SYLLABUS

Class – B.Com. II Year

Subject – Corporate Account

UNIT – I	Share: Meaning, types, Issue, Forfeiture, Re-issue of shares, Redemption of preference shares, Corporate Social Responsibility.
UNIT – II	Debenture : Meaning, types, issue and redemption of debentures, Profit loss account and balance sheet of the company (in brief).
UNIT – III	Calculation of profit and loss prior and post incorporation, Liquidation of company, Accounting for liquidation of companies.
UNIT – IV	Goodwill: Concept, types, characteristics/Nature, Valuation goodwill, Valuation of shares.
UNIT – V	Meaning of holding and subsidiary company, preparation of consolidated balance sheet of a holding company with one subsidiary company.
UNIT – VI	Accounting for Merger as per AS 14, Internal reconstruction of a company per Indian accounting standard 14.

UNIT-I
SHARE : ISSUE, FORFEITURE AND REISSUE

Definitions : Total Capital of the company is divided into units of small denomination. One of the units into which the capital of the company is divided is called shares.

Types of shares :
Preference Shares
Preferences shares with reference to any company limited by shares are those which carry:
(a) A right to be paid a fixed amount of dividend or the amount of dividend, calculated at a fixed rate, e.g., 10% nominal value of shares and also.
(b) A right to be paid the amount of capital paid up as such shares in the event of winding up of the company.

The articles share capital is the sum of total of preference shares.

Equity shares : all the shares are equity shares which are not preference shares i.e. having no priority in dividend and return of capital.

CLASSES OF CAPITAL

In view of the stages involved in collecting the money on shares, the shares capital of a company may be classified as follow:

(1) Authorised Capital: It is the capital which is stated in company's memorandum of association with which the company intends to be registered. It is called the nominal or registered capital. It is the maximum amount of shares capital which a company is authorised to raise by issuing the shares.

(2) Issue Capital: It is that part of the authorised capital which is actually offered (issued) to the public for subscription. Therefore, the issued capital can never be more than the authorised capital. It can at the most be equal to the nominal capital. The balance of nominal capital remaining to be issued is called 'unissued capital'.

(3) Subscribed Capital: It is that part of the issued capital which has been actually subscribed by the public. In other words, it is that part of issued capital for which the applications have been received from the public and shares allotted to them.

(4) Called-up Capital: It is that part of nominal value of issued capital which has been called-up or demanded on the shares by the company. Normally, a company does not collect the full amount of shares it has allotted.

(5) Paid-up Capital: It is that part of the called-up capital which has actually been received from the shareholders.

(6) Reserve Capital: It is that part of the uncalled capital which cannot be called by the company except in the event of its winding up.

Issue of Shares at par- issued at its face value

	Account	
Transaction	**Debit**	**Credit**
(1)Receipt of application money	Bank	Share Application
(2)Application Money in respect of shares allotted	Share Application	Share capital
(3)Refund in respect of rejected applications	Share application	Bank
(4)Adjustment of excess application money towards allotment	Share application	Share Allotment
(5)Adjustment of excess application money Towards calls-in-advance	Share application	Calls-in-advance
(6)When allotment is made and the money Becomes due		Share capital
(7)Receipt of allotment money	Share allotment	Share allotment
(8)Where a call is made for the call money due	Bank	Share capital
(9)Adjustment of money in calls-in-advance Towards the call account	Share call Calls-in-advance	Share call
(10)Receipt of call money	 Bank	Share call a/c

ISSUE OF SHARES AT PREMIUM

The term 'Securities' has been defined under Section 2(45AA) inserted by Companies (Amendment) Act, 2000. The premium is an amount in excess of par value or nominal value or face value of the securities (shares). Where a company issues securities at a premium whether for cash or for a consideration other than cash, a sum equal to aggregate amount of premiums on these securities shall be transferred to Securities Premium Account. The Securities Premium Account may be applied by the company:

