SYLLABUS

Class – B.Com. Honors II Year

Subject – Corporate Account

| UNIT – I | Issuing of share, forfeiture, re-issue of shares & buy back of share, redemption of preference shares, issue & redemption of debentures. |
| UNIT – III | Valuation of goodwill & shares, methods of valuation, accounts of public utility companies (electricity company) |
| UNIT – IV | Meaning of holding & subsidiary company, preparation of consolidated balance sheet of a holding company with one subsidiary company, accounting for liquidation of a companies. |
| UNIT – V | Accounting for merger as per AS-14, internal reconstruction of company as per Indian accounting standard 14 (excluding intercompany holding & reconstruction scheme) |
UNIT-I
ISSUE OF SHARE
Ordinary Shares (Equity Share)

Equity shares capital means all share capital which is not preference share capital. In other words, a share or share capital which does not give the definition of preference shares or preference share capital, is equity share capital.

Equity shareholders receive dividend out of profits as recommended by the Board of directors and as declared by the shareholders in an annual general meeting but after preference shares have been paid their fixed dividend.

Moreover, equity shareholders have a right to vote on every resolution placed in the meeting and the voting right shall be in proportion to the paid up equity capital. Unless a company issue equity shares with differential rights.

Preference Shares
Preferencess 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.

Those of Preference Shares
These may be of the following types:

1. **Cumulative Preference Shares**: These shares 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 or 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.

**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.

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**Issue of Shares at par- issued at its face value**

<table>
<thead>
<tr>
<th>Transaction</th>
<th>Account</th>
<th>Debit</th>
<th>Credit</th>
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</thead>
<tbody>
<tr>
<td>(1)Receipt of application money</td>
<td>Bank</td>
<td></td>
<td>Share Application</td>
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<tr>
<td>(2)Application Money in respect of shares allotted</td>
<td>Share Application</td>
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<tr>
<td>(3)Refund in respect of rejected applications</td>
<td>Share application</td>
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<tr>
<td>(4)Adjustment of excess application money towards allotment</td>
<td>Share application</td>
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<tr>
<td>(5)Adjustment of excess application money Towards calls-in-advance</td>
<td>Share allotment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(6)When allotment is made and the money Becomes due</td>
<td>Bank</td>
<td></td>
<td>Share capital</td>
</tr>
<tr>
<td>(7)Receipt of allotment money</td>
<td>Share call</td>
<td></td>
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<tr>
<td>(8)Where a call is made for the call money due</td>
<td>Calls-in-advance</td>
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<tr>
<td>(9)Adjustment of money in calls-in-advance Towards the call account</td>
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<tr>
<td>(10)Receipt of call money</td>
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**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 months 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) (with face value of shares)
- To Share Capital A/c (If shares are reissued at premium)
- To Securities Premium A/c
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 shares are not reissued, i.e., only a part of such shares is reissued, the 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.

BUY BACK OF SHARES
The provisions regulating buy back of shares are contained in Section 77A, 77AA and 77B of the Companies Act, 1956. These were inserted by the Companies (Amendment) Act, 1999. The Securities and Exchange Board of India (SEBI) framed the SEBI(Buy Back of Securities) Regulations, 1999 and the Department of Company Affairs framed the Private Limited Company and Unlisted Public company (Buy Back of Securities) rules, 1999 pursuant to Section 77A(2)(f) and (g) respectively.

Objectives of Buy Back: Shares may be bought back by the company on account of one or more of the following reasons
i. To increase promoters holding
ii. Increase earning per share
iii. Rationalise the capital structure by writing off capital not represented by available assets.
iv. Support share value
v. To thwart takeover bid
vi. To pay surplus cash not required by business

Infact the best strategy to maintain the share price in a bear run is to buy back the shares from the open market at a premium over the prevailing market price.

Resources of Buy Back
A Company can purchase its own shares from
(i) free reserves; Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the share so purchased shall be transferred to the capital redemption reserve and details of such transfer shall be disclosed in the balance-sheet or
(ii) securities premium account; or
(iii) proceeds of any shares or other specified securities. A Company cannot buyback its shares or other specified securities out of the proceeds of an earlier issue of the same kind of shares or specified securities.
Procedure for buy back
a. Where a company proposes to buy back its shares, it shall, after passing of the special/Board resolution make a public announcement at least one English National Daily, one Hindi National daily and Regional Language Daily at the place where the registered office of the company is situated.
b. The public announcement shall specify a date, which shall be "specified date" for the purpose of determining the names of shareholders to whom the letter of offer has to be sent.
c. A public notice shall be given containing disclosures as specified in Schedule I of the SEBI regulations.
d. A draft letter of offer shall be filed with SEBI through a merchant Banker. The letter of offer shall then be dispatched to the members of the company.
e. A copy of the Board resolution authorising the buy back shall be filed with the SEBI and stock exchanges.
f. The date of opening of the offer shall not be earlier than seven days or later than 30 days after the specified date.
g. The buy back offer shall remain open for a period of not less than 15 days and not more than 30 days.
h. A company opting for buy back through the public offer or tender offer shall open an escrow Account.

Sources from where the shares will be purchased
The securities can be bought back from
(a) existing security-holders on a proportionate basis;
(b) the open market through
(i). book building process;
(ii) stock exchanges or
(c) odd lots, that is to say, where the lot of securities of a public company, whose shares are listed on a recognized stock exchange, is smaller than such marketable lot, as may be specified by the stock exchange;

BONUS SHARES
The term bonus means an extra dividend paid to shareholders in a joint stock company from surplus profits. When a company has accumulated a large fund out of profits - much beyond its needs, the directors may decide to distribute a part of it amongst the shareholders in the form of bonus. Bonus can be paid either in cash or in the form of shares. Cash bonus is paid by the company when it has large accumulated profits as well as cash to pay dividend. Many a time, a company is not in a position to pay bonus in cash in spite of sufficient profits because of unsatisfactory cash position or because of its adverse effects on the working capital of the company. In such a position, the company pays a bonus to its shareholders in the form of shares; a free share thus issued is known as a bonus share.
A bonus share is a free share of stock given to current/existing shareholders in a company, based upon the number of shares that the shareholder already owns. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant.
Whenever a company announces a bonus issue, it also announces a "Book Closure Date" which is a date on which the company will ideally temporarily close its books for fresh transfers of stock. Read "Book Closure" for a better understanding.
An issue of bonus shares is referred to as a bonus issue.
Depending upon the constitutional documents of the company, only certain classes of shares may be entitled to bonus issues, or may be entitled to bonus issues in preference to other classes

Share premium:
Depending on several factors relating to company, financial position, future prospects etc. a company can issue shares at par, at premium or at discount. Promoters strategy to have a proper mix of capital
and reserves to strengthen capital base of the company and to have a precedence of issue of shares at premium so that in future shares can be issued at premium is also an important strategical decision. Many closely held companies have adopted practice of issuing shares at substantial premium with a view to keep authorized and paid-up capital low book value of share high, EPS high and incidentally to reduce cash outflow on account of dividend (which is paid as a percentage of paid up share capital and also on account of filing fees for higher authorized capital.

**Share premium account:**

Any sum collected in respect of issue of shares (except interest for delayed payment of allotment or call money) over and above paid-up of face value of shares is considered as share premium. This is a capital receipt and is not in nature of income or revenue receipt. This is to be shown as Reserve under the head 'Reserves and Surplus' in the balance sheet of the company as per provisions of the Companies Act. Share premium can be utilized only for purposes which are permitted under the Companies Act, 1956. Any other use is considered as reduction of capital which can be made only with approval of court. The provisions of Companies Act prohibit use of share premium account for declaration of dividend.

Share premium is a capital receipt and it is contributed by shareholders while subscribing or applying for shares to be issued by the company. Therefore, when a company issues shares at a premium, it receive share application money, allotment money and call money etc. from shareholders which consists some portion towards share capital and other towards premium.

