SYLLABUS

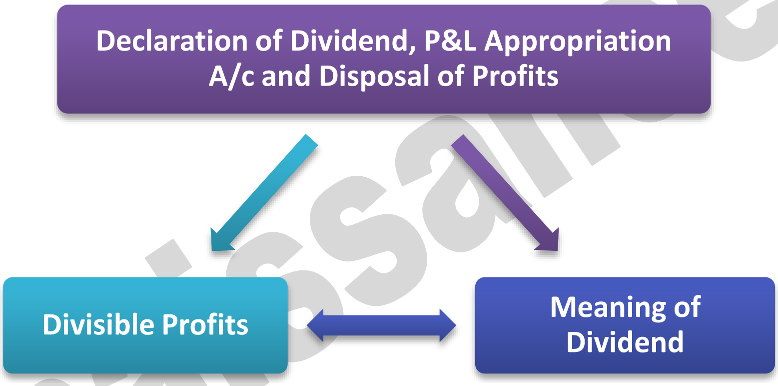
Class – B.Com. II Year

Subject – Corporate Account

UNIT-I	Company profits: Declaration of dividend , profit and loss appropriation account and disposal of profits, Managerial remuneration, Profit or loss prior to and post incorporation, Final accounts of companies
UNIT-II	Valuation of goodwill, Valuation of shares, Accounts of public utility companies
UNIT-III	[illegible] dation of com[illegible]
UNIT-IV	[illegible] merger as p[illegible] [illegible]y as p[illegible]r I[illegible]dian [illegible] company holdin[illegible]
UNIT-V	[illegible]counting of [illegible] of in[illegible] companies w[illegible]

UNIT-I

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			

UNIT — II
5. EVALUATION OF GOODWILL

Meaning and definition of goodwill
Goodwill, also known as reputation or fame is a scale to measure the popularity of the business. Customers like only one or a few out of many businessmen engaged in the same filed due to goodwill only. The businessmen with good reputation gain favour among the customers and those with no fame do not gain any favour among the customers.

LR Dicksee – "When a man pays for goodwill, he pays for something which places him in the position of being able to earn more money than he would be able to do by his own unaided efforts."

Characteristics or salient features of goodwill –
1) Intangible assets
2) Goodwill is a capital item
3) Goodwill is not a fictitious or unreal asset
4) Friend in good time only
5) Goodwill affects and is affected by the earning capacity
6) Fluctuating asset
7) First in last out
8) Undetectable from business
9) Sign of growth

Methods for valuation of goodwill –
Goodwill affects and is affected by profits of business directly or indirectly. If the profit earning capacity of a business is high its goodwill is also high. So at the time we think of the valuation of goodwill, there is profit in our conscious or sub-conscious mind. If we are going to buy a running business and the vendor demands for goodwill, we think whether we will be able to earn that much amount of profit as is demanded by the vendor as goodwill.
There are several methods for valuation of goodwill, but the basis of the valuation of goodwill in all the methods is profit, because goodwill and profit are closely interrelated. These methods are as under –
1) Average profit method
2) Super profit method
3) Capitalization method
4) Annuity method

1) Average profit method – The basis of the valuation under this method is that how much the normal annual profit the business has earned during some previous years?
To calculate the value of goodwill –
Goodwill = Future probable or maintainable profit x No. of years purchase

2) Super profit method – Generally all the accountants agree that the goodwill is the result of additional profit. This additional profit is called super profit. Only those businesses have the goodwill which earns super profits. If there is no super profit, there is no goodwill.
Capital employed =
Total of the list of assets – total of the list liabilities

Average capital employed =
Closing capital employed – Half of current year's profit

To Calculate super profit – This is calculate by the following formula –

Future probable or maintainable profit	…………..
Less: Normal return i.e. (capital or average capital employed x Normal rate of return)	…………..
Super profit	**…………..**

Goodwill = Super profit x number of years' purchase.

