PERIYARUNIVERSITY

Reaccredited by NAACwith'A++'Grade–StateUniversity,Salem-636011,
Tamil Nadu, India.

CENTRE FOR DISTANCE AND ONLINE
EDUCATION (CDOE)

SEMESTER I

SELF-LEARNING MATERIAL

SubjectMatterExpert
Dr.S. KAVITHA
Assistant Professor & Head
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Padmavani Arts & Science College
Women(Autonomous) Salem-11

SOFTSKILLSI–EXECUTIVECOMMUNICATION

Subject	SubjectName	Category	L	T	P	O	Credits	Inst. Hours	Marks		
									CIA	External	Total
		Soft	5	-		-	4	5	25	75	100

	CourseObjectives
1	ToUnderstandaboutthepro-rataallotmentandunderwritingofshares
2	ToknowtheprovisionsofcompaniesActregardingIssuesandRedemptionof Preferencesharesanddebentures.
3	Tolearntheformandcontentsoffinancialstatementofasperscheduleofcompanies Act2013
4	ToexaminethevariousmethodsofvaluationofGoodwillandShares
5	Toidentifythesignificanceofinternationalfinancialrepotingstandards

SYLLABUS

UNIT	Details	No. of Hours	Course Objectives
I	**UNIT I-**Issueofshares –premium–Discount–Forfeiture–Reissue– Pro-rata Allotment Issue of Rights and Bonus Shares- Underwriting o sharesandDebentures–underwritingcommission–Typeso underwriting.	6	C1

II	**UNIT-II**Issue&RedemptionofPreferenceshares &DebenturesRedemptionofPreferenceshares–ProvisionsofCompaniesAct-CapitalRedemption Reserve-MinimumFreshissue-Redemptionatpar, PremiumandDiscount.**Debentures:**Issueand Redemption–Meaning–Methods–In-Onelot–in Instalment–PurchaseintheOpenMarketincludes ExInterestandCumInterest-SinkingFund	6	C2
III	**UNITIII-**FinalAccountsIntroduction–FinalAccounts–FormandContentsofFinancialStatementsasPer ScheduleIIIofCompaniesAct2013–PartIFormof BalanceSheet–PartIIFormofStatementofProfit and Loss – Ascertaining Profit for Managerial Remuneration.	6	C3
IV	**UNITIV-**ValuationofGoodwill&SharesValuationof Goodwill–Meaning–NeedforValuationofGoodwill–MethodsofValuingGoodwill–AverageProfit–Super Profit–AnnuityandCapitalizationMethod.Valuation ofShares–NeedforValuationofShares–Methods of ValuationofShares–NetAssetsMethod–Yieldand FairValueMethods.	6	C4
V	IndianAccountingStandardsInternationalFinancial Reporting Standard (IFRS)–Meaning and its ApplicabilityinIndia-IndianAccountingStandards–Meaning–Objectives–Significance–Proceduresfor FormulationofStandards–Ind AS– 1Presentation of Financial Statement, Ind AS – 2 Valuation of Inventories,IndAS–7CashFlowStatement,IndAS–8 Accounting Policies, Changes in Accounting EstimateandErrors,IndAS–16–Property,Plant& Equipment,IndAS38–IntangibleAssetsIndAS–103,BusinessCombinationsIndAS110,Consolidated	6	C5

	Total	30	
Course	Oncompletionofthiscourse,studentswill;	**Program**	
CO1	Prepareandaccountforvariousentriestobepassedincaseof issue,forfeitureandreissueofsharesandcomputetheliabilityof	PO4,	
CO2	Assesstheaccountingtreatmentofissueandredemptionof preferencesharesanddebentures	PO4, PO6	
CO3	Construct Financial Statements applying relevant accounting treatments	PO4, PO6	
CO4	Computethevalueofgoodwillandsharesunderdifferent methodsandassessitsapplicability	PO4,	
CO5	IntegratetheoreticalknowledgeonallaccountinginparwithIFRS andIND AS	PO4,	
1.	S.P.JainandN.L.Narang,AdvancedAccountingVolI,Kalyani Publication,NewDelhi.		
2	R.L.GuptaandM.Radhaswamy,AdvancedAccountsVolI, SultanChand,NewDelhi.		
3.	Broman,CorporateAccounting,Taxmann,NewDelh		
4.	Shukla,GrewalandGupta-AdvancedAccountsVolI,S.Chand, NewDelhi		
1	T.S.Reddy,A.Murthy–CorporateAccounting-Margham Publication,Chennai.		
2.	D.S.Rawat&NozerShroff,StudentsGuideToAccountingStandards ,Taxmann,NewDelhi		
3	Prof.Mukeshbramhbutt,Devi,CorporateAccountingI,Ahilya Publication,MadhyaPradesh		
4	AnilKumar,Rajeshkumar,CorporateaccountingI,Himalaya Publishinghouse,Mumbai		
5	PrasanthAthma,CorporateAccountingI,HimalayaPublishing house,Mumbai		

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Tamilnadu, India.

CENTREFORDISTANCEANDONLINEEDUCATION

(CDOE)-ONLINE DEGREE PROGRAMMES Master

Unit-I			
Issueof SharesIssueof Shares –Premium -Discount -Forfeiture -Reissue –Prorata Allotment Issue of Rights and BonusShares - Underwriting of Shares and Debentures – Underwriting Commission - Types of Underwriting.			
Section1.1	**Communication**	**PPT**	**Video**
1.1	Shares		
1.2	Kindsofshares		
1.3	Stock		
1.4	Featuresofequityshares		
1.5	Prospectus		
1.6	Issueofshares		
1.7	Bonusshare		
1.8	Issueofrights		
1.9	ShareissuedatDiscount		
1.10	ShareIssuedatPremium		
1.11	Pro-rataallotment		
1.12	ForfeituresofShares		
1.13	UnderwritingofSharesandDebentures		
1.14	Underwritingcommission		
1.15	Typesofunderwriting		
Unit-II			
Issue & Redemption of Preference Shares & Debentures Redemption of Preference Shares–Provisions of Companies Act– Capital Redemption Reserve – Minimum Fresh Issue – Redemption at Par, Premium and Discount. Debentures: Issue and Redemption – Meaning – Methods – In-One lot–in Instalment – Purchase in the Open Market includes Ex Interest and Cum Interest - SinkingFund Investment Method.			
Section2.1		**PPT**	**Video**
2.1	Redemptionofpreferenceshares		

<table>
<tr><td>2.2</td><td>ProvisionofcompaniesAct</td><td></td><td></td></tr>
<tr><td>2.3</td><td>Capitalredemptionreserve</td><td></td><td></td></tr>
<tr><td>2.4</td><td>Minimumfreshissue</td><td></td><td></td></tr>
<tr><td>2.5</td><td>RedemptionatPar</td><td></td><td></td></tr>
<tr><td>2.6</td><td>Redemptionatapremium</td><td></td><td></td></tr>
<tr><td>2.7</td><td>Redemptionatadiscount</td><td></td><td></td></tr>
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<tr><td>2.8</td><td>Issuesandredemptionmeaning</td><td></td><td></td></tr>
<tr><td>2.9</td><td>DifferencebetweenDebenturesandshares</td><td></td><td></td></tr>
<tr><td>2.10</td><td>Methods</td><td></td><td></td></tr>
<tr><td>2.11</td><td>Instalments</td><td></td><td></td></tr>
<tr><td>2.12</td><td>Purchaseintheopenmarketincludesex- interest and cum-interest</td><td></td><td></td></tr>
<tr><td>2.12</td><td>Sinkingfundinvestmentmethod</td><td></td><td></td></tr>
<tr><td colspan="4">Unit-III</td></tr>
<tr><td colspan="4">Final Accounts Introduction – Final Accounts – Form and Contents of Financial Statements as Per Schedule III of Companies Act 2013 – Part I Form of Balance Sheet – Part II Form of Statement of Profit and Loss – Ascertaining Profit for Managerial Remuneration.</td></tr>
<tr><td>Section3.1</td><td></td><td>PPT</td><td>Video</td></tr>
<tr><td>3.1</td><td>Introduction</td><td></td><td></td></tr>
<tr><td>3.2</td><td>BooksofAccountstobeMaintainedBya company</td><td></td><td></td></tr>
<tr><td>3.3</td><td>Part–IIFormofstatementofProfitandLoss</td><td></td><td></td></tr>
<tr><td>3.4</td><td>Part–IFormofBalancesheet</td><td></td><td></td></tr>
<tr><td>3.5</td><td>FormandcontentsofFinancialstatementsas per schedule of companies Act 2013</td><td></td><td></td></tr>
<tr><td>3.6</td><td>AscertainingprofitforManagerRemuneration</td><td></td><td></td></tr>
<tr><td colspan="4">Unit-IV</td></tr>
<tr><td colspan="4">Valuation of Goodwill & Shares Valuation of Goodwill – Meaning – Need for Valuation of Goodwill – Methods of Valuing Goodwill – Average Profit – Super Profit – Annuity and Capitalization Method. Valuation of Shares – Need for ValuationofShares–MethodsofValuationofShares–NetAssetsMethod–Yield andFairValueMethods</td></tr>
<tr><td>Section4.1</td><td></td><td>PPT</td><td>Video</td></tr>
<tr><td>4.1</td><td>Valuationofgoodwillmeaning</td><td></td><td></td></tr>
<tr><td>4.2</td><td>Needforvaluationofgoodwill</td><td></td><td></td></tr>
<tr><td>4.3</td><td>Methodsofvaluinggoodwill</td><td></td><td></td></tr>
<tr><td>4.4</td><td>Averageprofit</td><td></td><td></td></tr>
</table>

4.5	Superprofit		
4.6	Annuityandcapitalizationmethod		
4.7	Valuationofshares		
4.8	Needforvaluationofshares		
4.9	Methodsofvaluationofshares		
4.10	Netassetsmethods,Yieldandfairvalue methods		

Indian Accounting Standards International Financial Reporting Standard (IFRS)– Meaning and its Applicability in India - Indian Accounting Standards – Meaning – Objectives – Significance – Procedures for Formulation of Standards – Ind AS – 1 Presentation of Financial Statement, Ind AS – 2 Valuation of Inventories, Ind AS – 7 Cash Flow Statement, Ind AS – 8 Accounting Policies, Changes in Accounting Estimate and Errors, Ind AS – 16 – Property, Plant & Equipment, Ind AS 38 – Intangible Assets Ind AS – 103, Business Combinations Ind AS 110, Consolidated FinancialStatement.(TheoryOnly)

Section5.1		**PPT**	**Video**
5.1	Internationalfinancialstandard(IFRS)		
5.2	MeaninganditsapplicabilityinIndia		
5.3	IndianaccountingStandardsMeaning		
5.4	Objectives		
5.5	Significance		
5.7	Proceduresforformulationofstandards		
5.8	IndianAS		
5.9	Presentationoffinancialstatement		
5.10	IndAS2valuationofinventories		
5.11	IndAS-7cashflowstatement		
5.12	IndAS-8AccountingPolicies		
5.13	ChangesinaccountingestimateandErrors		
5.14	IndAS-16Property,Plant&Equipment		
5.16	IndAS-38		

SELF-LEARNINGMATERIAL

CORPORATEACCOUNTING-I

SECTION1.1:ISSUEOFSHARE

1.1 Shares:

Shares refer to units of ownership in a company or corporation. When a company is formed, its ownership is divided into smaller units known as shares, which are typically represented by share certificates or electronic entries in a company's register. By owning shares, individuals or entities become shareholders or stockholders of the company and have certain rights and privileges. These rights may include voting on important company matters, receiving dividends (a portion of the company's profits distributed to shareholders), and participating in the company's growth and success.

