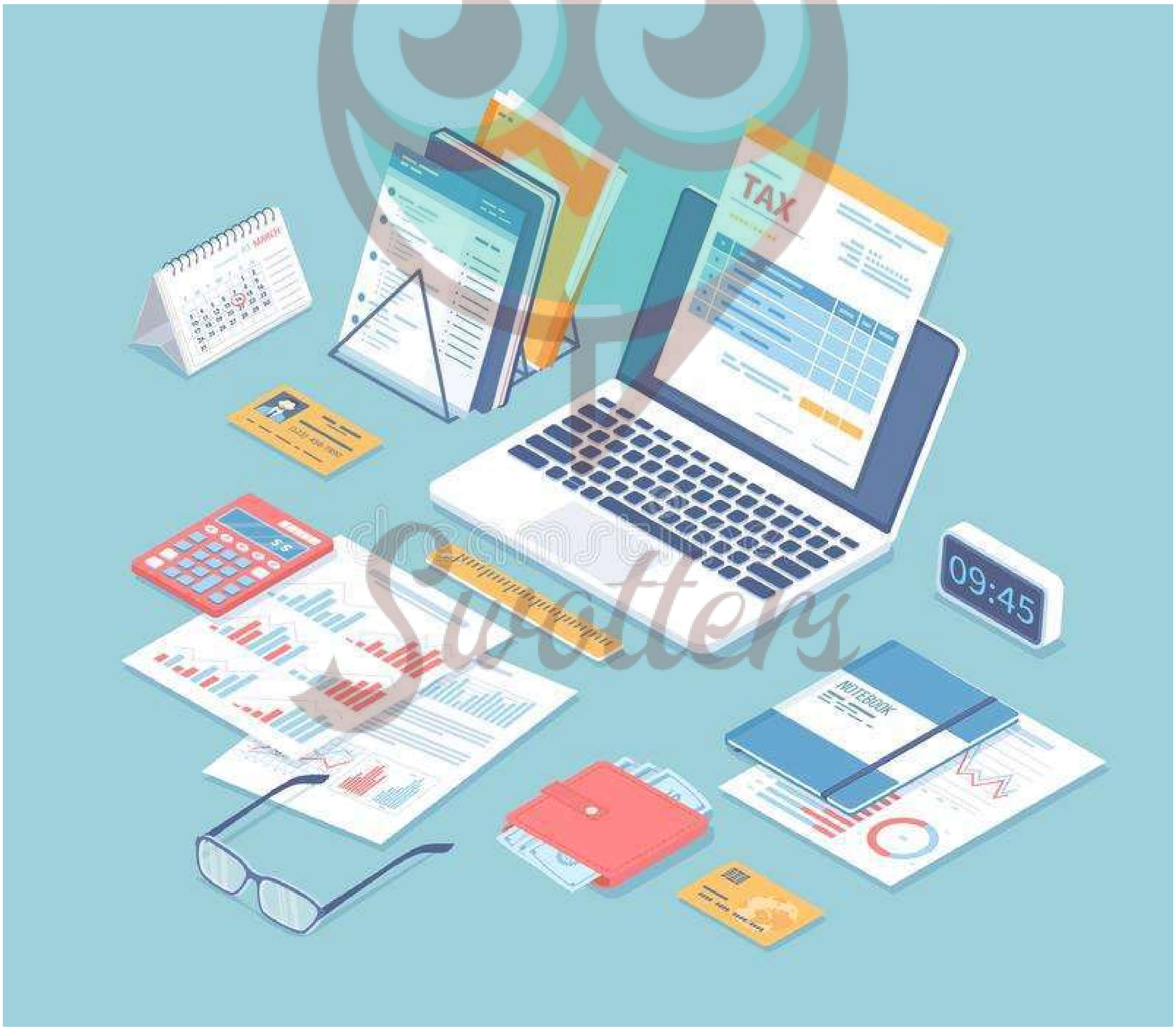
ACCOUNTANCY



Important Questions

Multiple Choice questions-

Question 1. A Joint stock company has:

(a) Common Seal

(b) Limited Liability

(c) Separate Legal Entity

(d) All of these

Question 2. Private company is one which:

(a) Restrict the right of members to transfer shares

(b) Prohibits any invitation to the public to subscribe

(c) Limit the number of members to two hundred

(d) All of the above.

Question 3. Minimum number of members in a public company:

(a) 2

(b) 7

(c) 50

(d) No limit.

Question 4. Minimum number of members in a private company:

(a) 2

(b) 7

(c) 50

(d) No limit.

Question 5. Maximum number of members in a private company:

(a) 7

(b) 50

(c) 100

(d) 200.

Question 6. Maximum number of members in a public company:

(a) 2

(b) 7

(c) 50

(d) No limit.

Question 7. Equity shareholders are the _______ of the company.

(a) Owners

(b) Creditors

(c) Money lenders

(d) Customers.

Question 8. Debenture holders are the ______ of the company.

(a) Owners

(b) directors

(c) Moneylenders

(d) Customers.

Question 9. Preference shareholders are the _______ of the company.

(a) First Owners

(b) Second Owners

(c) Money lenders

(d) Customers.

