

# **CORPORATE ACCOUNTING SEMESTER V**

## **Modules/Units**

### **Unit 1 Introduction to Corporate Accounting**

### **Unit 2 Valuation of Shares Company**

### **Unit 3 Final Accounts**

### **Unit 4 Investment Accounting**

#### **UNIT 1: Introduction to Corporate Accounting**

Meaning of Company, Requirement of Accounting for Companies, Importance of Corporate Accounting, Use of Accounting Standards in Corporate Accounting, Issue of Shares, Issue of Debentures, Issue of Bonds, Recent trends in Corporate Accounting

#### **UNIT 2: Valuation of Shares**

Meaning of Shares, Types of Shares, Shares as a means of Investment, Importance of Shares, Valuation of Shares in case of Merger and Acquisition of Shares, Intrinsic Value of Shares, Yield Value of Shares, Fair Value of Shares

#### **UNIT 3: Company Final Accounts**

AS 1 in relation to Final Accounts of Companies (disclosure of accounting policies)  
Adjustment for —

1. Closing Stock, Depreciation, Outstanding expenses and income
2. Prepaid expenses and Pre received Income, Proposed Dividend and Unclaimed Dividend, Provision for Tax and Advance Tax
3. Bill of exchange (Endorsement, Honour, Dishonour), Capital Expenditure included In Revenue expenditure and vice versa example-purchase of furniture included in purchases.
4. Unrecorded Sales and Purchases, Good sold on sale or return basis, Managerial remuneration on Net Profit before tax
5. Transfer to Reserves, Bad debt and Provision for bad debts, Calls in Arrears
6. Loss by fire (Partly and fully Insured goods), Goods distributed as free samples, Any other adjustments as per the prevailing accounting standard.

#### **UNIT 4: Investment Accounting**

-For Shares (variable income bearing securities)

-For Debentures/Preference Shares (fixed income bearing securities).

-Accounting for Transactions of Purchase and Sale of Investments with ex and cum interest prices and finding cost of Investment sold and carrying cost as per weighted average method (Excl. brokerage).

-Columnar Format for investment Account.

## Investments

### **Introduction**

An individual or an organization does investment out of savings or out of surplus finance available and not required for a specific period. If extra money is with us and it is kept idle, it will not increase or appreciate.

Factors Of Investment:

- a) Liquidity,
- b) Security,
- c) Profitability

### **ON THE BASIS OF HOLDING**

Bonds and Debentures issued by Companies

Government and Trust Securities issued by. Government and Local Authorities

Shares Issued by Companies

Deposits with Companies or Banks

Immovable Property

Other example- Partnership Firm or Jewellery, Insurance Policies etc. Out of these the present chapter relates to securities, shares, bonds and Debentures.

### **Classification As Per AS-1 3**

On the Basis of Period of Holding

Current Investments Long Term.

### **On the Basis of Nature**

Variable Earning Securities

Fixed Earning Securities

## **Cost Of Investment**

Cost of investment includes purchase price and acquisition charges viz. brokerage, fees and duties. In the case of investment in shares or other securities, acquisition cost should be based on fair value of shares or other securities issued.

## **BROKERAGE**

Brokerage is always calculated on the quotation price whether cum-interest or ex-interest. It is added to the purchase price on purchase of investment and deducted from the sale price on sale of investment

## **DISPOSAL OF INVESTMENT**

When an investment is disposed of, the difference between the carrying amount and the net sale proceeds (Net sale proceeds = Gross sale proceeds – expenses) is charged to Profit & Loss Account. Excess of sale proceeds over its carrying amount is the profit, which is credited to Profit & Loss Account.

## **AVERAGE COST**

Any reduction in the carrying amount of the investments is debited to Profit & Loss Account. After reduction in the value of investments fair value of such investments is increased. It requires a reversal of earlier reduction. Any such reversal should be credited to Profit & Loss Account as income

## **CUM INTEREST\EX-INTEREST QUOTATIONS**

'CUM' means with and 'EX' means without. The term 'cum-interest' and 'EX-interest' are relating to fixed interest-bearing securities. 'Cum interest' means cumulative of interest or inclusive of interest and Ex-interest means exclusive of interest.