Shares are often issued during an initial public offering (IPO) when a company decidestogopublicandofferitssharestothegeneralpublicforthefirsttime.Theycanalso be issued through secondary offerings or private placements to raise additional capital. The value of shares can fluctuate based on various factors such as the company's financial performance, industry trends, market conditions, and investor sentiment. Shareholders can buy and sell shares on stock exchanges or in over-the-counter markets, allowing for liquidity and the ability to realize gains or losses on their investments.

Shares can be classified into different types, such as common shares and preferred shares. Common shares represent the basic ownership in a company and provide voting rights and a share in the company's profits. Preferred shares, on the other hand, generally do not carry voting rights but offer certain preferences, such as a fixed dividend payment or priority in receiving assets in the event of liquidation.

Overall, shares represent ownership stakes in a company and provide investors with the opportunity to participate in the company's growth and financial success.

1.2KindsofShares

Under the companies Act, 1956 as amended up to date, a company may have three classes of shares. They are

- PreferenceShares
- Equity Shares
- Shares with Differential rights.

MeaningofPreferenceShares

Preferencesharearethose,whichenjoythefollowingtwopreferentialrights.

1. Dividendatafixedrateorafixedamountonthesesharesbeforeanydividendon equity shares.

Returnofpreferencesharecapitalbeforethereturnofequitysharecapitalatthetimeof winding up of the company.

Types/ClassesofPreferenceshares

Followingarethemajortypesofpreferenceshares

1. **Cumulative preference shares**:When unpaid dividends on preference shares are treated asarrearsand are carriedforward to subsequentyears,then such preference shares are known as cumulative preference shares. It means unpaid dividend on such shares is accumulated till it is paid off in full.
2. **Non – Cumulative Preference Shares:**Non-cumulative preference shares are those type of preference shares, which right to get have fixed rate of dividend out of the profits of current year only. They do not carry the right to receive arrears of dividend. If a company fails to pay dividend in a particular year then that need not to be paid out of future profits.
3. **RedeemablePreferenceShares:**Thosepreferenceshares,whichcanberedeemed or repaid after the expiry of a fixed period or after giving the prescribed notice as desired by the company, are known as redeemable preference shares. Terms of redemption are announced at the time of issue of such shares.
4. **Non- redeemable Preference Shares:** Those preference shares, which cannot be redeemed during the life time of the company, are known as non-redeemable preference shares.The amountof such shares is paid at the time of liquidation of the company.

5. **ParticipatingPreferenceShares:**Thosepreferenceshares,whichhaveright to participatein any surplus profit of the company after paying the equity shareholders, in addition to the fixed rate of their dividend, are called participating preference shares.
6. **Non-ParticipatingPreferenceShares:**Preferenceshares,whichhavenoright toparticipateon the surplus profit or in anysurplus on liquidation of the company, are called non-participating preference shares.
7. **Convertible Preference Shares:** Those preference shares, which can be converted into equity shares at the option of the holders after a fixed period according to the terms and conditions of their issue, are known as convertible preference shares.
8. **Non -Convertible Preference Shares:** Preference shares, which are not convertible into equity shares, are called non-convertible preference shares.

Meaning of Equity Share: *Equity shares are the main source of finance of a firm. It is issued to the general public. Equity shareholders do not enjoy any preferential rightswith regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.*

ShareswithdifferentialRights

1. **Deferred Shares:** Deferred shares are also known as “founders Shares” or “Management shares”. They are issued to promoters and their friends at the time of formationofacompany.Thesesharesenjoy‘alltheresiduarybenefits’inprofits,after satisfying the preference and equitydividend claims.Theyalso carrydisproportionate voting rights, giving enormous power to promoters. Companies Act 1956 has prohibited issue of deferred shares from the time it has come into effect by
    a. PubliclimitedCompanies
    b. SubsidiariesofpubliclimitedCo.,4and
    c. Privateco.,deemedtobepublicltdcompanies.
2. **Shares with Differential Rights:**Companies (Amendment) Act, 2000 has provided, under section 2 (46A),for issue of shares with “Differential rights”, in accordance with the provisions of section86.

a. Thedifferentialrightscanberegarding
   i. Dividend
   ii. Votingrightsor
   iii. Otherwise

The issue of such shares should be in accordance with such rules and subject tosuch conditions as may be prescribed. These shares have not yet become popular in the corporate sector due to absence of clear cut rules and conditions.

Stock:

Stock means the shares of a company in a different form. In fact, stock is the aggregate of fully paid up shares consolidated and divided into different parts. The main purpose of such consolidation or division is to make it convenient to hold shares.

FeaturesofEquityShares

TheMainFeaturesofEquitySharesare:

1. Theyarepermanentinnature.
2. Equityshareholdersaretheactualownersofthecompanyandtheybearthehighestrisk.
3. Equity shares are transferable, i.e. ownership of equity shares can be transferred with or without consideration to other person.
4. Dividendpayabletoequityshareholdersisanappropriationofprofit.
5. Equityshareholdersdonotgetfixedrateofdividend.
6. Equityshareholdershavetherighttocontroltheaffairsofthecompany.
7. Theliabilityofequityshareholdersislimitedtotheextentoftheirinvestment.

AdvantagesofEquityShares

Equity shares are amongst the most important sources of capital and have certain advantages which are mentioned below:

i. AdvantagesfromtheShareholders’PointofView

(a) Equitysharesareveryliquidandcanbeeasilysoldinthecapitalmarket.

(b) Incaseofhighprofit,theygetdividendathigherrate.

(c) Equityshareholdershavetherighttocontrolthemanagementofthecompany.

(d) The equity shareholders get benefit in two ways, yearly dividend and appreciation in the value of their investment.

ii. AdvantagesfromtheCompany'sPointofView:

(a) Theyareapermanentsourceofcapitalandassuch;donotinvolveanyrepayment liability.

(b) Theydonothaveanyobligationregardingpaymentofdividend.

(c) Largerequitycapitalbaseincreasesthecreditworthinessofthecompanyamongthe creditors and investors.

DisadvantagesofEquityShares:

Despitetheirmanyadvantages,equitysharessufferfromcertainlimitations. Theseare:

i. DisadvantagesfromtheShareholders'PointofView:

(a) Equity shareholders get dividend only if there remains any profit after paying debenture interest, tax and preference dividend. Thus, getting dividend on equity shares is uncertain every year.

(b) Equity shareholders are scattered and unorganized, and hence they are unable to exercise any effective control over the affairs of the company.

(c) Equityshareholdersbearthehighestdegreeofriskofthecompany.

(d) Market price of equity shares fluctuate very widely which, in most occasions, erode the value of investment.

(e) Issueoffreshsharesreducestheearningsofexistingshareholders.

ii.DisadvantagefromtheCompany'sPointofView:

(a) Costofequityisthehighestamongallthesourcesoffinance.

(b) Paymentofdividendonequitysharesisnottaxdeductibleexpenditure.

(c) Ascomparedtoothersourcesoffinance,issueofequitysharesinvolveshigherfloatation expenses of brokerage, underwriting commission, etc.

Prospectus

Anydocumentswhichinvitesdepositsfromthepublicforpurchaseofsharesor debentures of a company is called prospectus.

Issueofshares

Issue of shares by companies can be broadly classified into two types, based on the manner of receiving consideration.

1. Issueofsharesforimmediate,fullconsideration
2. Issueofsharesforconsiderationreceivableininstalmentstermedascalls.
3. Issueofshareswithoutanyconsideration
   a. IssueofBonusshares
4. Issueofsharesthroughothermethods:
   a. Rightsissue
   b. Employeestockoptionschemes
   c. Sweatequity
   d. Privateplacementetc.

1. Issueofsharesforimmediatefullconsideration:

In such a type of issue, the full issue value is received at a time. The transaction is completed, without the necessary for further follow up action in future. Consideration received can be either of the following:

a. Noncashconsideration
b. Cashconsideration

a) **Non cash consideration**: A company may issue shares for consideration other than cash in three different situations.

i. **Issue of shares for acquisition of assets**: Fixed assets like Land, Building, Machinery, Equipment etc., may be acquired by a company by issuing shares. Such arrangements may be due to the need to conserve cash resources or it may be part of foreign collaboration, etc.

JournalEntry

		Rs.	Rs.
AssetA/c	Dr	XXX	
ToShareCapitalA/c			XXX
(Being allotment of shares in consideration of the purchase of fixed assets)			

ii. **Issue of shares to vendors of business:**A company may purchase the running business of a sole trade or partnership or even some other company. The consideration may be in the form of shares. Any difference between the net assets purchased and the net value of shares issued has to be debited to goodwill account or credited to capital reserve account, as the case may be.

JournalEntry

		Rs.	Rs.
Assets A/c	Dr	XXX	
GoodwillA/c	Dr	XXX	
ToLiabilitiesA/c			XXX
ToVendorsA/c			XXX
ToCapitalReserveA/c			XXX
(Beingassetsandliabilities takenover and goodwill / capital reserve thereon)			
VendorA/c	Dr	XXX	
ToShareCapitalA/c			XXX
(Being issue of shares to the vendors for the net amount payable)			

iii. **Issue of shares to promotors etc., for services rendered by them:**Promotors of companies spend their time. Those who are responsible for schemes of merger, reconstruction etc., also spend their time to moot such schemes. Companies may issue shares to compensate the promoters and others for their services. Since no “Tangible” consideration is received, goodwill is deemed as the consideration

JournalEntry

		Rs.	Rs.
GoodwillA/c	Dr	XXX	
ToShareCapitalA/c			XXX
(Being shares issued to compensate promotersper resolution no……dated)			

b) **Cashconsideration:**Companiesmayissuesharesandreceivethefullamountof the issue in one lump sum. The issue may be at par or at a premium or at a discount.

JournalEntry

Whentheissueisatpar		Rs.	Rs.
BankA/c		XXX	
ToShareCapitalA/c			XXX
(Beingissueofsharesforcash,atpar)			
Whentheissueisatpremium			
BankA/c		XXX	
ToShareCapital			XXX
ToSecuritiesPremium			XXX
(Beingissueof .... Sharesatpremium)			
Whentheissueisatdiscount			
BankA/c		XXX	
DiscountonissueofsharesA/c To		XXX	
share Capital			XXX
(Beingissueof……sharesatdiscountof…..asper resolutiondated…..)			

Issueofsharesforconsiderationreceivableininstalment,termedascalls

ModelJournalEntries

OnreceiptofApplicationmoney			
BankA/c(actualamountreceived)		XXX	
ToShareApplicationA/c			XXX
(Beingapplicationmoneyreceivedonshares)			
TransferofapplicationmoneytoShareCapitalA/c			
ShareApplicationA/c		XXX	
ToShareCapitalA/c			XXX
(Beingshareapplicationmoneytransferredtosharecapital)			
OnShareAllotmentdue			
ShareAllotmentA/c(amountdueonallotment)		XXX	
ToShareCapitalA/c			XXX
(Beingshareallotmentdue)			
ShareAllotmentmoneyreceived			
BankA/c(actualamountreceived)		XXX	

ToShareAllotmentA/c (Beingshareallotmentmoneyreceived)			XXX
OnSharecall due			
ShareCallA/c To Share Capital A/c (Beingmoneyonsharecalldue)		XXX	 XXX
Sharecallamountreceived BankA/c ToShareCallA/c (Beingsharecallamountreceived)		 XXX	 XXX

ApplicationMoney:

When a company goes public or issues new shares to existing shareholders, interested investors are required to submit an application form along with the specified amount of money to purchase the shares. This money is known as application money. The application money is typically a fraction of the total share price, with the remaining amount payable upon allocation or listing.

The purpose of application moneyis to ensure that investors are committed to buying the shares they have applied for. It helps the company gauge the level of interest and demand for its shares and allows for better planning and allocation of shares.