Question 10. Companies in India are governed by companies Act:

(a) 1912

(b) 1976

(c) 1932

(d) All of these.

Very Short Questions-

1. What is meant by over subscription of shares?
2. What is meant by 'par value' of a share?
3. Is Reserve Capital a part of Unsubscribed Capital or Uncalled Capital?
4. A company issued 25,000 equity shares of ₹ 10 each but received applications for 30,000 shares. Name the case of subscription.

5. Where will you show call in arrears in the balance sheet?
6. Where will you show call in advance in the balance sheet?
7. At what rate of interest, interest on call in arrears, is charged?
8. At what rate interest on calls-in-advance is paid by the company according to Table F of Companies Act, 2013?
9. How would you deal in a situation where the value of purchase considerations is more than the value of net assets while acquiring a business?
10. When can shares held by a shareholder be forfeited?

Short Questions-

1. What is public company?
2. What is private limited company?
3. When can shares be forfeited?
4. What is meant by Calls-in-Arrears?
5. What do you mean by a listed company?
6. What are the uses of securities premium?
7. Write a brief note on ‘Minimum Subscription’.

Long Questions-

1. What is meant by the word ‘Company’? Describe its characteristics.
2. Explain in brief the main categories in which the share capital of a company is divided.
3. What do you mean by the term ‘share’? Discuss the type of shares, which can be issued under the Companies Act, 2013 as amended to date.
4. Describe the provision of law relating to ‘Calls-in-Arrears’ and ‘Calls-in-Advance’.
5. Describe the purposes for which a company can use ‘Securities Premium Account’.

Assertion Reasons Questions-

1.For two statements are given-one labelled Assertion and the other labelled Reason.

Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

a. Assertion and Reason both are correct and Reason is the correct explanation of the assertion
b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
c. Both Assertion and Reason are not correct
d. Only Assertion is correct

Assertion [A]: A portion of uncalled capital of a company to be called only in the event of winding up of the company, is known as Reserve Capital.

Reason (R): Company will call the uncalled capital on the due date except the Reserve Capital because It will not be called during the life time of the business. It will be called only the case of winding up.

2. For two statements are given-one labelled Assertion and the other labelled Reason. Select the correct answer to these questions from the codes (a), (b), (c) and (d) as given below.

a. Assertion and Reason both are correct and Reason is the correct explanation of the assertion
b. Assertion and Reason both are correct but Reason is not correct explanation of assertion
c. Both Assertion and Reason are not correct
d. Only Assertion is correct

Assertion [A]: Amount received on shares as 'Secterities Premium can be utilized to write off the 'Share Issue Expenses'.

Reason (R): Amount of Securities Premium can be utilized only for the purposes which are specified in the Section 52 (2) of the Companies Act, 2013.

Case Study Questions-

MCQ Answers-

1. Answer: (d) All of these
2. Answer: (d) All of the above.
3. Answer: (b) 7
4. Answer: (a) 2
5. Answer: (d) 200.

6. Answer: (d) No limit.
7. Answer: (a) Owners
8. Answer: (c) Moneylenders
9. Answer: (b) Second Owners
10. Answer: (d) All of these.

Very Short Answers-

1. Answer: Oversubscription of shares means that the company receives applications for more than the number of shares offered to the public for subscription.
2. Answer: Par value is the nominal value or the face value of the share.
3. Answer: Yes.
4. Answer: Over subscription
5. Answer: As deduction from the subscribed but not fully paid share capital.
6. Answer: It is shown under other current liabilities.
7. Answer: 10%p.a.
8. Answer: As per Table F, company is required to pay interest on the amount of calls in advance @ 12% p.a.
9. Answer: It would refer to loss.
10. Answer: On the non-payment of call money due.

Short Answers-

1. A Public company as per section Sec 2(71) and Sec.3 (1) (a) of Company Act, 2013 means a company which:

   i. Is not a private company.

   ii. Has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed.

   iii. Is a private company, being a subsidiary of a company which is not a private company.

   The stock of a public company can be acquired by any individual and it may be through IPO or through trading on stock market.

2. As per Section 2(68) of Companies Act, 2013, Private limited companies are defined as companies that have following characteristics:

   i. Companies whose article of association restricts transfer of shares.

ii. No minimum paid up capital.

iii. Minimum 2 members and maximum of 200 members (Only one in case of One Person Company).

iv. Must include “private limited” or “Pvt Ltd” in their names.

v. Shares of a private company are not traded in stock exchanges.

3. A shareholder has to pay allotment money for holding the shares and has to pay the calls which are part of share allotment. When a shareholder fails to do so, a 14 days’ notice is served to the shareholder, if the shareholder does not pay in these 14 days, the shares will be forfeited.

4. When an investor (shareholder) fails to pay all the instalments for the allotted shares in the due time, the company expects the investor to pay the amount on subsequent calls or stages. The amount of money that is paid at later stages is called as Call-in-Arrears.

5. Public companies whose shares are listed in recognised stock exchanges for public trading are called as Listed Company. Such companies are also known as Quota Companies. Once the securities are listed it helps the investors in knowing the value of their investment in a listed company. It provides the potential investors an idea about the goodwill of the company and helps them on taking future investment decisions and evaluate the viability of investing in the company.

