8. Company Accounts – Issue of shares

(A) Select he appropriate answer from the alternative given below and rewrite the sentence.

1. The balance of Share Forfeiture A/c is transferred to .... account after re-issue of these share.
a) Reserve Capital
b) Capital Reserve
c) Profit & Loss
d) Share capital

2. Premium received on issue of shares is shown to ....
a) Liability side of Balance Sheet
b) Asset side of Balance Sheet
c) Profit & Loss Account debit side
d) Profit & Loss A/c credit side.

3. Shareholders get .... on shares.
a) Interest
b) Commission
c) Rent
d) Dividend

4. The document inviting to subscribe the shares of a company is ....
a) Prospectus
b) Memorandum of Association
c) Articles of Association
d) Share certificate

5. As per SEBI guidelines minimum amount payable on share application should be …… of shareholder in Joint Stock Company is ....
(a) 10%
(b) 15%
(c) 2%
(d) 5%

(6) When shares are forfeited the Share Capital Account is -------
(a) credited
(b) debited

(c) neither debted nor credited
(d) None of the given

(7) The liability of shareholder in Joint Stock Company is (a) joint and several (b) limited (c) unlimited (d) huge.
a) Joint and Several
<u>**b) Limited**</u>
c) Unlimited
d) huge

8. The Share Capital which a company is authorised to issue by its Memorandum of Association is ....
<u>**a) Nominal capital/Authorised capital.**</u>
b) Issued capital
c) Paid up capital
d) Reserve capital

9. The unpaid amount on allotment and calls may be transferred to .... account.
a) calls in advance
b) calls
<u>**c) calls in arrears**</u>
d) allotment

10. There must be provision in .... for forfeiture of shares.
<u>**a) Articles of Association**</u>
b) Memorandum of Association
c) Prospectus
d) Balance Sheet

(B) Give one word/term/phrase for each of the following statements.

1. Amount called-up on shares by the company but not received.
Ans: calls in arrears

2. Issue of share at its face value
Ans: Issue at par

3. The person who purchase the shares of a company.
Ans: Shareholder

4. The form of business organisation where huge amount of capital can be raised.
Ans: Joint stock company

5. The capital which is subscribed by the public.
Ans: Subscribed capital

6. The shares having preferential right at the time of winding up of the company.
Ans: Preference Shares

7. The shares on which dividend is not fixed.
Ans: Equity shares

8. The part of subscribed capital which is not called-up by the company.
Ans: Uncalled capital

(1) State whether the following statements are True or False with reasons:

(1) Directors can forfeit the shares for any reason.

Ans. This statement is False.
After paying money on share application. When share applicant fails to pay the call money or premium on shares In Spite of repeated reminders and warnings directors/company ean forfell the shares.

(2) Once the application money is received, directors can immediately proceed for allotment of shares.

Ans. This statement is False.
Directors can proceed for allotment of shares only after receiving minimum subscription amount of the issued amount by cheque or other instrument complying all legal requirements.

(3) Joint stock company form of business organisations came into existence after industrial revolution.
Ans. This statement is True.
As the volume and scale of trade and industry expanded, especially after industrial revolution, a very large unit of commercial organisation requiring large capital and greater managerial skills, called Joint stock company came into existence.

(4) Equity shareholders get guaranteed rate of dividend every year.

Ans. This statement is False.
One of the feature for equity shares is the rate of dividend payable on equity shares keeps on changing from one year to another. So, there is no question of guaranteed dividend every year for equity shareholders.

(5) Face value of shares and market value of shares is always same.

Ans. This statement is False.
Face value of shares means issue price of shares while market value of shares means trading price of shares at stock exchange. Face value of shares remains same and fixed. However, market price changes as per the performance of the company. Hence face value and market value of shares are not same.

(6) Sweat shares are issued to public.

Ans. This statement is False.
Sweat shares are issued by a company to its directors or employees at a discount or for consideration other than cash. Sweat shares are not issued to public.

(D) State whether you agree or disagree with following statements.

1. In case of Pro-rata allotment the excess application money received must be refunded.
Ans: Disagree

2. Calls in Advance account is shown on the Asset side of the Balance sheet.
Ans: Disagree

3. The Authorised capital is also known as Nominal Capital.
Ans: Agree

4. Paid-up capital can be more than Called up Capital.
Ans: Disagree

5. Joint Stock company can raise huge amount of capital.
Ans: Agree

6. When shares are forfeited Shares Capital Account is credited.
Ans: Disagree

7. Directors can re-issue forfeited shares.
Ans: Agree

8. When the issued price of share is ₹ 12 and face value is ₹ 10, the share is said to be issued at premium.
Ans: Agree

9. Public limited company can issue its share without issuing its prospectus.
Ans: Disagree

10. Shares can be issued for consideration other than cash.
Ans: Agree

(E) (1) Answer in one sentence only :

(1) What is Preference Shares ?

Ans. Preference Shares is a type of a share which enjoys priority or preference over equity share for the repayment of dividend at a predetermined fixed rate and for the repayment of capital.

(2) What is Registered Capital ?

Ans. Registered Capital or Authorised Capital means maximum limit up to which a company is authorised to raise share capital.

(3) What is Reserve Capital ?

Ans. Reserve Capital is that part of the subscribed capital which is reserved to be called-up only at the time of winding up or liquidation of the company.

(4) What is Over Subscription of Shares ?

Ans. When a company received more applications of shares than those actually offered or issued to the public, known as Over Subscription of Shares.

(5) Which account is debited when share first call money is received ?

Ans. Bank account will be debited when share first call money is received.

(6) When are shares allotted on pro-rata basis ?

Ans. Shares are said to allotted on pro-rata basis, when the applications are received for more shares than the number of shares issued and shares are allotted in proportion of the number of shares applied for.

(7) What is Forefeiture of Shares ?

Ans. When a shareholder fails to pay the call money or premium on the shares in spite of repeated reminders and warnings, the company forfeit the shares of such defauters known as forfeiture of shares.

(8) What is Calls-in-Arrears ?

Ans. Non-payment of allotment or call money by the applicants inspite of repeated reminders are called Calls-in-Arrears.

(9) What do you mean by Shares Issued at Premium?

Ans. When shareholders are supposed to pay a price higher than the face value of the shares them shares are said to be issued at premium.

(10) What is Paid-up Capital ?

Ans. Part of the called-up capital which is actually paid by the shareholders is called Paid-up Share Capital.

(F) Complete the following sentences

1. When face value of the share is ₹ 100 and issued price is ₹120, then it is said that the shares are issued at **premium** .

2. **Authorised** Capital is the Capital which a company is authorised to issue by its Memorandum of Association.

3. The difference between Called-up Capital and Paid-up Capital is known as **calls in arrears**.

4. **Preference** share holders get fixed rate of dividend.

5. **Equity** share holders are the real owners of the company.

6. **Joint Stock Company** form of business organisation in which Capital is raised through the issue of shares.

7. **Subscribed** Capital is the part of issued capital which is subscribed by the public.

8. The part of Authorised Capital which is not issued to the public is known as **Unissued** Capital.