**Share premium is not ‘profit’ or ‘gain’:**

Share premium is capital receipt and contributed as such by the shareholders. The amount of premium is neither 'profit' nor 'gain' of the company, it is capital receipt to be accounted for as share premium. This amount cannot be credited in the profit and loss account of the company. This is not received as consideration for any goods sold or services rendered by the company. It is worth to mention that share premium is not treated as any item of 'income' as defined in §. 2(24) or as a business profit or gain u/s 28. Therefore, share premium account cannot be included in 'accumulated profits' of the company. It is capital receipt and is in nature of shareholders funds right from beginning. Any question as to "whether capitalized or not" cannot be raised for share premium. Because only profits can be kept as revenue reserve or they can be capitalized and transferred to capital reserve.

**Utilization of Share Premium**

C.S. 78 (2) provides five purposes for which alone the share premium account may be applied without attracting consequence of reduction of the share capital. These are:

(i) Issue and pay up fully paid bonus shares to be issued to the members;
(ii) to write-off preliminary expenses of the company;
(iii) to write-off expenses of issue of shares or debentures or under-writing commission paid or discount allowed on such issues;
(iv) To pay premium on the redemption of redeemable shares or debentures issued by the company;
(v) Purchase of its own shares or other specified securities in terms of section 77A.

Any other use or application of the proceeds of the share premium account will be treated as a reduction of the company's share capital and the provisions of the 1956 Act dealing with this subject stand attracted. The share premium account cannot be used otherwise than for the specific purposes mentioned above.

**RIGHT SHARES**

Whatever shares of the further issue of capital, an existing shareholder is entitled to take, are known as right shares.

Privileged Subscription: On the basis of above description what capital is taken up by the existing shareholders, it is known as privileged subscription.

Right to right shares is held in abeyance: Where any instrument of transfer of shares has been delivered to any company for registration and the transfer of such shares has not been registered by the
company, it shall keep in abeyance in relation to such shares any offer of right shares till such registration is made (Sec. 206A). This provision has been added by the Companies Amendment Act, 1988.

**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 Reserve Account’. 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.

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

**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

- 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 shares 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

Note: If certain Shareholders could not be traced for payment then the amount due to them remain in "Preference Shareholders Account" and will be shown in Current Liabilities in Balance Sheet.

Q.1 Ali Ahmed & Company is Public Limited Company listed in Karachi Stock Exchange. Company formed in 2006, under Authorized Shares 100,000 of worth 100 each. Company has decided to raise equity finance by issuing 20,000 equity shares at a Premium of Rs. 20 per share payable as follows: on Application Rs. 30; on Allotment Rs. 50 (including Premium); on First Call Rs. 20 and on Final Call Rs. 20. Applications were received for 24,000 of equity shares. 4,000 Applications were refunded and were transfer the ownership to all other applicants. Mr. Khan, the holder of 1,000 shares, failed to pay First Call Money. On his subsequent failure to pay the Final Call Money, the shares were forfeited. After forfeiture, 500 shares reissued at 90 each.

Show the Journal entries; Bank Book and Balance Sheet.

Requirement: Show the Journal entries; Bank account, Share Capital Account and Balance Sheet for the year ended 30th March, 2018.

Q.2 Noor Khan Limited Company was established with Authorized Capital of 100,000 shares and invited applications for 10,000 shares of 10 each at premium of Rs. 5 per share payable as: On application Rs. 3 per share, on allotment Rs. 6 per share including premium and balance in two calls in equal amount. Applications were received for 24,000 of equity shares. 4,000 Applications were refunded and were allotted to all the other applicants. Mr. Nadeem fail to pay the allotment money for 200 shares issued to him; so these shares were forfeited when he will fail to pay the 1st and 2nd call money. Thereafter, 100 shares were reissued at stated rate of 9 per share. All other monies were received by the Abbottabad Ltd. as on December 31st, 2017.
DEBENTURES

Debentures is a document evidencing debt to the debenture holder, generally secured by a fixed or floating charge.

The definition of ‘debentures’ as contained in section 2(12) of the Companies Act does not explain the term. It simply reads “debenture includes debenture stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not.”

Debentures are bonds issued in acknowledgement of any indebtedness. Generally, however, they are issued under the company's seal contain a provision for the repayment of principal sum at the appointed date and the payment of interest at fixed rate.

TYPES OF DEBENTURES

Debentures may be classified according to the following characteristics, viz.,

A. Negotiability,
B. Security,
C. Redeemability
D. Convertibility, and
E. Priority

1. Classification according to Negotiability
   1. **Registered debentures:** A registered debenture is one which is registered in the name of a holder in the books of the company.
   2. **Bearer debentures:** These debentures are payable to the bearer. These are negotiable instruments and therefore, transferable by mere delivery of the debenture to the transferee.

2. Classification According to Security
   1. **Secured debentures:** When some assets or property of the company are charged in favour of the debenture holders, the debentures are deemed to be secured.
   2. **Unsecured or Naked debentures:** Debentures that do not carry any charge on the assets of the company are unsecured or naked debentures. In such a case the debenture holder is an ordinary unsecured creditor of the company.

3. Classification according to Permanence
   1. **Redeemable debentures:** A redeemable debenture is one under which the principal money is paid-off to the debenture holder on the expiry of the fixed term. The company may redeem a certain number of debentures each year or option may be given to the company to redeem all of them by a specified date.
2. Irredeemable or perpetual debentures: A debenture which contains no clause as to payment or which contains a clause that it shall to be paid back is called perpetual or irredeemable debentures.

4. Classification according to Convertibility
   1. Convertible debentures: Section 81(3) permits the issue of convertible debentures. It enables the issue of shares to debentures holders and creditors in exchange for the amount due to them where the terms of the issue of the debentures or loans provide for such exchange and such terms are approved both by the special resolution of the company and by the Central Government. Such debentures once converted into shares cannot be reconverted into debentures.
   2. Non-convertible debentures: When debentures do not give any option to their holders to convert them into preference or equity shares, such debentures are called non-convertible debentures.

5. Classification according to Priority
   1. First debentures: These are the debentures which are to be repaid in priority to other debentures which may be subsequently issued.
   2. Second debentures: These are the debentures which are to be paid after the 'first debentures' have been redeemed.

DEBENTURES STOCK
A company, instead of issuing individual debentures, evidencing separate and distinct debts, may create on loan fund known as ‘debenture stock divisible among a class of lenders each of whom is given a debenture stock certificate evidencing the parts of the whole loan to which he is entitled.
The difference between debenture and debenture stock is similar to that of between share and stock.

Share holder Compared with Debenture holder
   1. Status
   2. Voting right
   3. Income
   4. Approval of General Meeting
   5. Charge against profits
   6. Additional benefit
   7. Discount on issue
   8. Security
   9. Petition for Winding up
   10. Position at winding up

Debentures Trust Deed
When debentures are issued for public subscription, involving a considerable number of debenture holders, who do not have the time and expertise to look after their interests in the prosperities mortgaged or charged to them, they may appoint a few of them as trustees for the supervision of their common interest. A trust deed is executed conveying property to the trustees. Security is enforced or action is taken thereafter by the trustees instead of individual debenture holders.

Companies (Amendment) Act, 2000 has made it mandatory for every company to execute a debenture trust deed. The companies are hereafter barred from issuing unsecured debentures. Further debentures issued on private placement basis will also have to be backed by creation of security.

Who cannot be a Debenture Trustee
No person shall be appointed as a debenture trustee, if he:
   (a) beneficially holds shares in the company;
   (b) is beneficially entitled to moneys which are to be paid by the company to the debenture trustee;
   (c) has entered into any guarantee in respect of principal debts secured by the debentures or interest thereon.
Rights or Remedies Debenture holders
1. Sale
2. Debenture holders action
3. Appointment or receiver
4. Foreclosure
5. Valuation of security and proof of balance

Issue of debentures:
   a) for cash
   b) for consideration other than cash
   c) issued at par, payable at par
   d) issued at discount, payable at par
   e) issued at par, payable at premium
   f) issued at discount, payable at premium
   g) issued at par, payable at discount
   h) issued at discount, payable at discount

Redemption of Debentures:
   a) Redemption out of profit
   b) Redemption out of capital
   c) Conversion of debentures
   d) Buy-back of debentures in open market
      i) purchase of debenture for cancellation
         Debentures A/c Dr. (Face value of debentures)
         To Bank A/c (Actual amount paid)
         To Profit on Redemption of debentures A/c (Amount of Profit on purchase)
         Profit on Redemption of Debentures A/c Dr. (With amount of profit)
         To Capital Reserve A/c
      ii) purchase of debenture as an investment (cum-interest and ex-interest)
         Own Debentures A/c Dr. (Actual purchase price)
         Interest on Own Debentures A/c Dr. (Amount of interest)
         To Bank A/c (Total amount paid)
         On cancellation of own debentures:
         Debentures A/c Dr. (face value of debentures)
         Loss on cancellation of own Debentures A/c* Dr.
         To Own Debentures A/c (purchase price of own debentures)
         To Profit on cancellation of own Debentures A/c*
         *any one item will appear at a time

Note: Price quoted always taken as ex-interest unless otherwise stated in the question.

