

Issue Of Share At Par

<ul style="list-style-type: none"> • Bank • Share application 	Debited .....	..... credited
<ul style="list-style-type: none"> • Share application • share capital 	Debited .....	..... Credited

Over subscription		
<ul style="list-style-type: none"> • share application • share capital • bank (refund) • share allotment 	Debited ..... ..... .....	..... Credited Credited Credited

Share Allotment/Share Call

<ul style="list-style-type: none"> • Share allotment a/c • Share capital a/c 	Debited .....	..... Credited
<ul style="list-style-type: none"> • Bank a/c • Share allotment a/c 	Debited .....	..... Credited
<ul style="list-style-type: none"> • Share call a/c • Share capital a/c 	Debited .....	..... Credited
<ul style="list-style-type: none"> • Bank a/c • Share call a/c 	Debited .....	..... Credited
<ul style="list-style-type: none"> • Calls in arrears a/c • Share allotment a/c • Share call a/c 	Debited ..... .....	..... Credited Credited

Issue of shares at premium

<ul style="list-style-type: none"> • Share application/allotment a/c • Share capital A/c • Share premium A/c 	Debited Credited Credited
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Issue of shares at discount

<ul style="list-style-type: none"> • Share allotment A/c • Discount on issue of shares A/c • Share capital A/c 	Debited Debited Credited
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Forfeiture of shares

<ul style="list-style-type: none"> • Share capital A/c • Call in arrears A/c • Forfeited shares A/c 	Debited Credited Credited
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Re-issue of shares

• Bank A/c	Debited
• Forfeited shares A/c	Debited
• Share capital A/c	Credited
• Capital reserve A/c	.....	Credited

Issue of Bonus shares

• Capital Redemption Reserve A/c	Debited	.....
• Share premium A/c	Debited	.....
• Capital reserve A/c	Debited	.....
• Gen Reserve A/c	Debited	.....
• Profit & Loss A/c	.....	credited
• Bonus to shareholders A/c		
• Bonus to shareholders A/c	Debited	.....
• Equity share capital A/c	.....	credited

Non- Voting Shares

Section 43 of the Companies Act 2013, Provided that share capital of the company shall consist of the following:

- Equity shares with voting rights
- Equity shares with differential rights as to dividend, voting or otherwise in accordance with such rules as may be prescribed; and
- Preference share capital

The demand for non-voting equity shares has been made by several sections of the industry basically on the ground that they do exist in many other countries and also provide a measure to the management to tap a class of investors who are interested in higher dividend against absence of voting rights.

There are some conditions for issue of non-voting equity share follow:

- Issue of non-voting equity shares shall be authorized by the Articles of Association of the company and approved by the shareholders at their general body meeting by passing a special resolution.
- Special resolution must state the price at which the shares can be issued and higher rate of dividend which non-voting equity shares shall carry.
- Such shareholders are entitled to all rights and bonus shares but do not enjoy voting rights.
- Only 25% of the paid-up capital of the company can be issued as equity shares without voting rights.

- Only a public company limited by shares can issue non-voting equity shares.
- Non company will be permitted to convert shares with voting rights into shares without voting rights.

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