



All-In-One Aspirant Hub

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11 Company Account

Unit-1 Introduction to company account

1. Overview & Definition of a Company

1.1 What is a Company?

- A company is a legal entity created by law, distinct and separate from its members.
- Typically described as an artificial person that exists only in the eyes of the law
- Key legal characteristics:
 - Separate legal entity: The company's legal existence is independent of its shareholders.
 - Perpetual succession: It continues regardless of changes in membership.
 - Common seal: Legal seal previously used to represent the company's official assent (traditional, though now largely obsolete)

Judicial Definitions:

- Haney: "An incorporated association, an artificial person created by law, with separate entity, perpetual succession, and common seal."
- Marshall: "A person, artificial, invisible, intangible ... exists only in the eyes of law."

1.2 Why Companies Exist

- Distinguished from other business structures:
 - Sole proprietorship - capital from one owner; owner has unlimited liability.
 - Partnership - capital shared among partners; unlimited liability persists.
 - Company - capital raised by issuing shares; owners (shareholders) enjoy limited liability—their loss is capped at the share price

1.3 Key Features of a Company

1. Incorporated association - corporate existence authorized by law.



2. Separate legal entity - company and shareholders are legally separate.
3. Perpetual succession - unaffected by death, insolvency, or membership changes.
4. Limited liability - liability only up to the amount unpaid on shares.
5. Transferability of shares - facilitates ease in entry/exit of shareholders.
6. Ownership vs. management - managed by directors; ownership by shareholders.
7. Not a citizen - treated as a "legal person" under law.
8. Books of accounts & periodic audit - mandatory transparency

2. Share Capital - Concepts & Types

2.1 Share Capital Essentials

- A company's fund structure is divided into small units called shares.
- Face (nominal) value, issue price, and liability of shareholders correspond to the shares they hold

2.2 Types of Share Capital (Definitions)

1. Authorized (Registered) Share Capital
 - The maximum capital a company is legally permitted to raise during its lifetime, as per its Memorandum of Association
2. Issued Share Capital
 - The portion of the authorized capital that has actually been offered to shareholders—through cash or other considerations
3. Subscribed Share Capital
 - That part of the issued capital that's been agreed (subscribed) by investors and allocated by the company
4. Called-up Share Capital
 - Portion of the issue price that the company has asked shareholders to pay. Remaining amount (uncalled capital) may be called in later
5. Paid-up Share Capital
 - Actual amount received by the company from shareholders in respect of the called-up capital
6. Reserve Share Capital
 - The part of authorized capital kept in reserve for future use (e.g., for a specific contingency or purpose)



3. Maintenance of Accounts & Financial Statements

3.1 Legal Obligations & Accounting Framework

- Companies must maintain comprehensive books of account, including balance sheets and ledgers, and maintain transparency via periodic audit
- Ensures accountability and compliance with statutory and regulatory requirements.

3.2 Preparation of Financial Statements

- Key financial statements in company accounting:
 1. Balance Sheet - Presents assets, liabilities, and shareholders' equity at a specific date ($\text{Assets} = \text{Liabilities} + \text{Equity}$)
 2. Statement of Profit & Loss (or Income Statement) - Shows company's financial performance over a period.
 3. Statement of Changes in Equity - Highlights movements in equity components (e.g., share capital, reserves).
 4. Cash Flow Statement - (Though more advanced and introduced later) shows cash inflows and outflows.
- In Unit 1, emphasis is on understanding the foundation: what a company is, its capital structure, and the need for structured accounting and reporting.

3.3 Summary table: -

Aspect	Description
Legal Existence	Separate, perpetual, artificial legal entity
Liability	Limited liability of shareholders
Capital Structure	Authorized → Issued → Subscribed → Called-up → Paid-up
Reporting Obligations	Maintenance of books, statutory audits, financial statements



Unit-2: Issue, Forfeiture & Re issue of shares

1. Introduction Of Issue Of Shares

1.1 Meaning of Share Issue

- A share represents ownership in a company and entitles the holder to a proportionate share in profits and assets.
- Issue of shares = process of offering shares to raise capital from public or private sources.