Once the application process is complete, the company or its authorized representatives review the applications and determine the allocation of shares based on various factors, such as the number of shares available and the number of shares applied for by each investor. Investors who are allocated shares will need to pay the balance of the share price to complete the purchase, while those who are not allocated shares will have their application money refunded.

It's important to note that the specific procedures and regulations regarding application money for shares may vary across different jurisdictions. Investors should carefullyreviewtheofferingdocumentsandconsultwiththeirfinancialadvisorsorbrokersto understand the terms and conditions associated with the application process for shares.

MinimumSubscription

The company should fix a minimum amount required to be raised through the issues of share capital.Suchamountisrequiredinordertomeetthepurposesspecifiedin clause5 of schedule II of the Companies Act. This is known as minimum subscription which is stated in the prospectus. If the amount received through the application money is not reached this limit then no allotment shall be made by the company.

Allotment Money

After receiving the applications with allotment money from the public, the directors should scrutinize them. They have the full liberty to allot or reject the applications. The company calls further amount to confirm the allotment for the selected applications. If the applications are not selected, then the company should send letter of regret along with the application money to be returned to applicant.

CallMoney

Afterreceivingapplicationandallotmentmoney,thecompanywillreceivethebalance amount in two or three instalments. Each instalment is called call money. Shareholders are required to pay call money when the company makes a demand for it.

Calls–in-Arrears

Sometimes the shareholders failed to pay the amount which is called up by the companywithin the specified time limit.Suchamountiscalled callsin arrears. The company should charge 5% interest per annum for calls in arrears.

JournalEntry

		Rs.	Rs.
Calls–in–ArrearsA/c ToShareAllotmentA/c To Share 1st Call A/c ToShare2nd CallA/c	Dr	XXX	 XXX XXX XXX
(Beingtransferofamountsdueonallthe calls)			
BankA/c To Interest on calls-in-arrears A/c (BeingInterestcollectedoncallsinarrears)		XXX	 XXX

Calls–in-Advance:

When a company accept money from the shareholders in advance towards calls not yet made by the company, such amounts are termed as calls- in – advance.

JournalEntry

		Rs.	Rs.
BankA/c ToCallsinAdvanceA/c	Dr	XXX	 XXX
(Beingtheamountreceivedinadvance towards calls not yet made)			

BonusShares

A bonus share, also known as a scrip dividend or a capitalization issue, is an additionalshare givento existingshareholdersbya company.Bonussharesare issuedbya company using its accumulated profits or reserves, and they are distributed to shareholders in proportion to their existing shareholdings. The purpose of issuing bonus shares is to reward shareholders without distributing cash dividends. For example, if a companydeclares a 1:1 bonus issue, it means that for every share held, an additional share will be given to the shareholder.

IssueofrightShares

When a company needs to raise additional capital, it may offer existing shareholders the right to purchase new shares in proportion to their existing shareholdings. This is known as the issue of right shares.The companysets a specificprice and ratio for the right shares, and shareholders have the option to exercise their rights by subscribing to and purchasing thenewshares.The **purpose** of issuingrightsharesistoprovideexistingshareholderswith the opportunityto maintain their proportionalownership in the companyand participate in its growth.

FormatofimportantLedgerAccounts Bank Account

Particulars	Amount	Particulars	Amount
ToshareApplicationa/c	xxx	Toshareapplicationa/c	xxx
ToShareallotmenta/c	xxx	Tobalancec/d(b/f)	xxx

ToshareFist,Calla/c To share final call a/c To share capital a/c (Forfeiture) Tocallsinadvancea/c	xxx xxx xxx xxx		
	xxx		**xxx**

ShareCapitalAccount

Particulars	Amount	Particulars	Amount
Toshareforfeiture/c	xxx	Byshareapplication	xxx
Tosharecapitala/c	xxx	Byshareallotment	xxx
		Bysharefirstcalla/c	xxx
		Bysharefinalcalla/c	xxx
		Bybanka/c	xxx
		Byshareforfeiturea/c	xxx
	xxx		xxx

Balancesheet

Particulars		Amount	Particulars	Amount
Sharecapital	xxx		Banka/c	xxx
Add:shareforfeiture	xxx	xxx	Sharediscounta/c	xxx
Securitiespremiuma/c		xxx		
Sharecapitalreserve		xxx		
		xxx		xxx

FaceValue

Theface value, also known as the par value or nominal value, is the stated value of a share or any other financial instrument. It is the value assigned to a share by the issuing company at the time of its initial offering. The face value does not necessarily reflect the actualmarketvalueoftheshareandisoftenanominalamount,suchas$1or$10.Theface value is used to calculate various financial ratios and is relevant for accounting and legal purposes.

Equalsubscription

When the number of shares issued by company and the number of sharessubscribedbythepublicareequalitiscalledequalsubscription.

SolvedExampleonIssueofSharesatPar

*1.**Illustration-1**Venture Ltd. issues 10000 equity shares of Rs. 100 each. The amount payable is as follows: Jan 1, 2018, On Application Rs.20; Feb 1, 2018, On AllotmentRs.50;Mar1,2018,OnFirstandFinalCallRs.30.Shownecessaryjournal entries in the following cases:*

1. Thecompanyreceivesapplicationsfor10000sharesanddulyallotsallshares.
2. TheCompanyreceivesapplicationsfor9500sharesanddulyallotsallshares.
3. A company receives applications for 12000 shares. It accepts the applications for 10000 shares and rejects the remaining ones. It duly allots all shares.

Solution

JournalEntries

InthebooksofVentureLtd.

Particulars		**Amount (Dr.)**	**Amount (Cr.)**
BankA/c ToshareapplicationA/c	Dr .	200000	 200000
(Beingapplicationmoneyreceivedon10000shares@20pershare)			
ShareApplicationA/c To share capital	Dr.	200000	 200000
(Beingshareapplicationmoneytransferredtosharecapital)			
ShareAllotmentA/c	Dr.	500000	

Tosharecapital			500000
(Beingshareallotmentdueon10000shares@50pershare)			
BankA/c ToShareAllotmentA/c	Dr.	500000	 500000
(Beingshareallotmentmoneyreceived)			
ShareFirstandFinalCallA/c To share capital A/c	Dr.	300000	 300000
(Beingmoneyonsharecalldueon10000shares@30pershare)			
BankA/c TosharefirstandfinalcallA/c	Dr.	300000	 300000
(Beingsharecallamountreceived)			

Illustration-2 A ltd.Issued10,000 shares to the general public. Share value of Rs.10will be collected as follows: on application Rs.2; on allotment Rs.4; on first and second call Rs.2 each. All the shares are subscribed by the public. Pass journal entries.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Banka/c Toshareapplicationa/c (Beingapplicationmoneyreceived)	Dr	20,000	 20,000
Shareapplicationa/c	Dr	20,000	
Tosharecapitala/c			20,000

(Beingapplicationmoneytransferred)			
Shareallotmenta/c Tosharecapitala/c (Beingallotmentmoneydue10000X4)	Dr	40,000	 40,000
Banka/c Toshareallotmenta/c (Beingallotmentmoneyreceived)	Dr	40,000	 40,000
Sharefirstcalla/c Tosharecapitala/c (Beingcallmoneydue10,000X2)	Dr	20,000	 20.000
Banka/c To share first call a/c (Beingcallmoneyreceived)	Dr	20,000	 20,000
Sharefinalcalla/c Tosharecapitala/c (Beingcallmoneydue10,000x2)	Dr	20,000	 20,000
Banka/c To share final call a/c (Beingcallmoneyreceived)	Dr	20,000	 20,000

ShareissuedatDiscount

Illustration 3 In January 1998 Green Ltd. Issued 2,000 shares of Rs.100 each at a discount of 5%. The issue was fully subscribed by paying Rs.20 per share on application. The balance was payable as to Rs.25 on allotment (with adjustment of discount); Rs.20on first call and Rs.30 on final call. All the calls were made and received with an exception of final call on 200 sharesheld byone Mr. Zahir. Pass journal entries to record the above and show the resultant balance sheet.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Banka/c Toshareapplicationa/c (beingapplicationfor2,000shareswithapplication		40,000	 40,000

moneyatRs.20pershare received)			
Share application a/c Tosharecapitala/c (Beingshareapplication/ctransferredtoshare capitala/conallotmentof2,000shares)		40,000	40,000
Shareallotmenta/c Discountonissueofsharesa/c To share capital a/c (Being share allotment money due on 2,000 shares atRs.25i.e.Rs,30lessRs.5discountthecapitala/c beingcreditedwithfullallotmentmoneyviz.Rs.30 pershare)		50,000 10,000	60,000
Banka/c Toshareallotmenta/c (Beingshareallotmentmoney,afteradjustmentof discount, duly received)		50,000	50,000
Sharefirstcalla/c Tosharecapitala/c (BeingfirstcalldueatRs.20pershares)		40,000	40,000
Banka/c Tosharefirstcalla/c (Beingfirstcallmoneyreceived)		40,000	40,000
Sharefirstcalla/c Tosharecapitala/c (BeingfinalcalldueatRs.30pershareon2,000 shares)		60,000	60,000
Banka/c Tosharefinalcalla/c (Being final call money at Rs.30 per share received only on 1800 shares)		54,000	54,000

NotestoAccounts

1.Sharecapital:		

Paidupcapital		
2,000sharesofRs.100each Less:	2,00,000	
Calls in arrear	6,000	1,94,000
2.Othercurrentassets:		
Unmortiseddiscountonshares		10,000

BalancesheetofGreenLtd.Ason31st Dec

	NoteNo	Rs.
I. Equityandliabilities:		
i. Shareholders'funds:	I	1,94,000
ii. Non-currentliabilities		-
iii. Currentliabilities		-
Total (i)+(ii)+(iii)		**1,94,000**
II. Assets:		
i. Non-currentassets		**-**
ii. Currentassets		
Cash at bank		1,84,000
Othercurrentassets		10,000
Total(i)+(ii)		**1,94,000**

Oversubscription

Over subscription occurs when the demand for shares or securities in an offering exceeds the number of shares available for allocation. In such cases, investors apply for more shares than what is being offered. If the over-subscription is significant, it can createan oversubscription ratio, which represents the number of times the offering is oversubscribed. In order to allocate shares fairly, the issuing company may use a pro-rata system to distribute the available shares proportionally among the applicants.

Illustration 4A limited company issued 10,000 shares of Rs.100 each payable as under: Rs.20 on application; Rs.30 on allotment; Rs.50 on first and final call. The public applied for 11,000 shares. Allotment was made for 10,000 sharesand the amountdue on 1,000 shares returned to the applicants. All moneys were received. Pass journal entries.

Solution

Journal Entries

Particulars	LF	Debit	Credit
Banka/c Toshareapplicationa/c (Beingapplicationmoneyreceived)	Dr	2,20,000	 2,20,000
Share application a/c Tosharecapitala/c (Beingapplicationmoneytransferred)	Dr	2,00,000	 2,00,000
Shareapplicationa/c(1000x20) ToBank a/c (Beingapplicationmoneyreturned)	Dr	20,000	 20,000
Shareallotmenta/c To share capital a/c (Beingallotmentmoneydue)	Dr	3,00,000	 3,00,000
Banka/c Toshareallotmenta/c (Beingallotmentmoneyreceived)	Dr	3,00,000	 3,00,000
Sharefirstcalla/c Tosharecapitala/c (Beingcallmoneydue10,000X50)	Dr	5,00,000	 5,00,000
Banka/c To share first call a/c (Beingcallmoneyreceived)	Dr	5,00,000	 5,00,000

Forfeitureofsharesissuedatapremium–Premiumfullycollected

Illustration – 5 A Lt., issued 2,000 shares of Rs.100 each at a premium of 10% payable as follows:Rs.25 on application, Rs.35 on allotment (including premium), Rs.20 on first call, Rs.30 on final call. 1,800 shares were applied for and allotted. All the money was received with the exception of first and final calls on 200 shares held by R.These shares were forfeited. Give journal entries and prepare balance sheet.

