SYLLABUS

Class – B.Com. II Year

Subject – Corporate Account

UNIT – I	Share: Meaning, types, Issue, Forfeiture, Re-issue of shares, Redemption of preference shares, Corporate Social Responsibility.
UNIT – II	Debenture : Meaning, types, issue and redemption of debentures, Profit loss account and balance sheet of the company (in brief).
UNIT – III	Calculation of profit and loss prior and post incorporation, Liquidation of company, Accounting for liquidation of companies.
UNIT – IV	Goodwill: Concept, types, characteristics/Nature, Valuation goodwill, Valuation of shares.
UNIT – V	Meaning of holding and subsidiary company, preparation of consolidated balance sheet of a holding company with one subsidiary company.
UNIT – VI	Accounting for Merger as per AS 14, Internal reconstruction of a company per Indian accounting standard 14.

UNIT-I
SHARE : ISSUE, FORFEITURE AND REISSUE

Definitions : Total Capital of the company is divided into units of small denomination. One of the units into which the capital of the company is divided is called shares.

Types of shares :
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.

Equity shares : all the shares are equity shares which are not preference shares i.e. having no priority in dividend and return of capital.

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.

Issue of Shares at par- issued at its face value

	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 allotment	Share application	Share Allotment
(5)Adjustment of excess application money Towards calls-in-advance	Share application	Calls-in-advance
(6)When allotment is made and the money Becomes due		Share capital
(7)Receipt of allotment money	Share allotment	Share allotment
(8)Where a call is made for the call money due	Bank	Share capital
(9)Adjustment of money in calls-in-advance	Share call	Share call
Towards the call account	Calls-in-advance	
(10)Receipt of call money		Share call a/c
	Bank	

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.

Redemption of Preference shares

Preference Shares

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

(c) 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.

(d) 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.

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 ReserveAccount'.** 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 8tilized 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

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) refers to a business model in which companies integrate social and environmental concerns into their operations and interactions with stakeholders. It goes beyond just generating profit and seeks to have a positive impact on society, the environment, and the economy. CSR can be seen as a way for businesses to take responsibility for their actions and contribute to sustainable development.

Key Areas of CSR:

6. *Environmental Responsibility*: Companies adopt practices to reduce their environmental footprint. This includes reducing waste, improving energy efficiency, conserving resources, and promoting sustainability. Examples include reducing carbon emissions, implementing recycling programs, and using renewable energy.

2. *Ethical Business Practices*: CSR includes ensuring that business operations are transparent, fair, and ethical. This can involve maintaining honest communication with stakeholders, following fair labor practices, combating corruption, and ensuring safe working conditions.

6. *Community Engagement*: Many companies focus on giving back to the community through charitable donations, volunteerism, and supporting local businesses. This may include sponsoring educational programs, healthcare initiatives, or helping in times of crisis.

6. *Labor and Human Rights*: Businesses also take responsibility for the well-being of their employees and suppliers, ensuring safe working conditions, fair wages, and respect for human rights. This can involve promoting diversity and inclusion, providing equal opportunities, and avoiding child labor and exploitation.

6. *Sustainable Supply Chains*: Companies increasingly focus on ensuring that their supply chains are ethical and sustainable. This can include ensuring that suppliers adhere to environmental and social standards, as well as ensuring that the sourcing of materials is not harmful to the environment or human rights.

6. *Consumer Protection*: CSR initiatives also focus on protecting consumers by ensuring product safety, fair marketing practices, and providing accurate information. Businesses commit to providing quality products and services that do not harm customers or mislead them.

Benefits of CSR:

1. *Enhanced Brand Reputation*: Companies with strong CSR initiatives are often seen as more ethical and responsible, which can improve their brand image and customer loyalty.

2. *Attracting and Retaining Talent*: Many employees, especially millennials and Gen Z, are attracted to employers with a strong commitment to CSR. Companies that prioritize employee well-being, diversity, and ethical practices are often more successful at attracting and retaining top talent.

3. *Long-Term Profitability*: While CSR investments may involve initial costs, they can lead to long-term profitability by fostering goodwill, reducing operational risks, and driving customer loyalty.

4. *Positive Impact on Society and the Environment*: CSR initiatives can lead to tangible benefits for society and the environment, such as improved social welfare, reduced environmental harm, and support for local communities.

