

MEANING OF KEY TERMS USED IN THE CHAPTER

1. Company

It is an entity incorporated through a process of law for undertaking (usually) a business. It is an artificial person distinct and separate from its members who are known as **shareholders**.

A company may be one person company, a private company or a public company.

2. One Person Company

It means a company which has only one person as a member.

3. Private Company

It is a company with minimum paid-up share capital as may be prescribed* and which by its Articles of Association:

- (i) restricts the right to transfer its shares, if any.
- (ii) except in the case of One Person Company, limits the number of its members excluding its present and past employee members to 200; if the past or present employee acquired the shares while in employment and continue to hold them.

If any share is held jointly by two or more persons, they shall be treated as a single member.

- (iii) prohibits any invitation to the public to subscribe for any securities of the company.

The minimum number of members required to form a private company is **two**.

The name of a Private Company ends with the words, 'Private Limited'.

4. Public Company

It is a company which has minimum paid-up share capital as may be prescribed* and

- (i) is not a one person company or a private company;
- (ii) is a private company, being a subsidiary of a company which is not a private company.

Minimum number of members required to form a public limited company is **seven**. There is no restriction on maximum number of members.

The name of a public company ends with the word 'Limited'.

5. Share

'Share' means a share in the Share Capital of a company and includes stock. [Section 2(84) of the Companies Act, 2013]

It is a unit into which Share Capital of a company is divided.

*The companies are not required to have minimum paid-up capital at present vide notification dated 20th May, 2015.

- 6. Share Capital** Share Capital means the capital raised by the issue of Shares Share Capital of a company limited by shares is of two kinds, namely,
(A) Preference Share Capital, and
(B) Equity Share Capital.
- 7. Preference Share Capital** It is a kind of share capital which carries preferential rights in respect of payment of dividend and repayment of capital over Equity Share Capital, if the company is wound-up.
- 8. Equity Share Capital** It is that share capital which is not Preference Share Capital.
- 9. Allotment of Shares** Allotment is the allocation of shares to the successful applicants by the directors of a company.
- 10. Allotment Money** The amount payable on allotment is called '**Allotment Money**'.
- 11. Authorised or Nominal Capital** 'Authorised Capital' or 'Nominal Capital' means such capital as is authorised by the Memorandum of a company to be the maximum amount of Share Capital of the company.
[Section 2(8) of the Companies Act, 2013]
It is the maximum amount of capital which the company is, for the time being, authorised to raise.
- 12. Issued Capital** 'Issued Capital' means such capital as the company issues from time to time for Subscription. [Section 2(50) of the Companies Act, 2013]
- 13. Subscribed Capital** 'Subscribed Capital' means such part of the capital which is for the time being subscribed by the members of a company.
[Section 2(86) of the Companies Act, 2013]
- 14. Paid-up Share Capital or Share Capital Paid-up** 'Paid-up Share Capital' or 'Share Capital Paid-up' means such aggregate of money credited and paid-up as is equivalent to the amount received as paid-up in respect of shares issued and also includes any amount credited as paid-up in respect of shares of a company, but does not include any other amount received in respect of such shares, by whatever name called.
[Section 2(64) of the Companies Act, 2013]
- 15. Subscribed and Fully Paid-up** It is the amount of share capital issued by a company that is subscribed on which the company has called and also received entire nominal (face) value of the share.
- 16. Subscribed but not Fully Paid-up** It is the amount of share capital issued by a company that is subscribed but the company has not received entire nominal (face) value of the share.
- 17. Reserve Capital** It is that part of the subscribed capital that a company resolves to call in the event of its winding-up.
- 18. Capital Reserve** It is a reserve created out of capital profits.
- 19. Issue of Shares for Cash** It means the consideration for shares is received by way of cheque or any other banking instrument.

- 20. Issue of Shares for Consideration Other than Cash** It means consideration for shares is not received by way of cheque or any other banking instrument but they have been issued for assets purchased or services taken.
- 21. Par Value** Par value means the Nominal or Face value of a share.
- 22. Issue of Shares at Par** It means the issue price and nominal (face) value of the share is same.
- 23. Issue of Shares at Premium** It means the issue price of the share is higher than its nominal (face) value.
- 24. Shares Payable in Lump sum** It means that shares are issued for a consideration payable in Lump sum, *i.e.*, full issue price is payable along with the application.
- 25. Shares Payable in Instalments** It means that shares are issued for a consideration not payable in Lump sum but in parts.
- 26. Undersubscription of Shares** The shares are said to be undersubscribed if the number of shares applied for is less than the number of shares issued for subscription.
- 27. Oversubscription of Shares** When the company receives applications for more shares than issued, it is known as '**Oversubscription**'.
- 28. Pro rata Allotment** *Pro rata* allotment means allotment in proportion of shares applied for.
- 29. Calls-in-Arrears** It is that part of the calls money that has been called-up by the company but has not been received by the company.
- 30. Calls-in-Advance** It is that amount which has not been called-up by the company but has been received by the company.
- 31. Forfeiture of Shares** Forfeiture of shares means cancellation of allotted shares.
- 32. Reissue of Shares** Reissue of shares means sale of forfeited shares.
- 33. Private Placement of Shares** It refers to issue and allotment of shares to a selected group of persons.
- 34. Employees Stock Option** It means the option granted to the employee directors and employees of a company which gives such employee directors and employees, the right to purchase, or to subscribe for, the shares of the company at a future date at a predetermined price.
- 35. Sweat Equity** The term 'Sweat Equity Shares' is defined in the Companies Act, 2013 [Section 2(88)] as "*Sweat Equity Shares means such equity shares as are issued by a company to its directors or employees at a discount or for consideration other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called.*" Thus, Sweat Equity Shares can be issued in lieu of know-how or intellectual property right or value additions which may be called by any name. Further these shares may be issued at a discount for cash or for consideration other than cash. Sweat Equity Shares are allowed to be issued at discount by Section 54 of the Companies Act, 2013. However, a company may issue these shares at par or at premium, as it decides.