(a) in paying up unissued shares of the company to be issued to the members of the company as fully paid bonus shares:
(b) in writing off the preliminary expenses of the company;
(c) in writing off the expenses of or commission paid or discount allowed on any issue of shares or debentures of the company.
(d) In providing for the premium payable on the redemption of any redeemable preference shares or any debentures of the company.
(i) A company may issue shares at a premium, i.e, at a value greater than its face value. Premium so received shall be credited to a separate account called **Securities Premium Account.**

Journal Entries

(a) If the premium is paid with application money, the following entries will be passed:

(i) Bank Account Dr.
    To Share Application A/c
(Being share application money along with premium received)
(ii) Share Application Account Dr.
    To Share Capital A/c
    To Securities Premium A/c
(Share application money transferred to share capital A/c and Securities Premium A/c)

If the Securities Premium is received along with the allotment money, then the following entries will be passed

(i) Share Allotment Account Dr.
    To Share Capital A/c
    To Securities Premium A/c
(Being the allotment money and securities premium money due on …….. shares)
(ii) Bank Account Dr.

To Share Allotment Account
(Being the receipt of allotment along with share premium)

Note-According to Section 78 of the Companies Act, 1956 Securities Premium account may be used in following purposes only:
- (i) For the issue of fully paid bonus shares to the members of the company;
- (ii) For writing off preliminary expenses of the company;
- (iii) For writing off the expenses of the commission paid or discount allowed on any issued of shares of debentures of the company; and
- (iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

ISSUE OF SHARES AT A DISCOUNT

Discount means a price which is less than nominal value or face value of a share. If share of Rs. 10 is issued at Rs. 8, then, 10-8, i.e., the amount of Rs.2 is discount.
When shares are issued at a price which is lower than market price but not below the face value of the shares, such an issue is not an issue at a discount.

1. A company shall not issue shares at discount except in the Company of a class already issued, if the following conditions are fulfilled, namely:
   - (i) The issue of the shares at a discount is authorised by a resolution passed by the company in general meeting and sanctioned by the company in general meeting and sanctioned by the Company Law Boards;
   - (ii) The resolution specifies the maximum rate of discount at which the share are to be issued;
   - (iii) Not less than one year has at the date of issue elapsed since the date on which the company was entitled to commence business; and
   - (iv) The shares to be issued at discount are issued within two moths after the date on which the issue is sanctioned by the Company Law Board or within such extend time as the Company Law Board May allow.
2. Where a company has passed a resolution authorizing the issue of shares at a discount, it may apply to the Company Law Board for an order sanctioning the issue, on such application the Board may make an order if it thinks proper to do so, sanctioning the issue on such terms and conditions as it thinks fit.
3. Every prospectus relating to the issue of shares shall contain particulars of the discount allowed on the issue of shares.

A company can issue shares at a discount, i.e., value less than the face value

Journal Entry

The following journal entry is passed on the issue of the shares at a discount at the times of allotment:

Share Allotment Account Dr.
Discount on the Issue of Shares Account Dr.
To Share Capital Account

CALLS IN ARREARS AND CALLS IN ADVANCE

Calls in Arrears-

If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears. On such calls in arrears, If there is a provision in the Articles of Association, the company can charge interest **@ 5% for the period for which such amount remained in arrears from the shareholders.**

Calls in Advance-

calls received in advance and. Generally interest is paid on such calls according to the provisions of the Articles of Association but such rate **should not exceed 6% per annum.**

Bank A/c Dr. (amount received on calls)
Calls in Arrears A/c Dr. (amount not received on calls)

To share I/II Call money A/c (amount of call money due)

FORFEITURE OF SHARES

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares.

Journal Entries

The following entry is passed at the time of forfeiture of shares.

Share Capital Account Dr. (with the **called amount** (Nominal) On such shares **as capital**)
Securities Premium A/c Dr. **(If not received)**
To Discount on Issue of Shares **(If shares are issued at discount Initially)**

To Calls in Arrears a/c (amount unpaid on calls/Allotment)

To Share forfeited A/c (with the amount already received)

RE ISSUE OF FORFEITED SHARES

Bank A/c Dr. (Amount received on such reissue)
Discount on the Issue of Shares A/c Dr. (with original rate of discount and originally were issued at discount)

Shares Forfeited A/c Dr. (Loss on reissue of shares)
To Share Capital A/c (with face value of shares)
To Securities Premium A/c (If shares are reissued at premium)

Note:- If Shares forfeited account is showing credit balance after reissue of all forfeited shares, such profit should be treated as capital profit and the amount relating to shares reissued will be transferred to capital reserve by passing the following entry:

Shares Forfeited Account Dr.
To Capital Reserve A/c

When all Forfeited Shares are not issued

When all forfeited sharers shares are not issued, i.e., only a part of such shares is reissued, then amount of surplus in forfeited account related to these shares should be transferred to capital Reserve instead of Whole amount.