6. **Securities premium can be used for these activities:**

i. Issuing fully paid up bonus shares to existing shareholders.

ii. Writing off expense of issue of shares and debentures, such as discount given on issue of shares.

iii. Writing off preliminary expenses

iv. Buying back shares

v. For paying premium payable on redemption of debentures.

7. It refers to the minimum amount of shares that must be subscribed by the public, so that the share allotting company can allot shares to the applicants, is termed as Minimum Subscription. If Minimum Subscription is not attained, the company cannot allot shares to its applicants and it should refund the amount received to the public. Minimum Subscription should not be less than 90% of the amount issued.

Long Answers-

1. Section 2(20) of the Companies Act 2013, defines the term “company” to mean “a company incorporated under the Companies Act, 2013 or any previous company law. In general parlance, a company is an artificial person, created by law and having a separate legal entity, common seal, perpetual succession and limited liability. It is a voluntary association of persons who come together and contribute capital for doing business. Capital of a company is available in form of shares and the ownership of shares is subject to certain terms and conditions. Public and private are two forms of company.

   Characteristics of a Company:

   i. A company is an association formed voluntarily by a group of persons having a common business goal. Minimum number of members required for a private company is two and that for a public company is seven.

   ii. Company is a juristic and artificial person created by law.

   iii. Company is a separate legal entity from shareholders and directors. It has the authority to open a bank account, sign contracts and own property in its name.

   iv. The liability of the members of a company is limited to the unpaid value of the shares they are holding.

   v. The company is having perpetual existence which means the existence of the company is not affected by death, insolvency or retirement of any of its members.

   vi. The company being an artificial person has no individual signature, hence it carries a common seal for validating the official documents.

   vii. Shares of a public company is transferrable while private companies do not allow transfer of shares without member’s consent.

2. **Following categories of share capital are there:**

   i. **Authorised Capital:** This is the maximum amount a company can raise by issuing of shares. It is the amount mentioned during the formation of Memorandum of Association.

   ii. **Issued Capital:** A portion of authorised share capital that is offered by the company to general public for subscription.

   iii. **Unissued Capital:** A part of authorised capital that is not yet offered to general public for subscription but can be offered in near future.

iv. **Subscribed Capital:** A part of issued capital which is subscribed by the general public.

v. **Unsubscribed Capital:** Referred to as that part of issued capital that has not been subscribed by the people (public).

vi. **Called up Capital:** It is a portion of the subscribed capital for which the shareholders are called to pay.

vii. **Uncalled up capital:** It is that part of a subscribed capital that is not yet called up, but can be called up as per requirement.

viii. **Paid Up Capital:** It is part of called up share capital that is received by the shareholders.

ix. **Reserve Capital:** A company may call up certain part of uncalled share capital when a company is winding up. This cannot be used for any other purpose other than paying back creditors, hence it is called reserve capital.

3. In a company the capital is split into small denominations which are known as shares. Shares can be easily transferred from one person to another and this transfer is bound by certain terms and conditions. Shareholder is that person who is contributing capital in form of shares. Ownership is limited to the value of shares possessed by the shareholder.

   There are two types of shares:

   i. **Preference Share:** Section 43 of the Company Act, 2013 defines preference shares as which entitles the holder to receive dividend and also the right to receive capital invested in order of preference before equity share holders when the company is wind up.

   ii. **Equity Shares:** Equity shareholders manage the affairs of the company and also have a voting right. These type of share do not possess any preferential right for dividend payment or capital repayment. The dividend rate is not fixed and varies year on year which is dependent on available profit left after distributing to preference shareholders.

4. When an investor (shareholder) fails to pay all the instalments for the allotted shares in the due time, the company expects the investor to pay the amount on subsequent calls or stages. The amount of money that is paid at later stages is called as Call-in-Arrears. The company is authorized by its Article of Association for charging a interest at a specified rate on the call in arrears amount from due date till the date of payment. If Article of Association does not mention or is silent about such a case, then a 5% charge is

levied.

The amount is deducted from called up share capital on the liabilities side of Balance Sheet. If the due amount is not paid the shares can forfeited with proper notice to shareholders.

When the shareholder pays the whole amount before the share payment date becomes due i.e. before the share issuing company makes a call for it. It is known as Calls-in-advance. In case of advance payment the company has provision in their article of association to pay interest to shareholders from date of payment till date of call. If the article of association is silent in this regard, then a default 6% interest is provided.

It is shown on liabilities side of Balance Sheet under the heading of current liabilities.

5. **Securities premium account can be used for these activities:**

   i. Issuing fully paid up bonus shares to existing shareholders.

   ii. Writing off expense of issue of shares and debentures, such as discount given on issue of shares..

   iii. Writing off preliminary expenses.

   iv. Buying back shares.

   v. For paying premium payable on redemption of debentures.

Assertion Reason Answer-

1. (a) Assertion and Reason both are correct and Reason is the correct explanation of the assertion.

2. (a) Assertion and Reason both are correct and Reason is the correct explanation of the assertion.