# SYLLABUS

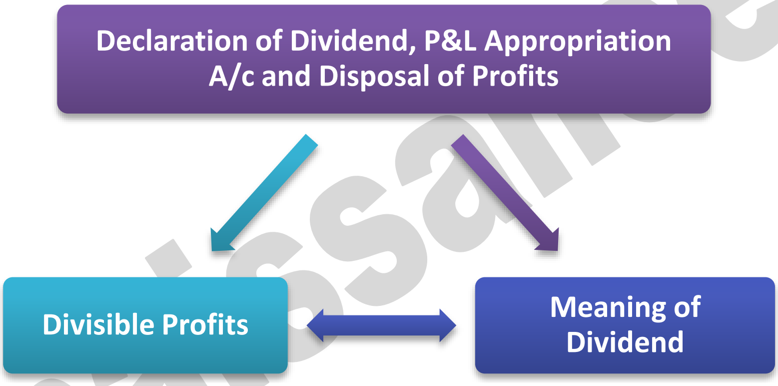
## Class – B.Com. II Year

### Subject – Corporate Account

| | |
|---|---|
| UNIT-I | Company profits: Declaration of dividend , profit and loss appropriation account and disposal of profits, Bonus Share, Accounting for Share Buy back of share<br>Managerial remuneration, Profit or loss prior to and post incorporation, Final accounts of companies |
| UNIT-II | Valuation of goodwill, Valuation of shares, Accounts of public utility companies |
| UNIT-III | Holding companies, Liquidation of companies |
| UNIT-IV | Accounting for merger as per AS 14, internal reconstruction of a company as per Indian Accounting Standard 14 (Excluding inter company holdings and reconstruction scheme) |
| UNIT-V | Accounting of banking companies; Accounts of insurance companies with claim settlement |

## UNIT-I

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




**Divisible Profits**

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

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

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

**Meaning of dividend**

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

Provision of Company's act regarding divided

**(1) Out of profits-** Dividend can be declared and paid out of the profits of current year. The profits must be calculated after providing for depreciation u/s 123(1)(a).

**(2) Previous year's profit-** If there are undistributed profits of previous year, then divided can be declared and paid out of such profits also, provided that the provisions for depreciation is made u/s 123(a).

**(3) Guarantee by Government-** Dividend can be distributed out of the money received from the central or state government as guarantee.

**(4) Provision for depreciation-** Dividend can be distributed out of profits only when the depreciation is provided for, but the central Government can exempt any company from this provision in public interest. Provisions to provide depreciation are given u/s 123(1)

**(5) Cash payment of dividend –** Dividend must be paid in cash (or cheque) and not in kind. The bonus shares can be issued for the capitalization of profits. Alternatively the partly paid up shares can be converted in to the fully paid up shares by using the profits of company.

**(6) Payment of registered shareholders only –** Payment of dividend is made to the registered shareholders only or to the persons or bankers as ordered by them.

**(7) Period for the payment of dividend –** Dividend must be paid within 30 days from the declaration of dividend.

**(8) Rate of dividend by directors –** The rate of dividend is decided by directors.

### Appropriation of Profits

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

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

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

### Items to be debited to profit & Loss appropriation account –

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

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

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

## 2. Managerial Remuneration

**Managerial Remuneration**

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

**Managerial remuneration includes any expenditure incurred by the company –**

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

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

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

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

### 3. Profit and loss Prior to and Post incorporation

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

**Accounting Treatment of Pre-incorporation Profit/Loss-**

**Profit prior to incorporation**

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

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

**Loss Prior to incorporation**

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

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

**Post incorporation profit /Loss**

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

**Basis of distribution of expenses**

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

## 4. Final Account of companies

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

The statement profit and loss and balance sheet shall related –

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

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

**Proforma of balance sheet**

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

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

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

## 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**

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

(a) A right to be paid a fixed amount of dividend or the amount of dividend, calculated at a fixed rate, e.g., 10% nominal value of shares and also.
(b) A right to be paid the amount of capital paid up as such shares in the event of winding up of the company.