SURRENDER OF SHARES

When a shareholder gives up his shares to the company voluntarily and sacrifices all his rights, it is known as surrender of shares. There is no provision in Table A of the Companies Act regarding surrender of shares and a company cannot possible accept the surrender of fully paid up shares as it amounts to purchase of its own shares which is prohibited by Sec. 77. Sometimes Articles of Association empowers the directors to accept surrender of shares. Ultimate effect of surrender of shares and forfeiture of shares is the same because in both cases membership of the shareholder comes to an end. The main point of difference between the two is that surrender is at the initiative of the shareholders while forfeiture is at the initiative of the company.

Accounting record for surrender of shares is the same as that of forfeiture.

Redemption of Preference shares

Preference Shares

Preferences shares with reference to any company limited by shares are those which carry:

(c) A right to be paid a fixed amount of dividend or the amount of dividend, calculated at a fixed rate, e.g., 10% nominal value of shares and also.

(d) A right to be paid the amount of capital paid up as such shares in the event of winding up of the company.

The articles share capital is the sum of total of preference shares.

Those of Preference Shares

These may be of the following types:

1. **Cumulative Preference Shares:** These share are entitled to dividend at a fixed rate whether there are profits or not. The company pays dividend if it has sufficient profits. In case the company does not have sufficient profits, dividend on cumulative preference shares will go on accumulating till it is fully paid off, such arrears are carried forward to the next year and are actually paid out of the subsequent years' profits. In the case of winding up of the company, the arrears of dividend on these shares are payable only if the article of association contains express provision in this respect. It may be noted, that all preference shares are presumed to be cumulative unless expressly stated in the articles to be non-cumulative.
2. **Non-cumulative Preference Shares:** Non-cumulative preference shares are those shares on which the arrears of dividend do not accumulate. If in a particular year there are no profits are inadequate, the shareholders shall not get anything or receive a partial dividend and they cannot claim the arrears of dividends in the subsequent year. In simple words, on such shares the unpaid dividends do not accumulate but lapse, i.e., the shareholders lose them forever.
3. **Participating Preference Shares:** The holders of such shares are entitled to receive dividend at a fixed rate and, in addition, they have a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders, there are surplus assets, then the holders of such shares shall be entitled to share in the surplus assets as well. Such shares can be issued only if there is a clear provision in the memorandum or articles of association or the terms of issue.
4. **Non-participating Preference Shares:** The holders of such shares are entitled to only a fixed rate of dividend and do not participate further in the surplus profits. If the articles are silent, all preference shares are deemed to be non-participating.
5. **Convertible Preferences Shares:** the holder of such shares have a right to convert these shares into equity shares within a certain period.
6. **Non-convertible Preference Shares:** The preference shares, where the holders have no right to convert their shares into equity shares are known as non-convertible preferences shares. Unless otherwise stated preference shares are assumed to be non-convertible.
7. **Redeemable Preference Shares:** ordinarily, the amounts received by the company on shares is not returned except on the winding up of the company. A company limited by shares, if authorised by its articles, may issue preference shares which are to be redeemed or repaid after a certain fixed period. Thus, the amounts received on such shares can be returned during the life-time of the company. Such shares are termed as redeemable preferences shares.

REDEEMABLE PREFERENCE SHARES

- Preference shares cannot be redeemed **unless they are fully paid up**. In other words partly paid-up shares cannot be redeemed.
- Preference shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company

- When Preference shares are redeemed out of profits available for distribution as dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called **'Capital Redemption ReserveAccount'.** Such reserve can be used for issuing fully paid bonus shares to the shareholders. .