## **Recording Of Transactions of Fixed Income Earning Securities**

- Purchase (Ex-Interest)
- Purchases (cum interest)
- Sale (ex-interest)
- Sale (cum interest)
- Profit
- Interest received
- Interest accrued
- Transfer of Interest

- Value at the end
- Loss on Valuation

## **ACCOUNTING IN THE BOOKS OF THE BUYER/ INVESTOR**

Purchase of sale and investment on the Date of Payment of Interest Cum-interest/dividend purchases

Ex-interest/dividend

Cum-interest/Dividend sales

## **ACCOUNTING IN THE BOOKS OF BROKER**

Investment in securities is done through stock brokers. A stock broker maintains an account of each client. He charges commission on sale and purchase transaction done on behalf of the client. Commission charged is added to purchase price and it is deducted from sale price.

## **ACCOUNTING IN THE BOOKS OF BROKER ACCOUNTING FOR PURCHASE OF DIVIDEND EARNING SECURITIES**

Accounting for purchase of dividend earning securities that is either equity shares or preference shares or unit of mutual fund. If dividend is received, then it is divided into two parts as:

- 1.Pre-acquisition period dividend
- 2.Post acquisition period dividend.

## **Bonus Shares**

An investor of equity shares may receive Bonus shares for which shareholders do not make any payment. These shares are received because of existing holdings. The investors will record the receipt of bonus shares on the debit side of investment account in number of shares or face value column only. This will reduce the cost of existing holding. As per income tax act, in case of sale of bonus shares, the full sale proceeds are treated as capital gains.

1. Enter the nominal value in NV column.
2. Do not enter any amount in capital column.

## **FRACTIONAL ENTITLEMENTS**

WHENEVER A COMPANY ISSUES A BONUS SHARES ON RIGHTS SHARES, THEY ARE ISSUED IN PROPORTION OF THE EXISTING SHARES

## **VALUATION OF INVESTMENT**

AT THE END OF ACCOUNTING YEAR, VALUATION OF INVESTMENT IS TO BE DONE APPROPRIATELY. IN CASE CURRENT\SHORT TERM INVESTMENTS, THEY ARE VALUED AT COST OR AT MARKET VALUE, WHICHER IS LOWER

### **Purpose Of Investment Ledger**

- To record each security properly
- To collect interest and dividend when it becomes due
- To ascertain value of securities as the end of the year
- To ascertain profit or loss on sale of any securities

### **PROCEDURE OF RECORDING SHARES**

- Record opening balance
- Purchase of shares
- Bonus Shares
- Rights Shares
- Dividend Received
- Sale Of Share
  - 1)Loss on sale
  - 2)Profit on sale
- Balance
- Loss on valuation
- Balance on dividend account

### **Accounting for Share Capital**

#### **SHARE**

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

It is a unit into which Share

Capital of a Company is divided.

(I) **Authorised Shares Capital:** It is the maximum capital which can be issued at any time in future to the public. The capital is to be mentioned in the “memorandum of Association” of the company. It is the capital, with which a joint stock company is registered.

(II) **Issued Share Capital:**

It is the part of the Authorised share capital, which is offered to the public for subscription.

(III) **Subscribed Shares Capital:** It is a part of the issued capital which is actually taken up or subscribed by the public.

(IV) **Called up share Capital:** It is a part of subscribed share capital, which is actually called up to pay the shareholders by means of calls or otherwise.

(V) **Paid up Share Capital:** It is a part of called up capital, which is actually paid by the shareholders.

(VI) **Reserve Capital:** It is the capital which is not called up by the company and company has decided not to call the uncalled capital, except in case of winding up of the company.

### **Minimum Subscription {Section 39(1)}**

It is the amount stated in the prospectus as the minimum amount that must be subscribed. Unless the sum payable on application for the sum so stated (minimum subscription) has been paid to and received by the company by cheque or other instrument, security cannot be allotted.

Sec.39 (2) of the Companies Act, 2013 provides that amount payable on application on every security shall not be less than 5% of the nominal amount of the security or such other % or amount as may be specified by SEBI. If the minimum amount is not subscribed and the sum payable on application is not received within 30 days from the date of issue of the prospectus, or such other period as may be specified by SEBI.

Under the first category the company will allot full 10,000 shares to the applicants.

Under the second category the company will allot only 8,000 shares to the applicants.

Under the third category the company will allot only 10,000 shares although the company had received application for 12,000 shares. Now what about the excess share money (2,000) shares.

### **From the point of view of Price of each share**

Generally, the price of each share is Rs.10 or Rs.50 or Rs.100. There is a Face Value of each is the original value of each share. Whereas there is a Payable Value of each share which shareholder has to pay. Therefore, depending upon the payable value of each share we can divide the share in three categories.

### **When Shares were issued at Discount or Premium**

Generally, in a question it is given that the amount of discount or premium should be taken on which stage. But if it is not mentioned then the amount of discount or premium will be taken on Allotment stage.