Methods of Redemption:
   a) Creation of sinking fund/debenture redemption fund
      i) cumulative sinking fund
      ii) non-cumulative sinking fund
   Taking an insurance policy
UNIT – II

4. 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 dividend 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.

5. 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 –

<table>
<thead>
<tr>
<th>S.No</th>
<th>Managerial Personnel</th>
<th>Maximum % of Net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Overall limit to all the managerial Personnel (S.198)</td>
<td>11</td>
</tr>
<tr>
<td>2.</td>
<td>All directors, when the company is having managing director, whole time director or manager</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>All directors, when the company is not having a managing director, whole-time director or manager</td>
<td>3</td>
</tr>
</tbody>
</table>
6. 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**

<table>
<thead>
<tr>
<th>Basis</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Time ratio</td>
<td>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.</td>
</tr>
<tr>
<td>2. Sales Ratio</td>
<td>Selling expenses, Advertisement, Discount allowed, Bad debts etc. Salary and commission to vendor.</td>
</tr>
<tr>
<td>3. Prior to incorporation</td>
<td>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.</td>
</tr>
<tr>
<td>4. Post incorporation</td>
<td></td>
</tr>
</tbody>
</table>

7. Annual Financial Statements

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 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......)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Notes No.</th>
<th>Figure as at the end of current reporting period</th>
<th>Figure as at the end of the reporting period</th>
</tr>
</thead>
</table>

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
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 field 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 –

\[ \text{Goodwill} = \text{Future probable or maintainable profit} \times \text{No. of years purchase} \]

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 =

\[ \text{Total of the list of assets} - \text{total of the list liabilities} \]

Average capital employed =

\[ \text{Closing capital employed} - \frac{\text{Half of current year's profit}}{} \]
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 method goodwill can be found out by any of the following two formulae –
1) By capitalization of super profit:
   
   \[
   \text{Goodwill} = \frac{\text{Super Profit} \times 100}{\text{Normal rate of return}}
   \]

2) By capitalization of maintainable profit:
   
   \[
   \text{Goodwill} = \frac{\text{Future probable or maintainable profit} \times 100}{\text{Normal rate of return}} \times \text{Capital employed or average capital employed}
   \]

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.

   \[
   \text{Goodwill} = \text{Super profit} \times \text{value of annuity}
   \]

II - 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.

Methods of Valuation of shares

- **Asset valuation method**
- **Income valuation method**
- **Fair value method**
- **Valuation of right shares**
- **Valuation of bonus shares**

1) Asset valuation method –
Value per share = \( \frac{\text{Net Assets}}{\text{No of shares}} \)

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 = \( \frac{Actual \ rate \ of \ dividend}{Normal \ rate \ of \ dividend} \times paid-up \ value \ per \ share \)

\[ Actual \ rate \ of \ dividend = \frac{Dividend \ received}{Paid \ up \ value \ of \ shares} \times 100 \]

2) On the basis of expected rate of return –
\[ \frac{Expected \ Return}{Total \ paid-up \ equity \ capital} \times 100 \]

The value of shares is calculated as under –
\[ \frac{Expected \ rate \ of \ return \ or \ expected \ rate \ of \ dividend}{Normal \ rate \ of \ return \ or \ normal \ dividend \ rate} \times paid-up \ value \ per \ share \]

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 formula is used –
\[ \frac{Actual \ rate \ of \ earning}{Normal \ rate \ of \ earning} \times paid-up \ value \ per \ share \]

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

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
\[ \frac{New \ Shares}{Total \ Shares \ (Old + New)} \times (Market \ value \ of \ old \ share - value \ of \ new \ share) \]
**Bonus Shares**

1) Value of a share before bonus issue = \[
\frac{Net\ Assets}{No\ of\ share\ before\ the\ bonus\ issue}\]

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

---

**III - ACCOUNTS OF PUBLIC UTILITY COMPANIES**

Public utility companies are incorporated under special statutes passed by parliament or state legislative assemblies. They are issued license 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.........)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Interest on Bank loan</td>
<td></td>
<td>By Balance b/d (From last year)</td>
<td></td>
</tr>
<tr>
<td>To Sinking Fund</td>
<td></td>
<td>By Balance from Revenue A/c</td>
<td></td>
</tr>
<tr>
<td>To Reserve Fund</td>
<td></td>
<td>By Interest receivable and accrued</td>
<td></td>
</tr>
<tr>
<td>To Interest on debenture</td>
<td></td>
<td>By Non-operating income</td>
<td></td>
</tr>
<tr>
<td>To Debenture holder’s trustee’s remuneration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Contingencies reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Income Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Dividend proposed &amp; paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Interim Dividend</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Formal of Capital Account

Receipts and Expenditure on Capital Account  
For the year ending 31st March ............

<table>
<thead>
<tr>
<th>Dr.</th>
<th>Expenditure up to end of previous year</th>
<th>Expended during the year</th>
<th>Total Expenditure</th>
<th>By Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
<td></td>
<td>Rs.</td>
</tr>
<tr>
<td>Building</td>
<td></td>
<td></td>
<td></td>
<td>Equity share capital</td>
</tr>
<tr>
<td>Land including law charges incidental to acquisition</td>
<td></td>
<td></td>
<td></td>
<td>Preference share capital</td>
</tr>
<tr>
<td>Plant</td>
<td></td>
<td></td>
<td></td>
<td>Share Premium</td>
</tr>
<tr>
<td>Mains</td>
<td></td>
<td></td>
<td></td>
<td>Debenture stock</td>
</tr>
<tr>
<td>Service connections</td>
<td></td>
<td></td>
<td></td>
<td>Mortgages and Bonds</td>
</tr>
<tr>
<td>Transformer, etc.</td>
<td></td>
<td></td>
<td></td>
<td>(long term)</td>
</tr>
<tr>
<td>Meters and fees for certifying under the Act</td>
<td></td>
<td></td>
<td></td>
<td>Balance</td>
</tr>
<tr>
<td>General Stores</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special items</td>
<td></td>
<td></td>
<td></td>
<td>(to be specified)</td>
</tr>
<tr>
<td>(to be specified)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preliminary Expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(to be specified)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Organisation Exp.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parliamentary Exp.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(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 .......)

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Amount</th>
<th>Assets</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital A/c</td>
<td></td>
<td>Capital A/c</td>
<td></td>
</tr>
<tr>
<td>Sundry Creditors</td>
<td></td>
<td>Stores in hand</td>
<td></td>
</tr>
<tr>
<td>Balance of Net Revenue A/c (Cr.)</td>
<td></td>
<td>Sundry debtors</td>
<td></td>
</tr>
<tr>
<td>Reserve Fund</td>
<td></td>
<td>Cash at Bank</td>
<td></td>
</tr>
<tr>
<td>Depreciation fund</td>
<td></td>
<td>Cash in Hand</td>
<td></td>
</tr>
<tr>
<td>Special items (to be specified)</td>
<td></td>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Short working A/c</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Balance of Net Revenue A/c Dr.</td>
<td></td>
</tr>
</tbody>
</table>
Holding Company 2(19) - clause 4(4) of the said section defines a holding company as:-
The company shall be deemed to be the holding company of another, it but only if that other is its subsidiary.
Meaning of holding company cannot be understood well without understanding the meaning of subsidiary company.

Subsidiary Company:
- Section 4
  (i) Sub company is that in which other company control the composition of its Board of directors
  (ii) More than half of total voting rights are under the control of another company.
  (iii) Another company holds more than half of the nominal value of its equity share capital
  (iv) If subsidiary company is a holding company of another subsidiary company the original holding company is also holding company of that other subsidiary company.