1.2 Modes of Issue

1. Public Issue

- Invitation to general public through Prospectus (under Companies Act & SEBI guidelines).
- Two types:
 - IPO (Initial Public Offer) - First-time issue by new company.
 - FPO (Further Public Offer) - Subsequent issue after IPO.

2. Private Placement

- Allotment to selected persons, not exceeding prescribed limit.

3. Rights Issue

- Offered to existing shareholders in proportion to their holdings (Sec 62 of Companies Act).

4. Bonus Issue

- Free shares issued to existing shareholders out of accumulated profits/reserves.

1.3 Price of Issue

- At Par - Issue price = Face value (e.g., ₹10 FV issued at ₹10).
- At Premium - Issue price > Face value (e.g., ₹10 FV issued at ₹12; ₹2 credited to Securities Premium Reserve).
- At Discount - Issue price < Face value
 - Generally prohibited under Companies Act, except Sweat Equity Shares.

1.4 Accounting Stages in Share Issue

- Application - Amount received along with application form.
- Allotment - Amount due on allotment of shares.

- First & Final Call - Balance payable in instalments as per company policy.

Journal Entries (at Par):

(i) On Application Money Received:	Bank A/c To Share Application A/c	Dr.
(ii) On Transfer to Share Capital:	Share Application A/c To Share Capital A/c	Dr.
(iii) On Allotment Due:	Share Allotment A/c To Share Capital A/c	Dr.
(iv) On Allotment Money Received:	Bank A/c To Share Allotment A/c	Dr.

(Similar entries for Calls: First Call, Final Call)

2. Issue Of Shares At Premium & Discount

2.1 Issue at Premium

- Premium = amount received over face value.
- Credit premium to Securities Premium Reserve (SPR).
- SPR can be used for:
 1. Issue of bonus shares.
 2. Writing off preliminary expenses.
 3. Writing off issue expenses/discount on issue of shares.
 4. Providing for premium on redemption of preference shares or debentures.

Journal Entries (at Premium):

- On Allotment Due:

Share Allotment A/c Dr.
 To Share Capital A/c
 To Securities Premium A/c

2.2 Issue at Discount

- Generally prohibited under Companies Act.
- Allowed in case of:



- Sweat equity shares to employees/directors.
- Entry:

Discount on Issue of Shares A/c Dr.
 To Share Capital A/c

2.3 Oversubscription & Pro-rata Allotment

- Oversubscription: Applications > Shares issued.
- Treatment:
 - Reject some applications (refund).
 - Allot shares on pro-rata basis and adjust excess application money towards allotment/calls.

3. Forfeiture Of Shares

3.1 Meaning

- If a shareholder fails to pay allotment or call money after reminders, company may cancel his shares → called forfeiture.
- Shares revert back to the company and amount already received is forfeiture gain.

3.2 Conditions

- Articles of Association must authorize.
- Due notice to defaulting shareholder.

3.3 Accounting Entries

- For Shares Issued at Par:

Share Capital A/c Dr. (Face value of shares forfeited)
 To Forfeited Shares A/c (Amount received)
 To Calls in Arrears A/c (Unpaid amount)

- For Shares Issued at Premium:

- Premium is NOT reversed on forfeiture (unless not received).

Share Capital A/c Dr.
Securities Premium A/c Dr. (if premium unpaid)

To Forfeited Shares A/c
To Calls in Arrears A/c

3.4 Effect of Forfeiture

- Forfeited Shares A/c = gain on forfeiture → treated as Capital Reserve on reissue.

4. Reissue Of Forfeited Shares

4.1 Meaning

- Company reissues forfeited shares to new buyers, often at discount.
- Discount on reissue \leq Forfeiture amount credited on those shares.

4.2 Journal Entries

- On Reissue:

Bank A/c	Dr. (Amount received)
Forfeited Shares A/c	Dr. (Discount allowed)
To Share Capital A/c (Face value)	

- On Transfer of Balance to Capital Reserve:

Forfeited Shares A/c	Dr.
To Capital Reserve A/c	

4.3 Example

- 100 shares of ₹10 each forfeited (₹6 received).
- Reissued at ₹8 per share.
- Entry:

Bank A/c	Dr. ₹800
Forfeited Shares A/c	Dr. ₹200
To Share Capital A/c	₹1,000

- Transfer remaining forfeiture gain:

Forfeited Shares A/c	Dr. ₹400
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To Capital Reserve A/c ₹400

5. Important Concepts & Exam Poin

5.1 Calls in Advance vs. Calls in Arrears

- Calls in Advance: Money received before due date → shown under liability.
- Calls in Arrears: Amount not received on due date → deducted from share capital.

