



1. Name the class of shares which does not enjoy any preferential right in respect of dividend or repayment of capital.

ANS. Equity shares.

2. Name the class of shares which enjoys the right to receive dividend or to be paid back before any other shares.

ANS. Preference shares.

3. What are the preferential rights enjoyed by the holders of preference shares?

ANS. (1) Right to receive dividend at a fixed rate before any dividend is paid on equity shares.

(2) Right to be repaid capital when the company goes into liquidation.

4. A company cannot proceed with the allotment of shares offered for public subscription unless the amount stated in the prospectus as the minimum amount has been subscribed and the sums payable on application have been received by the company. What is the name of this amount?

ANS. Minimum subscription.

5. What is the term used for the amounts received by a company in advance from shareholders in respect of calls yet to be made?

ANS. Calls-in-advance.

6. What is the term used for the amounts due on allotment or calls but not received from the shareholders within the specified time?

ANS. Calls-in-arrear.

7. What is the term used to mean compulsory termination of membership and confiscation of the shares by way of penalty for non-payment of any call on these shares?

ANS. Forfeiture of shares.

8. What is the term used when shares are issued at a price above the face value?

ANS. Issue at a premium.

9. What is the term used when shares are issued at its par value?

ANS. Issue at par.

10. What is the term used when shares are issued at a price below its face value?

ANS. Issue at a discount.

11. Can a company issue shares at a discount?

ANS. No, the Companies Act, 2013, prohibits issue of shares at a discount.

12. When shares are issued at a premium, the excess of face value is credited to which account?

ANS. Securities premium account.

13. Can a company use securities premium account for any purpose it likes?

ANS. No, the Companies Act, 2013, restricts its use for certain specific purposes only.

14. Can securities premium be used for writing off past losses?

ANS. No, securities premium cannot be used for writing off past losses.

15. Can a company write off discount on issue of debentures against its securities premium account?

ANS. Yes, discount on issue of debentures can be written off against securities premium.

16. Can a company write off expenses of issue of shares or debentures against its securities premium account?

ANS. Yes, the Companies Act, 2013, allows a company to use securities premium account for the purpose of writing off expenses on issue of shares or debentures.

17. Can commission paid on any issue of shares or debentures be written off against securities premium account?

ANS. Yes, a company can write off commission paid on any issue of shares or debentures against securities premium account.



18. A company wants to utilise its securities premium account for writing off preliminary expenses. Can it do so?

ANS. Yes, the company can utilise its securities premium account for writing off preliminary expenses.

19. What is the term used to express the maximum amount of share capital which a company is allowed by its memorandum to issue?

ANS. Authorised capital/Nominal capital.

20. What is the term used for the amount of capital which a company issues from time to time for subscription?

ANS. Issued capital.

21. What is the name used for that part of the capital which is, for the time being, subscribed by the members of a company?

ANS. Subscribed capital.

22. What expression is used to mean the part of the share capital which has been called for payment?

ANS. Called-up capital.

23. Sometimes a company, by a special resolution, determines that a portion of its uncalled capital shall not be capable of being called up, except in the event and for the purpose of the company being wound up. What is the term used for such uncalled capital so earmarked?

ANS. Reserve capital.

24. The liability of each member or shareholder for the debts of the company is limited to the amount unpaid on the shares which he holds. State the *word/phrase* used to express the same.

ANS. Limited liability.

25. Usually a company invites the public through a prospectus to subscribe its shares, what type this issue of shares is called?

ANS. Public issue of shares.

26. Sometimes shares are offered for subscription through private circulation to a selected group of persons such as friends and relatives of directors, trade associates, banks and other financial institutions etc. What type this issued of shares is called?

ANS. Issue of shares by private placement.

27. While making a public issue of shares, a part of the issue may be reserved by the company for allotment to some predetermined persons who express their willingness to take a strategic stake in the company. What kind this allotment of shares is called?

ANS. Preferential allotment.

28. When an existing company wants to make a further issue of shares, the issue must first be offered to the existing equity shareholders in a fixed proportion. What name is used to express this type of issue of shares?

ANS. Rights issue.

29. Sometimes a company issues shares to its promoters for their services or to vendors of some assets as consideration of purchase price. What term is used to express such an issue of shares?

ANS. Issue of shares for consideration other than cash.

30. When an issue of shares is oversubscribed, the company usually allots the shares offered to all or to some of the applicants on a proportionate basis. What type this allotment of shares is called?

ANS. *Pro rata* allotment.

31. What is the term used for the reserves which have been created out of profits of extraordinary nature not earned in the usual course of business?

ANS. Capital reserves.

32. What is the term used for the reserves which have been created out of revenue profit and which may be available for distribution as dividend?

ANS. Revenue reserves.



33. What is the term used for the reserve which is represented by earmarked securities invested outside the business?

ANS. Reserve fund.

34. Mention two important documents which are required to be filed for registration of a joint stock company.

ANS. Two important documents to be filed for registration of a company are : (i) Memorandum of Association. (ii) Articles of Association.

35. Distinguish between nominal capital and paid up capital.

ANS. Nominal capital is the amount stated in the memorandum as the maximum amount which the company has power to raise.