Preparation of consolidated Balance Sheet:
Through it is not compulsory under companies act it is preferable to give the balance sheet of both the companies in a consolidated form.

Procedure for preparing consolidated Balance Sheet

(i) Calculation of goodwill or capital reserve:
When the price paid by holding company is more than the holding company share in sum of subsidiary company's share capital reserve and surplus up to the date of purchase and P & L arising on revaluation of assets, the excess is capital loss and it is called goodwill as cost of control. If the position is reverse that is the price paid is lower, than the difference is capital profit and it will be transferred to capital reserve A/c.

The goodwill or capital reserve is calculated as under:
Share of holding company in share capital subsidiary company
+ Share in pre acquisition profits
- Share in pre acquisition loss
+ Share in pre acquisition reserve
+ Share in revaluation profit on assets
- Share in revaluation loss on assets

- Cost of Share (Purchase consideration)

Ans. (+) Capital Reserve
Ans. (-) Goodwill

(ii) Calculation of the amount of consolidated profit and loss account:
Consolidated profit or loss means the amount which comes by adding the share of holding company in the post acquisition profit of subsidiary company, to the balance in the profit and loss account of holding company. Consolidated profit or loss is calculated as under:
Balance in the P & L A/c of holding company
+ Share of holding company in the post acquisition
  Profits of subsidiary company
  +............
  -

Consolidate profit to be shown in balance sheet

(iii) Consolidated Reserves:
This is calculated as under:
Balance in the Reserve account of holding company
+ Share of holding company in the post acquisition
Reserves of subsidiary company +......
Consolidate reserve to be shown in balance sheet

(4) **Calculation of minority Interest**-The remaining shareholders in the subsidiary company are called minority shareholders and their share in the net assets of subsidiary company is called minority interest. This is calculated as under-

- Share in equity share capital of subsidiary company
- + Share in total profit of subsidiary company
- - Share in total losses of subsidiary company
- + Share in reserves of subsidiary company
- + Share in revaluation profit on assets of subsidiary company
- - Share in revaluation loss on assets of subsidiary company
- - Share in fictitious assets written off
- Minority Interest

(5) **Inter company transaction**-The transactions between holding company and subsidiary company are called inter company transaction. In consolidated balance sheet these transactions are eliminated. Inter company transactions are as under-

(i) **Bills receivable and Bills payable**-The amount of mutual bills drawn on each other by holding and subsidiary company is deducted from the total amount of bills receivable and bills payable in the consolidated balance sheet. But the discounted bills receivable will be mentioned in consolidated balance sheet.

(ii) **Debtors and creditors**-The amount of common debtors and creditors between holding company and subsidiary company will be deducted from total debtors as well as from total creditors in consolidated balance sheet.

(iii) **Unpaid dividend**-Dividend receivable from subsidiary company by the holding company is mentioned in the assets side of holding company and in liability side of subsidiary company. This is eliminated in consolidated balance sheet. Only the dividend payable to minorities will be shown in the liability side of the consolidated balance sheet.

(iv) Proposed dividend-When a subsidiary company proposes dividend, it is debited to profit and loss account and mentioned in the liabilities side of subsidiary company. But the holding company does not show this in its balance sheet. At the time of making consolidated balance sheet this amount is added to profit & loss account. The portion of proposed dividend related to minority shareholders is either shown separately or added to the minority interest in consolidated balance sheet.

(v) **Inter-company debentures**-When holding and subsidiary company have bought the debentures in each other, these are called mutual debentures. The aggregate amount of mutual debentures is deducted from total debentures in the liability side as well as total investments in the assets side of consolidated balance sheet.

(vi) **Loans and advances**-If there is mutual borrowings these are also eliminated in consolidated balance sheet.

(vii) **Unrealised profits and stock reserve**-There are frequent purchase and sale transactions between holding and subsidiary company. The portion of the mutual purchase which is unsold at the end of year includes profits charged by the selling company. This is called unrealised profit. The holding company's share is unrealised profit is called stock reserve. This amount of stock reserve is deducted from the total stock of both the companies on the assets side and amount of consolidated profit and loss account on the liabilities side in consolidated balance sheet.

(6) **Goodwill already appearing in balance sheet**-If goodwill appears in the balance sheets of both the companies this is also aggregated in consolidated balance sheet. If capital reserve arises as a result of acquisition of shares it is deducted from goodwill in consolidated balance sheet and if goodwill arises it is added to the goodwill in consolidated balance sheet.

(7) **Preference shares**-If none of the preference shares in subsidiary company is purchased by holding company, the total amount of preference shares is added to the minority interest. If the holding company has purchased the preference shares also in subsidiary company, it is used only for the
calculation of goodwill or capital reserve and not used for the distribution of profit between the two companies. For this purpose the ratio of equity shares only between holding company and minority interest is used.

(8) Interim dividend-If a subsidiary company has paid any interim dividend it will be out of pre or post acquisition profit. If it is out of pre-acquisition profits it will be deducted from pre-acquisition profits. So the cost of acquisition of shares will be reduced. Now the goodwill or capital reserve will be calculated. If interim dividend is paid out of post-acquisition profits it is deducted there from and the remaining post acquisition profit will be divided in holding company and minority shareholders. The holding company will add its portion in interim dividend to its profits in the balance sheet.

(9) Issue of Bonus Shares-If Bonus shares are issued after the acquisition of shares by holding company in subsidiary company, it will increase the number of shares held by holding company and minorities. But the ratio of holding between them will not be changed. It is important to note that whether the Bonus shares are issued out of pre or post acquisition profits, the treatment in both the cases will be as under-

(i) Issue of Bonus shares out of pre acquisition profits- In this case the amount of goodwill or capital reserve on the acquisition will not be changes because the prior profit is converted into capital.

(ii) Issue of Bonus share out of post acquisition profits- In such a case the goodwill or capital reserve will be affected because the revenue profit (Post acquisition profits) is converted in a capital profit(i.e. share capital) If the issue of bonus shares is not accounted for in the books of subsidiary company the calculation of capital reserve or goodwill should be made after the issue of bonus share. The value of goods will reduced because of increase in the paid up value of share capital.

(10) Revaluation of assets of subsidiary company- To calculate the amount of goodwill or capital reserve arising due to the acquisition of shares by holding company in subsidiary company, it is necessary to revalue the assets of the subsidiary company on the date of acquisition of shares. The effect of revaluation will be as follows-

(i) The profit on revaluation is added and loss on revaluation is deducted for the calculation of goodwill or capital reserve.

(ii) The assets are mentioned at revalued figures in balance sheet.

(iii) Additional depreciation must be charged on asset in case of profit on revaluation and excess depreciation must be written back in case of loss on revolution.

**PROFIT OR LOSS PRIOR TO I OF SUBSEQUENT TO INCORPORATION**

A Company acquires the right to enter into the contract only after it receives the certificate of incorporation. The promoters perform certain works before the incorporation of the company. Some new companies come into existence only for purchasing certain running businesses, but these companies cannot wait for purchase of business till the date of incorporation. There are many reasons for it and one of the main reason is the payment of purchase consideration. Determination of purchase consideration becomes much easier when the vendor prepares his Balance Sheet because the assets and liabilities are currently valued at that time. This is the reason why an incorporated company generally purchases the continuing business of other company at the end of the financial year and received the certificate of incorporation from the registrar after few days. However, the business of vendor company continues from the date of purchase upto the date of incorporation of the company; if profit is made during this period, it is called profit prior to incorporation, if loss is made during this period, it is called loss prior to incorporation. Purchased business also continues after incorporation hence the profit or loss made from the date of incorporation up to the date of closing of accounts at the end of the first financial year is known as profit or loss subsequent to incorporation.

The above discussion no doubt is academic but in fact in the absence of contrary information, profit to prior or subsequent to incorporation in both private and public companies means the profit prior to or subsequent to incorporation and not to commencement of business.
PROFIT OR LOSS SUBSEQUENT TO INCORPORATION

1. **Net profit & Loss.** After incorporation and from the date of receiving the certificate of commencement of business till the end of the financial year the expenses of the period is deducted from the total profit eared to arrive at net profit or net loss.