5.2 Minimum Subscription

- As per SEBI, minimum 90% of issued amount must be subscribed for allotment.

5.3 Forfeiture & Reissue Conditions

- Forfeiture allowed only if authorized by Articles.
- Discount on reissue \leq forfeiture amount.
- Balance in Forfeited Shares A/c after reissue → Capital Reserve (NOT Revenue Reserve).

5.4 Practical Problems asked in Exams

- Issue of shares with pro-rata allotment.
- Journal entries for issue at premium.
- Forfeiture and reissue calculations.
- Treatment of securities premium.

5.5 Quick Summary Table

Concept	Key Point
Issue at Premium	Credit premium to Securities Premium Reserve
Issue at Discount	Generally prohibited (except sweat equity)
Forfeiture	Cancel shares for non-payment of calls
Reissue	Discount \leq Forfeiture amount
Capital Reserve	Balance of forfeiture after reissue

Unit-3 Issue Of Debentures

1. Introduction Of Debentures

1.1 Meaning of Debenture

- A debenture is a written acknowledgment of debt by a company, issued under its common seal, agreeing to pay a specified sum with interest.
- It is part of borrowed capital, not ownership capital.

Definition (Sec 2(30) of Companies Act, 2013):

"Debenture includes debenture stock, bonds, and any other instrument evidencing a debt, whether constituting a charge on the assets of the company or not."

1.2 Features of Debentures

- Acknowledgment of debt.
- Fixed interest payable, regardless of profits.
- Redeemable after a fixed period.
- May be secured or unsecured.
- No voting rights for holders (since they are lenders, not owners).

1.3 Difference Between Shares & Debentures

Basis	Shares	Debentures
Ownership	Represents ownership	Represents loan/debt
Return	Dividend (variable)	Interest (fixed)
Security	Unsecured (generally)	Usually secured
Voting	Yes	No

1.4 Types of Debentures

1. On the basis of security

- Secured (Mortgage) Debentures: Charge on company assets.
- Unsecured (Naked) Debentures: No charge on assets.

2. On the basis of convertibility

- Convertible Debentures: Convertible into shares.



- Non-convertible Debentures: Cannot be converted.

3. On the basis of redemption

- Redeemable Debentures: Repaid after a fixed period.
- Irredeemable Debentures: Not common now (prohibited under Companies Act).

4. On the basis of registration

- Registered Debentures: Name of holder recorded.
- Bearer Debentures: Transferable by delivery.

2. Terms & Conditions

2.1 Methods of Issue

- For cash (most common).
- For consideration other than cash (e.g., to vendors).
- As collateral security (secondary security for loan).

2.2 Issue Price

- At Par: Issue price = Face value.
- At Premium: Issue price > Face value.
- At Discount: Issue price < Face value (subject to Companies Act).

2.3 Terms of Redemption

- Redeemable at Par: Repayment at face value.
- Redeemable at Premium: Repayment at face value + premium.
- Premium payable on redemption is a liability and adjusted from Securities Premium Reserve or Profit & Loss.

2.4 Journal Entries (At Par)

- On application & allotment (lump sum):

Bank A/c	Dr.
	To Debentures A/c

2.5 Journal Entries (At Premium)

Bank A/c	Dr.
	To Debentures A/c

To Securities Premium A/c

2.6 Journal Entries (At Discount)

Bank A/c Dr.
Discount on Issue of Debentures A/c Dr.
 To Debentures A/c

3. Issue Of Debentures As Collateral Security

3.1 Meaning

- Debentures issued as an additional security for a loan taken.
- Company does not receive cash for these debentures.
- If loan repaid → debentures cancelled; if not → debenture holders claim payment.

3.2 Methods of Recording

1. First Method (No entry in books)
 - Just disclose in Notes to Accounts.
2. Second Method (Entry passed)

Debenture Suspense A/c Dr.
 To Debentures A/c

- **On redemption/cancellation:**

Debentures A/c Dr.
 To Debenture Suspense A/c

3.3 Example

Loan from bank: ₹10,00,000
Collateral: 1,000 debentures of ₹100 each.