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

**Those of Preference Shares**

These may be of the following types:

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

a certain fixed period. Thus, the amounts received on such shares can be returned during the life-time of the company. Such shares are termed as redeemable preferences shares.

## 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.

## <u>Issue of Shares at par- issued at its face value</u>

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

### ISSUE OF SHARES AT PREMIUM

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

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

**Journal Entries**

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

(i) Bank Account Dr.
To Share Application A/c
(Being share application money along with premium received)

(ii) Share Application Account Dr.
To Share Capital A/c
To Securities Premium A/c
(Share application money transferred to share capital A/c and Securities Premium A/c)

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

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

(ii) Bank Account Dr.
To Share Allotment Account
(Being the receipt of allotment along with share premium)

**Note-According** to Section 78 of the Companies Act, 1956 Securities Premium account may be used in following purposes only:

(i) For the issue of fully paid bonus shares to the members of the company;
(ii) For writing off preliminary expenses of the company;
(iii) For writing off the expenses of the commission paid or discount allowed on any issued of shares of debentures of the company; and
(iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

**ISSUE OF SHARES AT A DISCOUNT**

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

1. A company shall not issue shares at discount except in the Company of a class already issued, if the following conditions are fulfilled, namely:
   (i) The issue of the shares at a discount is authorised by a resolution passed by the company in general meeting and sanctioned by the company in general meeting and sanctioned by the Company Law Boards;
   (ii) The resolution specifies the maximum rate of discount at which the share are to be issued;
   (iii) Not less than one year has at the date of issue elapsed since the date on which the company was entitled to commence business; and

(iv) The shares to be issued at discount are issued within two moths after the date on which the issue is sanctioned by the Company Law Board or within such extend time as the Company Law Board May allow.

2. Where a company has passed a resolution authorizing the issue of shares at a discount, it may apply to the Company Law Board for an order sanctioning the issue, on such application the Board may make an order if it thinks proper to do so, sanctioning the issue on such terms and conditions as it thinks fit.
3. Every prospectus relating to the issue of shares shall contain particulars of the discount allowed on the issue of shares.

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

**Journal Entry**

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

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

**CALLS IN ARREARS AND CALLS IN ADVANCE**

**Calls in Arrears-**

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

**Calls in Advance-**

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

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

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

**FORFEITURE OF SHARES**

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

**Journal Entries**

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

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

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

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

**RE ISSUE OF FORFEITED SHARES**

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

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

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

Shares Forfeited Account Dr.
To Capital Reserve A/c

**When all Forfeited Shares are not issued**

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

**SURRENDER OF SHARES**

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

**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;

Buyback of shares may be made by a tender offer through a letter of offer from the holders of shares of the company or

(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 S. 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.

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

**PROCEDURE FOR SOLVING PROBLEMS**

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

2.
Debit Redeemable Preference Shares Capital A/c (With face value)
Debit Premium on Redemption A/c (With premium to be paid on Redemption)
Credit Preferences shareholders A/c (Total amount to be paid on Redemption)

Make entry for Fresh issue of equity shares either with premium or with Discount
Debit Bank Account (with amount actually received)
Debit Discount on Issue of Shares (If shares are issued at discount)
Credit Equity Share Capital (with face value of shares issued)

Credit Securities Premium (If shares are issued at premium)

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

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

**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.

**UNIT — II**

## 5. EVALUATION OF GOODWILL

**Meaning and definition of goodwill**

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

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

**Characteristics or salient features of goodwill –**

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

**Methods for valuation of goodwill –**

Goodwill affects and is affected by profits of business directly or indirectly. If the profit earning capacity of a business is high its goodwill is also high. So at the time we think of the valuation of goodwill, there is profit in our conscious or sub-conscious mind. If we are going to buy a running business and the vendor demands for goodwill, we think whether we will be able to earn that much amount of profit as is demanded by the vendor as goodwill.