## Journal Entries

(a) On receipt of application money

(i) Bank A/c Dr

To Share Application A/c (Being share application money received)

(ii) Share Application A/c Dr

To Share Capital A/c (Share application money transferred to share capital)

(b) Allotment Money becoming due and received

(i) Share Allotment A/c Dr

To Share Capital A/c (Being Share allotment money due)

(ii) Bank A/c Dr

To Share Allotment A/c. (Being Share allotment money received)

Share First Call amount due and received

Share First Call A/c Dr

To Share Capital A/c. (Being First call money due)

Bank A/c Dr To

Share First call A/c (being First call money received)

Final Call amount due and received

Share Final Call A/c Dr

To Share Capital A/c. (Being Final call money due)

Bank A/c Dr To

Share Final call A/c (being Final call money received)

If we see carefully, for each stage the two entries are to be passed, one is the receipt entry and other is for transfer to capital a/c. In the first stage we receive money on applied shares & then transfer it to capital a/c whereas in second & onwards stage we first pass the due entry & then pass the receipt entry.

## Utilisation of Securities Premium Reserve

According to Sec. 52(2) of the Companies Act, 2013 restricts the use of the amounts received as premium on securities for the following purpose:

- i) Issuing fully-paid bonus shares to the members
- ii) Writing off preliminary expenses, discount on issue of shares or Debentures, underwriting commission or expenses on issue
- iii) Paying premium on redemption of any redeemable Preference shares or Debentures.
  
- iv) In purchasing its own shares (buy-back) 18 If premium is paid with application money. Then the following entry will be passed:

Share Application A/c Dr.

To Share Capital A/c  
To Securities Premium A/c

If premium is paid with allotment money. Then the following entry will be passed:

Share Allotment A/c Dr.

To Share Capital A/c  
To Securities Premium A/c

### **Calls-in-Arrears**

If a shareholder defaults in payment of the call amount due on allotment or on any calls according to the terms, the amount not received against the amount called is Calls-in-Arrears.

The unpaid or arrear amount on account of allotment or calls may or may not be transferred to Calls-in Arrears A/c

Interest: The Articles of Association of the Company is silent, Table F of the Companies Act, 2013 shall apply which provides for interest @10% p.a.

“Calls-in-arrear” is a Nominal a/c in nature because a loss to the company when any shareholder is unable to pay his due amount on any stage. Therefore, it should be Debited in the journal entry.

Disclosure in the Balance Sheet: Calls in Arrears is shown in the Notes to Accounts on ‘Share Capital’ to the Balance Sheet as a deduction from the amount of ‘Subscribed Share Capital’.

### **CALLS IN ADVANCE**

When a company accepts money from the shareholders against the calls not yet made, the amount received in advance is known as Calls-in Advance. It may also happen in case of partial or pro rata allotment of shares when the company retains excess amount received on application of shares.

Interest: The Company pays interest at the rate stated in its Articles of Association. In the absence of the interest clause in the Articles of Association, provisions of Table F of the Companies Act, 2013 shall apply and the company is liable to pay interest @12% p.a. on Calls-in-Advance.

Disclosure in the Balance Sheet: The amount received that is not yet due is a liability of the company. It is shown in the Equity and Liabilities part of the Balance Sheet under the head Current Liabilities and sub-head Other Current Liabilities.

Amount of Calls money received in advance:

Bank A/c Dr.

    To Calls-in-Advance A/c

It is Adjusted to the Respective Call is made due:

Calls-in-Advance A/c Dr.

    To (Say) Final Call A/c

Shares issued other than cash

Sometimes company issued shares in lieu of purchase of some Assets & Liabilities. The company may issue shares in three shapes which are as follows:

At par

At premium

At Discount

Purchase consideration is the amount agreed to be paid by the purchasing company of business from another enterprise. It may be given in the question; otherwise, it will be equal to net assets (i.e., Agreed value of assets taken – Agreed amount of liabilities assumed).

### **Forfeiture of Shares by the Company**

Sometimes some shareholders were not able to pay on their holdings on certain stage. Then after giving proper notice to the shareholder, the company has full right to cancel their holdings.

Calculation under Pro Rata allotment Sometimes some shareholders were allotted shares under Pro Rata system i.e. they applied for more shares & they were allotted less number of shares. Therefore, their excess application money will be transferred towards some due on allotment. Now if any of the shareholder under Pro Rata allotment system were unable to pay amount due on allotment then to find his on allotment, we do 34 correct amount of arrear Pro Rata calculation.