5. *Improved Risk Management*: Engaging in CSR can help companies anticipate and mitigate risks related to legal issues, environmental regulations, or negative publicity.

Examples of CSR Initiatives:
- *Environment*: Companies like Patagonia and IKEA have committed to sustainability by using renewable materials, reducing carbon emissions, and promoting recycling.
- *Community*: Starbucks' commitment to supporting coffee farmers through ethical sourcing and community investments.
- *Labor*: Ben & Jerry's commitment to fair wages and working conditions for its employees and suppliers.
- *Health*: Companies like Johnson & Johnson focus on health-related CSR by providing support for medical research, public health initiatives, and disaster relief.

Challenges of CSR:
- *Cost*: Implementing CSR programs can be costly, particularly for small businesses. The long-term benefits may not always be immediately evident, leading some companies to struggle with justifying the investment.
- *Greenwashing*: Some companies engage in "greenwashing," where they make misleading claims about their environmental practices or CSR efforts to appear more responsible than they are.
- *Accountability*: There can be challenges in measuring and reporting CSR efforts, particularly when it comes to demonstrating real impact rather than simply making statements.

CSR Frameworks and Standards:
There are various frameworks and standards that guide businesses in implementing CSR:
- *Global Reporting Initiative (GRI)*: A widely used framework for sustainability reporting.
- *ISO 26000*: An international standard providing guidance on social responsibility.
- *UN Global Compact*: A set of principles for businesses to align their operations with universal human rights, labor standards, environmental sustainability, and anti-corruption efforts.
- *Sustainable Development Goals (SDGs)*: The United Nations' 17 global goals for achieving a better and more sustainable future.

Conclusion:

CSR is not just about charity; it is about integrating social and environmental concerns into business operations in a way that benefits both the company and society. In today's globalized and environmentally conscious market, CSR has become an essential aspect of business strategy. By taking a proactive approach to CSR, companies can build stronger relationships with customers, employees, and communities, leading to long-term success and positive societal impact.

UNIT – II

Profit and Loss Account
(for the year ended.................)

Particulars	Amount	Particulars	Amount
To Gross Loss b/d	xxxx	By Gross Profit b/d	xxxx
To Salaries	xxxx	By Rent	xxxx
To Rent Rates and Taxes	xxxx	By Commission	xxxx
To Office Lighting	xxxx	By Interest on Drawings	xxxx
To Printing and Stationery	xxxx	By Interest on Investment	xxxx
To Insurance Premium	xxxx	By Discount Received	xxxx
To Postage	xxxx	By Profit on sale of Assets	xxxx
To General Expenses	xxxx	By Net Loss c/d	xxxx
To Miscellaneous Expenses	xxxx		
To Salary to staff	xxxx		
To Commission Charges	xxxx		
To Advertising Expenses	xxxx		
To Carriage Outward	xxxx		
To Bad Debts	xxxx		
To Packing Expenses	xxxx		
To Interest on loans	xxxx		
To Discount Allowed	xxxx		
To Depreciation	xxxx		
To Repairs and Maintenance	xxxx		
To Loss on sale of Assets	xxxx		
To Provision for Bad Debts	xxxx		
To Net Profit c/d	xxxx		
	xxxx		xxxx

Statement of Profit & Loss for the year ended March 31, 2024		
Particulars	**FY2023**	**FY2024**
REVENUE		
Sale of products	xx	xx
Less: Excise duty	xx	xx
Net sale of products	**xx**	**xx**
Sale of services	xx	xx
Other operating revenue	xx	xx
Net revenue from operations	xx	xx
Other income	xx	xx
Total Revenue	**xx**	**xx**
EXPENSES		
Cost of materials consumed	xx	xx
Purchases of stock-in-trade	xx	xx
Changes in inventories	xx	xx
Employee benefits expense	xx	xx
Finance costs	xx	xx
Depreciation and amortization expense	xx	xx
Other expenses	xx	xx
Total Expenses	**xx**	**xx**
Profit before exceptional items and tax	**xx**	**xx**
Less: Exceptional items (net)	xx	xx
Profit before tax	**xx**	**xx**
Less: Tax expense	xx	xx
Current tax	xx	xx
Deferred tax (credit)	xx	xx
Profit for the year	**xx**	**xx**
Earnings per share	xx	xx

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			

Debenture: Definition, Types, Issue, Redemption, and Accounting

What is a Debenture?