There are several methods for valuation of goodwill, but the basis of the valuation of goodwill in all the methods is profit, because goodwill and profit are closely interrelated. These methods are as under –

1) Average profit method
2) Super profit method
3) Capitalization method
4) Annuity method

**1) Average profit method –** The basis of the valuation under this method is that how much the normal annual profit the business has earned during some previous years?

To calculate the value of goodwill –

*Goodwill = Future probable or maintainable profit x No. of years purchase*

**2) Super profit method –** Generally all the accountants agree that the goodwill is the result of additional profit. This additional profit is called super profit. Only those businesses have the goodwill which earns super profits. If there is no super profit, there is no goodwill.

Capital employed =

*Total of the list of assets – total of the list liabilities*

Average capital employed =

*Closing capital employed – Half of current year's profit*

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

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

*Goodwill = Super profit x number of years' purchase.*

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

1) By capitalization of super profit:

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

2) By capitalization of maintainable profit:

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

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

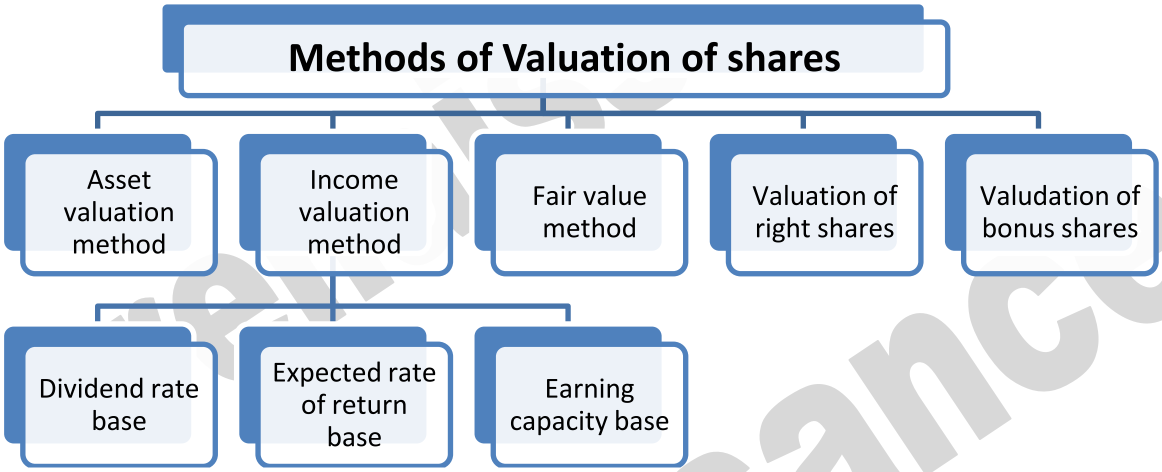
## 6. VALUATION OF SHARES

**Meaning and definitions of shares –**

Under section 2(46) of companies act, 1956 "Share means share in the share capital of a company and includes stock except where a distinction between share and stock is expressed or implied."
In other words we can say that share or stock is a unit of ownership of a company.

**Valuation of shares –**

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




**1) Asset valuation method –**

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

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

**2) Income or yield valuation method –**

The underlying concept of this method is how much income or dividend a company is paying or can pay to its shareholders or what is the earning capacity of the company?
If this figure is higher the value of shares too will be higher and if this figure is lower the value of share will also be lower. There are following three bases for the valuation of shares under this method.
1) On the basis of dividend rate
2) On the basis of expected rate of return
3) On the basis of earning capacity

1) On the basis of dividend rate -

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

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

2) On the basis of expected rate of return –

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

The value of shares is calculated as under –

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

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

3) On the basis of earning capacity –

Under this method the following formulae is used –

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

Expected rate of return = $\frac{Profit\ \ available}{Capital\ \ employed}$ x *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 –