2. **Right of Profit or Loss.** The profit earned before incorporation does not belong to the new company because the purchase consideration is generally paid to the vendor after the incorporation. Thus, the right to receive the profit or loss should be of the vendor. However, in practice the profit is generally received by the purchaser if there is no country agreement, to pay the interest on purchase consideration till the date of payment of purchase price. Sometimes, the responsibility to carry out the business is laid down on the vendor, for it he is paid remuneration.

3. **Use of Profit prior to incorporation:** The profit made before incorporation is not available for distribution as dividends to the shareholders of the purchasing company because it is treated as capital profit. It is used in writing off goodwill and capital losses. In the absence of any such writing off, it is transferred to capital reserve.

4. **Record of loss prior to incorporation:** (i) This loss is added in the amount of goodwill, if it is given. (ii) If no amount of goodwill is given, goodwill account is opened with this amount. (iii) It may be transferred to Suspense Account and later on, it is written off like deferred revenue expenses.

**METHOD OF FINDING OUT PROFIT OR LOSS PRIOR TO OR SUBSEQUENT TO INCORPORATION**

1. **Finding out profit upto date of incorporation:** When running business is purchased, its profits and Loss Account should be prepared upto the date of incorporation or commencement of business and it will indicate prior period profit or loss.

2. **Time Method:** Total profit of the year is divided in proportion of the time of the prior period and subsequent period. Suppose prior period months are 4 and months of the subsequent period are 8, then total profit will be divided in the ratio of 4:8. This division is made on the assumption that profits are evenly earned throughout the year.

3. **Turnover Method:** Total profit of the year is allocated in the ratio of the sales of the prior period and the sales of the subsequent period. This is comparatively better method of allocation of profit.

4. **Time and Turnover Method:** In order to arrive at the actual net profit or loss both these methods should be used. In this regard the following statement should be taken into consideration:

   **Methods of Sales & Time for Allocation**

<table>
<thead>
<tr>
<th>Total Profit</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>(In Sales Ratio)</td>
<td>Certain Expenses related to Post-incorporation period only</td>
</tr>
<tr>
<td>Certain Expenses according to Time Ratio</td>
<td>Certain Expenses related to Pre-incorporation period only</td>
</tr>
<tr>
<td>Certain Expenses according to Sales Basis</td>
<td>Certain Expenses related to Post-incorporation period only</td>
</tr>
</tbody>
</table>
The above allocation are allocations of the gross profit of the year. From the gross profit of prior period expenses of prior are deducted and from the gross profit of the subsequent period expenses of the subsequent period are deducted and thus net profits of the prior and subsequent period are found out.

**ALLOCATION OF EXPENSES**

(i) **Time basis:** Some expenses are allocated on time basis in order to find out the expenses of prior and subsequent periods. Such expenses are electricity charges, insurance premium, interest, rent, salary, wages depreciation, printing and stationery, office expenses, postage, etc. All the expenses which are based on time are allocated on time basis.

(ii) **Turnover basis:** All the expenses that are based on sale are allocated on sale or turnover basis, e.g. commission of sales agent, selling expenses, discount allowed, advertisement expenses and bad debts, etc.

(iii) **Expenses of the prior period:** Some expenses are exclusively incurred in the prior period, they are not allocated but charged completely in the prior period e.g. salary paid to vendor or interest to vendor. If interest is paid after incorporation, it is allocated in the proportion of the period prior to incorporation and the period from the date of incorporation up to the date of payment of interest.

(iv) **Expenses of the subsequent period:** Some expenses are incurred by the company exclusively in the subsequent period of incorporation hence they are not allocated but charged to the subsequent period, e.g., directors fees, remuneration of the managing director, preliminary expenses, interest on debentures.

**Important:** Fixed expenses are disturbed according to time basis and variable expenses are distributed on the basis of sales unless some specific information is given.

Deduction of expenses form concerning Profit: After distribution the profit of the entire period on the basis of above method, it is necessary to determine the total expenses incurred before incorporation and after incorporation. The expenses of the prior period should be deducted from the profit of the prior period and post incorporation profit from the post profit. In this manner the pre and post profit can be determined.

### Summary of Allocation of Gross Profit & Expenses

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Particulars of Gross Profit and Major Expenses</th>
<th>Basis of Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Gross profit or Gross Loss</td>
<td>(a) Normally turnover basis; of &lt;br&gt;(b) If sales figures are not ascertainable then on the basis of direct expenses related to sales, i.e., direct expenses ratio; or &lt;br&gt;(c) Time basis if required information as per (a) or (b) not available</td>
</tr>
<tr>
<td>2.</td>
<td>Expenses Like Salaries, general expenses, postage, rates depreciation, office expenses, printing and stationery, telephone expenses, bank expenses, audit fee, electricity expenses, interest, repairs, administrative expenses, insurance etc.</td>
<td>This basis i.e. time basis is period prior to incorporation and period after incorporation</td>
</tr>
<tr>
<td>3.</td>
<td>Other expense like carriage outward, packaging, travel expenses, commission, advertisement expenses, discount, bad debts, selling expenses, salesman remuneration, etc.</td>
<td>Turnover basis, i.e., sales during the period prior to incorporation and sales during the period after incorporation.</td>
</tr>
<tr>
<td>4.</td>
<td>Prior-period expenses like Interest to vendors paid before incorporation; loss or profit on sale of investments before</td>
<td>No allocation; fully charged to the period prior to incorporation.</td>
</tr>
</tbody>
</table>
5. **Post-period expenses like** preliminary expenses, director's fees, discount on issue of shares and debentures, underwriting commission; salary of managing director, interest on debentures, subscription to political parties by the company.  
   - **No allocation; fully charged to the period after incorporation.**

**Notes:-**

1. Allocation on the pattern mentioned above is to be done only when no clear of allocation is given in the question. If it is clearly indicated to allocate particular expenses on a particular basis, allocation will be on that basis.
2. The audit of account of company is necessary. Hence, audit fees can be fully treated as expenses of post period also. Whatever basis is adopted for audit fee, clear note in this regard should be mentioned while solving the problems.

**PROFIT PRIOR TO AND AFTER INCORPORATION AND PREPARATION OF B/S**

When one company purchases another running business, the balance sheet of this company is prepared after allocation of profit between prior and subsequent to incorporations periods. Following information is important in this connection:

- **(i) Goodwill**: If there is any goodwill in this purchase, the profit of prior period is deducted from goodwill. If goodwill is more than profit, it is written off to the extent of the profit of the prior period.
- **(ii) Capital Reserve**: If there is Capital Reserve in this purchase, profit of the prior period is added in this Capital Reserve.
- **(iii) Cash Balance**: For finding out cash balance, Cash account is debited with cash received by issue of Capital and Cash Sales, it is credited with cash paid to Vendors, cash paid for purchase of fixed assets like machinery, etc. and expenses paid in cash etc.
- **(iv) Purchase**: In the absence of contrary information, opening stock and gross profit is deducted from sales and the amount of closing stock and the balance is called the amount of purchases.

**ACCOUNTING FOR INTERNAL RECONSTRUCTION**

Reconstruction is a comprehensive term and no definite and precise definition can be given. In a broader sense, the term reconstruction is used to express the significant changes in company law, or changes in shareholders right and interests, or changes in the rights and interests of debenture holders and creditors.

**Reconstruction may be of two types:**

- **Internal Reconstruction**
  - (a) **External Reconstruction**
    
  This chapter is devoted only to internal reconstruction.

**INTERNAL RECONSTRUCTION**

When the prescribed scheme of financial arrangement keeps intact the entity of the existing company, i.e., neither a new company is formed nor the existing company goes into liquidation, then it is called internal reconstruction. Thus in internal reconstruction the objective of reconstruction is achieved without going into the process of liquidation. It means internal reconstruction and reorganization are synonymous in use. The following are included in internal reconstruction:

- **(1) Alternation in share capital**
- **(2) Reduction in share capital**
1. **Alternation in Share Capital**

   Section 94 to 98 of Companies Act deal with alternation of share capital. It may take the form of fresh issue of new shares, conversion of fully paid shares with stock, cancellation of uninsured capital, consolidation of existing shares, sub-division of existing shares.