CHAPTER SUMMARY

- A *company* is an organisation formed by an association of persons through a process of law for undertaking (usually) a business venture.

The *essential characteristics* of a company are:

- (i) It is a *voluntary association* of individuals coming into existence through a process of law for undertaking (usually) a business.
- (ii) It is an *artificial legal person* created by the process of law.
- (iii) It has a *separate legal entity*.
- (iv) It has a *perpetual succession*, i.e., it can be created and wound up by law only.
- (v) It may or may not have a *common seal*, i.e., official seal of the company.
- (vi) The *shares of a company can be transferred* from one person to another.

- **Share Capital**

- (i) *Authorised Share Capital* is the maximum amount up to which a company can issue shares.
- (ii) *Issued Share Capital* is a part of authorised share capital that is issued by the company for subscription.
- (iii) *Subscribed Share Capital* is a part of issued share capital that is subscribed.

Subscribed Share Capital is shown as:

- Subscribed and fully paid-up.
 - Subscribed but not fully paid-up.
- *Called-up* amount is the amount of nominal value of share that has been called-up for payment.
 - *Paid-up* amount is the amount that is received by the company.
- (iv) *Reserve Capital* is a part of subscribed share capital that a company resolves, by a Special Resolution, not to call except in the event and for the purpose of company being wound up.

- **Types of Shares:** Shares that can be issued are Preference Shares or Equity Shares.

Preference Shares are the shares that carry preferential right as to dividend at fixed rate and preferential right as to repayment of capital.

Equity Shares are the shares that are not Preference Shares.

Shares can be issued (i) for cash and (ii) for consideration other than cash.

Further, the shares can be issued for cash: (i) at par, or (ii) at premium.

- Shares can be Issued for consideration other than cash: (i) at par, or (ii) at premium.
- **Oversubscription of Shares** means shares applied for are more than the shares offered for subscription.
- **Undersubscription of Shares** means shares applied for are less than the shares offered for subscription.
- **Pro rata Allotment** means allotment of shares in a fixed proportion. *Pro rata* allotment takes place only when the shares are oversubscribed.

- **Securities Premium** can be utilised for the purposes prescribed in Section 52(2) of the Companies Act, 2013, which are:
 - (i) writing off preliminary expenses;
 - (ii) writing off expenses such as share issue expenses, commission, discount allowed on issue of Securities;
 - (iii) providing for the premium payable on redemption of debentures or Preference Shares;
 - (iv) in buying-back its own shares; or
 - (v) issuing fully paid bonus shares.
- **Call** is a demand by a company from the holders of partly paid shares to pay a further instalment towards full nominal value.
- **Calls-in-Arrears** is the amount not yet received by the company against the call or calls demanded.
- **Calls-in-Advance** is the amount received by the company from its allottees against the calls not yet made. Calls-in-Advance is shown as 'Other Current Liability' under 'Current Liabilities'.
- **Forfeiture of shares** means cancellation of shares and forfeiting the amount received against these shares. Forfeiture of shares takes place when a shareholder fails to pay the calls made.

Securities Premium — How dealt when shares are forfeited

In case where Securities Premium Account has been credited and also it has been received—Securities Premium Account is not debited because of the restrictions imposed by Section 52(2) of the Companies Act, 2013 as to utilisation.

In case Securities Premium Account has been credited but the amount has not been received—Securities Premium Account is debited because, the amount has not been received and, therefore, Section 52(2) of the Companies Act, 2013 does not apply.

Reissue of Forfeited Shares: *Forfeited Shares can be reissued and they may be reissued at a value lower than its face value. But the discount on reissue of a share cannot be more than the forfeited amount of that share credited to Forfeited Shares Account at the time of forfeiture.*

Regarding Reissue of Forfeited Shares, always keep in mind that:

1. Discount on Reissue cannot exceed the forfeited amount.
2. If the Discount on reissue is less than the amount forfeited, the surplus (*i.e.*, gain on reissue of shares) is transferred to Capital Reserve.
3. When only a part of the forfeited shares is reissued then the gain on reissue of such shares is transferred to Capital Reserve.
4. The forfeited amount on shares not yet reissued is shown in the Balance Sheet as an addition to the paid-up share capital.
5. When the shares are reissued at Discount, such discount is debited to Forfeited Shares Account.
6. If the shares are reissued at a price which is more than the nominal (face) value of the shares, the excess amount is credited to Securities Premium Account.
7. In case the forfeited shares are reissued at a price higher than the paid-up value, the excess of issue price over paid-up value is credited to 'Securities Premium Account'.

- **Private Placement of Shares:** It refers to issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a selected group of persons, is called **Private Placement of Shares**.
- **Employees Stock Option Plan (ESOP):** It is the plan for granting options to subscribe shares by employees and employee directors.
- **Sweat Equity:** *"Sweat Equity Shares means such equity shares as are issued by a company to its directors or employees at a discount or for consideration other than cash, for providing their know-how or making available rights in the nature of intellectual property rights or value additions, by whatever name called."*