A debenture is a type of debt instrument that companies issue to raise capital. It is essentially a long-term loan that the company must repay over time with interest. Debentures are typically issued to the public or institutions, and they are unsecured or secured against the company's assets.

Types of Debentures :
1. Secured Debentures:

- These are backed by a specific asset of the company. If the company defaults on repayment, the debenture holders can claim the asset.

2. Unsecured Debentures:
- These are not backed by any specific asset. In case of default, debenture holders are treated as creditors but have no specific claim on assets.

3. Convertible Debentures:
- These can be converted into equity shares of the company after a specified period, at the option of the holder.

4. Non-Convertible Debentures (NCDs):
- These cannot be converted into shares and are redeemed at the end of their term.

5. Redeemable Debentures:
- These debentures have a fixed maturity period, and the company is required to pay back the principal amount on the maturity date.

6. Irredeemable Debentures:
- These debentures do not have a fixed repayment date and may remain indefinitely unless the company chooses to redeem them.

Issue of Debentures :

Debentures are issued by companies to raise funds for various purposes such as expansion, research, working capital, etc. The process of issuing debentures involves the following steps:
- *Approval*: The company must obtain board approval and, if required, shareholder approval.
- *Issuance*: Debentures can be issued in public offerings, private placements, or rights issues.
- *Terms*: The terms of the debenture (interest rate, maturity date, etc.) must be clearly defined in the debenture trust deed.
- *Subscription*: Investors or institutions subscribe to the debentures in return for interest payments.

Redemption of Debentures :
Redemption refers to the process of repaying the principal amount of the debentures to the debenture holders at the end of the maturity period. The company can redeem debentures through:
1. *Payment in Lump Sum*: The full face value is paid back at once.
2. *Installment Payments*: The company repays the debenture amount in parts, usually at regular intervals.

Profit and Loss Account Impact (for Debenture Interest) :

The interest paid on debentures is treated as an expense and is shown in the *Profit and Loss Account* under the *finance costs* or *interest expenses* section.

*Accounting Entry for Interest on Debentures:
- Debit: *Interest on Debentures* (Profit and Loss Account)
- Credit: *Cash/Bank* (for payment) or *Interest Payable* (if accrued)

*Balance Sheet Impact:
- *Liabilities: The debenture amount (principal) appears as a **non-current liability* under the head *Long-term Borrowings* or *Debentures*.
- *Assets*: If the debenture is secured against assets, the relevant assets may be shown as pledged.

Accounting Entry for Redemption of Debentures:
- Debit: *Debenture Account* (for the redemption amount)
- Credit: *Bank/Cash* (for the redemption payment)
- If premium or discount on redemption exists, adjust the *Securities Premium Account* or other relevant accounts.

Sample Balance Sheet (after issuing debentures):
Liabilities Side:
- *Shareholders' Equity:*
  - Share Capital
  - Reserves and Surplus
- *Non-Current Liabilities:*
  - Debentures (e.g., 5,000,000)

Assets Side:
- *Non-Current Assets:*
  - Fixed Assets (Pledged, if secured)
- *Current Assets:*
  - Cash/Bank
  - Receivables

Example:
If a company issues ₹5,00,000 worth of debentures at an interest rate of 10% per annum, and it redeems them after 5 years:
- The company will pay ₹50,000 per year as interest.
- After 5 years, the company will repay the ₹5,00,000 principal amount, either as a lump sum or in installments.

Key Points:
- *Debentures* are a major source of long-term financing for companies.
- *Interest on debentures* is tax-deductible, which reduces the company's taxable income.
- Debentures may be redeemed before maturity in certain cases, such as through a call option.

In summary, debentures are important financial instruments that allow companies to raise capital, with fixed repayment terms and interest obligations that must be managed carefully in the company's accounts.

UNIT – III

2. 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.

3. 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			
(2) 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			

Liquidation of a Company: Overview and Process

Liquidation is the process of winding up a company's operations, selling its assets, paying off its liabilities, and distributing any remaining funds to shareholders. Liquidation typically occurs when a company is no longer able to continue its operations, often due to insolvency, or when the shareholders decide to voluntarily dissolve the company.