Solution

Journalentries

Particulars	LF	Debit	Credit
Banka/c		45,000	

Toshareapplicationa/c (Applicationmoney@Rs.25pershareon1,800 sharesreceived)			45,000
Shareapplicationa/c Tosharecapitala/c (Applicationmoneytransferredtosharecapital a/c)		45,000	 45,000
Shareallotmenta/c Tosharecapitala/c Tosecuritiespremiuma/c (amountdueonallotmentRs.25onaccountof capitalandRs.10onaccountofpremium)		63,000	 45,000 18,000
Banka/c Toshareallotmenta/c (Beingdueonallotmentreceived)		63,000	 63,000
Sharefirstcalla/c Tosharecapitala/c (AmountdueonfirstcallatRs.20on1,800 shares)		36,000	 36,000
Banka/c Tosharefirstcalla/c (Actualamountreceivedonaccountofthefirst calli.e.Rs.20on1,600shares)		32,000	 32,000
Sharefinalcalla/c Tosharecapitala/c (Beingamountdueonaccountoffinalcall)		54,000	 54,000
Banka/c Tosharefinalcalla/c (Finalcallmoneyreceivedexcepton200shares)		48,000	 48,000
Sharecapitala/c(200x100) Tosharefirstcalla/c(200x20) Tosharefinalcalla/c(200x30) Toforfeitedsharesa/c(200x50)		20,000	 4,000 6,000 10,000

(200sharesforfeitedfornon-paymentofboth calls)			

NotestoAccounts

1. Sharecapital:		
Issuedcapital		
2,000sharesofRs.100each		2,00,000
Subscribed Capital:		
1,800 shares of Rs.100 each		1,80,000
Calledupandpaidupcapital		
1,600sharesofRs.100each		
Add:Forfeitedsharesa/c	1,60,000	1,70,000
2. Reserveandsurplus:		
SecuritiesPremium	10,000	18,000

BalancesheetofALtd.Ason31st Dec

	NoteNo	Rs.
III. Equityandliabilities:		
i. Shareholders'funds:		
Share capital	1	1,70,000
Reserveandsurplus	2	18,000
ii. Non-currentliabilities		-
iii. Currentliabilities		-
Total (i)+(ii)+(iii)		**1,88,000**
IV. Assets:		
iii. Non-currentassets		**-**
iv. Currentassets		
Cash at bank		1,88,000
Othercurrentassets		-
Total(i)+(ii)		**1,88,000**

Pro-Rata Allotment

Pro rata allotment refers to the distribution of shares or securities among existing shareholders of a company in proportion to their existing holdings, based on theirentitlement or rights. It is a method used to ensure fairness and equal treatment of shareholders when a company issues additional shares or securities through a rights issue or an initial public offering (IPO). When a company decides to raise capital by issuing new shares, it may offer these shares to its existing shareholders in proportion to their current ownership. This is known as a pro rata allotment. The purpose is to give existing shareholders the opportunity to maintain their ownership percentage in the company and avoid dilution of their stake.

The pro rata allotment process works by determining the number of new shares each existing shareholder is entitled to base on their ownership percentage. For example, if a shareholder owns 10% of the company's existing shares, they will be entitled to 10% of the new shares being issued. The pro rata allotment ensures that existing shareholders havethe first right to purchase the new shares before they are offered to external investors. Shareholders can choose to exercise their entitlement and purchase their allotted shares, or they can sell their rights to other investors who may be interested in acquiring additional shares. Pro rata allotment is a fair and transparent method of issuing new shares, as it protects the interests of existing shareholders. It allows them to maintain their proportional ownership in the company and participate in its future growth.

ForfeitureofShares

Forfeiture of shares is the termination of membership and taking away of the shares of a shareholder because of default in the payment of allotment and / or call money. When shares are forfeited,

1. Ashareholderceasestobeamember.
2. His/hernameisremovedfromtheregisterofmembersofthecompany.
3. Theforfeitedsharesbecomethepropertyofthecompany.Theamountalready collected on the them is a gain to the company.

JournalEntries

Particulars	LF	Debit	Credit
Forforfeitureofshares			

Sharecapitala/c		xxx	
Tosharesforfeiturea/c To			Xxx
share call a/c			xxx
Forre-issueofforfeitedshares			
Banka/c		Xxx	
Shares forfeiture a/c		xxx	
Tosharecapitala/c			xxx
Fortransferringprofitonreissue			
Shareforfeiturea/c		xxx	
Tosharecapitalreservea/c			xxx

Illustration -6 Thiru Arun holds 2,000 shares of Rs.10 each in Ram ltd. He has paid Rs.2 and Rs.3 per shares on application and allotment respectively, but failed to pay Rs.3 and Rs.2 per shares for first and second calls respectively. Directors forfeit his shares. Give journal entry.

Solution

JournalEntries

Particulars	**LF**	**Debit**	**Credit**
Sharecapitala/c	Dr	20,000	
Toshareforfeiturea/c			10,000
Tosharefirstcalla/c			6,000
Tosharefinalcalla/c			4,000
(Beingshareforfeited)			

Illustration-7DLtd.Forfeited200sharesofRs.10eachonwhichRs.5persharewas received. All the shares were reissued at Rs.8 per share. Give journal entries.

Solution

JournalEntries

Particulars	**LF**	**Debit**	**Credit**
Sharecapitala/c		2,000	
Toshareforfeiturea/c To			1,000
share first call a/c			1,000

(Beingshareforfeited)			
Banka/c(200x8) Shareforfeiturea/c(200x2) Tosharecapitala/c(200x10) (Beingreissueofforfeitedshares)		1,600 400	 2,000
Shareforfeiturea/c(1,000-400) To share capital, reserve a/c (Beingprofitonreissuetransferred)		600	 600

Illustration -7 A company Ltd. Issued 5,000 preference shares of Rs.10 each at a premium of Rs.4 per share. The money is payable as follows: Rs.1 on application; Rs.6 (including premium) on allotment; Rs.3 on first call and Rs.4 on final call. All the shares were duly subscribed but on 1,000 shares, the first call was not realized and in respect of 1,500 shares, the final call was not realized. These shares were forfeited and reissued at Rs.9 per share. Draft the necessary journal entries to record these transactions.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Banka/c Toshareapplicationa/c (Beingapplicationmoneyreceived)	Dr	5,000	 5,000
Shareapplicationa/c Tosharecapitala/c (Beingapplicationmoneytransferred)	Dr	5,000	 5,000
Shareallotmenta/c To Share capital Tosharepremiuma/c (Beingallotmentmoneydue)	Dr	30,000	 10,000 20,000
Banka/c To share allotment a/c (Beingallotmentmoneydue)	Dr	30,000	 30,000
Share first call a/cTosharecapitala /c	Dr	15,000	 15,000

(Beingcallmoneydue)			
Banka/c To share first call a/c (Beingcallmoneyreceived)	Dr	12,000	 12,000
Sharefinala/c To share capital a/c (Beingcallmoneydue)	Dr	20,000	 20,000
Banka/c To share final call a/c (Beingcallmoneyreceived)	Dr	14,000	 14,000
Sharecapitala/c Toshareforfeiturea/c To share first call a/c Tosharefinalcalla/c (Being1,000sharesforfeited)	Dr	10,000	 3,000 3,000 4,000
Sharecapitala/c Toshareforfeiturea/c Tosharefinalcalla/c (Beingshareforfeited)	Dr	5,000	 3,000 2,000
Banka/c Shareforfeiturea/c Tosharecapitala/c (Beingreissueofforfeitedshares)	Dr Dr	13,500 1,500	 15,000
Shareforfeiturea/c Tosharecapital,reservea/c (being profit on reissue)	Dr	4,500	 4,500

Allotmentmoneyisnotgiven

Illustration :8Give journal entries for the forfeiture and reissue of shares: X Ltd, forfeited 30 shares of Rs.10 each fully called up held by Raja for non-payment of allotment money of Rs.3 per share and final call of Rs.4 per share. He had paid the application money of Rs.3 per share. These shares are forfeited and reissued to Y for Rs.8 per share.

Solution

Particulars	LF	Debit	Credit
Sharecapitala/c(30x10)	Dr	300	
To share forfeiture a/c (b/f)			90
Toshareallotmenta/c(30x3)			90
To share final call a/c(30x4)			120
(Beingsharesforfeited)			
Banka/c(30x8)	Dr	240	
Shareforfeiturea/c(30x2)	Dr	60	
Tosharecapital(30x10)			300
(Beingreissueofforfeitedshares)			
Shareforfeiturea/c(90-60)		30	
To share capital, reserve a/c			30
(BeingProfitonreissuetransferred)			

Underwriting of shares and Debentures –Underwriting commission- types of underwriting.

Underwriting means undertaking responsibility that the securities offered to the public to secure subscription will be subscribed in full. If the company fails to secure a 100% subscription, an underwriter will come forward to subscribe to the remaining securities. This is to ensure that the company gets the least subscription required as per the rules.

Definition: Underwriting refers to the process in which an underwriter accepts the financial risk for consideration, i.e. fee. It is the process of extending a guarantee to the company to make certain that the securities offered to the public get subscriptions within the specified time.

Underwritingof sharesanddebentures isacontract betweenthe companyand underwriters.Asperthiscontract,theunderwritersagree totakeupeitherwholeoracertain part of the securities offered for sale by the company to the public but failed to get a subscription.

BasicWhenacompanygoespublic,thereisalwaysanuncertaintyaboutwhetherthe shares offered will be subscribed by the public in full or not. The underwriting agreement contract gives a guarantee to the company that it will be able to raise capital without any problem.

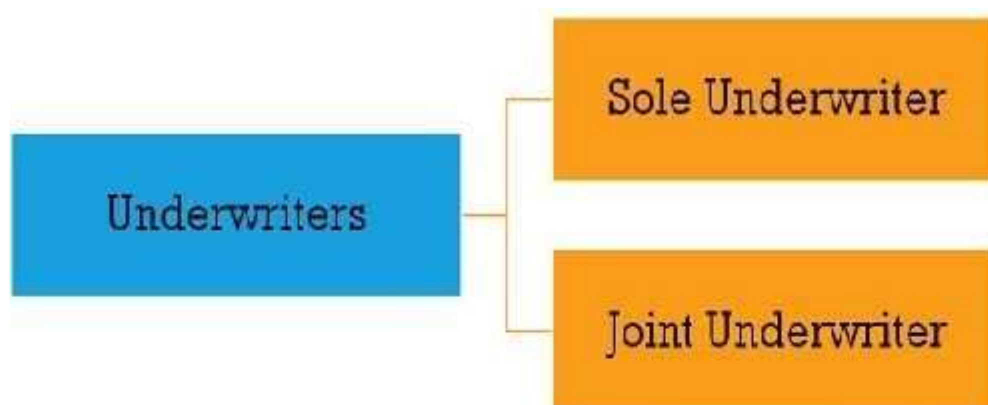
SalientFeaturesofUnderwriting

1. **Authorization by AOA**: Companies' Articles of Association should permit the underwriting of securities.
2. **Guarantee**: Underwriting means undertaking responsibility or providing the guarantee.
3. **Contract**: It is a contract between the company and underwriters, which is enforceable by law. The contract may or may not be conditional.
4. **Ensures Minimum Subscription**: If the company fails to get a minimumsubscription, then the underwriters take up non-subscribed shares.
5. **Commission**: For the services provided by the underwriters, they charge a commission. If the shares get a full subscription, underwriters need not take up the shares. But, they are entitled to commission.