Entry:

Debenture Suspense A/c Dr. 1,00,000
 To 12% Debentures A/c 1,00,000

4. Issue Of Debentures For Consideration Other Than Cash



4.1 Meaning

- When a company purchases assets from a vendor and pays by issuing debentures instead of cash.

4.2 Journal Entries

- On Purchase of Assets:

Vendor A/c	Dr.
	To Purchase of Assets A/c

- On Issue of Debentures:

Vendor A/c	Dr.
	To Debentures A/c
	To Securities Premium A/c (if issued at premium)

4.3 Example

Purchase of machinery ₹5,00,000 from X Ltd.
Payment by 10% debentures of ₹100 each at par.

Machinery A/c	Dr. 5,00,000
	To X Ltd. 5,00,000

X Ltd.	Dr. 5,00,000
	To 10% Debentures A/c 5,00,000

5. Important Points

5.1 Loss on Issue of Debentures

- If issued at discount or redeemable at premium, company bears a loss.
- This is a capital loss, shown as Miscellaneous Expenditure (Assets side) and written off over the life of debentures.

Loss on Issue of Debentures A/c Dr.
To Discount on Issue of Debentures A/c
To Premium on Redemption A/c

5.2 Interest on Debentures

- Fixed charge, even in loss years.
- Tax Deducted at Source (TDS) applicable on interest.

Interest on Debentures A/c Dr.
 To Debenture Holders A/c
 To TDS Payable A/c

5.3 Debenture Trust Deed

- Mandatory if issue > ₹1 crore.
- Appoint Debenture Trustees to protect investors' interest.

5.4 Quick Summary Table

Aspect	Treatment
Issue at Premium	Credit to Securities Premium A/c
Issue at Discount	Debit to Discount on Issue of Debentures A/c
Collateral Security	Disclosure or Debenture Suspense A/c
Loss on Issue	Shown as Misc. Expenditure, amortized over years



Unit-4 Issue Of Debentures

1. Introduction & Provisions

1.1 Meaning of Redemption of Preference Shares

- Redemption means repayment of the amount of redeemable preference shares to the shareholders after a fixed period or on the happening of a particular event.
- Governed by Section 55 of Companies Act, 2013.

1.2 Conditions for Redemption

A company cannot issue irredeemable preference shares. The conditions for redemption:

1. Authorization in Articles of Association.
2. Shares must be fully paid up.
3. Redemption can be made:
 - Out of profits available for dividend (free reserves), or
 - Out of proceeds of a fresh issue of shares.
4. Premium on redemption, if any, must be adjusted from:
 - Securities Premium Reserve, or
 - Profit & Loss Account (free reserves).
5. On redemption out of profits → Capital Redemption Reserve (CRR) must be created equal to nominal value redeemed from profits.

1.3 Why CRR is Created?

- To maintain the capital base of the company.
- Shown under Reserves & Surplus in Balance Sheet (as per Schedule III).

1.4 Provisions Regarding Issue for Redemption

- Cannot use Securities Premium Reserve for face value redemption.
- Can use new issue proceeds for redemption without creating CRR.



2. Sources For Redemption & Premium Adjustment

2.1 Sources for Redemption

- Fresh Issue of Shares

Amount received from new issue of shares (equity or preference) can be used.

- Profits Available for Dividend

i.e., General Reserve, Profit & Loss Balance (after tax & depreciation).

2.2 Treatment of Premium on Redemption

- If preference shares are redeemed at premium:
 - Premium adjusted first from Securities Premium Reserve (if available),
 - Balance from Profit & Loss Account (free reserves).

Entry for Premium Adjustment:

Profit & Loss A/c Dr.
(or Securities Premium A/c)
 To Premium on Redemption of Preference Shares A/c

2.3 Transfer to CRR

- When redemption is out of profits:

Profit & Loss A/c (or General Reserve) Dr.
 To Capital Redemption Reserve A/c

3. Journal Entries For Redemption

Case 1: Redemption Out of Profits

- Face value ₹1,00,000; premium ₹10,000; profits used for redemption.