Redemption out of Profit

As the act permits the redemption of shares out of the profits, which are otherwise liable for dividend, transfer to capital redemption reserve account must be made only from out of such divisible profits.

Profits otherwise available for dividend (Transfer to capital redemption reserve Account is allowed from these	Profits not available for dividend (Transfer to capital redemption reserve account is not allowed from these profits)
1.General reserve	1.Security premium account
2.Reserve fund	2.Forfeited shares account
3.Dividend equalization fund	3.Profit prior to incorporation
4.Insurance fund	4.Capital reserve
5.Workmen's compensation fund	5.Development rebate reserve
6.Workmen's accident fund	
7.Voluntary debenture redemption account	
8.Voluntary debenture sinking fund	
9.Profit and loss account	

PROCEDURE FOR SOLVING PROBLEMS

- First of all see whether the redeemable preference shares are fully paid up or partly paid up. If partly paid up, make the following journal entries to make them eligible for redemption because fully paid shares can be redeemed.
  - Debit Preference Share Final Call A/c
    Credit Preference Share Capital A/c
  - Debit Bank A/c
    Credit preference Share Final Call Account

2.

Debit Redeemable Preference Shares Capital A/c	(With face value)
Debit Premium on Redemption A/c	(With premium to be paid on Redemption)
Credit Preferences shareholders A/c	(Total amount to be paid on Redemption)

Make entry for Fresh issue of equity shares either with premium or with Discount

Debit Bank Account	(with amount actually received)
Debit Discount on Issue of Shares	(If shares are issued at discount)
Credit Equity Share Capital	(with face value of shares issued)
Credit Securities Premium	(If shares are issued at premium)

- Provide premium to be paid on redemption of preference shares out of securities premium account (from fresh issue or existing balance) or profit and loss account or general reserve etc.
  Debit Securities Premium A/c **or** Profit & Loss Account **or** General Reserve
  Credit Premium on Redemption Account s
- if redemption is to be made out of profits:
  Debit Profit & Loss **or** General Reserve A/c etc.
  Credit Capital Redemption Reserve Account (**with nominal value of shares)**

- Payment will be made to the preference shareholders by passing the following entry.
  Debit Preferences Shareholders A/c

Credit Bank Account

- If redemption of preference sharers is made by conversion of some other shares, then the following entry will be passed:
  Debit Preferences Share Capital A/c
  Credit New Share Capital A/c
- Sometimes capital redemption reserve account is utilised for issuing fully paid bonus shares. In such a case the following entries will be passed.
  - When decision is taken to issue bonus shares
    Debit Capital Redemption Reserve A/c Or Securities Premium A/c Or Any other Reserve (Specifically mentioned in the question)
    Credit Bonus to Equity Shareholders A/c
  - When issue of bonus shares is made
    Debit Bonus to Equity Shareholders A/c
    Credit Equity Share Capital A/c

SYLLABUS

Class – B.Com. II Year

Subject – Corporate Account

1. Declaration of Dividend, P&L Appropriation a/c and Disposal of Profits

Divisible Profits

Divisible profits represent the portion of the profits earned by the company which is available for the distribution of dividend in shareholders.

At first, provisions for income tax as required u/s (198) of Companies Act 2013 and provision for depreciation u/s 123(1)(a) are made out of the profits of current year. Then out of remaining profit sufficient amounts are transferred to the reserves and funds of the company. Now the balance available in the profit and loss account is called divisible profits. The divisible profits are distributed in shareholders in the following two forms:

(1) In the form of dividend
(2) In the form of Bonus

Meaning of dividend

Dividend is the portion of company's profit which can be distributed in the shareholders. U/s 2(14) dividend includes interim dividend. The interim dividend is included in the definition of dividend to control the delay in the payment of dividend to the shareholder and declaration of interim dividend by the companies. U/s 205(1) the directors are empowered to declare interim dividend.