WhoisanUnderwriter?

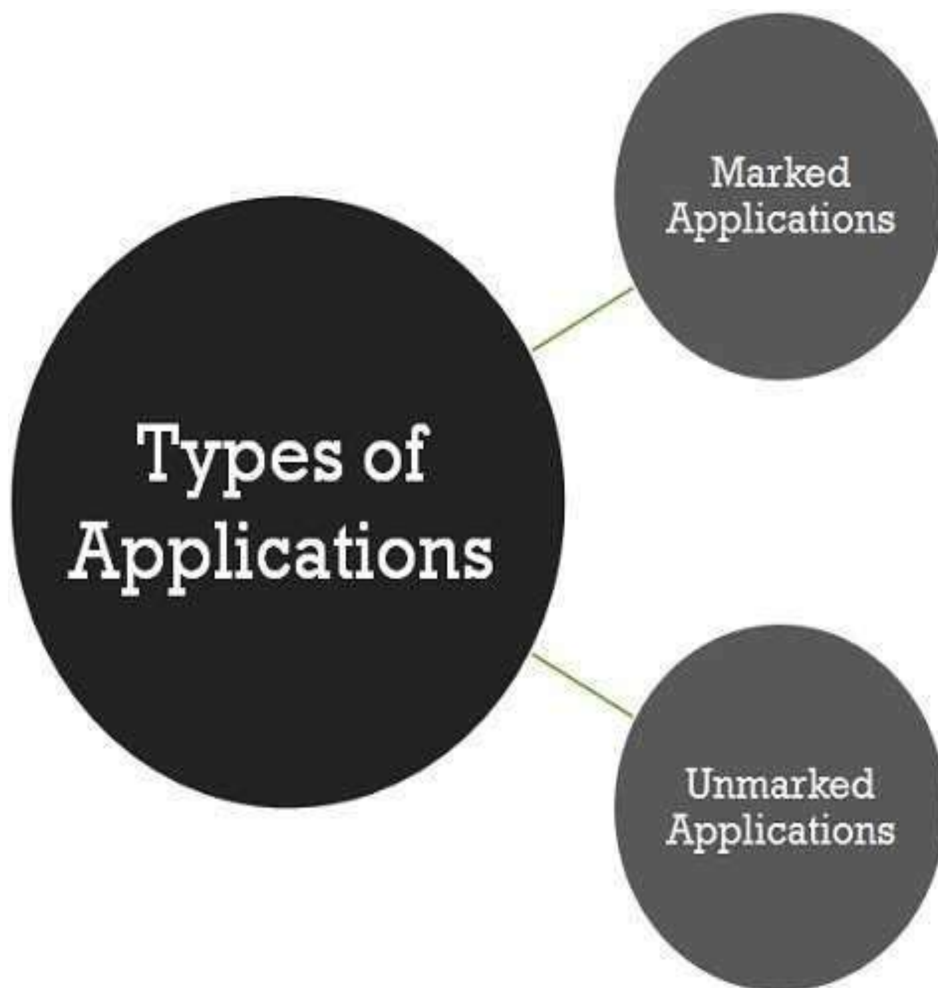
The underwriter is the one who gives the guarantee of taking up unsubscribedshares. Underwriters can be an individual, partnership firms, or companies. Theunderwriters provide these services for a price, i.e. underwriting commission. The company pays a commission to the underwriter only after the allotment of shares. The shares which remainunsubscribedbythepublicareissuedtotheunderwriterintheratioofliabilityagreed by them.

Underwriterscanbeoftwokinds:



1. **Sole Underwriters:** When the entire issue of securities is underwritten by only one underwriter. The underwriter is the sole underwriter. In this case, there is no distinction between marked and unmarked applications.

2. **Joint Underwriters:** When a company enters into a contract with many underwriters to cover the financial risk. These underwriters are jointunderwriters and the arrangement is jointunderwritingor co-underwriting.In this,an individualunderwriter willbe liable forthe extent of securities underwritten by him or her. In these cases, the issue of identification of application arises. Basically, there are two types of application.



3. ***MarkedApplications:***Underwritersissueapplicationformsto thepeopleforsubscribing to securities. These applications bear the stamp of the individual underwriter who issued those forms. In this way, the identification of applications is possible. This helps in the calculation of the amount payable as commission. Hence, these are credited to the concerned underwriter.

4. ***Unmarked Applications:*** Unmarked applications are those which do not bear anystamp of the underwriters. This is because the company receives it directly due to itsown efforts. That is why they are alternatively known as direct applications.

5. Important**:** In such applications, in the case of partial underwriting, first of all, the benefit is given to the company to the extent to which securities. If there is any surplus, the benefit is distributed among the underwriters. Division of surplus amount is in the ratio of their gross liability. If the issue is fully underwritten, then the benefit is distributed among the underwriters in the ratio of their gross liability.

Whoaresub-underwriters?

An underwriter can take help from other underwriters to assist in performing the task of underwriting. So they ultimately work under the principal underwriter and are answerable to him. Hence, they are sub-underwriters.

There is no involvement of the company in such type of contract. This is because they enter into the contract with the principal underwriter and not with the company.

In short, an underwriter can appoint some underwriters to work under him as sub-underwriters. They receive their remuneration from the underwriter as an '**overriding commission** '. They are answerable to him only.

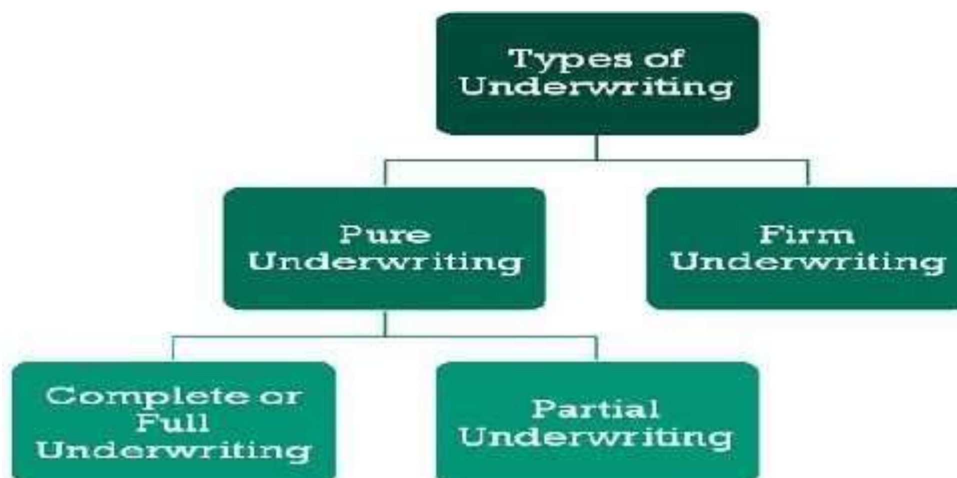
UnderwritingCommission

The underwriting commission is payable to the underwriters for the services. The services include the task of securing minimum subscription quantum from the public when the company introduces new issues of securities. The commission is payable to theunderwriters for the risk undertaken by them.

ConditionsforthePaymentofCommission

1. Payment of commission is in cash or in fully paid up securities or a combination thereof.
2. The payment of commission has to be authorized by the articles of association of the company.
3. The maximum commission payable would be **5%**in the case of shares and **2.5%**in the case of debentures.
4. The name and addresses of the underwriters and the rate of the commission are disclosed in the prospectus or statement in lieu of the prospectus.
5. Thepaymentof commissionisonthewholeissueunderwritten,regardlessof thefact that the entire issue may be subscribed by the public.
6. Calculation of commission is on the issue price of the securities except when mentioned otherwise.
7. No commission is payable on the amount taken up by promoters, directors, employees, friends and business associates. **Important**: Commission paid to underwriters appears as an asset in the balance sheet till it is written off.

TypesofUnderwriting:*Therearetwotypesofunderwriting:*



1. **PureUnderwriting:**Here,theliabilityoftheunderwriteriscompletelycontingent.
   That is, he agrees to subscribe for shares which remain unsubscribed by the public.
   Here,theunderwriteragreestotakeuptheproportionwhichfailstosecureapublic

subscription.Hence,ifsharesgetfullsubscriptionoroversubscription,theunderwriter is not liable to take up shares. It can be of two types:

1. **Complete or Full Underwriting**: When the entire issue of securities is underwritten,it is complete underwriting. Further, the issue is either underwritten by a single underwriter or jointly by several underwriters to cover the risk.

2. **Partial Underwriting**: The situation when only a part (say 80% or 60%) of the issue of securities is underwritten by one or more underwriters, it is partial underwriting. In thiscase,themarkedapplicationswillbecalculatedas:Marked Applications = Total number of applications received × percentage of underwriting

2. **Firm Underwriting:** In this agreement, the liability of the underwriter is halfcontingent and half definite. There is a definite commitment to accept a certain number of shares regardless of the number of shares subscribed for by the general public. Here, the ascertainment of the underwriter's liability is in addition to theshares, which are firmly underwritten. In simple words, he has to accept:

1. Allthesharestheunderwriterhascommittedfor'firm.'
2. Allthesharestheunderwriterisboundtotakeaspertheagreement.

Liabilityoftheunderwriters:

Gross liability: It is the contractual liability as determined by the underwriting agreement to sell specified number of shares to public. It is the liability underwritten agreement to sell specified number of shares to public. It is the liability underwritten by underwrite specified in the underwriting agreement. in case of joint underwriting, agreed ratio of gross liability of underwriting is always according to the underwriting agreement. Underwriting commission is always calculated on the basis of the gross liabilities of each under writer irrespective of whether the shares are subscribed by the public or whether the underwriters have to takethe remaining shares.

Net liability: This refers to the number of shares to be taken by each underwriter when the public has not subscribed firm application are added to get the total liability of underwriter.

Particulars	Basis	A	B	C	Total

i. Grossliability (AsUnderwritten) ii.	Agreed Ratio	xxx	xxx	xxx	xxx
iii. **Less:**MarkedApplication	Actual	xxx	xxx	xxx	xxx
iv. Balance	(1–2)	xxx	xxx	xxx	xxx
v. **Less:**UnMarkedApplication	GL/(3)	xxx	xxx	xxx	xxx
vi. NetLiability	(3–4)	xxx	xxx	xxx	xxx

Statementofliabilityofunderwriters(NoFirmUnderwriting)

Gross Liability: When an issue is underwritten by more than one underwriter i. e a case of joint underwriting, a difficulty may arise in deciding the basis on which unmarked application should be allocated among different underwriters. The allocation between the underwriters can be done by any one of the two methods:

1. Tobeallocatedintheratioofgrossliability
2. To be allocated in the ratio of liability as calculated (in step 3) after reducing marked applications from gross liability.

TotalApplicationsReceived=TotalUnmarkedApplications+TotalMarked Applications

Illustration 1 A company issues 10,000 equity shares of Rs.10 each at par. The issue was underwritten by K & Co. for maximum commission permitted by law. The public applied for and received 8,000 shares. Give journal entries in the company's books and also prepare balance sheet.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Banka/c Toequitysharecapitala/c (Being8,000equityshareissuedtothepublic@ Rs.10 each)	Dr	80,000	 80,000
K&Coa/c	Dr	20,000	

ToEquitysharecapitala/c (Beingsharetobetakenbytheunderwritersasper underwriting agreement)			20,000
Underwritingcommission,a/c To K& Co a/c (Beingmaximumcommissionof2.5%payableto underwritersontheissuevalueofRs.1,00,000)	Dr	2,500	2,500
Banka/c ToK&coa/c (Beingreceiptofbalancefromunderwritersafter adjusting commission)	Dr	17,500	17,500

NotestoAccounts

1.Sharecapital:	
Issuedandpaidupcapital	
10,000sharesofRs.10each	1,00,000
2.Othercurrentassets	
Underwritingcommission	2,500

Balancesheetof….Ason….