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

**Right shares –**

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

The value of right is calculated by the following formula –

Value of right =

(1) the market value of one existing share - $\frac{Market\ \ value\ \ of\ \ existing\ \ shares\ \ held+Value\ \ of\ new\ \ shares}{No.of\ \ old\ \ shares\ \ held\ +New\ \ shares}$

OR

(2) $\frac{New\ \ Shares}{Total\ \ Shares\ \ (Old+New)}$ x *(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 = $\frac{Net\ \ Assets}{No.of\ \ old\ \ shares\ +No.of\ \ new\ \ shares}$

## 7. ACCOUNTS OF PUBLIC UTILITY COMPANIES

Public utility companies are incorporated under special statutes passed by parliament or state legislative assemblies. They are issued licece by the government.
Double account system is a special accounting system adopted by public utility companies to prepare, present and publish their annual accounts in a specialized way under which revenue and capital items are categorized under fixed and current basis. Fixed items and current items are shown in different accounts.

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

**Objects of double account system**
Double account system is adopted by public utility companies to achieve the following objectives:
1) To maintain the fixed assets out of revenue
2) The show the relation between asset and capital in a better way
3) Comparison with previous year

**Merits, advantages or importance of double account system**
1) Information of additions in current year
2) Standardized formats
3) Public information
4) Separate information for current assets and liabilities
5) Extent of capitalization
6) Operating result

**Preparation of Final Accounts under Double account System**
In this system while preparing the final accounts, different accounts are to be prepared and at the end balance sheet is prepared.
i) Revenue account – It is as good as the ordinary profit and loss account of any trading concern, showing on the debit side all items of expenditure and showing on the credit side all items of income.
ii) Net revenue account
iii) Capital account
iv) General balance sheet

**Net Revenue Account**
(For the year ending.........)

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

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

Dr. Cr.

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

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

**General Balance Sheet**

(As on.........)

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

**Unit III**

## 8. Holding Company (with one subsidiary company)

**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 ita 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

**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
-

**(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 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 is-

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 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-The** 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.

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

## 9. 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.

Types of voluntary winding up :

1. Members voluntary winding up : When the members of the company decide to wind it up even when its financial position is so sound that it can pay all its debts, this winding up is called members voluntary winding up.

2. Creditors voluntary winding up : if there is a voluntary winding up in which declaration of solvency has not been made by the directors this winding up is called creditors voluntary winding up.

**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 hum on the shares held by him.

*Summary format of Liquidator's Final Statement of Account*

*Liquidator's Final Statement of Account*

| Receipts | Estimate-Value | Value realised | Payments | Amount |
|---|---|---|---|---|
| Opening cash in hand | | | Legal charges | |
| Opening cash at bank | | | Liquidator's remuneration : | |
| Assets realised : | | | | |
| | | | Cost of winding up | |
| | | | Debentures | |
| Surplus from fully secured creditors | | | Unsecured creditors : | |
| | | | Preferential | |
| | | | Other | |
| Calls from contributories | | | Return to Contributories : | |
| | | | Preference shareholders | |
| | | | Equity shareholders | |

# UNIT IV

## 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 know 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 :** amalgamation 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)**

| Items | Entries | Dr. | Cr. |
|---|---|---|---|
| 1. For purchase consideration | Business Purchase A/c Dr.<br>To Liquidator of transferor company<br>Company<br>(Being record of purchase consideration) | P.C.* | P.C.* |
| 2. For the transfer of assets and liabilities | Sundry assets A/c Dr.<br>Fictitious assets A/c Dr.<br>General reserve A/c Dr.<br>To Sundry liabilities A/c<br>To Sundry reserves A/c<br>To Profit and loss a/c<br>To Business Purchase A/c → | Balance sheet values<br>(Balancing fig.)<br>→ | Balance sheet values**<br>P.C.* |

