B. Com. Vth semester

Paper Name with Code : 5B11COM : Corporate accounting.

Syllabus:

Module 1

Final accounts of companies- Preparation of final accounts-Balancesheet- Profit and loss accounts- P&L Appropriation accounts(problems in new format only)-compulsory transfer to reserve(corporate dividend tax needn't be considered)

Module 2

Acquisition and profit prior to incorporation- meaning- computation of purchase consideration –acquisition entries in the books of companies(closing entries in the vendors books not necessary)-computation of profits prior to incorporation-treatment of profit or loss prior to incorporation- collection of debtors and payment of creditors on behalf of vendors.

Module 3

Accounting for amalgamation and reconstruction- meaning and types of amalgamation- amalgamation in the nature of merger and amalgamation in the nature of purchase- comparison of both- accounting methods- pooling of interest method and purchase method- purchase consideration- accounting entries in the books of both transfer and transferee companies(excluding intercompany holdings) Reconstruction- types- internal and external reconstructions-accounting entries only.

Module 4

Liquidation of companies- Meaning and types of winding up – statement of affairs- deficiency or surplus accounts- liquidators final statement of account.

Module 5

Accounts of banking companies- introduction- final accounts in new format-balance sheet- profit and loss accounts with relevant schedules- slip system of posting- Non Banking Assets (NBA) and Non Performing Assets (NPA)-

classification of advances- computation of provision for doubtful debts and rebate on bills discounted.

Chapter 1

FINAL ACCOUNTS OF COMPANIES

A company must prepare its final accounts annually. It is a statutory obligation of joint stock company to prepare final accounts under section 128 of the Companies Act,2013. Final accounts are statements prepared at the end of an accounting period. It consists of profit and loss account and balance sheet.

FORMS AND CONTENTS OF BALANCE SHEET

The balance sheet of a company should be prepared in the form given in part 1 of the schedule VI of the Companies Act, 1956. The balance sheet should be prepared in vertical form. As per the new Companies Bill, 2012, this has been numbered as schedule III.

FORM OF BALANCE SHEET

Name of the company

Balance sheet as at ....

Particulars	Note No.	As at the end of the current year	As at the end of the previous year

A EQUITY AND LIABILITIES Shareholders' funds Share capital Reserves and surplus Money received against share warrants Share application money pending allotment Non-current liabilities Long term borrowings Deferred tax liabilities(net) Other long term liabilities Long term provisions Current liabilities Short term borrowings Trade payables Other current liabilities Short term provisions TOTAL B ASSETS Non- current assets Fixwd assets 1.Tangible assets 2. Intangible assets 3. Capital work in progress 4.Intangible assets under development 5. Fixed assets held for sale			

(b) Non- current investments (c) Deferred tax assets(net) (d) Long term loans and advances (e) Other non-current assets Current Assets (a) Current investments (b) Inventories (c) Trade receivables (d) Cash and cash equivalents (e) Short term loans and advances (f) Other current assets TOTAL			

Balance sheet is the face of the financial statements. Hence, Notes to Accounts must be given to specify a particular item. Details of every item must be given at the end of both current year and previous year. The details are shown in the Notes to Accounts. Hence every item in the balance sheet must be given Note Number.

1. SHARE CAPITAL

Details of share capital should be shown in notes to accounts. Number and amount of shares authorised, issued, subscribed, paid up, etc. Should be shown. Unpaid calls should be deducted and while forfeited shares should be added

2.RESERVES AND SURPLUS

It includes capital reserve, CRR, security premium, DRR, revaluation reserve, general reserve etc. Surplus in the P&L A/c after adjusting additions and deductions are shown. Debit balance in P&L A/C shall be shown as a negative figure under the head “surplus”.

3. LONG TERM BORROWINGS

Bonds/ debentures, Term loans, deferred payment liabilities, Deposits, Loans and advances from related parties, other loans and advances etc.

4. OTHER LONG TERM LIABILITIES   Includes Trade payables and others.

5. LONG TERM PROVISIONS

Provision for employee benefits and others specifying the nature.