3) Capitalization method – Under this method, goodwill is the sum equal to the capital required to earn the super profit of the business at normal rate of return.
Under this ethod goodwill can be found out by any of the following two formulae –

1) By capitalization of super profit:

$$\text{Goodwill} = \frac{Super\ \ Profit\ \ x\ 100}{Normal\ \ rate\ \ of\ \ return}$$

2) By capitalization of maintainable profit:

$$= \frac{Future\ \ probable\ \ or\ maintainable\ \ \ profit\ \ x\ 100}{Normal\ \ rate\ \ of\ \ return}\ x\ Capital\ employed\ or\ average\ capital\ employed$$

4) Annuity method – Valuation of goodwill, time factor has been totally ignored. The amount of goodwill is to be paid today and the super profit, on the basis of which it is calculated, will be earned in future and that too in annual installments. The goodwill under the super profit method, is the total of the amount of the installments of super profits, whereas the present value of all the super profits to be earned in future years should be the value of goodwill.
Goodwill = Super profit x value of annuity

6. VALUATION OF SHARES

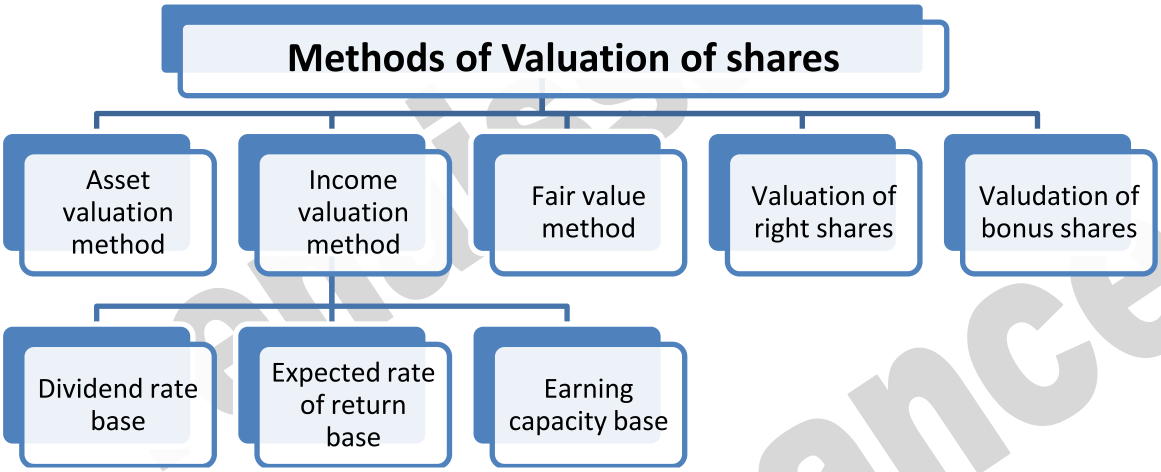
Meaning and definitions of shares –

Under section 2(46) of companies act, 1956 "Share means share in the share capital of a company and includes stock except where a distinction between share and stock is expressed or implied."

In other words we can say that share or stock is a unit of ownership of a company.

Valuation of shares –

Valuation of share means the computation of the value of a share on which it can be bought or sold, transferred or assessed under tax laws.



1) Asset valuation method –

Value per share = $\frac{Net\ Assets}{No.of\ shares}$

Net assets – List of revalued figures of real assets (-) List of external liabilities

2) Income or yield valuation method –

The underlying concept of this method is how much income or dividend a company is paying or can pay to its shareholders or what is the earning capacity of the company?

If this figure is higher the value of shares too will be higher and if this figure is lower the value of share will also be lower. There are following three bases for the valuation of shares under this method.

1) On the basis of dividend rate
2) On the basis of expected rate of return
3) On the basis of earning capacity

1) On the basis of dividend rate -

Value per share = $\frac{Actual\ rate\ of\ dividend}{Normal\ rate\ of\ dividend}$ x paid-up value per share

Actual rate of dividend = $\frac{Dividend\ received}{Paid\ up\ value\ of\ shares}$ x 100

2) On the basis of expected rate of return –

$\frac{Expected\ Return}{Total\ paid-up\ equity\ capital}$ x 100

The value of shares is calculated as under –

value per share = $\frac{Expected\ rate\ of\ return\ or\ expected\ rate\ of\ divided}{Normal\ rate\ of\ return\ or\ normal\ dividend\ rate}$ x paid-up value per share

$$\text{Expected rate of return} = \frac{Profit\ available\ for\ equity\ share holders}{Paid\ up\ equity\ share\ capital} \times 100$$

3) On the basis of earning capacity –

Under this method the following formulae is used –

$$\text{value per share} = \frac{Actual\ rate\ of\ earning}{Normal\ rate\ of\ earning} \times \textit{paid-up value per share}$$

$$\text{Expected rate of return} = \frac{Profit\ available}{Capital\ employed} \times 100$$

3) Fair value method –

This is not a new method, but the average of the two values of a share as per net assets method and income valuation method (earning capacity). This is calculated by the following formula –

$$\text{Fair value} = \frac{Intrinsic\ value + Value\ as\ per\ earning\ capacity}{2}$$

Right shares –

If an existing company makes further issue of shares, they must be proposed to the existing shareholders u/s 81 of companies act. This is the right of existing shareholders, which is called 'Right shares'.