I. **EquityandLiabilities**		
i. Shareholder'funds:		
Sharecapital	1	1,00,000
II.Non-currentliabilities		-
III.currentliabilities		
Total(i)+(ii)+(iii)		1,00,000
II.Assets:		
(i) Non-currentassets		

(ii) Currentassets		
Cashatbank		97,500
Othercurrentassets		2,500
Total(i)+(ii)		1,00,000

FullUnderwriting

Illustration: 2 A Ltd**.** Issued 20,000 shares of Rs.10 each at par which was underwritten follows: X -10,000 shares; Y -6,000shares and Z-4,000 shares. Applications were received for 18,000 shares which included marked application which are as follows: X -4,000 shares; Y-2,000 shares and Z-10,000 shares. Prepare a statement showing how many more shares underwriters will have to take under the underwriting contract.

Solution

Statementshowingnetliabilityofunderwriters

particulars	X	Y	Z
Grossliability	10,000	6,000	4,000
Less: Markedapplication	4,000	2,000	10,000
	6,000	4,000	(-)6,000
Less: Unmarked application (18,000-16,000=2000(10:6:4)	1,000	600	(-)400
	5000	3400	(-)6400
Less:DeficiencyofZ(10:6)	4000	2,400	(+)6400
NetLiability	1,000	1,000	-

PartialUnderwriting

Illustration -3M Ltd. Issued 1,00,000 equity shares of which only 60% was underwritten by Gandhi. Applications for 90,000 shares were received in all. Out of which application for 52,000 were marked. Determine the liability of Gandhi.

Solution

Statementshowingnetliabilityofunderwriters

particulars	Gandhi	Company
Grossliability	60,000	40,000
Less: Markedapplication	52,000	………..
	8,000	40,000
Less: Unmarked application (90,000-52,000=38,000	22,800	15,200
	-14,800	24,800
Less:DeficiencyofGandhi	+14,800	14,800
NetLiability	-	1,000

FirmUnderwriting

Illustration - 4 P Ltd issued 25,000 shares of Rs.100 each. The whole issue was underwritten by Ram. In addition, there is a firm underwriting of 3,000 shares by Ram. Applications for 17,000 shares were received by the company in all. Calculate the liability of Ram.

Solution

Statementshowingnetliabilityofunderwriter

particulars	Amount
Grossliability	25,000
Less: Markedapplication	17,000
	8,000
Add:Firmunderwriting	3,000
NetLiability	11,000

Checkyourprogress

1. Securitiespremiumcannotbeapplied___________.

(a) **Forpayingdividendstomembers**

(b) Forissuingbonussharestomembers

(c) Forwritingoffpreliminaryexpensesofthecompany

(d) Forwritingoffdiscountonissueofdebentures

2. Whatdoesreservecapitalmean?

(a) Apartofsubscribeduncalledcapital

(b) Reserveprofit

(c) Apartofcapitalreserve

(d) Apartofcapitalredemptionreserve

3. Anissueofsharesthatisnotapublicissuebutofferedtoaselectedgroupofpersonsis called __.

(a) Publicoffer

(b) Privateplacementofshares

(c) Initialpublicoffer

(d) Noneoftheabove

4. Whensharesareforfeited,thesharecapitalaccountisdebitedwith____________.

(a) Nominalvalueofshares

(b) Marketvalueofshares

(c) Called-upvalueofshares

(d) Paid-upvalueofshares

5. Forfeitureofsharesresultsinthereductionof__________.

(a) Paid-upcapital

(b) Authoriesdcapital

(c) Fixedassets

(d) Reservecapital

6. Discountallowedonthereissueofforfeitedsharesisdebitedto____________.

(a) SharecapitalA/c

(b) ShareforfeitureA/c

(c) Profitandloss A/c

(d) GeneralreserveA/c

7. Balanceofforfeitedsharesaccountafterthereissueofforfeitedsharesistransferredto _______.

(a) ProfitandlossA/c

(b) Capitalreserveaccount

(c) Generalreserveaccount

(d) Noneoftheabove

8. UndertheprovisionsoftheCompaniesAct,thecompanycanissue____________.

(a) Onlyequityshares

(b) Onlypreferenceshares

(c) Preferencesharesandequityshares

(d) Noneoftheabove

9. Shares canbeforfeited__________.

(a) Forfailuretoattendmeetings

(b) Fornon-paymentofcallmoney

(c) Forfailuretorepaytheloantothebank

(d) Forwhichsharesarepledgedasasecurity

10. Premiumontheissueofsharesisshownonwhichsideofthebalancesheet?

(a) Assets

(b) Liabilities

(c) Bothassetsandliabilities

(d) Noneoftheabove

11. Markedapplicationsreferstoapplicationscarryingthe

a) Stampoftheunderwriters

b) Signaturesofpublic

c) Stampofcompanywhoofferedshares

d) Withoutanymarking

12. accordingtosec.76ofthecompaniesAct1956,thecommissionpayabletounderwriter for shares should not exceed.

a) 5%

b) 2.5%

c) 10%

d) 1.5%

13. incaseofdebentures,thecommissionpayabletounderwritershouldnotexceed.

a) 5%

b) 2.5%

c) 10%

d) 1.5%

14KLtdissuedsharesofRs.1,000eachatRs.950.Thecommissionwillbepaidon.

a) Rs.1,000

b) Rs.950

c) Rs.1,950

d) Rs.50

Problems

1. Symco Ltd., issued 75,000 equity shares of Rs. 10 each and 5000 redeemable preference shares of Rs. 100 each and 5000 redeemable preference shares of Rs. 100 each, all shares being fully called and fully paid up on 31-3-1992. Profit and loss a/c showed undistributedprofitsofRs.3,00,000and generalreserve stoodatRs.2,50,000. On 1-4-1992, the directors decided to redeem the existing preference shares at Rs. 105 for utilizingas muchprofit as would be requiredforthepurpose. You are requiredto pars Journal Entries.
2. ModernflltersLtd.,haspartofitssharecapitalas5000redeemablepreferencesharesof Rs. 100 each. When the shares became due for redemption, the company decided that the whole amountwill be redeemed outofafresh issueof equalamountofequityshares of Rs. 10 each show the journal entries in the books of the company.
3. Sterling Ltd., have part of their share capital in 2500. 6% redeemable preference shares ofRs.100each.Thecompanydecidedtoredeemthepreferencesharesatapremiumof 10%. The general reserve of the company shows 3,00,000. The director decides toutilize 60% of the reserve in redeeming the preference share and the balance is to be met from the proceeds if fresh issue of sufficient no. of shares of Rs. 10 each. The premium is to be met from the year's P&L appropriation a/c.

Sharesissuedatper–undersubscribedcallinarrears.

4. JamesCo.Ltd.Offered25,000sharesofRs.10eachpayableasfollows.

Application.	2.50
Allotment	3.00
AfterAllotment	2.00
AfterFirstCall	2.50

Thepublicappliedfor22,000shareswhichwereallotted,Allthemoneyhasbeenduly received but a shareholder holding 500 shares failed to pay the calls.

SharesissuedatPremium

5. XCo.Ltd.Issued4000Sharesof Rs.10eachatapremium ofRs.2/-sharetheamount was payable as under.

OnApplication.	Rs.	3.00
OnAllotment	Rs.	4.00
OnFirstCall	Rs.	3.00

On Second Call	Rs. 2.00
	Rs.12.00

TheCompanyreceivedapplicationsfor5000shares.Theallotmentwasmadeasunder Applicants for 200 shares – Nil. Applicantsfor 800 shares – Full. Applicants for 4000 shares – 3200. All moneys were duly received except the first call on 200 shares and final call on 300 shares.

SharesissuedatDiscount.

6. GreenLtd.,Issued2000sharesofRs.100eachatadiscountof5%Theissuewasfully subscripted by Rs. 20 on app.

OnApplication.	Rs. 20
OnAllotment	Rs. 25
OnFirstCall	Rs. 20
OnSecondCall	Rs. 30

Allthecallsweremadeandreceivedexceptoffinalcallon200sharesheldbyMr.Zahir.

CallsPaidinadvance:

7. TheEvershineCo.,Ltd.,offered5,000sharesofRs.100each@Rs.95payablesas under

OnApplication.	Rs. 15
OnAllotment	Rs. 30(Discount5)
OnFirstCall	Rs. 25
OnSecondCall	Rs. 25

Allthe shareswere applied and allotted Anand,to whom500 shareswere allotted paid the whole of the sum do along with allotment.

Forfeitureofshares:

8. Mr. Senthil isa shareholder inKiran Ltd.,2000 sharesof Rs.10each. Hehaspaid Rs.2 onapplicationRs.3onallotment.ButfailedtopayRs.3forFirstcallandRs.2pershare for Second call. Directors forfeit the shares.

Sharecapitala/c	20,000	
ToShareFirstCalla/c		6,000
ToShareSecondCalla/c		4,000

ToShareForfeiturea/c 10,000

ForfeitureofSharesIssuedatapremium–PremiumfullyCollected.

9. AmbassadorCo.,Ltd.,issued2000sharesofRs.100eachatapremiumof10% payable as follows.

OnApplication.	Rs.	25
OnAllotment	Rs.	35(Premium-10)
OnFirstCall	Rs.	20
OnSecondCall	Rs.	30

1800 shares were applied and allotted. All the money was received with the exception of I and II calls on 200 shares held by Ragu. These shares were forfeited. Give Journal Entries& Balance sheet.

10. Acompanyissued10000equitysharesofRs.10eachatapremiumofRs.3pershare payable as

OnApplication.	Rs.	5
OnAllotment	Rs.	5(Rs.3 Premium)
OnFirst&SecondCall	Rs.	3

All the shares offered were applied and allotted. All the monthly due on allotment were received except on 200 SHARES. Call was made All the amount due thereon was received except on 300 shares. Direct forfeited 200 shares, on which both allot and call money, were not received.

ForfeitureaRe-issueofShares

11. G.P.Ltd,issued40,000sharesofRs.10eachatapremiumofRs.2pershare.The shares were payable as follows.

Application.	Rs.	2
Allotment	Rs.	5(Premium–Rs.2)
First&SecondCall	Rs.	5

All the shares were applied and allotted. All the moneys were received except the First & Secondcallof1000shareswhichwereforfeitedoffwhich400shareswerere-issuedasfully paid @Rs. 8 per share Give Journal Entries & Balance Sheet.

12. W/E. Ltd., for public subscription 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under.

Application.	Rs.	2
Allotment	Rs.	5

FirstCall Rs. 2

SecondCall Rs. 3

Applications were received for 30,000 shares. Allotment were made Pro-rata basis to the applicantsfor24,000 shares.The remaining applications, were rejected. Moneyoverpaid on application wasutilized towardsallotment.Akbar,to whom800 shareswere allottedfailedto pay allotment and calls money Buber to whom 1000 shares were allotted failed to pay the 2lakhs. These shares were subsequently forfeited. All the forfeited shares were sold to Charles fully paid a Rs. 8 per shares.