   (a) Increase its Share Capital by making fresh issue.
   (b) Conversion of Shares into Stock and Vice versa
   (c) Cancellation of uninsured Shares
   (d) Consolidation of shares of smaller denomination into shares of higher denomination.

2. **Reduction in Share Capital**

   Reduction of Share Capital is possible only if the Articles permit and a special resolution is passed to that effect. Reduction in share capital of a company may take one or many of the following forms:

   (a) Reducing or extinguishing the uncalled liability on any shares or;
   (b) Writing off paid up share capital which is lost or unrepresentative by available assets; or
   (c) Return of paid up capital in excess of company’s requirements;
   (d) Any other form approved by the Court.

Reduction in share capital u/s 100 of the Companies Act, 1956 becomes necessary (must) when the company wants to write off past losses or when the value of assets is just equal to share capital i.e. capital is lost, the capital is more than what is required. If Articles of Association permit, the company passes a special resolution for reduction in share capital, which must be approved by the Court.

**Entries in the Books**

1. When capital reduction is in the form of writing off paid up capital which is lost:
   Share Capital A/c…….Dr.
   To Capital Reduction A/c (By the amount of reduction)

2. Capital Reduction A/c is used to write off several tangible, intangible and fictitious assets:
   Capital Reduction A/c…….Dr.
   To Profit & Loss A/c (Debit balance)
   To Discount on issue of Debenture A/c
   To Preliminary Expenses A/c
   To Goodwill A/c
   To Patents A/c
   To Other Assets A/c

3. On payment of any contingent liability:
   Capital Reduction A/c…….Dr.
   To Contingent liability (Mention the name of liability)
   Normal entry for payment shall be made.

4. When there is increase in the value of any asset after revaluation:
   Particular Assets A/c…….Dr.
   To Capital Reduction A/c (Amount of increase)
Accounting for liquidation of companies

The word liquidation has not been used anywhere in the companies act 1956. It is the word winding up which has been used in this act. Liquidation of a company means total closure of the business of the company. In other word we can say liquidation mean by which the dissolution of a company is brought about and its assets, realized and applied in payment of its debts and when all the debts are paid off the balance, if any remaining is paid back to the members in proportion to the contribution made by them towards the capital of the company.

Winding-up or liquidation of company may take place in any one of the following ways:

1. Voluntary winding up
2. Winding up under supervision of the court.
3. Winding up by the court or compulsory winding up

1. Voluntary winding up: Voluntary winding up means winding up by the members or creditors of a company without interference by the court. The object of a voluntary winding up is that the company, i.e. the members as well as the creditors are left free to settle their affairs without going to the court. They may however apply to the court for any directions, if and when necessary. Voluntary winding up can take place under the following circumstances:

A. When the period if any fixed for the duration of the company by the articles has expired or the event, if any has occurred. Then the company in general meeting may pass an ordinary resolution for its voluntary winding up.
B. A company may at any time pass a special resolution that it be wound up voluntarily.

2. Liquidation under supervision of the court: According to section 522 of the companies act, at any time after a company has passed a resolution for voluntary winding up the court may make an order that the voluntary winding up shall continues subject to the supervision fo the court with such liberty for creditors, contributories or others to apply to the court and generally on such terms and conditions as the court thinks just. This type of liquidation is called liquidation under supervision of the court.

3. Compulsory liquidation: A company may be wound up by the court under the following circumstances and this type of winding-up is called compulsory winding-up or winding-up by court:

1. If the company has by special resolution, resolved that the company may be wound up by the court;
2. If the default is made in delivering the statutory report to the registrar or in holding the statutory meeting;
3. If the company does not commence its business within a year from its incorporation or suspends it for a whole year;
4. If the number of members is reduced, in the case of a public company, below seven, and in the case of a private company below two;
5. If the company is unable to pay its debts;
6. If the court is of the opinion that it is just and equitable that the company should be wound up.

LISTS OF STATEMENT OF AFFAIRS

Following eight-lists are used in the statement of affairs:

List A: Those assets are recorded in this list which is not specifically pledged and on which there is no charge or mortgage.
List B: Those assets are recorded in this list which is specifically pledged either with fully secured creditors or with partly secured creditors.

List C: Preferential creditors are recorded in this list. These creditors are described in Section 530 of the Companies Act, 1956 and a detailed description of these creditors has been given earlier in this chapter.

List D: Such debentures and creditors who have a floating charge in the assets of the company are recorded in this list.

List E: Unsecured creditors are recorded in this list with their names, occupations and addresses.

List F: Preference shareholders with their names and amounts are recorded in this list.

List G: Equity shareholders with their names and amounts are recorded in this list.

List H: Description of deficiency or surplus is shown in this list.

Other information's about Statement of Affairs

1. About Surplus: A Company, whose financial position is very sound, may also be dissolved. In such a case there may be surplus in the statement of affairs. If the company's financial position is weak, there will be deficit.

2. Calls in arrears. The amount receivable on calls in arrears is shown in List A. The amount which is not recoverable on calls in arrears is shown as deduction from called up capital.

3. Uncalled up Capital: Uncalled up capital is shown as a note at the end of the statement of affairs.

4. Unclaimed dividend: Unclaimed dividend is shown as unsecured creditors, but this amount will be paid only after payment of other unsecured creditors.

5. Contingent Liabilities: Contingent liabilities are shown as unsecured creditors. Bills discounted are contingent liabilities.

6. Debentures: If no other information is given, then debentures are always treated as having a floating charge on all the assets of the company.

Liquidator's final statement of account: The liquidator is required to realize the assets of the company and distribute the proceeds among the parties having claims against the company. In order to record all daily cash payments the liquidators maintains a proper cash book. At the end of the last year of winding up he prepares an account which is known as liquidator's final statement of account.

Statement of affairs : Where the court has made a winding up order or appointed the official liquidators as provisional liquidators, unless the court in its discretion otherwise orders, there shall be made out and submitted to the official liquidators a statement as to the affairs of the company in the prescribed form verified by an affidavit. This is called statement of affairs.

Contributories: Contributories means all those persons who are responsible to make payment to the company at the time of its winding up. Unless the court dispenses with the settlement of a list of contributories, the liquidator prepares the list of contributories. If the name of a shareholder falls in the list of contributories he becomes liable to pay only such amount which has so far not been called and paid by him on the shares held by him.

Holding Companies
Meaning of Holding and Subsidiary Company
Normally, holding company is also called parent company. Similarly subsidiary company is also known as Offspring Company. When one company's control is in the hands of the company and also the majority of (more than 50%) paid up equity share capital is in the hands of the former company, then it is called holding company and the other is called subsidiary company.
Definitions
When a company purchases more than 50% shares of another company, the purchasing company is called holding company and the selling company is called subsidiary company. Two companies are defined in following.

A. Holding Company – According to section 2(19) of companies act, 1956: Clause 4(4) of the said section defines a holding company as:
   A company shall be deemed to be the holding company of another, if but only if, that other is its subsidiary.
   Meaning of holding company cannot be understood well without understanding the meaning of subsidiary company.

B. Subsidiary Company – According to sec. 4 of Companies Act 1956:
   i. Company is that in which other company controls the compositions of its Board of Directors.
   ii. More than half of total voting rights are under the control of another company.
   iii. Another company holds more than of the nominal value of its equity share capital

Advantages of Holding Companies
1. Eliminate competition and advantage of monopoly
2. Consolidation of knowhow and economical benefits.
3. Separate entity of subsidiary companies.
4. Separate accounts and results
5. Control on many companies by less investment
6. Research, reduction in cost and improvement in the quality

Disadvantages of Holding Companies
Following are the disadvantages of holding companies –
1. Fraud and manipulation in accounts
2. Oppression of minority shareholders or outside shareholders
3. Exploitation of subsidiary companies by the holding company through fraudulent policies
4. Earning capacity and economical condition are not known
5. Exploitation of labour and customers
6. Centralization of monopoly and economic power

Preparation of consolidation Balance Sheet
Procedure for preparing consolidation balance sheet
1. Calculating of goodwill or capital reserve – The goodwill or capita reserve is calculated as under
   Share of holding company in the share capital of subsidiary company ...........................................
   + Share in pre acquisition profit ...........................................
   - Share in pre acquisition loss ...............................................
   + Share in pre acquisition reserve ............................................
   + Share in revaluation profit on assets ............................................
   - Share in revaluation loss on assets .............................................
   - Cost of shares ..............................................................
   Ans. (+) Capital Reserve, (-) goodwill .............................................