The value of right is calculated by the following formula –

Value of right =

(1) the market value of one existing share -

$$\frac{Market\ value\ of\ existing\ shares\ held + Value\ of\ new\ shares}{No.of\ old\ shares\ held + New\ shares}$$

OR

$$(2)\ \frac{New\ Shares}{Total\ Shares\ (Old + New)} \times \textit{(Market value of old share – value of new share)}$$

Bonus Shares

$$\text{1) Value of a share before bonus issue} = \frac{Net\ Assets}{No.of\ share\ before\ the\ bonus\ issue}$$

$$\text{2) Value of a share after bonus issue} = \frac{Net\ Assets}{No.of\ old\ shares + No.of\ new\ shares}$$

7. ACCOUNTS OF PUBLIC UTILITY COMPANIES

Public utility companies are incorporated under special statutes passed by parliament or state legislative assemblies. They are issued licece by the government.

Double account system is a special accounting system adopted by public utility companies to prepare, present and publish their annual accounts in a specialized way under which revenue and capital items are categorized under fixed and current basis. Fixed items and current items are shown in different accounts.

Main characteristics of Double account system –

1) Balance sheet in two parts
2) Profit & loss account in two parts
3) columns
4) Expenditure side
5) Receipts side
6) Receipts and expenditure of fixed nature
7) Balance of capital account
8) General balance sheet
9) Revenue account
10) Net revenue account

Objects of double account system

Double account system is adopted by public utility companies to achieve the following objectives:

1) To maintain the fixed assets out of revenue
2) The show the relation between asset and capital in a better way
3) Comparison with previous year

Merits, advantages or importance of double account system

1) Information of additions in current year
2) Standardized formats
3) Public information
4) Separate information for current assets and liabilities
5) Extent of capitalization
6) Operating result

Preparation of Final Accounts under Double account System

In this system while preparing the final accounts, different accounts are to be prepared and at the end balance sheet is prepared.

i) Revenue account – It is as good as the ordinary profit and loss account of any trading concern, showing on the debit side all items of expenditure and showing on the credit side all items of income.

ii) Net revenue account

iii) Capital account

iv) General balance sheet

Net Revenue Account
(For the year ending………)

Particulars	Amount	Particulars	Amount
To Interest on Bank loan		By Balance b/d (From last year)	
To Sinking Fund		By Balance from Revenue A/c	
To Reserve Fund		By Interest receivable and accrued	
To Interest on debenture		By Non-operating income	
To Debenture holder's trustee's remuneration			
To Contingencies reserve			
To Income Tax			
To Dividend proposed & paid			
To Interim Dividend			

Formal of Capital Account
Receipts and Expenditure on Capital Account
Dr. For the year ending 31st March .... Cr.

To Expenditure	Expenditure upto end of previous year	Expended During the year	Total Expenditure	By Receipts	Receipts upto end of previous year	Receipts during the year	Total Receipts
	Rs.	Rs.	Rs.		Rs.	Rs.	Rs.
Building				Equity share capital			
Land including law charges incidental to acquistition				Preference share capital			
Plant				Share Premium			
Mains				Debenture stock			
Service connections				Mortgages and Bonds (long term)			
Transformer, etc.							
Meters and fees for certifying under the Act							
General Stores							
Special itmes (to be specified)							
Preliminary Expenses (to be specified)							
Organisation Exp.							
Parliamentary Exp.							
Balance				Balance			

(iv) General Balance Sheet : The general balance sheet displays the balance of capital account on the appropriate side and the current assets and liabilities. In the case of electricity supply companies total of the expenditure as per capital account is shown on the assets side

General Balance Sheet
(As on.........)

Liabilities	Amount	Assets	Amount
Capital A/c Sundry Creditors Balance of Net Revenue A/c (Cr.) Reserve Fund Depreciation fund Special items (to be specified)		Capital A/c Stores in hand Sundry debtors Cash at Bank Cash in Hand Investments Short working A/c Balance of Net Revenue A/c Dr.	