Underwriting

13. NazerLtd.issued10,000equitysharesof Rs.100eachatpar. Thewholeissuehasbeen underwritten by John & Co for a commission of 2%. The company received application only for 5,000 shares. All the applications were accepted. Give journal entries, assuming thatallamountsduehavebeenreceived.[Ans:netliabilityof Underwriters-Rs.5,00,000; commission – Rs.20,000; Net amount receivable after adjusting commission – Rs.4,80,000)

    Whenthewholeissueisunderwrittenbymorethanone Underwriter:

14. Velu Ltd ., Issued 1,00,000 equity shares. The whole of the issue Was underwritten as follows A 40 % B 30 % and C 30 % Applications for 80,000 shares were received in all out of which applications for 20,000 shares had the stamp of A;those for 10,000 shares that of b and 20,000 share that of c the remaining applications for 30000 shares did not wearanystamp show the netliabilityof the underwriters [Ans Net liabilityA 8,000 shares B 11,000 shares and C 1,000 shares]
15. Rajan and Shyam have underwritten the issue of 10,000 share of rupees 10 each by X company limited in the ratio of 6:4 The company receive 8,000 applications of which 4,000 and 2,500 were marked in favour of Rajan and Shyam respectively. Determine the obligations of the underwriters and give the journal entries in the books of company [Ans net liability: Rajan 1,000 shares; Shyam 9,00 share].

16. ABC limited incorporated on 1st January 1985, and issued prospectus inviting applications for 6 00000 equity shares of Rs. 10 each A 2,00,000 shares B 1,50,000 share C 1,50,000 shares and D 1,00,000 lakh shares. Applications were received for 6,50,000sharesofwhichmarkedapplicationswereasfollowsA2,50,000sharesB

1,70,000C1,40,000D40,000.Findoutthedatefindouttheliabilityofindividual underwriters [Ans: no liability for any underwriters].

17. Limited issue 10,000 equity shares of rupees 10 each the issue was underwritten as follows A 30% B 31 % C 20 % however the company received applications for 8,000 shares only. Determine the liability of the respective under it us and write the journal entries in the company's books [Answer A takes 600 B takes 600 shares and C takes400 shares]

SELF-LEARNINGMATERIAL

CORPORATEACCOUNTING-I

SECTION2.1:ISSUEANDREDEMPTIONOFPREFERENCESHARE

Introduction:

As per sec. 100 of the Company's Act 1956. A company cannot return its share capital to the shareholder without the permission of the court? However, secs. 80 and 80(a) of the Act provide for the issue and redemption of preference shares.

Redemption of preference shares refers to the process of repurchasing or retiring preferencesharesissuedbyacompany.Preferencesharesare atypeofequitysecuritythat grants certain preferential rights to the shareholders, such as priority in receiving dividends or repaymentof capitalin case of liquidation. Here are some keypoints to understand about the redemption of preference shares:

1. RedemptionTerms: The termsofredemptionforpreference sharesare typicallyoutlined in the company's articles of association or the termsof the share issue.These terms specify the conditions, timing, price, and method of redemption. The redemption terms may vary from company to company and can be customized based on the specific needs and agreements of the shareholders.

2. Redemption Price: The redemption price is the amount payable to the shareholders upon the redemption of their preference shares. It may include the face value or nominal value of the shares, any accrued dividends, and, in some cases, a premium or discount as specified in the terms of the shares.

3. Company's Ability to Redeem: The company's ability to redeem preference shares depends on various factors, including the provisions of the Companies Act or relevant regulations, the terms of the share issue, the availability of distributable profits, and any specific shareholder approvals required. The company must ensure compliance with the legal requirements and follow the prescribed procedures for redemption.

4. Funding the Redemption: The redemption of preference shares can be funded from various sources, such as the company's distributable profits, share premium account, or other reserves specifically designated for this purpose. The funding source should comply with the relevant legal provisions and any restrictions imposed by the Companies Act.

5. Shareholder Approval: In many cases, the redemption of preference shares requires approval from the shareholders. This approval can be obtained through a resolution passed atageneralmeeting,followingtheproceduresspecifiedintheCompaniesAct.Theapproval may be required for the redemption itself or for certain aspects, such as the use of specific reserves or the terms of the redemption.

6. Accounting and Disclosure: The redemption of preference shares needs to be properly accounted for and disclosed in the company's financial statements. The redemption transaction, including the redemption price, funding sources, and any associated costs or charges, should be clearly documented and reported in accordance with accounting standards and regulations. The redemption of preference shares allows a company to retire these shares and reduce its outstanding equity. It can be driven by various factors, such as financial restructuring, changes in capital requirements, or the expiration of a predetermined redemption period. The company must ensure compliance with legal requirements, shareholder approvals, and proper accounting and disclosure when undertaking the redemption of preference shares.

Proceduresforredemptionofpreferenceshares

1. Only fully paid sharescan be redeemable. If the shares are partly paid up, then it should be converted into fully paid and then redemption is made.
2. The premium required for redemption is to be paid from share premium account only. The share premium a/c may be in liability side of balance sheet or raised at the time of fresh issue of equity shares at a premium.
3. If the premium amount is not sufficient for redemption, then the balance amount may be paid out of profit and loss account.
4. The refund of capital amount should be made from fresh issue of equity share capital, profit and loss a/c and or general reserve a/c in balance sheet.
5. The fresh issue of equityshares maybe atface value or at premium value orat discount value.
6. Before taking any amount from profit and loss a/c and general reserve, an amount equal to the same should be transferred to capital redemption reserve.
7. Redemptionshouldnotbemadefromissueofdebenturesorsaleofanyinvestments.

ProvisionsoftheCompany'sAct:

The provisions of the Companies Act govern various aspects of the redemption of preference shares. While the specific provisions may vary depending on the jurisdiction and the particular Companies Act in question, here are some common provisions that are often found in company laws:

1. Authorization: The redemption of preference shares must be authorized by the company's articles of association. The articles of association outline the company's internal rules and regulations and provide the necessary authority for the redemption process.

2. Terms and Conditions: The Companies Act typically requires that the terms and conditions of the preference shares, including their redemption, be clearly specified in the company's memorandum of association or articles of association. These terms may include the redemption price, time period, method of redemption, and any other relevant provisions.

3. Shareholder Approval: In most cases, the redemption of preference shares requires the approval of the company's shareholders. The specific threshold for approval, such as a special resolution or an ordinary resolution, may be outlined in the Companies Act.

4. Capital Redemption Reserve: As mentioned earlier, the Companies Act oftenmandates the creation of a Capital Redemption Reserve when redeeming preference shares. The reserve is typically funded by transferring an amount equal to the nominal value of the redeemed shares from the company's profits.

5. Minimum Fresh Issue: Some Companies Acts may require companies to make a minimum fresh issue of shares when redeeming preference shares. This ensures that the company maintains a certain level of share capital and does not excessively reduce its equity base.

6. Notice Requirements: The Companies Act may specify the notice period that the company must provide to the preference shareholders before redeeming their shares. The notice period allows shareholders to make informed decisions and plan accordingly.

7. Record-Keeping: Companiesaregenerallyrequiredtomaintainproperrecordsand documentationrelatedtotheredemptionofpreferenceshares.Thisincludesmaintaining

recordsoftheredemptionprocess,shareholderapprovals,transferstotheCapitalRedemption Reserve, and any other relevant information.

8. Reporting Obligations: Companies may have reporting obligations regarding the redemption of preference shares. These obligations may include filing relevant documentsor statements with theappropriate regulatoryauthorities or disclosing the redemption details in the company's financial statements. It is important for companies to consult the specific provisions of the applicable Companies Act in their jurisdiction and seek legal advice to ensure compliance with all requirements and obligations related to the redemption of preference shares.

CapitalRedemptionReserve:

Capital Redemption Reserve is a reserve account created by a company when it redeemsor repurchases itsown shares,includingpreference shares, outof distributable profits or the proceeds of a fresh issue of shares. The purpose of the reserve is to maintain the integrity of the company's share capital and protect the interests of its creditors. Here are some key points about the Capital Redemption Reserve:

1. Purpose: The Capital Redemption Reserve serves as a statutory reserve that represents the amount of share capital that has been utilized for the redemption of shares. It acts as a safeguard to ensure that the company does not use its distributable profits or share premium account for the distribution of dividends or the payment of capital to shareholders.

2. Creation: The reserve is created by transferring an amount equal to the nominal value of the redeemed shares from the company's profits to the Capital Redemption Reserve. The transfer is made at the time of the redemption of shares.

3. Funding: The Capital Redemption Reserve is funded from the company's distributable profits or the proceeds of a fresh issue of shares. It cannot be funded from any other sources, such as the capital of the company or the revaluation of assets.

4. Utilization: TheCapitalRedemptionReserveisaspecificreservethatcanonlybe utilizedforcertainpurposesasprescribedbytherelevantCompaniesAct.Typically,it

cannot be used for the distribution of dividends to shareholders or for issuing new shares. The reserve is primarily maintained to protect the interests of the company's creditors.

5. Disclosure: The creation and utilization of the Capital Redemption Reserve must be disclosed in the company's financial statements. The reserve is usually presented as a separate line item in the shareholders' equity section of the balance sheet.

6. Legal Requirements: The specific legal requirements regarding the creation and utilization of the Capital Redemption Reserve may vary depending on the jurisdictionand the applicable Companies Act. It is important for companies to comply with the provisions and guidelines set forth in the relevant legislation. The Capital Redemption Reserve plays a crucial role in maintaining the financial integrity of a company and ensuring that the redemption of shares does not deplete the company's distributable profits or compromise the claims of its creditors.

Minimum Fresh issue: The concept of a "minimum fresh issue" is often associated with the redemption of preference shares. It refers to a requirement or provision under the CompaniesAct or relevant regulations that stipulates aminimum amount of new shares to be issued by a company when it redeems its preference shares. Here are some key points to understand about the minimum fresh issue:

1. **Purpose:** The purpose of a minimum fresh issue requirement is to ensure that the company maintains a certain level of share capital or equity base even after the redemptionofpreferenceshares.Thisrequirementhelpspreventexcessivereduction in the company's share capital, which could potentially impact its financial stability or ability to meet obligations.
2. **Preservation of Capital:** By mandating a minimum fresh issue, the Companies Act aims to safeguard the interests of the company's shareholders and stakeholders by preserving the company's capital structure. It helps maintain a reasonable balance between the redeemed shares and the newly issued shares, minimizing the potential dilution of existing shareholders' ownership.
3. **Regulatory Compliance:** The specific requirements for a minimum fresh issue may be outlined in the applicable Companies Act or relevant regulations. The regulations

may specify the minimum amount or percentage of new shares that must be issued upon the redemption of preference shares.

4. **Shareholder Approval:** The decision to redeem preference shares and issue new shares, including meeting the minimum fresh issue requirement, often requires approval from the company's shareholders. The approval may be obtained through a resolution passed at a general meeting, following the procedures specified in the Companies Act.
5. **Considerations for Fresh Issue:** When determining the amount or number of new shares to be issued, the company needs to consider various factors, such as market conditions, pricing of the new shares, investor demand, and overall capital structure objectives. The company may also need to ensure compliance with any additional requirements or restrictions related to the issuance of new shares.
6. **Compliance and Reporting:** Companies must comply with the minimum fresh issue requirement as outlined in the relevant legislation. Failure to meet the requirement may result in non-compliance with regulatory obligations. The details of the fresh issue, including the number of shares issued and the terms, need to be properly documented and disclosed in the company's financial statements and regulatory filings. It is important for companies to review and understand the specific provisions related to the minimum fresh issue requirement in their jurisdiction's Companies Act or relevant regulations. Consulting legal and financial professionals can help ensure compliance and proper execution of the redemption and fresh issue processes.

RedemptionatPar

It refers to the repurchasing or redemption of shares, including preference shares, at their original face value or nominal value. In this case, the company returns the same amount of money to the shareholders that they initially invested in the shares. Here are some key points about redemption at par:

1. **Face Value or Nominal Value:** The face value or nominal value of a share is the valueassignedtoitatthetimeofitsissuance.Itrepresentsthestatedvalueofthe share, typically mentioned on the share certificate. When shares are redeemed at par, the company repays the shareholders the exact face value of the shares.