| | | | |
|---|---|---|---|
| | To General reserve A/c → (Being Sundry Assets, Liabilities and reserves taken over from transferor company and balancing figure as General Reserve) | → | (Bal. figure) |
| 3. Payment of Purchase consideration | Liquidator of vendor Co. A/c Dr.<br>Discount on issues of shares A/c Dr.<br>To Equity share Capital A/c →<br>To Pref. Share capital a/c →<br>To Bank A/c<br>(Being payment of purchase consideration) | P.C.*<br><br>→<br>→ | Shares given by transferee co. |
| 4. Conversion of debentures | Debentures of Vendor Co. A/c Dr.<br>To Debentures A/c<br>(Being conversion of debentures) | B/S value ** | B/S value ** |
| 5. Liquidation exps. (if paid by transferee | General Reserve A/c Dr.<br>To Bank A/c<br>(Being liquidation expenses of transferor company paid by transferee company) | Liqui. Exps. | Liqui. Exps. |
| 6. Preliminary exps. Of transferee Company | Preliminary expenses A/c Dr.<br>To Bank A/c<br>(Being preliminary expenses paid) | Preli. Exp. | Preli. Exp. |

**Journal entries in the books of transferee company in case of purchase method**

| Items | Particulars | Dr. | Cr. |
|---|---|---|---|
| 1. For purchase consideration | Business purchase A/c Dr.<br>To Liquidator of transferor Co. A/c<br>(Being Business Purchases) | P.C.* | P.C.* |
| 2. For transfer of Assets & liabilities | Sundry Assets A/c Dr.<br>Goodwill A/c Dr.<br>To Sundry external liabilities A/c<br>To Business Purchase a/c<br>To Capital Reserve A/c<br>(Being various assets and liabilities taken over and balancing figure debited to Goodwill A/c) | Agreed Values**<br>Bal. figure | Agreed Values**<br>P.C.<br>(Bal. figure) |
| 3. Payment of purchase price | Liquidator of transferor Co. A/c Dr.<br>To Equity Share Capital A/c<br>To Preference Share Capital A/c<br>To Debentures A/c<br>To Bank A/c<br>(Being payment of purchase consideration) | P.C.** | Issued shares<br>Issued shares<br>Issued deben.<br>Cash Payment |
| 4. Liquidation & preliminary exps. | Preliminary expenses A/c Dr.<br>Goodwill A/c Dr.<br>To Bank A/c<br>(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.<br>To Debentures A/c | Value of debenture | Value of |

| | | | |
|---|---|---|---|
| | (of Transferee Company) | | debentures |
| 6. Statutory reserves of transferor company | Amalgamation Adjustment A/c Dr.<br>To Various Statutory Reserves A/c<br>(Being incorporation of statutory reserves of Transferor Company) | Amount of Statu. Res. | Amount of Statu. Res. |

**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:-

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

| |
|---|
| To Bank A/c<br>(Being payment of liability) |
| **(9) Transfer of preference share capital account to preference shareholders account-**<br>Preference share Capital A/c Dr.<br>To Preference Shareholders A/c<br>(Being balance of Pref. Share capital transferred to Pref. Shareholders A/c) |
| **(10) On payment to preference shareholder-**<br>Preference shareholders A/c Dr.<br>Realisation (Premium) A/c Dr.<br>To Bank A/c<br>To Realisation (discount) A/c<br>(Being payment made to Pref. Shareholders) |
| **(11) Transfer of realisation profit to equity shareholders account-**<br>Realisation A/c Dr.<br>To Equity Shareholder A/c<br>(Being realisation profit transferred to equity shareholders A/c) |
| **(12) Transfer of realisation loss to equity shareholder account-**<br>Equity Shareholders A/c Dr.<br>To Realisation A/c<br>(Being realisation loss transferred to equity shareholders A/c) |
| **(13) On payment of liquidation expenses by transferor company-**<br>Realisation A/c Dr.<br>To Bank A/c<br>(Being liquidation expenses paid) |
| **(14) On payment to equity shareholders-**<br>Equity Shareholders A/c Dr.<br>To Equity Shares in Transferee Company A/c<br>To Debentures in Transferee Company A/c<br>To Bank A/c<br>(Being payment of equity shareholders) |