Paid up capital is the amount actually received in cash from the shareholders.

36. Distinguish between authorised capital and issued capital.

ANS. Authorised capital is the amount stated in the memorandum as the maximum amount which the company has power to raise. Issued capital is the amount the public has been asked to provide.

37. What do you mean by equity shares?

ANS. Equity shares are those shares which do not enjoy any preferential right in respect of dividend or repayment of capital.

38. What do you mean by preference shares?

ANS. Preference shares are those shares which have : (i) a preferential right to receive a fixed rate of dividend before any dividend is paid on equity shares, and (ii) a preferential right to be repaid capital when the company goes into liquidation.

39. What is minimum subscription?

ANS. Minimum subscription is the amount stated in the prospectus as the minimum amount which, in the opinion of the directors, must be raised by the issue of shares in order to ensure that the company can pay the debts incurred in connection with its formation and preliminary expenses, and the amount left will be sufficient for working capital.

40. Name any two statutory books maintained by a company under the Companies Act.

ANS. (1) Register of members. (2) Register of directors and key managerial personnel and their shareholding.

41. How do you distinguish between cumulative and non-cumulative preference shares?

ANS. In case of cumulative preference shares, if dividend in any year cannot be paid due to non-availability of profit, the holders are entitled to get such arrear dividend out of profits of subsequent year or years. In case of non-cumulative preference shares, if dividend in any year cannot be paid, the right to receive dividend for that year lapses.

42. What is the minimum time interval between two consecutive share calls as per law?

ANS. The minimum time interval between two consecutive share calls is one month.

43. Explain the term calls-in-advance.

ANS. Some shareholders in a company pay their shares in full, even though the company has not called up the full amount of the shares. In such a case, the money received by the company in excess of what has been called up is called calls-in-advance.

44. Explain the term calls-in-arrear.

ANS. It is possible that when calls are made, some shareholders may fail to pay the amounts due on allotment or calls. The total of amounts not so received by the company is termed as calls-in-arrear.

45. Define 'share capital' of a company.

ANS. Share capital is the total value of shares issued, or authorised to be issued, by a company.

46. What do you mean by 'authorised capital' of a company?

ANS. '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.

47. What is meant by 'issued capital' of a company?

ANS. 'Issued capital' means such capital as the company issues from time to time for subscription.



48. What is meant by 'subscribed capital' of a company?

ANS. 'Subscribed capital' means such part of the capital which is for the time being subscribed by the members of a company.

49. What do you mean by 'called up capital' of a company?

ANS. 'Called up capital' means such part of the capital which has been called for payment.

50. What rate of interest the company charges on calls-in-advance if it has not prepared its own articles of association?

ANS. Maximum 12% p.a.

51. Give any one purpose for which the amount received as securities premium may be utilised.

ANS. Writing off the preliminary expenses of the company.

52. What do you understand by the term 'limited liability' in the context of a joint stock company?

ANS. The term 'limited liability' means the liability of each member or shareholder for the debts of the company is limited to the amount unpaid on the shares which he holds.

53. Distinguish between calls-in-arrear and calls-in-advance.

ANS. Calls-in-arrear represents amounts due on allotment or calls not received from the shareholders within the specified time. Calls-in-advance represents amounts received in advance from shareholders in respect of calls yet to be made.

54. What do you mean by 'under-subscription' of shares?

ANS. When the number of shares applied for by the public is less than the number offered for subscription, it is a case of under-subscription.

55. What is meant by 'over-subscription' of shares?

ANS. When the number of shares applied for by the public is more than the number offered for subscription, it is a case of over-subscription.

56. What a company will do when an issue of shares is over-subscribed?

ANS. When an issue of shares is over-subscribed, the company will allot only that number of shares which it has offered to the public for subscription. Hence the company may make a *pro rata* (i.e., proportionate) allotment to all the applicants or it may make a full allotment to some applicants, a partial allotment to others and no allotment to the rest.

57. What a company will do when an issue of shares is under-subscribed?

ANS. When an issue of shares is under-subscribed, the company can proceed with the allotment of shares applied for provided the minimum subscription has been received.

58. What is meant by issue of shares *at par*, at a premium and at a discount?

ANS. When shares are issued at a price equal to their face value, it is called *issue at par*. When shares are issued at a price above their nominal or face value, it is called *issue at a premium*. When shares are issued at a price below their nominal or face value, it is called *issue at a discount* which is prohibited by the Act.

59. What is share premium?

ANS. When a company issues shares at a price above their nominal or face value, the excess of the price above the nominal value is called *share premium* which has to be credited to an account called *securities premium account*.

60. How is share premium treated in accounts?

ANS. When a company issues shares at a premium, the amount of premium shall be credited to a special account called *securities premium account*. It shall appear in every balance sheet under the heading 'shareholders funds' and sub-heading 'reserves and surplus'.

61. Why is 'premium on issue of shares' treated as a capital profit in a joint stock company?

ANS. Premium on issue of shares is treated as capital profit because it has not been earned in the usual course of business. The law also requires it to be treated as such and prohibits its distribution as dividend.