1. On Premium Adjustment:

Profit & Loss A/c Dr. 10,000
 To Premium on Redemption of Preference Shares A/c 10,000



2. On Redemption Amount Due:

Preference Share Capital A/c	Dr. 1,00,000	
Premium on Redemption A/c	Dr. 10,000	
To Preference Shareholders A/c		1,10,000

3. On Payment:

Preference Shareholders A/c	Dr. 1,10,000	
To Bank A/c		1,10,000

4. On Transfer to CRR:

Profit & Loss A/c (or General Reserve)	Dr. 1,00,000	
To Capital Redemption Reserve A/c		1,00,000

Case 2: Redemption Out of Fresh Issue

- Fresh issue of equity shares ₹1,00,000; preference shares redeemed ₹1,00,000.

1. On Issue of Shares:

Bank A/c	Dr. 1,00,000	
To Equity Share Capital A/c		1,00,000

2. On Premium on Redemption (if any):

Securities Premium A/c	Dr.	
(or Profit & Loss A/c)		
To Premium on Redemption A/c		

3. On Redemption Due & Payment (same as above).

4. No CRR required (because redemption funded from fresh issue).

4. Special Adjustments & Examples**4.1 Example: Combination of Fresh Issue & Profits**

- Redeem ₹2,00,000 preference shares at 5% premium.
- Fresh equity issue: ₹1,20,000.
- Balance from profits.

- Premium on redemption: ₹10,000.

Working Notes:

- Premium: ₹2,00,000 × 5% = ₹10,000.
- Fresh issue reduces CRR requirement:
 - $CRR = \text{Nominal value redeemed} - \text{Proceeds of fresh issue} = ₹2,00,000 - ₹1,20,000 = ₹80,000.$

Entries:

Bank A/c	Dr. 1,20,000	
To Equity Share Capital A/c		1,20,000

Profit & Loss A/c	Dr. 10,000	
To Premium on Redemption A/c		10,000

Preference Share Capital A/c	Dr. 2,00,000	
Premium on Redemption A/c	Dr. 10,000	
To Preference Shareholders A/c		2,10,000

Preference Shareholders A/c	Dr. 2,10,000	
To Bank A/c		2,10,000

Profit & Loss A/c	Dr. 80,000	
To Capital Redemption Reserve A/c		80,000

4.2 Treatment in Balance Sheet

- CRR shown under "Other Reserves".
- Cannot be used for dividend; can be used for issuing fully paid bonus shares only.

5. Important Exam Points & Summary

5.1 Key Rules

- Redeemable preference shares only (irredeemable prohibited).
- Fully paid-up before redemption.



- Use profits or fresh issue for redemption.
- Create CRR if profits used.
- Premium adjusted from Securities Premium or free reserves.

5.2 Common Journal Entries

Situation	Entry
Premium on redemption	P&L A/c Dr. → Premium on Redemption A/c
Redemption payable	Pref. Share Capital A/c Dr. → Pref. Shareholders A/c
Payment to shareholders	Pref. Shareholders A/c Dr. → Bank A/c
Transfer to CRR	P&L/General Reserve A/c Dr. → CRR A/c

5.3 Quick Formula

$CRR = \text{Nominal Value of Shares Redeemed} - \text{Proceeds of Fresh Issue}$
(ignore premium and reserves for CRR calculation)

5.4 Exam Question Types

- Journal entries for redemption with/without premium.
- Calculation of CRR in mixed situations.
- Adjustment of premium from different reserves.
- Presentation in **balance sheet (Schedule III)**.

5.5 Snapshot Table

Aspect	Treatment
Premium on Redemption	Adjust from Securities Premium / P&L
Capital Redemption Reserve	Shown under "Reserves & Surplus"
Purpose of CRR	Issue of fully paid bonus shares

Unit-5 Redemption of Debentures

1. Introduction & Modes Of Redemption

1.1 Meaning of Redemption of Debentures

- Redemption of debentures = repayment of the amount due on debentures to holders at the time of maturity.
- It can be at par or at premium.

1.2 Conditions for Redemption

- Terms of redemption are mentioned in the debenture issue terms.
- Company may redeem:
 - At Par → repay face value.
 - At Premium → repay face value + premium.