**Necessary Ledger accounts**

**Realisation A/c**

| Step No. | Particulars | Amount | Step No. | Particulars | Amount |
|---|---|---|---|---|---|
| 1 | To Sundry Assets A/c | Book Values | 2. | By Sundry Liabilities A/c | Book value |
| 5. | To Bank A/c | | 3. | By Transferee Co. A/c | |
| 6. | To Pref. Shareholder A/c | | 4. | By Bank A/c | |
| 7. | To Bank A/c | | 8. | By Pref. Equity Shareholders A/c | |
| 8. | To Equity Shareholders A/c | | 8. | To Equity Shareholders A/c | |

**Transferee Company**

| | | | | |
|---|---|---|---|---|
| 1. To Realisation A/c (Purchase consideration due) | | 2. By Equity Shares in transferee company<br>By Pref. shares in transferee company<br>By Debenture in transferee Company<br>By Bank A/c | P.C. received | |

**Preference Shareholders A/c**

| | | | |
|---|---|---|---|
| 2 To Realisation A/c (Discount)<br>3 To Bank or pref. Share in transferee co. A/c | | 1.By Equity Shares Capital A/c<br>2. By Realisation A/c (Premium) | |

**Equity Shareholders A/c**

| | | | |
|---|---|---|---|
| 2 To Fictitious Assets A/c<br>To Profit & Loss A/c (Loss)<br>3 To Realisation A/c (Loss)<br>4 To Equity shares in transferee company<br>To Bank A/c<br>To Debentures in transferee Co. | | 1 By Equity Share capital A/c<br>2 By General Reserve A/c<br>By Profit and Loss A/c (Profit)<br>3 By Realisation A/c (Profit) | |

## 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. If 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) Convention of Shares into Stock and Vice versa
(c) Cancellation of uninsured Shares
(d) Consolidation of shares of smaller denomination into share 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)

# UNIT V

## Banking

Banking is defined in 'Banking Regulation Act, 1949' as under—
"Banking means accepting, for the purpose of lending or investment, of deposits of money the public, repayable on demand or otherwise and withdrawable by cheques, order or otherwise".

In simple words banking means to accept public deposits in various account and to reinvest .o lend the same to the needy persons. Interest is paid to public on its deposits and charged the borrowers. The public deposit can be withdrawn by the depositors with the help of es, drafts, withdrawal forms etc)

**(A) To accepts deposits from public**
1) **Current deposit accounts –**
2) **Saving deposit accounts –**
3) **Fixed deposit account-**
4) **Recurring deposit account**
5) **Home savings accounts-**
6) **Other deposit accounts-**

**(B) To accepts deposits from public**
1) **Ordinary loan –**
2) **Overdraft-**
3) **Cash credit-**
4) **Discounting of bills of exchange-**

**(C) Agency functions of banks**

Besides the above functions, the banks perform certain agency functions also for its met's. For the services the bank charges a certain commission from it's clients. The various agency services are-
1. The bank helps its customers in transferring funds from one place to another or one branch to another.
2. The banks accept bills of exchange on behalf of their trusted customers.
3. The bank makes payments on behalf of it's customer like payment of loans, interest, bills, donations, telephone bills, electricity bills etc. and debits to their account.
4. The bank preserves the jewellery, important documents and Wills' of the customers and executes them after their death.
5. The bank collects the funds, cheques, drafts, bills of exchange, interest, dividends etc. from others and credits them to its customers' accounts.
6. The bank may also act as a correspondent, agent or representative of its customers.
7. The bank buys and sells stocks and shares of private as well as public/government securities on behalf of it's customers!)

**(D) Other functions of banks**

These include issuing of currency notes by the RBI and purchase and sale of foreign currency etc. Bank also provides financial assistance for inland and foreign trade. According to section 6 of Banking Regulation Act, there are certain other functions of banks as under-
1. To manage the loan or advance of securities related to any assets.
2. To manage and formulate the assets of trust.
3. To establish the funds, institution and facilities for the benefit of employees and public.
4. For banking function, necessary convenient building should be either constructed or seized or modified to serve banking functions.