There are two main types of liquidation: *voluntary* and *compulsory*. Below is a comprehensive breakdown of both types, the process involved, and the steps taken to finalize liquidation.

Types of Liquidation

1. *Voluntary Liquidation*:
   - *Members' Voluntary Liquidation (MVL)*: This occurs when a solvent company decides to wind up its affairs. It is initiated by the company's shareholders who pass a resolution to liquidate the company. The company must be able to pay its debts within 12 months.
   - *Creditors' Voluntary Liquidation (CVL)*: This happens when an insolvent company is unable to pay its debts. It is initiated by the company's board of directors or creditors. In this case, the company's assets are sold to pay creditors, and the company is then dissolved.

2. *Compulsory Liquidation*:
   - This occurs when a court orders the liquidation of a company. This usually happens when a company is insolvent, and creditors or other stakeholders file a petition to the court for the liquidation. The court appoints an official liquidator to oversee the process.

Steps in the Liquidation Process

1. *Appointment of a Liquidator
   - A *liquidator* is appointed to manage the process of selling assets, settling debts, and distributing any remaining funds to shareholders.
   - The liquidator can be appointed by the shareholders (in voluntary liquidation) or by the court (in compulsory liquidation).
   - The liquidator's primary duty is to act in the best interests of the creditors.

2. *Sale of Assets*
   - The liquidator is responsible for selling the company's assets, such as property, inventory, machinery, or receivables, to raise funds.
   - The proceeds from the sale are then used to settle outstanding debts and liabilities.

3. *Settlement of Liabilities*
   - The liquidator will settle the company's debts according to a priority order. This includes secured creditors (who have collateral backing their loans), unsecured creditors, and, if any funds remain, shareholders.
   - The priority for payment is as follows:
     1. *Liquidation costs and expenses* (including the liquidator's fees).
     2. *Secured creditors* (those with collateral).
     3. *Unsecured creditors* (suppliers, trade creditors).

4. *Preference shareholders* (if applicable).
5. *Equity shareholders* (if there are any funds left).

4. *Distribution to Creditors and Shareholders*
- Once debts are paid, any remaining funds are distributed to the company's shareholders based on the number of shares they hold.
- In some cases, if the company is insolvent, shareholders may receive nothing.

5. *Dissolution of the Company*
- After all assets have been liquidated, debts settled, and funds distributed, the company is formally *dissolved*.
- The company ceases to exist as a legal entity.

Accounting for Liquidation of a Company*

The accounting treatment during liquidation involves the following key points:

1. *Preparation of Liquidation Accounts*
- A *Liquidation Account* is prepared to record all the transactions that occur during the liquidation process, such as the sale of assets, payment of liabilities, and distributions to creditors and shareholders.
- This account is critical to ensure transparency and proper documentation of the liquidation process.

2. *Accounting for Sale of Assets*
- When assets are sold, the proceeds are recorded as follows:
  - *Debit*: Bank (for the amount received from asset sales)
  - *Credit*: Asset Account (for the value of assets sold)

3. *Payment of Liabilities*
- As debts are settled, the payments are recorded in the accounts:
  - *Debit*: Liability Account (e.g., Creditors, Loans)
  - *Credit*: Bank/Cash (for the amount paid)

4. *Liquidation Expenses*
- The liquidator's fees and any other liquidation-related expenses are recorded as:
  - *Debit*: Liquidation Expenses (Expense Account)
  - *Credit*: Bank/Cash (for the payments made)

5. *Final Distribution to Shareholders*
- After all liabilities have been settled, any remaining funds are distributed to shareholders:
  - *Debit*: Share Capital (or Retained Earnings, if applicable)
  - *Credit*: Bank (for distribution to shareholders)

Liquidation Example

Let's walk through an example of a company undergoing liquidation:

Scenario:
A company is being liquidated, and here's the financial breakdown:

- *Assets Sold*: ₹1,00,000 (property, machinery, inventory)
- *Liabilities*: ₹40,000 (secured creditors), ₹30,000 (unsecured creditors), ₹5,000 (liquidation expenses)
- *Shareholders*: ₹25,000 (equity shareholders)

Step 1: Sale of Assets
- The liquidator sells assets for ₹1,00,000.
  - *Debit*: Bank ₹1,00,000
  - *Credit*: Assets ₹1,00,000