2. Calculation of the amount of consolidated profit and loss account - Consolidated profit or loss means the amount which comes by adding the share of holding company in the acquisition profit of subsidiary company, to the balance in the profit and loss account of holding company.
   Consolidated profit or loss is calculated as under –
   Balance in the P & L A/c of holding company .............................................
   + Share of holding company in the post acquisition
   Profits of subsidiary company .............................................
   (+).............................................
Consolidate profit to be shown in balance sheet

3. Consolidated Reserve this is calculated as under –

   Balance in the Reserve account of holding company
   + Share of holding company in the post acquisition Reserve of subsidiary company
   Consolidate reserve to be shown in balance sheet

4. Calculation of minority Interest – The remaining shareholders in the subsidiary company are called minority shareholders and their share in the net assets of subsidiary company is called minority interest. This is calculated as under –

   Share in equity share capital of subsidiary company
   + share in total profit of subsidiary Co.
   - Share in total losses of subsidiary Co.
   + Share in reserve of subsidiary Co.
   + share in revaluation profit on assets of sub. Co.
   - Share in revaluation loss on assets of sub co.
   - Share in fictitious assets written off

   Minority Interest

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Total (100%)</th>
<th>% of Holding Company</th>
<th>% of Minority Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Paid up Share Capital:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Equity share capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Preference share capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Pre-acquisition profits or losses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Profit &amp; Loss A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) General Reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Capital Reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Profit/loss on revaluation of assets &amp; liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intrinsic value of shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less - Cost of shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(-) Goodwill or Capital Reserve (+)*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Post acquisition Profits and Losses:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Profit and Loss A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) General Reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Capital Reserve</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Minority Interest

Liquidation of Companies

Meaning of liquidation
Liquid of a company means total closure of the business of the company. Generally when a company fails to discharge its liabilities continuously for a long time, then the shareholders of the company pass a resolution of company's liquidation. On liquidation, all the assets of the company are realized and converted into cash. Out of these proceeds at first external liabilities are paid off and the balance amount is distributed in the shareholders as per the arrangements of articles of association of the company. If the proceeds from realization of assets are insufficient the shareholders may be asked to pay the uncalled amount on their shares. As a consequence of liquidation the statutory and actual existence of the company comes to an end.

Modes of winding up
Under section 425 of companies Act, a company can be wound up by any of the following three modes -
1. Compulsory winding up or winding up by court (Sec. 433 to 483)
Winding up of a company under the order of a court is also known as ‘compulsory winding up.

Grounds for compulsory winding up (Sec. 433)

A company may be wound up by the court in the following cases:
   a. Special resolution of the company [Sec. 433(a)]
   b. Default in delivering the statutory report to the registrar or in holding statutory meeting [Sec.433(b)].
   c. Failure to commence, or suspension of, business [Sec. 433(c)]
   d. Reduction in membership
   e. Inability to pay its debts [Sec. 433(e)]

2. Voluntary winding up (Secs. 484 to 520) – Voluntary winding up means winding up by the members or creditors of a company without interference by the Court. The object of a voluntary winding up is that the company, i.e., the members as well as the creditors, are left free to settle their affairs without going to the Court. They may however apply to the Court for any directions, if and when necessary.

Circumstances in which a company may be wound up voluntary (Sec. 484). A company may be wound up voluntarily –
   a. By passing an ordinary resolution
   b. By passing a special resolution

Commencement of Voluntary winding up (Sec 486)

Types of voluntary winding up

A voluntary winding up may be a –
   a. Member's voluntary winding up – Declaration of solvency (Sec. 488). In a voluntary winding up of a company if a declaration of its solvency is made in accordance with the provisions of Sec. 488, it is a member's voluntary winding up. The declaration shall be made by a majority of the directors at a meeting of the Board that the company has no debts or that it will be able to pay its debts in full within 3 years from the commencement of the winding up.
   b. Creditors voluntary winding up – A voluntary winding up of a company in which a declaration of its solvency is not made is referred to as a creditors’ voluntary winding up.

3. Winding up under the supervision of court – According to Section 522 the Companies Act, at any time, after a company has passed a resolution for voluntary winding up the court may make an order that the voluntary winding up shall continue subject to the supervision of the court.
   a. The liquidator under voluntary winding up is prejudiced or is negligent in collecting the assets of the company or.
   b. The resolution for winding up was obtained by fraud.
   c. When the liquidator is biased during the process of winding up.
   d. When the liquidator fails to comply with the legal provisions.
### Summary format of Liquidator's Final Statement of Account

#### Liquidator’s Final Statement of Account

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Estimate-Value</th>
<th>Value realised</th>
<th>Payments</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening cash in hand</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opening cash at bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assets realised</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Surplus from fully secured creditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Calls from contributories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Legal charges</td>
<td>Liquidator’s remuneration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Cost of winding up</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Debentures</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unsecured creditors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Preferential</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Return to Contributories</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Preference shareholders</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Equity shareholders</td>
<td></td>
</tr>
</tbody>
</table>
UNIT V
ACCOUNTING FOR AMALGAMATION OF COMPANIES

(i) Amalgamation: Amalgamation means an Amalgamation pursuant to the provisions of the Companies Act 1956, or any other statute which may be applicable to companies, in which two or more companies amalgamation with each other and maintain their identity.

(ii) Transferor Company: Transferor company means the company which is amalgamated into another company. It was known as vendor company prior to this standard.

(i) Transferee Company: Transferee company mean the company into which a transferee company is amalgamated. It was known as purchase company prior to this standard.

TYPE OF AMALGAMATION
According to AS 14 there are two types of amalgamation:
(1) Amalgamation in the nature of merger.
(2) Amalgamation in the nature of purchase.

1. **Amalgamation in the nature of merger**: amalagamation in the nature of merger is an amalgamation which satisfies all the following five conditions:
   (i) All the assets and liabilities of the transferee company.
   (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation, other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees.
   (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agrees to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company except that cash may be paid in respect of any fractional share.
   (iv) The business of the transferor company is intended to be carried on after the amalgamation, by the transferee company.
   (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

2. **Amalgamation in the nature of purchase**: amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions which have been discussed in amalgamation in the nature of merger.

### Journal entries in the books of Transferee Company as per pooling of interests method (Merger)

<table>
<thead>
<tr>
<th>Items</th>
<th>Entries</th>
<th>Dr.</th>
<th>Cr.</th>
<th>Balance sheet values (Balancing fig.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. For purchase consideration</td>
<td>Business Purchase A/c</td>
<td>Dr.</td>
<td>P.C.*</td>
<td>P.C.*</td>
</tr>
<tr>
<td></td>
<td>To Liquidator of transferor company</td>
<td>Dr.</td>
<td>P.C.*</td>
<td>P.C.*</td>
</tr>
<tr>
<td></td>
<td>(Being record of purchase consideration)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. For the transfer of assets and liabilities</td>
<td>Sundry assets A/c</td>
<td>Dr.</td>
<td>Balance sheet values**</td>
<td>P.C.*</td>
</tr>
<tr>
<td></td>
<td>Fictitious assets A/c</td>
<td>Dr.</td>
<td></td>
<td>(Bal. figure)</td>
</tr>
<tr>
<td></td>
<td>General reserve A/c</td>
<td>Dr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Sundry liabilities A/c</td>
<td>Dr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Sundry reserves A/c</td>
<td>Dr.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Profit and loss a/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To Business Purchase A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>To General reserve A/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(Being Sundry Assets, Liabilities and)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Journal entries in the books of transferee company in case of purchase method