5. Do any work for the management of the assets of banking company.
6. To acquire either a person's or company's business or a part thereof which come under banking function.
7. All the other functions necessary for the purpose of aforesaid functions or any other function which would be published in the Central Govt. Gazette.

## Account books of bank

The accounts of a banking company are based on peculiar system. In modern then is a tarp number of transactions in a days routine. it is necessary to hater a proper system of recording to know the latest positions of the customers' accounts and also the monetary balance of the bank. So the banks adopt such an accounting system in which theyt are in a position to know all the details of various aspects as and when required. To fulfill this purpose following books are mainly used by the banks—

(1) Current account ledger –
(2) Savings bank ledger
(3) Short loans ledger –
(4) Customer's loan ledger
(5) Fixed deposit ledger-
(6) Investment ledger
(7) Receiving cashier's counter cash book-
(8) Paying cashier's counter cash book-
(9) Net cash book-
(10) Cash balance book –
(11) General cash book or day book-
(12) General ledger-

## Slip system

Slip system is very popular in banks. In banks the accounting is simply based on the double entry system only but to increase the speed of recording the posting is made from slips prepared by the customer himself. So entries are not made in the books of original entry or subsidiary books, but posting of entries is done from slips prepared by the customer himself. So entries are not made in the books of original entry or subsidiary books, but posting of entries is done from slips.

### Functioning of slip system

When the customer deposits the amount in the bank through cash, cheque or draft, he has to fill in pay-in- slip. The receiving cashier signs on its counterfoil and stamps it and returns it back to the customer concerned. At present, apart from cash deposits, no pay-in- slip is stamped or signed by bank clerks. The customer drops the cheque enclosed with pay-in-slip in the cheque drop-box and keeps with him the unsigned and unstamped counter foil of pay-in-slip

### Merits of advantages of slip system

**1. Distribution of work**
**2. Determination of the functions and fixation of liabilities-**
**3. Easy evaluation of accounts-**
**4. Time saving**
**5. Non- requirement of primary books**
**6. Reliability—**
**7. Information of day-to-day affairs—**

**Disadvantages of slip system**

1. **Unsuitable for customers-**
2. **Unsafe –**
3. **Chances of fraud –**
4. **Heavy transactions-**
5. **Verification of books difficult-**

## Important legal facts

**1. Regulation of capital—** As per Banking Regulation Act, 1949, all banking companies, related with the banking business in India, should have their subscribed capital not less than 50% of their authorized capital. In the same way the paid up capital also should be more than 50% of subscribed capital. Secondly the banking company should have in it's capital structure only equity shares, preference shares can be the part of capital provided these shares have been issued before 1st July 1944.

**2. Liquid reserve—**Every bank, in order to fulfill the requirements of it's customers should have in proper quantity the liquid assets available. According to the banking act u/s 24 it has become compulsory for every bank to maintain minimum liquid reserves. There should be always reserves of gold and other valuable securities too.

**3. Cash reserve—**All the banks in India under the control of Reserve Bank of India have to have a certain cash reserve with the RBI as it is statutory. This is called 'Cash Reserve Ratio CRR' At present it is 4%of its time and demand liabilities. In the same way a reserve well known as 'Statutory Liquidity Ratio (SLR) is also compulsory. At present it is 19.5% of time and demand liabilities of bank.
**4. Commission, brokerage and discount—**No banking company can pay more than 2.5% of it's paid up value of shares as commission, brokerage or discount, either directly or indirectly, or in any other from.

**5. Charge on unpaid capital—**According to the Banking Regulation Act, u/s 14 (1) no bank can create a charge on its unpaid capital.

**6. Restrictions on payment of dividend—**No banking company can distribute its profits as dividend unless it writes off it's capital expenditure like preliminary expenses, commission on sale of shares, brokerage, discount, organizational expenses or any other expenses.