Step 2: Payment of Secured Creditors
- The secured creditors are paid ₹40,000.
  - *Debit*: Secured Creditors ₹40,000
  - *Credit*: Bank ₹40,000

Step 3: Payment of Unsecured Creditors
- The unsecured creditors are paid ₹30,000.
  - *Debit*: Unsecured Creditors ₹30,000
  - *Credit*: Bank ₹30,000

Step 4: Payment of Liquidation Expenses
- Liquidation expenses of ₹5,000 are paid.
  - *Debit*: Liquidation Expenses ₹5,000
  - *Credit*: Bank ₹5,000

Step 5: Distribution to Shareholders
- After paying creditors and expenses, the remaining ₹25,000 is distributed to the shareholders.
  - *Debit*: Share Capital ₹25,000
  - *Credit*: Bank ₹25,000

Conclusion:

The liquidation of a company is a structured process that ensures that the company's assets are sold, its liabilities are paid off, and any remaining funds are distributed to shareholders. The process involves the appointment of a liquidator, the sale of assets, settlement of debts in a prescribed order, and the final dissolution of the company. Proper accounting practices are crucial during liquidation to maintain transparency and accuracy in distributing funds and documenting the entire process.

Accounting for the Liquidation of Companies

Liquidation refers to the process of winding up a company's affairs, selling its assets, paying off its liabilities, and distributing the remaining funds to shareholders, if any. The liquidation process can be voluntary (initiated by the company's shareholders) or compulsory (ordered by a court). Here's a brief overview of the key aspects of accounting for liquidation.

1. Types of Liquidation:

1. *Voluntary Liquidation:*
   - Initiated by the company's shareholders or creditors when the company is solvent (able to pay its debts) or insolvent.

- *Members' Voluntary Liquidation (MVL)*: If the company is solvent.
- *Creditors' Voluntary Liquidation (CVL)*: If the company is insolvent.

2. *Compulsory Liquidation:*
 - Ordered by a court, typically when the company is insolvent and cannot meet its debts.

2. Liquidation Process:
The liquidation process involves several stages:
1. *Appointment of a Liquidator*: A liquidator is appointed to manage the liquidation process. They are responsible for selling the company's assets, settling debts, and distributing remaining funds to shareholders.

2. *Selling of Assets*: The liquidator sells the company's assets (e.g., property, inventory, receivables) to raise funds.

3. *Settling Debts*: The liquidator pays off the company's liabilities in a prescribed order of priority:
 - Secured creditors (those with collateral) are paid first.
 - Unsecured creditors (those without collateral) are paid next.
 - If any funds remain, they are distributed to shareholders.

4. *Distribution to Shareholders*: After all liabilities are settled, any remaining funds are distributed to the shareholders based on their shareholding.

3. Accounting Entries During Liquidation:

Here are the key accounting entries during liquidation:

1. *Recording the Sale of Assets:*
 When assets are sold, the accounting entry reflects the proceeds from the sale and the removal of the assets from the books.

 - *Debit:* Bank/Cash (for the amount received from asset sales)
 - *Credit:* Asset Account (e.g., Equipment, Property)

2. *Paying Liabilities:*
 As liabilities are settled, the company needs to account for payments made to creditors.

 - *Debit:* Creditors (liability accounts)
 - *Credit:* Bank/Cash (for the payments made to creditors)

3. *Settling Debenture or Loan Liabilities:*
 If the company has debentures or long-term loans, these will be settled during liquidation.

 - *Debit:* Debenture/Loan Account (for the amount owed)
 - *Credit:* Bank/Cash (for the repayment)

4. *Accounting for Expenses Incurred by the Liquidator:*
 The liquidator's fees and other expenses must be accounted for.

 - *Debit:* Liquidation Expenses (Expense Account)
 - *Credit:* Bank/Cash (for the payment of fees)

5. *Distribution to Shareholders:*
Once all liabilities are settled, the remaining funds are distributed to shareholders.

- *Debit:* Share Capital Account (to reduce the share capital)
- *Credit:* Bank/Cash (for the distribution to shareholders)

4. Liquidation Account:
In the liquidation process, a *Liquidation Account* is maintained to track the inflows (asset sales) and outflows (liabilities settlement and distributions). The liquidation account is used to ensure that all assets and liabilities are properly accounted for before any final distribution.