Provision of Company's act regarding divided

(1) Out of profits- Dividend can be declared and paid out of the profits of current year. The profits must be calculated after providing for depreciation u/s 123(1)(a).
(2) Previous year's profit- If there are undistributed profits of previous year, then divided can be declared and paid out of such profits also, provided that the provisions for depreciation is made u/s 123(a).
(3) Guarantee by Government- Dividend can be distributed out of the money received from the central or state government as guarantee.
(4) Provision for depreciation- Dividend can be distributed out of profits only when the depreciation is provided for, but the central Government can exempt any company from this provision in public interest. Provisions to provide depreciation are given u/s 123(1)
(5) Cash payment of dividend – Dividend must be paid in cash (or cheque) and not in kind. The bonus shares can be issued for the capitalization of profits. Alternatively the partly paid up shares can be converted in to the fully paid up shares by using the profits of company.
(6) Payment of registered shareholders only – Payment of dividend is made to the registered shareholders only or to the persons or bankers as ordered by them.
(7) Period for the payment of dividend – Dividend must be paid within 30 days from the declaration of dividend.
(8) Rate of dividend by directors – The rate of dividend is decided by directors.

Appropriation of Profits

At the time of disposal or appropriation of profits the two main points should be taken care of – First the shareholder should be paid dividend at an appropriate rate, and the second, the creation or reserves and funds to strengthen the financial position of the company. The transfers to various provisions, reserves, and funds out of profits are called appropriation or disposal of profits. An account is prepared for this purpose after preparing profit and loss account. The remaining balance in the profit and loss appropriation account is shown in the Balance Sheet.

Distinction between Profit & Loss Account and Profit & Loss Appropriation Account

In profit loss account all the items of charge against are taken, while in profit & loss appropriation account all the item of Appropriation of profit ate taken. Profit & Loss account is called 'above line' and profit & loss appropriation account is called 'below line.'

Items to be debited to profit & Loss appropriation account –

1. The loss of last year brought forward.
2. The loss of current year transferred from profit & loss account of current year.
3. Transfer to various reserves.
4. Transfer to sinking fund for redemption of debentures, dividend equalization fund, employees' welfare fund etc.
5. bonus (if provided for from this account)
6. Interim dividend paid
7. Proposed dividend
8. Corporate dividend tax u/s 115 – 0
9. Balance to be carried forward.

Items to be credited to profit & /Loss appropriation account –

1. The credit balance of last year brought forward
2. The profit of current year transferred from profit & loss account
3. Transfer from various reserves
4. The reserves created in the past but now not required.

2. Managerial Remuneration

Managerial Remuneration

Overall managerial remuneration – Section 197 puts a maximum limit (exclusive of any fees payable to directors, for attending meeting of the Board or any committee of the Board) of 11% of the net profits on total remuneration payable by the company to its directors, including managing directors and its manager (if any).

Managerial remuneration includes any expenditure incurred by the company –

1. In providing any rent-free accommodation, or any other benefit or amenity in respect of accommodation free of charge;
2. In providing any other benefit or amenity free of charge or at a concessional rate.
3. In respect of any obligation or services which, but for such expenditure by the company, would have been incurred by the person concerned; and
4. To affect any insurance on the life of, or to provide any pension, annuity or gratuity for, the person concerned or his spouse or child.

However, if in any financial year a company has no profits or its profits are inadequate, the company any pay to its managing or whole-time director or manager remuneration according to schedule XIII, part II, section II

The managerial remuneration will be calculated according to the following rates –

S.No	Managerial Personnel	Maximum % of Net profit
1.	Overall limit to all the managerial Personnel (S.198)	11
2.	All directors, when the company is having managing director, whole time director or manager.	1
3.	All directors, when the company is not having a managing director, whole-time director or manager	3
4.	Manager	5
5.	Managing director ore whole-time director when there is one	5
6.	Managing director or whole-time directors when there is more than one	10

3. Profit and loss Prior to and Post incorporation

In corporate world, it is a normal practice that a company, which is not yet incorporates, acquires the running business of another company, partnership firm or sole trader. The incorporation of the purchasing company takes place on a later date.

Accounting Treatment of Pre-incorporation Profit/Loss-

Profit prior to incorporation

Any profit prior to incorporate may be dealt with as follows –

1. Credited to capital reserve account
2. Credited to goodwill account to reduce the amount of goodwill arising from acquisition of business
3. Utilized to write down the value of fixed assets acquired.