**7. Reserve fund—**Under section 17 of the act every banking company incorporated in India, shall create a reserve fund, out of the profits of the current year before any dividend is declared. A sum not less than 25% of such profits is to be kept as 'Statutory Reserve'. The central government may give certain relaxations, if the amount in the reserve fund together with the share premium account is not less than the paid up capital of the banking company Profit & loss account and balance sheet of banks

## Form 'B'
### Profit and loss account

| | Schedule No. | Year ended 31.3....... (Current year) | Year ended 31.3....... (Previous year) |
|---|---|---|---|
| | | ₹ | ₹ |
| **I. Income** | | | |
| Interest earned | 13 | | |
| Other income | 14 | | |
| **Total** | | | |
| **II. Expenditure** | | | |
| Interest expended | 15 | | |
| Operating expenses | 16 | | |
| Provisions and contingencies | | | |
| **Total** | | | |
| **III. Profit/loss** | | | |
| Net profit/loss (–) for the year | | | |
| Profit/loss (–) brought forward | | | |
| **Total** | | | |
| **IV. Appropriations** | | | |
| Transfer to statutory reserves | | | |
| Transfer to other reserves | | | |
| Transfer to government/proposed dividend | | | |
| Balance carried over to balance sheet | | | |
| **Total** | | | |

Note : *1. Total income includes income of foreign branches at ₹....*
*2. Total expenditure includes expenditure of foreign branches at ₹....*
*3. Surplus / Deficit of foreign branches at ₹......*

**Schedule 13 - Interest earned** *('000s omitted)*

| | Year ended 31.3....... (Current year) | Year ended 31.3....... (Previous year) |
|---|---|---|
| | ₹ | ₹ |
| I. Interest/discount on advance/bills | | |
| II. Income on investments | | |
| III. Interest on balances with reserve bank of India and other inter-bank funds | | |
| IV. Others | | |
| **Total** | | |

**Schedule 14 - Other income** *('000s omitted)*

| | Year ended 31.3....... (Current year) | Year ended 31.3....... (Previous year) |
|---|---|---|
| | ₹ | ₹ |
| I. Commission, exchange and brokerage | | |
| II. Profit on sale of investments | | |
| (*Less* : Loss on sales of investments) | | |
| III. Profit on revaluation of investments | | |
| (*Less* : Loss on revaluation of investments) | | |
| IV. Profit on sale of land, buildings and other assets | | |
| (*Less* : Loss on sale of land, buildings and other assets) | | |
| V. Profit on exchange transactions | | |
| (*Less* : Loss on exchange transactions) | | |
| VI. Income earned by way of dividends, etc., from subsidiaries/companies and/or joint ventures abroad/in India | | |
| VII. Miscellaneous income | | |
| **Total** | | |

*Note : Under items II to V loss figures may be shown in brackets.*

**Schedule 15 - Interest expended** *('000s omitted)*

| | Year ended 31.3....... (Current year) | Year ended 31.3....... (Previous year) |
|---|---|---|
| | ₹ | ₹ |
| I. Interest on deposits | | |
| II. Interest on Reserve Bank of India/ Inter-bank borrowings | | |
| III. Others | | |
| **Total** | | |

**Schedule 16 - Operating expenses** *('000s omitted)*

| | Year ended 31.3....... (Current year) | Year ended 31.3....... (Previous year) |
|---|---|---|
| | ₹ | ₹ |
| I. Payments to and provisions for employees | | |
| II. Rent, taxes and lighting | | |
| III. Printing and stationery | | |
| IV. Advertisement and publicity | | |
| V. Depreciation on bank's property | | |
| VI. Directors' fees, allowances and expenses | | |
| VII. Auditors' fees and expenses *(including branch auditors' fees and expenses)* | | |
| VIII. Law charges | | |
| IX. Postage, telegrams, telephones, etc. | | |
| X. Repairs and maintenance | | |
| XI. Insurance | | |
| XII. Other expenditures | | |
| **Total** | | |