- The *Liquidation Account* will show all receipts from asset sales and payments made to creditors and shareholders.
- Any surplus or deficit is adjusted in the company's books.

5. Priority of Payments in Liquidation:
The order of payment during liquidation is crucial and follows a specific hierarchy:
1. *Liquidation Expenses* (including liquidator's fees).
2. *Secured Creditors* (those who have collateral or security for their loans).
3. *Unsecured Creditors* (such as suppliers, trade creditors).
4. *Preference Shareholders* (if any).
5. *Equity Shareholders* (if any funds remain after all liabilities are settled).

6. Example of Liquidation Process:

Step-by-Step Accounting Example:

1. *Assets Sold for ₹1,00,000:*
   - Debit: *Bank* ₹1,00,000
   - Credit: *Assets* (e.g., Property, Equipment) ₹1,00,000

2. *Payment to Secured Creditors ₹50,000:*
   - Debit: *Secured Creditors* ₹50,000
   - Credit: *Bank* ₹50,000

3. *Payment to Unsecured Creditors ₹30,000:*
   - Debit: *Unsecured Creditors* ₹30,000
   - Credit: *Bank* ₹30,000

4. *Payment of Liquidation Expenses ₹10,000:*
   - Debit: *Liquidation Expenses* ₹10,000
   - Credit: *Bank* ₹10,000

5. *Distribution to Shareholders:*
After paying all creditors and liquidation expenses, any remaining amount is distributed to shareholders based on their shareholding.

   - Debit: *Equity Share Capital* (e.g., ₹10,000)
   - Credit: *Bank* (distribution to shareholders) ₹10,000

7. Final Steps in Liquidation:
Once the liquidation process is complete:

- The *final liquidation accounts* will be prepared, showing the distribution of assets, payments made, and the final settlement of the company's affairs.
- If there's a surplus after settling all debts, it is distributed to shareholders.
- The company is then *dissolved*, and it ceases to exist as a legal entity.

Conclusion:
Accounting for liquidation involves a series of steps to ensure that all assets are sold, liabilities are settled in the correct order, and any remaining funds are distributed to shareholders. The process must be accurately reflected in the company's accounts, including the creation of a liquidation account to track all receipts and payments. Liquidation typically results in the dissolution of the company once all debts have been paid and assets distributed.