6.CURRENT LIABILITIES

Includes Short term borrowings, trade payables, other current liabilities.

7. SHORT TERM PROVISIONS :   Provision for employee benefits and others

8. TANGIBLE ASSETS

Land, buildings, plant and equipments, furniture and fixtures, vehicles, etc

9. INTANGIBLE ASSETS

Goodwill, brands and trademarks, soft wares, mining rights, licenses and franchise, others (specify nature).

10. NON – CURRENT INVESTMENTS

Classified as trade investments and other investments and further

classified as investment property, in equity instruments, in preference shares, in government or trust securities, in mutual funds etc.

11.LONG TERM LOANS AND ADVANCES

Classified as capital advances, security deposits, loans and advances to related parties and further classified as secured unsecured etc.

12. OTHER NON CURRENT ASSETS

Long term trade receivables, and others (secured and unsecured)

13. CURRENT INVESTMENTS

Investments in equity instruments, preference shares, government and trust securities, partnership firms, mutual funds, debenture or bonds etc.

14. INVENTORIES

Raw materials, work in progress, finished goods, stock in trade, stores and spares loose tools others (specify nature).

15. TRADE RECEIVABLES

Aggregate amount of trade receivables outstanding for a period exceeding six months from the date are due for payment should be separately stated.

16. CASH AND CASH EQUIVALENTS

17. SHORT TERM LOANS AND ADVANCES

18. OTHER CURRENT ASSETS.

19. CONTINGENT LIABILITIES AND COMMITMENTS

FORM OF STATEMENT OF PROFIT AND LOSS

The format of statement of profit and loss given in revised schedule VI is as follows.

Name of the company

Statement of profit and loss for the year ended ....

Particulars	**Note No.**	**As at the end of the current year**	**As at the end the previous year**
1. Revenue fromoperation(gross) Less : Excise duty Revenue from operation (Net) 2. Other income 3. Total Revenue(1+2) 4. Expenses (a) Cost of materials consumed (b) Purchase of stock in trade (c) Employee benefit expenses (d) Change in inventories (e) Financial costs (f) Depreciation and amortisation expenses (g) Other expenses **TOTAL EXPENSES** 5. Profit/loss before exceptional and extra ordinary items and tax (3-4) 6. Exceptional items			

7. Profit/loss before extra ordinary items and tax (5+6) 8. Extra ordinary items 9. Profit/loss before tax (7+8) 10. Tax expenses (a) Current tax expense for the current year (b) (Less) MAT credit (where applicable) (c) Current Tax expense relating to prior years (d) Net current tax expense (e) Deferred tax. 11. Profit/loss from continuing operations (9+- 10) 12. Profit/loss from discontinuing operations 13. Tax expense of discontinuing operations 14. Profit/loss from discontinuing operations (after tax) 12- 13 15. Profit/loss for the year(11+14) 16. Earnings per equity share (1) Basic (2) Diluted			

General instructions for preparation of statement of profit and loss

1. The provisions of this part shall apply to the income and expenditure account referred to in sub section (2) of section 210 of the Act , in like manner as they apply to a statement of profit and loss
2. (A) In respect of a company other than finance company revenue from operation shall disclose separately in the notes revenue from
   (a) Sale of products
   (b) Sale of services
   (c) Other operating revenues; less
   (d) Excise duty

   (B) In respect of a finance company

   (a) Interest

   (b) Other financial services

3. Finance cost

   (a) Interest expense

   (b) other borrowing costs etc.

4. Other incomes

Interest income, dividend income, Net gain/loss from sale of investments, other non operating incomes.

5. Additional information: A company shall disclose additional informations by way of notes

Employee benefit expense – salaries, wages, provident and other funds,

ESOP, ESPP etc.

DIVISIBLE PROFITS

All the profits of the company are not divisible profits. Only those profits which are legally available to share holders by way of dividend are divisible profits. Thus, divisible profits are that part of profits which are available to shareholders for dividend. Normally, profits are distributed as dividends only when company earns net profits; i.e.; profits left after meeting all expenses, losses, depreciation, taxes, and transferring a reasonable amount to reserve. It is to be noted that divisible profits do not include profit on revaluation of fixed assets and other profits of capital nature.