Loss Prior to incorporation

Any loss prior to incorporation may be dealt with as follows –

1. Debited to goodwill account
2. Debited to capital reserve account arising from acquisition of business.
3. Debited to a suspense account, which can be written off later as a fictitious assets.

Post incorporation profit /Loss

The post incorporation profit is a revenue profit available at company's disposal. This can be used for distribution of dividend to shareholders. It can be used to write off revenue losses. If there is post incorporation loss it is taken to profit & loss account. The final balance of profit & loss account will be shown in balance sheet. Debit balance is shown on asset side and credit balance on liabilities side.

Basis of distribution of expenses

Basis	**Items**
1. Time ratio	Rent, Salaries, Insurance Premium, Tax, Rates, Printing, Stationery, Postage, Depreciation, fixed expenses, General expenses, sundry expenses, Bank charges, Repairs, Electricity expenses, Office expenses, Administrative expenses etc.
2. Sales Ratio	Selling expenses, Advertisement, Discount allowed, Bad debts etc.
3. Prior to incorporation	Salary and commission to vendor.
4. Post incorporation	Expenses and discount on issue of shares and debentures, underwriting Commission, Preliminary expenses, formation expenses, Audit fees, Interest on debentures, Directors fees, Managing director's remuneration, Subscription to political party by the company, Goodwill written off.

4. Final Account of companies

As per 129 of Companies Act, 2013, the board of directors of every company is required to present in the annual general meeting the statement of profit and loss and the balance sheet on the last day of the financial year. In the meeting, the director's reports and auditor's reports too will be presented.

The statement profit and loss and balance sheet shall related –

(a) in case of first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than 9 months; and

(b) in case of subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which of the accounts were last. Submitted and ending with a day which shall not precede the day of the meeting by more than 6 months, or in cases where extension of time has been granted for holding the meeting as per the provision of the Act, by more than 6 months and the extension so granted. The period to which accounts aforesaid relate is referred to in this Act as a financial year and it may be less than or more the calander year but it shall not exceed 15 months, provided that it may extend to 18 months where special permission has been granted in that behalf by the register.

Proforma of balance sheet

As per of Companies Act 2013, every company has to present a true and fair view of company's state of affairs relating to the last day of the financial year to which the company's balance sheet is related. The proforma for this should be as per part I of schedule III of the Act or as may be prescribed by the Central Government. Similarly a true and fair view of the profit or loss for the period corresponding to the period of the statement of profit and loss, should be presented in the form as prescribed in part II of schedule III. It should be noted that the statement of profit and loss is the annexure of balance sheet and always presented after the balance sheet. Balance sheet of a company shall be presented in the following form-

PART I – FORM OF BALANCE SHEET
Name of the Company….
Balance sheet (as at…) **(Rupees in……)**

Particulars	Notes No.	Figure as at the end of current reporting period	Figure as at the end of the reporting period
I. EQUITY AND LIABILITIES			
(1) Shareholder's funds			
(a) Share capital			
(b) Reserves and surplus			
(c) money received against share Warrants			
(2) Share application money pending allotment			
(1) Non-current liabilities			
(a) Long-term borrowings			
(b) Deferred tax liabilities (net)			
(c) Other long term liabilities			
(d) Long-term provisions			
(4) Current liabilities			
(a) Short-term borrowings			
(b) Trade payables			
(c) Other current liabilities			
(d) Short-term provisions			
TOTAL			
II. ASSETS			
(1) Non-current assets			
(a) fixed assets			
(i) Tangible assets			
(ii) Intangible assets			
(iii) Capital work-in-progress			
(iv) Intangible assets under development			
(b) Non-current investments			
(c) Deferred tax assets (net)			
(d) Long-term loans and advances			
(e) Other non-current assets			
(2) Current assets			
(a) Current investments			
(b) Inventories			
(c) Trade receivable			
(d) Cash and cash equivalents			
(e) short-term loans and advances			
(f) Other current assets			
TOTAL			