

SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE

Course: Accountancy and Financial Management IV Unit: 1 Prepared by: Mansi Bafna

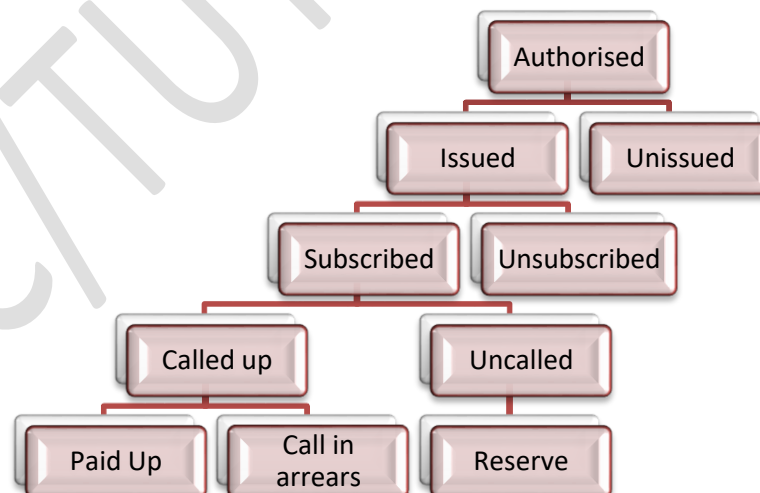
Introduction to Company Accounts

A company here means an organization registered under the companies act, 1956. It is recognized as an artificial person. The capital of the company is contributed by large number of people known as shareholders. These are the owners of the organization have voting rights as per their contribution

Share capital:

A company collects its capital from several persons. Such capital collected is called share capital and have a nominal value also called as face value. These persons are known as shareholders and the amount contributed by them is called share capital. Since the number of shareholders is extremely large, a separate capital account cannot be opened for each one of them. Hence, innumerable streams of capital contribution merge their identities in a common capital account called as 'Share Capital Account'.

Types of share capital



Authorised Capital: Authorised capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company cannot raise more than the amount of this capital as specified in the Memorandum of Association. It is also called Nominal or Registered capital.

Issued Capital: It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum.

Unissued Capital: The authorised capital which is not offered for public subscription is known as 'unissued capital'. Unissued capital may be offered for public subscription at a later date.

Subscribed Capital: It is that part of the issued capital which has been actually subscribed by the public i.e. the public has shown interest in buying these shares.

Called up Capital: It is that part of the subscribed capital which the company has demanded from its shareholders. The company may decide to call the entire amount or part of the face value of the shares. For example, if the face value (also called nominal value) of a share allotted is Rs. 10 and the company has called up only Rs. 7 per share, in that scenario, the called up capital is Rs. 7 per share. The remaining Rs. 3 may be collected from its shareholders as and when needed.

Paid up Capital: It is that part of the called up capital which has been actually received from the shareholders. When the shareholders have paid the entire call amount, the called up capital is the same to the paid up capital. With reference to the above example, if out of Rs. 7 the shareholders have actually paid only Rs. 4, the paid up capital will be Rs. 4.

Call in arrears: If any of the shareholders has not paid amount on calls, such an amount may be called as 'calls in arrears'. Therefore, paid up capital is equal to the called-up capital minus call in arrears. Continuing our example further, Rs. 3 (Rs. 7- Rs. 4) will be call in arrears.

Uncalled Capital: That portion of the subscribed capital which has not yet been called up. As stated earlier, the company may collect this amount any time when it needs further funds. Rs. 3 (Rs. 10- Rs. 7) will be called as uncalled capital.

Reserve Capital: A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.

The following example will help us understand how the various capitals will be reflected in the balance sheet of the organization. Simara Co. Ltd., Hyderabad, has registered its capital as Rs. 50,00,000, divided into 5,00,000 shares of Rs. 10 each. The company offered to the public for subscription of 2,00,000 shares of Rs. 10 each, as Rs. 2 on application, Rs.3 on allotment, Rs.3 on first call and the balance on final call. The company received applications for 2,00,000 shares. The company did not make the final call. The company received the entire amount except on 2,000 shares where call money has not been received. The above amounts will be shown in the Notes to Accounts of the balance sheet of Sunrise Company Ltd. as follows:

Notes to Accounts

Share Capital		(Rs.)
Authorised or Registered or Nominal Capital: 5,00,000 Shares of Rs. 10 each		50,00,000
Issued Capital 2,00,000 Shares of Rs. 10 each		20,00,000
Subscribed Capital Subscribed but not fully paid up 2,00,000 Shares of Rs. 10 each, Rs. 8 called up	16,00,000	
Less : Calls in Arrears	(6,000)	15,94,000