<table>
<thead>
<tr>
<th>Items</th>
<th>Particulars</th>
<th>Dr.</th>
<th>Cr.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. For purchase consideration</td>
<td>Business purchase A/c Dr. To Liquidator of transferor Co. A/c (Being Business Purchases)</td>
<td>P.C.*</td>
<td>P.C.*</td>
</tr>
</tbody>
</table>
| 2. For transfer of Assets & liabilities | Sundry Assets A/c Dr. Goodwill A/c Dr.  
To Sundry external liabilities A/c  
To Business Purchase a/c  
To Capital Reserve A/c (Being various assets and liabilities taken over and balancing figure debited to Goodwill A/c) | Agreed Values**  
Bal. figure | Agreed Values**  
P.C. (Bal. figure) |
| 3. Payment of purchase price       | Liquidator of transferor Co. A/c Dr.  
To Equity Share Capital A/c  
To Preference Share Capital A/c  
To Debentures A/c  
To Bank A/c (Being payment of purchase consideration) | P.C.** | Issued shares Issued shares Issued deben. Cash Payment |
| 4. Liquidation & preliminary exps. | Preliminary expenses A/c Dr. Goodwill A/c Dr.  
To Bank A/c (Being Payment of Preliminary Expenses and liquidation expenses paid) | Prel. Exps. Of transferee co. Liq. exps.of transferor co. | Paid amount |
| 5. Conversion of Debenture         | Debentures of Transferor Co. A/c Dr.  
To Debentures A/c (of Transferee Company) | Value of debenture | Value of debentures |
### Journal entries in the books of Transferor Company

Either amalgamation in the nature of merger or in the nature of purchase, in both the cases the following journal entries in the books of Transferor company:-

<table>
<thead>
<tr>
<th>Entry</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Realisation A/c</strong></td>
<td>Dr.</td>
</tr>
<tr>
<td>To Sundry Assets A/c (at Balance Sheet value)</td>
<td></td>
</tr>
<tr>
<td>(Being sundry assets transferred to Realisation A/c)</td>
<td></td>
</tr>
<tr>
<td><strong>(2) Transfer of fictitious assets to equity shareholders A/c</strong></td>
<td></td>
</tr>
<tr>
<td>- Equity shareholders A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>- To Discount on share and debentures A/c</td>
<td></td>
</tr>
<tr>
<td>- To Preliminary Expenses A/c (formation expenses)</td>
<td></td>
</tr>
<tr>
<td>- To Underwriting Commission A/c</td>
<td></td>
</tr>
<tr>
<td>- To Expenses on issue of share and debentures</td>
<td></td>
</tr>
<tr>
<td>- To Development expenses A/c</td>
<td></td>
</tr>
<tr>
<td>- To Profit and Loss A/c (Dr. balance)</td>
<td></td>
</tr>
<tr>
<td>(Being fictitious assets accounts transferred to equity shareholders a/c)</td>
<td></td>
</tr>
<tr>
<td><strong>(3). Transfer of liabilities to realisation a/c</strong></td>
<td></td>
</tr>
<tr>
<td>Sundry liabilities A/c (at B/S value)</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Realisation A/c</td>
<td></td>
</tr>
<tr>
<td>(Being sundry liabilities accounts transferred to Realisation A/c)</td>
<td></td>
</tr>
<tr>
<td>Note:- All the external liabilities, whether or not taken over by transferee company, are transferred to realisation account.)</td>
<td></td>
</tr>
<tr>
<td><strong>(4) Transfer of equity share capital, reserves, and credit balance of profit and loss account to equity shareholders a/c</strong></td>
<td></td>
</tr>
<tr>
<td>- Equity share capital A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>- Sundry reserve and funds A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>- Securities premium A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>- To Equity shareholders A/c</td>
<td></td>
</tr>
<tr>
<td>(Being transfer to equity shareholders A/c)</td>
<td></td>
</tr>
<tr>
<td><strong>(5) Purchase consideration</strong></td>
<td><strong>P.C.</strong></td>
</tr>
<tr>
<td>Transferee Company</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Realisation A/c</td>
<td></td>
</tr>
<tr>
<td>(Being Purchase consideration due)</td>
<td></td>
</tr>
<tr>
<td><strong>(6) On receipt of purchase consideration</strong></td>
<td></td>
</tr>
<tr>
<td>Shares in Transferee Company A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>Debentures in Transferee Company</td>
<td>Dr.</td>
</tr>
<tr>
<td>Bank A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Transferee Company</td>
<td></td>
</tr>
<tr>
<td>(Being Purchase consideration received)</td>
<td></td>
</tr>
<tr>
<td><strong>(7) In case of amalgamation in nature of purchase, the entry for the sale of the assets not taken over by the transferee company will be as under</strong></td>
<td></td>
</tr>
<tr>
<td>Bank A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Realisation A/c</td>
<td></td>
</tr>
<tr>
<td>(Being sale of assets)</td>
<td></td>
</tr>
<tr>
<td><strong>(8) In case of amalgamation in nature of purchase, the entry for the payment of external liabilities not taken over by the transferee company</strong></td>
<td></td>
</tr>
<tr>
<td>Realisation A/c</td>
<td>Dr.</td>
</tr>
<tr>
<td>To Bank A/c</td>
<td></td>
</tr>
<tr>
<td>(Being payment of liability)</td>
<td></td>
</tr>
</tbody>
</table>
(9) Transfer of preference share capital account to preference shareholders account
Preference share Capital A/c     Dr.
To Preference Shareholders   A/c
(Being balance of Pref. Share capital transferred to Pref. Shareholders A/c)

(10) On payment to preference shareholder-
Preference shareholders A/c     Dr.
Realisation (Premium) A/c     Dr.
To Bank A/c
To Realisation (discount) A/c
(Being payment made to Pref. Shareholders)

(11) Transfer of realisation profit to equity shareholders account-
Realisation A/c     Dr.
To Equity Shareholder A/c
(Being realisation profit transferred to equity shareholders A/c)

(12) Transfer of realisation loss to equity shareholder account-
Equity Shareholders A/c     Dr.
To Realisation A/c
(Being realisation loss transferred to equity shareholders A/c)

(13) On payment of liquidation expenses by transferor company-
Realisation A/c     Dr.
To Bank A/c
(Being liquidation expenses paid)

(14) On payment to equity shareholders-
Equity Shareholders A/c     Dr.
To Equity Shares in Transferee Company A/c
To Debentures in Transferee Company A/c
To Bank A/c
(Being payment of equity shareholders)

Necessary Ledger accounts
Realisation A/c

<table>
<thead>
<tr>
<th>Step No.</th>
<th>Particulars</th>
<th>Amount</th>
<th>Step No.</th>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>To Sundry Assets A/c</td>
<td></td>
<td>5</td>
<td>To Bank A/c</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>By Sundry Liabilities A/c</td>
<td></td>
<td>3</td>
<td>By Transferee Co. A/c</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>By Transferee Co. A/c</td>
<td></td>
<td>4</td>
<td>By Bank A/c</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>To Pref. Shareholder A/c</td>
<td></td>
<td>8</td>
<td>By Pref. Equity Shareholders A/c</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>To Bank A/c</td>
<td></td>
<td>8</td>
<td>To Equity Shareholders A/c</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>To Equity Shareholders A/c</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Transferee Company

1. To Realisation A/c
   (Purchase consideration due)
2. By Equity Shares in transferee company
   By Pref. shares in transferee company
   By Debenture in transferee Company
   By Bank A/c

P.C. received

<table>
<thead>
<tr>
<th>Preference Shareholders A/c</th>
<th>Equity Shareholders A/c</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 To Realisation A/c (Discount)</td>
<td>1 By Equity Shares Capital A/c</td>
</tr>
<tr>
<td>3 To Bank or pref. Share in transferee co. A/c</td>
<td>2 By Realisation A/c (Premium)</td>
</tr>
<tr>
<td>2 To Fictitious Assets A/c</td>
<td>1 By Equity Share capital A/c</td>
</tr>
<tr>
<td>To Profit &amp; Loss A/c (Loss)</td>
<td>2 By General Reserve A/c</td>
</tr>
<tr>
<td>3 To Realisation A/c (Loss)</td>
<td>By Profit and Loss A/c (Profit)</td>
</tr>
<tr>
<td>4 To Equity shares in transferee company</td>
<td>3 By Realisation A/c (Profit)</td>
</tr>
<tr>
<td>To Bank A/c</td>
<td></td>
</tr>
<tr>
<td>To Debentures in transferee Co.</td>
<td></td>
</tr>
</tbody>
</table>