DIVIDEND

The divisible profits of a company is distributed among the shareholders of a company on the basis of number of shares held. This is called dividend. Thus, dividend simply means the amount of divisible profits distributed among the shareholders. The Board of Directors will recommend the amount of profit to be distributed as dividend. The shareholders in the annual general meeting will declare the dividend recommended by the Board of Directors

Dividend cannot be paid out of capital reserve. It should be paid out of accumulated profits. Preference dividend is paid first. Equity dividend will be paid only after preference dividend is paid in full. If there are calls in arrears, dividend will be paid on the amount actually paid by the shareholders. This means dividend is usually proposed or paid on paid up capital. However, a company can make a provision in the Articles, authorising it to propose dividend on the full nominal value of the shares. No dividend is paid on calls in advance.

SOURCES OF DIVIDEND

Dividend can be declared and paid by a company for any financial year out of;

(a) Current year's profits after providing for depreciation
(b) Previous year's profits after providing for depreciation
(c) Both current year's profits and previous year's profits
(d) Money provided by Central Govt. for the payment of dividend in pursuance of a guarantee given by that Govt.

DIVIDEND OUT OF CAPITAL PROFITS

Dividend can be paid out of capital profits only if

(a)They are realised in cash
(b)It is authorised by the articles.

(c) surplus remain after Revaluation of all assets and liabilities

It is very important to note that if capital profits are transferred to capital reserve, they will not be available for dividend. However, there are certain capital profits which are not at all available for dividend. They are securities premium, capital redemption reserve, and profits left after the re issue of forfeited shares.

TERMS RELATING TO DIVIDEND

Following terms are used in relation to dividend.

(a) PROPOSED DIVIDEND: It is the dividend recommended by the Board of Directors after the close of the books of accounts. When it is approved by the share holders in the annual general meeting, it becomes final dividend or declared dividend. But the rate of dividend declared cannot exceed the proposed dividend.
(b) INTERIM DIVIDEND: Interim dividend refers to the dividend paid by the company before the preparation of final accounts. It is declared between two annual general. It is paid in the middle of the year before the ascertainment of profit for the year. It is usually paid for six months. Payment of interim dividend must be authorised by the articles. Interim dividend should be declared only when the company has made substantial profits during the first half of the year. It does not require approval of shareholders. A mere resolution of the Board of Directors to p[ay interim dividend is sufficient. Interim dividend shown in the Notes to Accounts under the subhead “surplus in the statement of profit and loss” which in turn will appear under the head “Reserves and Surplus” in the B/S

(c) FINAL DIVIDEND: This is the dividend which is proposed and declared at the end of the accounting period after the close of books of accounts. The final dividend is always paid in addition to the interim dividend and is not adjusted against interim dividend unless the resolution mentions it specifically

(d) UNCLAIMED DIVIDEND: It refers to dividend not yet claimed by the share holders. The declared dividend must be paid within 30 days of declaration. Any dividend which remains unpaid or unclaimed within 30 days of declaration must be deposited in the unpaid dividend account with a scheduled bank within 7 days from 30 days.

Unclaimed dividend or unpaid dividend appearing on the credit side of the trial balanced should be shown in the balance sheet under the head "other current liabilities"

If the unclaimed dividend is not claimed by the shareholders within 7 years, it will be transferred by the company to the "Investor Education and Protection Fund" of the central government

(e) SCRIP DIVIDEND: In case a company does not have sufficient fund to pay dividend in cash, it may issue promissory notes or bonds for amounts due to shareholders. This is called Scrip dividend. But now such type of dividend is not allowed

PREFERENCE DIVIDEND

Preference shareholders get a foxed rate of dividend before dividend is paid to equity shareholders. Preference dividend also is debited to P&L Appropriation Account.