## Accounting For Issue of Debentures

### **Debentures – Meaning**

- A debenture is an instrument issued by a company under its common seal as acknowledgment of a debt. It contains a contract for repayment of the principal amount on or before a specified date and for payment of interest at a fixed rate until the principal sum is repaid.
- According to Section 2 (12) of the Companies Act, 'debenture' includes "debenture stock, bonds and any other security of a company whether constituting a charge on the assets of the company or not".

### **Features of Debentures**

- (i) A certificate acknowledging the debt owned by a company to the person named therein.
- (ii) Promise to repay the principal amount on or before a specified date.
- (iii) Promise of periodic payment of interest at a fixed rate.
- (iv) Precise details of the security, if any.

### **Types of Debentures**

#### **(1) On the basis of security:**

- (i) Secured Debentures and
- (ii) Unsecured debentures,

**(2) On the basis of Redemption:**

- (i) Redeemable and
- (ii) Non – redeemable debentures,

**(3) On the basis of Records:**

- (i) Registered debentures and
- (ii) Bearer debentures and

**(4) On the basis of Convertibility:**

- (i) Convertible debentures – Fully Convertible and Partly Convertible
- (ii) Non- convertible debentures.

**(5) On the basis of Priority:**

- (i) First Debentures, and
- (ii) Second Debentures

**(6) On the basis of coupon rate:**

Usually, debentures are issued with a specified rate of interest, which is called as coupon rate.

- (i) Debentures with fixed coupon rate,
- (ii) Debentures with floating coupon rate, and
- (iii) Zero coupon bond.

**Terms of Issue of Debentures**

• Face Value or Nominal Value: Nominal value of debentures determined by the Company and mentioned on the face of debenture certificate.

• Issue Price: The price at which debentures are issued by the company.

• Issue at Par

Issue Price = Face Value

• Issue at Premium

Issue Price > Face Value

- Issue at Discount

Issue Price < Face Value

### **Terms of Redemption**

- Redemption at Par

When debentures are redeemable at Face Value

- Redemption at Premium

When debentures are redeemable at an amount more than Face Value

### **Subscription of Public Issue of Debentures**

- Full Subscription

No. of Debentures Applied = No. of Debentures issued/offered

- Under Subscription

No. of Debentures Applied < No. of Debentures issued/offered

- Over Subscription

No. of Debentures Applied > No. of Debentures issued/offered

### **Issue of Debentures for Cash at Par Redeemable at Par**

1. For receiving application money

Bank A/c Dr.

To Debenture Application A/c (Being application money received)

2. On allotment for transferring application money to Debenture account

Debentures Application A/c Dr.

To Debentures A/c (Being application money transferred to Debentures A/c)

3. On allotment-for making due allotment money

Debentures Dr. Allotment A/c

To Debentures A/c (Being allotment money made due on ... debentures @  
Rs. ..per debentures)

4. For receiving allotment money

Bank A/c Dr.

To Debentures Allotment A/c (Being allotment money received)

5. For making due call money

Debentures ..... Call A/c Dr.

To Debentures A/c (Being call money made due on... Debentures @ Rs... per debenture)

6. For receiving call money

Bank A/c Dr.

To Debentures ..... Call A/c (Being call money received)

Issue of Debentures at Premium Redeemable at Par

• (i) When premium has been called on application

the application money will consist of debenture money and premium. The amount received as premium should be credited to 'Security Premium Account.' On allotment, application money will be transferred as:

Debentures Application A/c Dr.

To Debentures A/c

To Securities Premium A/c

(Being application money transferred to debentures and security premium A/c)

Issue of Debentures at Premium Redeemable at Par

(ii) If the premium is called along with allotment money,

then entry for making due allotment money will be:

Debentures Allotment A/c Dr.

To Debentures A/c

To Securities Premium A/c

(Being allotment money, including premium made due)

### **Discount/Loss on issue of debentures – Amount to be written off**

**Fixed instalment method.** This method is applied when debentures are redeemable in lump sum at the end of the specified period. In this case, the total amount of discount/loss on issue of debentures is spread equally over the period of life of debentures. Amount to be written off every year is calculated as under:

Total Discount or Loss on Issue of Debentures / Life of Debentures (No. of Years)

### **Writing off discount/loss on issue of debentures**

**Proportionate method.** This method is applied when debentures are redeemable in instalments by annual drawings. In this case, the total amount of discount/loss on issue of debentures is spread over the period of debentures in the ratio in which the amount of debentures has been used in various years.

## **FINANCIAL REPORTING AND ANALYSIS**

### **UNIT 3: PREPARATION OF FINAL ACCOUNTS OF COMPANIES INTRODUCTION**

▶ Financial reporting can be defined as “Communication of Published financial statements and related information from a business enterprise to third parties including shareholders, creditors, customers, government authorities and the public.”