62. When are shares issued at a premium?

ANS. A company may issue shares at a premium when its existing shares stand at a high price in the market, or when it can be confidently anticipated that there will be a strong demand for the issue.

63. Can securities premium be freely distributed as dividend?

ANS. The securities premium may only be used for certain specific purposes without any deviations. It is not available for distribution as dividend.

64. What do you mean by forfeiture of shares?

ANS. Forfeiture of shares means compulsory termination of membership and confiscation of the shares by way of penalty for non-payment of any call on these shares.

65. Under what circumstances can shares be forfeited?

ANS. Shares can be forfeited, if authorised by the articles, for non-payment of the money which became due when a call was made.

66. On what condition can forfeited shares be reissued?

ANS. Forfeited shares can be reissued subject to the following conditions:

The price charged must not be less than the amount that was in arrear when the shares were forfeited.

67. At what price may a company reissue shares which have been forfeited?

ANS. Forfeited shares can be reissued at any price according to the decision of the company subject to one condition that, if the reissue is made at a discount, the amount of discount must not exceed the amount forfeited (i.e., the amount actually received on those shares at the time of forfeiture).

68. What is the minimum price at which a company can reissue its forfeited shares which were originally issued *at par*?

ANS. The amount which was in arrear from the original allottee is the minimum price at which forfeited shares can be reissued.

69. Can forfeited shares be reissued at a discount? If so, to what extent?

ANS. The law permits reissue of forfeited shares at a discount. The amount of discount must not, however, exceed the amount forfeited (i.e., the amount actually received on those shares at the time of forfeiture).

70. In what way, if any, can forfeited shares account be used?

ANS. The balance in the forfeited shares account is used to make up the deficiency, if forfeited shares are reissued at a discount. Any amount remaining in the forfeited shares account after the reissue is a capital profit which should be transferred to a capital reserve and used to write off losses or expenditure of a capital nature.

71. Where would you transfer the balance left in the forfeited shares account after the reissue of forfeited shares?

ANS. The balance left in the forfeited shares account after the reissue of forfeited shares represents a capital profit, which should be transferred to capital reserve.

72. What do you mean by capital reserves?

ANS. Capital reserves are those created out of profits which are extraordinary in nature (i.e., profits which do not result from the operations carried on by the company) and not available for distribution as dividends.

73. State one effects of forfeiture of shares.

ANS. The forfeited shares cease to form part of the share capital of the company and holders of such shares cease to be members of it.

74. Give two examples of capital profits.

ANS. (i) Premium on issue of shares and debentures. (ii) Profit on reissue of forfeited shares.

75. What do you mean by revenue reserves?

ANS. Revenue reserves are those which may be available for distribution as dividend. These are created out of revenue profits (e.g., transfer from profit and loss statement).



76. What is reserve capital?

ANS. Sometimes a company, by a special resolution, determines that a portion of its uncalled capital shall not be capable of being called up, except in the event and for the purpose of the company being wound up. The uncalled capital so earmarked is known as reserve capital.

77. Distinguish between a reserve and a reserve fund.

ANS. A reserve fund is one which is represented by securities earmarked for it. If the amount of the reserve is invested in outside securities, the reserve will become a reserve fund. The term 'reserve' alone implies that the amount represented by the reserve is being utilised in the business itself.

78. Distinguish between specific reserve and general reserve.

ANS. Specific reserves are those created for a particular purpose, such as, equalisation of dividends, redemption of debentures, etc. General reserves are those created only to strengthen the financial position of the company and to keep funds available for meeting any future contingencies that may arise.

79. What is meant by *pro rata* allotment of shares?

ANS. When an issue of shares is over-subscribed, the company usually makes a proportionate allotment to all the applicants or to some of the applicants. This is called *pro rata* allotment of shares.

80. What do you mean by issue of shares for consideration other than cash?

ANS. A company may purchase some assets from a vendor and settle the purchase price by issuing shares of the company, or promoters of a company may be issued shares for their

services rendered to the company. Such an issue of shares is termed as issue of shares for consideration other than cash.

81. What is meant by rights issue of shares?

ANS. When an existing company wants to make a further issue of shares, the issue must first be offered to the existing equity shareholders in a fixed proportion. This is known as rights issue of shares.

82. What is meant by preferential allotment of shares?

ANS. While making a public issue of shares, a part of the issue may be reserved by the company for allotment to some predetermined persons like promoters of the company, financial institutions, buyers of the company's products, suppliers of its raw materials etc. This is called preferential allotment of shares.

83. What do you mean by issue of shares by private placement?

ANS. Sometimes shares are offered for subscription through private circulation to a selected group of persons such as friends and relatives of directors, trade associates, banks and other financial institutions, prospective investors etc. This is called issue of shares by private placement.

84. What are preliminary expenses?

ANS. These are expenses necessarily incurred for the formation or promotion of a company, such as, low costs, registration fees, printing of prospectus, advertising and other expenses incidental to the formation.

85. What do you mean by public issue of shares?

ANS. When a company invites the public through a prospectus to subscribe its shares, it is called public issue of shares.