UNIT — IV
4. 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

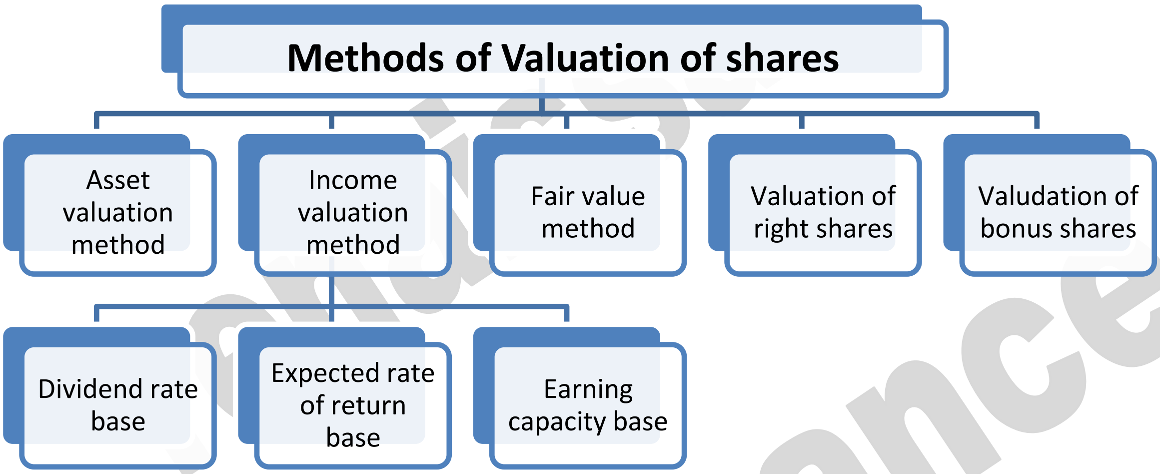
Meaning and definitions of shares –

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 = $\frac{Profit\ available\ for\ equity\ shareholders}{Paid\ up\ equity\ share\ capital}$ 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 To Sinking Fund To Reserve Fund To Interest on debenture To Debenture holder's trustee's remuneration To Contingencies reserve To Income Tax To Dividend proposed & paid To Interim Dividend		By Balance b/d (From last year) By Balance from Revenue A/c By Interest receivable and accrued 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 Land including law charges incidental to acquistition Plant Mains Service connections Transformer, etc. Meters and fees for certifying under the Act General Stores Special itmes (to be specified) Preliminary Expenses (to be specified) Organisation Exp. Parliamentary Exp. Balance				Equity share capital Preference share capital Share Premium Debenture stock Mortgages and Bonds (long term) Balance			

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

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

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

Unit - V

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 - VI

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. To Liquidator of transferor company Company (Being record of purchase consideration)	P.C.*	 P.C.*
2. For the transfer of assets and liabilities	Sundry assets A/c Dr. Fictitious assets A/c Dr. General reserve A/c Dr. To Sundry liabilities A/c To Sundry reserves A/c To Profit and loss a/c To Business Purchase A/c →	Balance sheet values (Balancing fig.) →	 Balance sheet values** 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. Discount on issues of shares A/c Dr. To Equity share Capital A/c → To Pref. Share capital a/c → To Bank A/c (Being payment of purchase consideration)	P.C.* → →	Shares given by transferee co.
4. Conversion of debentures	Debentures of Vendor Co. A/c Dr. To Debentures A/c (Being conversion of debentures)	B/S value **	B/S value **
5. Liquidation exps. (if paid by transferee	General Reserve A/c Dr. To Bank A/c (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. To Bank A/c (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. To Liquidator of transferor Co. A/c (Being Business Purchases)	P.C.*	P.C.*
2. For transfer of Assets & liabilities	Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry external liabilities A/c To Business Purchase a/c To Capital Reserve A/c (Being various assets and liabilities taken over and balancing figure debited to Goodwill A/c)	Agreed Values** Bal. figure	Agreed Values** P.C. (Bal. figure)
3. Payment of purchase price	Liquidator of transferor Co. A/c Dr. To Equity Share Capital A/c To Preference Share Capital A/c To Debentures A/c To Bank A/c (Being payment of purchase consideration)	P.C.**	Issued shares Issued shares Issued deben. Cash Payment
4. Liquidation & preliminary exps.	Preliminary expenses A/c Dr. Goodwill A/c Dr. To Bank A/c (Being Payment of Preliminary Expenses and liquidation expenses paid)	Prel. Exps. Of transferee co. Liq. exps.of transferor co.	Paid amount
5. Conversion of Debenture	Debentures of Transferor Co. A/c Dr. To Debentures A/c	Value of debenture	

	(of Transferee Company)		Value of debentures
6. Statutory reserves of transferor company	Amalgamation Adjustment A/c Dr. To Various Statutory Reserves A/c (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. To Sundry Assets A/c (at Balance Sheet value) (Being sundry assets transferred to Realisation A/c)
(2) Transfer of fictitious assets to equity shareholders A/c- Equity shareholders A/c Dr. To Discount on share and debentures a/c To Preliminary Expenses A/c (formation expenses) To Underwriting Commission A/c To Expenses on issue of share and debentures To Development expenses A/c To Profit and Loss A/c (Dr. balance) (Being fictitious assets accounts transferred to equity shareholders a/c)
(3). Transfer of liabilities to realisation a/c Sundry liabilities A/c (at B/S value) Dr. To Realisation A/c (Being sundry liabilities accounts transferred to Realisation A/c) 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- Equity share capital A/c Dr. Sundry reserve and funds A/c Dr. Securities premium A/c Dr. To Equity shareholders A/c (Being transfer to equity shareholders A/c)
(5) Purchase consideration- P.C. Transferee Company Dr. To Realisation A/c (Being Purchase consideration due)
(6) On receipt of purchase consideration- Shares in Transferee Company A/c Dr. Debentures in Transferee Company Dr. Bank A/c Dr. To Transferee Company (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- Bank A/c Dr. To Realisation A/c (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-

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

Necessary Ledger accounts

Realisation A/c

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 By Pref. shares in transferee company By Debenture in transferee Company By Bank A/c	P.C. received	

Preference Shareholders A/c

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

Equity Shareholders A/c

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