▶ Financial statements are a central feature of financial reporting. Thus, financial reporting is the reporting of accounting information of a company to a user or group of users.

▶ The financial statements comprise of the following:

- ▶ i) Balance sheet
- ▶ ii) Profit and Loss account
- ▶ iii) Statement of Retained Earnings
- ▶ iv) A Statement of other changes in owner’s equity
- ▶ v) Statement of changes in financial position

## **FORM OF PRESENTATION OF FINAL ACCOUNTS**

▶ Section 129 of the Companies Act, 2013 provides that the final accounts of companies must be prepared and presented in the prescribed format. The Schedule VI of the Act, provides that the accounts can be presented in the prescribed format.

▶ There are 2 forms of accounts:

▶ Horizontal Form (Old and traditional form)- It is also called as “T” form showing Assets and Liabilities as two sides of the statements.

▶ Vertical form (New form)- It shows all items as a single column affair netting off certain related items.

▶ The Schedule VI is divided into 3 parts:

▶ Part I – Balance Sheet

▶ Part II – Profit and Loss Account

▶ Part III – Interpretation of Certain Items

## **REVISED SCHEDULE VI**

▶ Revised schedule VI was introduced with effect from 01/04/2011. From this date every Limited company’s Balance Sheet must be in Revised Schedule VI.

▶ Revised Schedule VI format and guidance notes on the Revised Schedule VI to the Companies Act, 2013 have been provided by the Institute of Chartered Accountants of India, New Delhi.

## **ITEMS IN BALANCE SHEET**

- 1) SHARE CAPITAL
- 2) RESERVES AND SURPLUS
- 3) LONG TERM BORROWINGS
- 4) OTHER LONG-TERM LIABILITIES
- 5) LONG TERM PROVISIONS
- 6) SHORT TERM BORROWINGS
- 7) OTHER CURRENT LIABILITIES
- 8) SHORT-TERM PROVISIONS
- 9) TANGIBLE ASSETS
- 10) INTANGIBLE ASSETS

- 11) NON-CURRENT INVESTMENTS
- 12) LONG-TERM LOANS AND ADVANCES
- 13) OTHER NON-CURRENT ASSETS
- 14) CURRENT INVESTMENTS
- 15) INVENTORIES
- 16) TRADE RECEIVABLES
- 17) CASH AND CASH EQUIVALENTS
- 18) SHORT TERM LOANS AND ADVANCES
- 19) OTHER CURRENT ASSETS (specify nature)
- 20) CONTINGENT LIABILITIES AND COMMITMENTS

21) The amount of dividends proposed to be distributed to equity and preference shareholders for the period and the related amount per share shall be disclosed separately. Arrears of fixed cumulative dividends on preference shares also be disclosed separately.

22) Where in respect of issue of securities made for a specific purpose, the whole or part of the amount has not been used for the specific purpose at the Balance sheet date, there shall be indicated by way of note how such unutilized amounts have been used or invested.

23) If in the opinion of the Board, any of the assets other than fixed assets and non-current investments do not have a value on realization in the ordinary course of business at least equal to the amount at which they are stated, the fact that the Board is of that opinion, shall be stated.

### **ACCOUNTING STANDARD-1:**

(AS-1) IN RELATION TO FINAL ACCOUNTS OF COMPANIES (DISCLOSURE OF ACCOUNTING POLICIES) ► INTRODUCTION

#### ► ASSUMPTIONS

a) Going Concern

b) Consistency

c) Accrual

► Accounting policy

► Selection of accounting policy

► Prudence

► Substance over form

- ▶ Materiality
- ▶ Disclosure of Accounting policies

## **IMPORTANT ADJUSTMENTS IN CORPORATE FINAL ACCOUNTS**

### **▶ (I) FIXED ASSETS AND DEPRECIATION**

- i) GROSS BLOCK
- ii) DEPRECIATION
- iii) NET BLOCK

### **▶ (II) INCOME TAX**

- 1) PROVISION FOR INCOME TAX
- 2) ADVANCE PAYMENT OF TAX
- 3) TAX DEDUCTED AT SOURCE (TDS)
- 4) ADJUSTMENT FOR TAX PROVISION AND TAX PAYMENTS
- 5) TAX DUE ON ASSESSMENT
- 6) PAYMENT OF TAX ON COMPLETION OF ASSESSMENT
- 7) REFUND OF EXCESS TAX
- 8) BALANCE TAX YET TO BE PAID