TAX ON DIVIDEND (Corporate Dividend Tax –CDT)

Earlier dividend distributed was taxed in the hands of the shareholders. But now companies distributing dividend are required to pay tax on such dividends. This is known as Corporate Dividend Tax. It is payable within 14 days from the date of declaration. The following points should be noted in respect of CDT:

(a) CDT is payable on any amount declared, distributed, or paid by the company as dividend (interim or otherwise). The dividend may be paid out of current or accumulated profits

(b) CDT is payable even if no income tax is payable by the company on its total income

CDT is shown in the Notes to Accounts under the subhead "Surplus in the statement of profit and loss". It is also shown in the balance sheet under the head "Short term provisions".

Rate of CDT

The following rate is applicable

Basic rate	15%
Add Surcharge 10%	1.5%
Add Education cess@3% of 16.5%	0.495%

	16.995% or approximately 17%

DIFFERENCE BETWEEN INTERIM DIVIDEND AND FINAL DIVIDEND

Interim Dividend	**Final dividend**
1. It is declared before the ascertainment of divisible profits (ie. Before preparing final accounts) 2. It is based on estimated profits 3. It is usually paid for six months 4. It does not require the approval of shareholders 5. There is no need to transfer some profits to reserve, but directors have to satisfy that the profits are adequate	1. It is declared after the ascertainment of divisible profits.(i.e. After the preparation of final accounts) 2 It is based on actual profits 3. It is paid for one year 4. It requires approval of share holders in the AGM 5. It is necessary to transfer a certain percentage of profit to reserves if rate of dividend exceeds 10%

RESERVES AND PROVISIONS

RESERVE

Reserves are amounts set aside out of profits which are not meant to meet any loss or known liability. It is an appropriation of profits to strengthen the financial position of the business. In short, reserve refers to accumulated or undistributed profits retained in the business.

Types of reserve

(a) Capital reserve
(b) Revenue reserve
  i) General reserve
  ii) Specific reserve
(c) Secret reserve

Capital reserve: It refers to those reserves which are created from capital profits. Capital, profits are those profits which are not earned from normal business operation. These are not available for the distribution of dividend. Capital profits include profit on sale of fixed assets, profits on re issue of forfeited shares, pre incorporation profits, profit on revaluation of fixed assets, security premium etc. Thus, capital reserves are created out of the above mentioned capital profits. Capital reserve represents undistributed profits. This means that these are not available for distribution as dividends.

Revenue reserve: these are created out of revenue profits. Revenue profits are those profits which are earned from normal business operations. It simply refers to operating profits. Usually, revenue reserves are built out of divisible profits. Therefore, these are available for distribution as dividend or bonus shares. Revenue reserves are of two types;

1) **General reserve :** general reserve is that reserve which is not created for a specific purpose. Eg. Reserve fund, contingency reserve, general reserve etc.

2) **Specific reserve**: these are created for a specific purpose. Eg. Dividend equalisation reserve, debenture redemption reserve, development rebate reserve etc.

Secret reserve: Secret reserve means a reserve which is not disclosed by the balance sheet. It will be revealed only when a correct valuation is made of assets and liabilities.

PROVISIONS

Provision is to meet anticipated losses or expenses. It is created for known liability but the amount of which is unknown. Eg. Provision for taxation. Provision is created to cover a loss in the value of assets or losses or expenses. The aim of provision is not to strengthen the financial position of the business but to cover expected future losses.

Difference between Reserves and Provisions

Reserves	**Provisions**
1. It is an appropriation of profits. Hence it is debited to P&L A/C 2. It need not be created when profits are inadequate 3. It need not necessarily be created for a particular purpose 4. It is shown on the liability side of the B/S under the head "Reserves and surplus" 5. It can be invested outside the business 6. It can be utilised for distribution of dividend 7. It is created to strengthen the financial position of the business	1. It is a charge against the profit. Hence it is debited to P/L A/c 2. It must be made irrespective of whether there is profit or loss 3. It is created for a particular purpose. 4. It is usually shown by way of deduction from the amount of the item for which it is created. 5. It can never be invested outside 6. It cannot be utilised for distribution of dividend 7. It is created to meet an expected future loss or because of legal requirements