1.3 Sources of Redemption

- Out of Profits (from General Reserve, P&L) → Create Debenture Redemption Reserve (DRR).
- Out of Proceeds of Fresh Issue of Shares/Debentures → No DRR required for certain companies (as per Companies Act).

1.4 Modes of Redemption

1. Lump Sum Payment - Full repayment on a specified date.
2. Installments - Repayment in parts.
3. Purchase in Open Market - Buy back debentures from market at discount or premium.
4. Conversion - Exchange debentures for shares or new debentures.
5. Sinking Fund Method - Amount set aside annually for redemption.

2. Debenture Redemption Reserve (DRR) & Premium Adjustment

2.1 Debenture Redemption Reserve (DRR)

- Mandatory requirement under Companies Act:
 - Transfer certain % of profits to DRR before redemption (as per current rules).



- Purpose: Protect debenture holders by ensuring funds for redemption.
- DRR can be used only for redemption of debentures.

Journal Entry:

Profit & Loss A/c (or General Reserve) Dr.
To Debenture Redemption Reserve A/c

2.2 Premium on Redemption

- If debentures are redeemable at a premium:
 - Premium adjusted from Securities Premium Reserve or Profit & Loss.

Entry:

Profit & Loss A/c (or Securities Premium A/c) Dr.
To Premium on Redemption of Debentures A/c

3. Journal Entries

3.1 Case 1: Redemption at Par

Debentures A/c Dr.
To Debenture Holders A/c
Debenture Holders A/c Dr.
To Bank A/c

3.2 Case 2: Redemption at Premium

Debentures A/c Dr.
Premium on Redemption A/c Dr.
To Debenture Holders A/c
Debenture Holders A/c Dr.
To Bank A/c

3.3 Case 3: Redemption by Conversion

- Instead of cash, company issues shares or new debentures.

Entry:

Debentures A/c Dr.
Premium on Redemption A/c Dr. (if any)
To New Debentures A/c
(or Equity Share Capital A/c)

4. Redemption by purchase in open market & Sinking Fund Method

4.1 Purchase in Open Market

- Company buys its own debentures from market at less than face value (gain) or more than face value (loss).

If purchase price < face value (gain):

Debentures A/c	Dr. (Face value)
To Bank A/c	
To Profit on Redemption of Debentures A/c	

If purchase price > face value (loss):

Debentures A/c	Dr.
Loss on Redemption of Debentures A/c	Dr.
To Bank A/c	

4.2 Sinking Fund Method (Debenture Redemption Fund)

- A fixed amount set aside annually and invested to accumulate enough funds for redemption.
- Steps:
 1. Transfer amount to Debenture Redemption Fund (DRF) every year.
 2. Invest the amount in securities.
 3. On redemption, sell investments and use proceeds to pay debenture holders.

Entries:

- Transfer to Fund:

Profit & Loss Appropriation A/c	Dr.
To Debenture Redemption Fund A/c	
- Purchase of Investments:

Debenture Redemption Fund Investment A/c	Dr.
To Bank A/c	
- On Sale of Investments:

Bank A/c	Dr.
To Debenture Redemption Fund Investment A/c	



5. IMP Points

5.1 Loss or Gain on Redemption

- Loss on Redemption → Transfer to Profit & Loss A/c.
- Profit on Redemption → Transfer to Capital Reserve.

5.2 Quick Snapshot Table

Method	Key Feature
Lump Sum Payment	Full redemption on fixed date
Installments	Partial redemption periodically
Purchase in Open Market	Buyback at discount or premium
Conversion	No cash outflow; exchange for shares/debentures
Sinking Fund	Annual provision & investment for redemption

5.3 DRR Rules (Current)

- DRR not required for:
 - Listed companies.
 - NBFCs & HFCs (subject to conditions).
- Required for unlisted companies (as per Companies Rules).

5.4 Journal Entries Recap

- Premium adjustment before redemption.
- Transfer of DRR from P&L.
- Final payment to debenture holders.

5.5 Common Exam Questions

- Redemption at premium using fresh issue of shares.
- Redemption by conversion.
- Redemption through sinking fund method (prepare accounts).
- Calculation of profit/loss on purchase of own debentures.

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