2. **RepaymentofCapital:** Redemptionatparinvolvesastraightforwardrepaymentof the capitalamount invested bythe shareholders when theypurchased the shares. The shareholders receive the same amount of money they initially paid to acquire the shares, without any additional premium or discount.
3. **No Additional Payment:** With redemption at par, the company does not provide any extra compensation or payment to the shareholders beyond the face value of the shares. The redemption amount is equal to the original investment, and no additional value or interest is provided to the shareholders.
4. **Simplicity and Clarity:** Redemption at par is a simple and clear method of repurchasing shares. It does not involve any complex calculations or adjustments, as the redemption amount is fixed and predefined at the time of issuance.
5. **LegalCompliance:**Theredemptionofsharesatparmaybesubjecttocompliance with the provisions of the Companies Act or relevant regulations governing the redemption process. Companies need to ensure that they follow the prescribed procedures and obtain any necessary approvals from shareholders or regulatory authorities.
6. Impact on Shareholders: Redemption at par does not result in any gain or loss for the shareholders. They receive back the exact amount they invested, and their ownership rights and claims on the company's assets and earnings are extinguished. Redemption at par is a common method usedbycompanies tofulfill their obligation to repay shareholders' capital investments when redeeming shares. It provides a straightforward and transparent approach to returning the initial investment without any additional financial implications for theshareholders.

Redemptionatpremium

It refers to the repurchase or redemption of shares, including preference shares, at a price higher than their face value or nominal value. In this case, the company pays an additional amount, known as a premium, to the shareholders upon the redemption of their shares. Here are some key points about redemption at premium:

1. **Premium Amount:** The premium is an additional payment made by the company to the shareholders when redeeming their shares. It is calculated as the difference between the redemption price (which includes the face value/nominal value) and the premium amount specified in the terms of the shares.

2. **Terms and Conditions:** The terms and conditions of the preference shares, as outlined in the company's articles of association or other relevant documents,typically specify the premium amount or the method of calculating it. The premium may be expressed as a fixed amount per share or as a percentage of the face value/nominal value.
3. **Shareholder Benefit:** Redemption at a premium provides an additional financial benefit to the shareholders. They receive an amount greater than the face value/nominal value of their shares, resulting in a gain or profit from the redemption.
4. **Funding the Premium:** Thepremium amount isusuallyfundedbythe companyfrom its distributable profits, share premium account, or other sources as permitted by the relevant Companies Act or regulations. It cannot be funded from the share capital of the company.
5. **LegalCompliance:**CompaniesneedtocomplywiththeprovisionsoftheCompanies Act or applicable regulations when redeeming shares at a premium. Thismayinvolve obtaining shareholder approval, following specific procedures, and ensuring that the redemption process is in accordance with the legal requirements.
6. **Disclosure and Accounting:** The premium paid on the redemption of shares needs to be properly disclosed in the company's financial statements. It is typically presented as a separate line item or note, indicating the premium amount and its impact on the company's financial position. Redemption at premium allows companies to compensate shareholders beyond the face value/nominal value of their shares when redeeming them. It provides an incentive for shareholders to invest in the company's shares and can result in a financial gain for the shareholders upon the redemption.

Redemption at Discount: Redemption at a discount refers to the repurchase or redemption of shares, including preference shares, at a price lower than their face value or nominal value. In this case, the company offers a reduced amount, known as a discount, to the shareholders upon the redemption of their shares. Here are some key points about redemption at a discount:

1. Discount Amount: The discount is a reduction in the redemption price of the shares below their face value/nominal value. It represents the difference between the redemption price and the discounted price specified in the terms of the shares.

2. Terms and Conditions: The terms and conditions of the preference shares, as outlined in the company's articles of association or other relevant documents, typically specify the discount amount or the method of calculating it. The discount may be expressed as a fixed amount per share or as a percentage of the face value/nominal value.

3. Shareholder Impact: Redemption at a discount results in a financial loss for the shareholders. They receive an amount that is less than the face value/nominal value of their shares, leading to a reduction in the value of their investment upon redemption.

4. Funding the Discount: The discount amount is typically borne by the shareholders themselves. It is deducted from the redemption price, reducing the amount they receiveupon redemption. The discount is not funded by the company's resources or profits.

5. LegalCompliance: Companiesmustcomplywiththeprovisions of theCompaniesActor relevant regulations when redeeming shares at a discount. This may involve obtaining shareholder approval, following specific procedures, and ensuring that the redemption process adheres to legal requirements.

6. Disclosure and Accounting: The discount applied to the redemption of shares needs to be properly disclosed in the company's financial statements. It is typically presented as a separate line item or note, indicating the discount amount and its impact on the company's financial position. Redemption at a discount may be undertaken by a company for various reasons, such as financial restructuring, debt reduction, or incentivizing early redemption. However, it is important to note that redemption at a discount generally results in a financial loss for the shareholders, as they receive an amount lower than the face value/nominalvalue of their shares upon redemption.

Journalentriesattimeofredemptionofpreferenceshares

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c	Dr	Xxx	
Premium on redemption a/c		xxx	
Topreferenceshareholdersa/c			Xxx

Banka/c Toequitysharecapitala/c	Dr	xxx	 xxx
Securitiespremiuma/c Profit & loss a/c Topremiumonredemptiona/c	Dr Dr	Xxx xxx	 xxx
Banka/c Toequitysharecapitala/c Tosecuritiespremiuma/c	Dr	xxx	 Xxx xxx
Profit and loss a/c Generalreservea/c Tocapitalredemptionreservea/c	Dr Dr	Xxx xxx	 Xxx
Banka/c Sharediscounta/c Toequitysharecapitala/c	Dr Dr	Xxx xxx	 xxx
Preferenceshareholdera/c Tobanka/c	Dr	xxx	 xxx
Banka/c P&La/c(Loss) To Investment a/c ToP&La/c(Profit)	Dr Dr	Xxx xxx	 Xxx xxx
Banka/c Discountondebenturea/c To debentures a/c Topremiumondebenturesa/c	Dr Dr	Xxx xxx	 Xxx xxx

Illustration -1 From the following information, find out what amount shall be transferred to capital redemption reserve account. Redeemable preference shares redeemed Rs.2,00,000 atpar(freshissueofsharecapitalRs.80,000)Redeemablepreferencesharesredeemed Rs.2,00,000at5%premium(freshissueofsharecapitalRs.80,000atpar)

Solution

JournalEntries

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c To preference shareholders a/c (Beingamountdue)	Dr	2,00,000	 2,00,000
Banka/c To equity share capital a/c (Beingfreshissueofshares)	Dr	80,000	 80,000
Profit&Lossa/c To capital redemption reserve a/c (BeingamounttakenfromP&La/c)	Dr	1,20,000	 1,.20,000
Preferenceshareholdera/c To Bank a/c (Beingamountpaidtoshareholders)	Dr	2,00,000	 2,00,000
Redeemablepreferenceshareholders Premium on redemption a/c Topreferenceshareholdersa/c (beingamountdue)	Dr Dr	2,00,000 10,000	 2,10,000
Banka/c Toequitysharecapitala/c (Beingfreshissueofshares)	Dr	80,000	 80,000

ProfitandLossa/c ToCapitalredemptionreservea/c (Being amount taken from P&L a/c)	Dr	1,20,000	1,20,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)	Dr	2,10,000	2,10,000
P&La/c ToPremiumonredemptiona/c (Beingpremiumonredemptioncancelled)	Dr	10,000	10,000

Illustration -2 A company decides to redeem its preference shares amounting to Rs.1,00,000 at a premium of 5% and for this purpose issues 5,000 equity shares of Rs.10 eachatapremiumof5%.ThecompanyhasalsobalanceofRs.1,00,000ongeneralreserve and Rs. 50,000 on P& L a/c. Journalize.

Solution

JournalEntries

	LF	Debit	Credit
Redeemablepreferencesharecapitala/c Premiumonredemptiona/c Topreferenceshareholdersa/c (Beingamountdue)		1,00,000 5,000	1,05,000
Securitiespremiuma/c P&La/c ToPremiumonredemptiona/c (Beingpremiumonredemptioncancelled)		2,500 2,500	5,000

Banka/c Toequitysharecapitala/c To securities premium a/c (Beingfreshissuesofshares)		52,500	 50,000 2,500
P&La/c Generalreservea/c Tocapitalredemptionreservea/c		47,500 2,500	 50,000
Preferenceshareholdersa/c To bank a/c (Beingamountpaidtoshareholders)		1,05,000	 1,05,000

Illustration -3 A company had as part of its share capital 1,000 redeemable preference shares of Rs.100 each fully paid up. When the shares became due for redemption, the company had Rs. 60,000 in its reserve fund. The company issued necessary equity shares by Rs.25 specifically for the purpose of redemption and received cash in full. Make the necessary journal entries recording the above transactions.

Solution

JournalEntries

Particulars	**LF**	**Debit**	**Credit**
Redeemablepreferencesharescapitala/c Premiumonredemptiona/c Topreferenceshareholdersa/c (Beingamountdue)	Dr Dr	1,00,000 -	 1,00,000
Banka/c Toequitysharecapitala/c (Beingfreshissueofshares)		40,000	 40,000

Generalreservea/c Tocapitalredemptionreservea/c (Beingamounttakenfromgeneralreserve)	Dr	60,000	 60,000
Preferenceshareholdera/c To bank a/c (Beingamountpaidtoshareholders)	Dr	1,00,000	 1,00,000

Illustration -4 The following are the details taken from the records of B Ltd on June 30, 2015. Equity shares (fully paid up) Rs.6,00,000; Preference shares (fully paid up) Rs.3,00,000; General Reserve Rs.2,00,00; P& L a/c (Credit) Rs.1,25,000 and share Premium a/c Rs. 50,000. The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P& L a/c. give journal entries relating to redemption of preference shares.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c Premium on redemption a/c Topreferenceshareholdersa/c (Beingamountdue)	Dr Dr	3,00,000 30,000	 3,30,000
Sharepremiuma/c Topremiumonredemptiona/c (Being fresh issue of shares)		30,000	 30,000
Generalreservea/c	Dr	2,00,000	
			60,000

Profit&Lossa/c Tocapitalredemptionreservea/c (Beingamounttakenfromgeneralreserve)		1,00,000	
Preferenceshareholdera/c To Bank a/c (Beingamountpaidtoshareholders)	Dr	1,00,000	 1,00,000

Illustration -5 The following are the details taken from the records of B Ltd. On June 30,2015: equity shares (fully paid up) Rs.6,00,000; preference shares (fully paid up) Rs.3,00,000; General reserve Rs.2,00,000; P& L a/c (Credit) Rs.1,25,000 and share premium a/c Rs. 50,000. The company decided to redeem the preference shares at a premium of 10% out of its general reserve and P&L a/c. Give journal entries relating to redemption of preference shares.

Solution

JournalEntries

Particulars	**LF**	**Debit**	**Credit**
Redeemablepreferencesharescapitala/c Premium on redemption a/c ToPreferencesharesholdersa/c (Beingamountdue)	Dr Dr	3,00,000 30,000	 3,30,000
Sharepremiuma/c To Premium on Redemption a/c(Beingpremiumonredemptioncancelled)	Dr	30,000	 30,000

Generalreservea/c P&L a/c ToCapitalredemptionreservea/c (Beingamounttakenfromgeneralreserve)	Dr Dr	2,00,000 1,00,000	 3,00,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)		3,30,000	 3,30,000

Illustration-6 Acompanyhas4,000,7%redeemablepreferencesharesofRs.100eachfully paid. The company decides to redeem the shares on 31st Dec.,2015 at a premium of 5%. The company has sufficient profits. The following issues are made for the redemption purpose:

a. 1,000equitysharesofRs.100eachatapremiumof10%.
b. 1,000,5%DebenturesofRs.100each.

Theissuewasfullysubscribedandalltheamountswerereceived.Theredemptionwasduly carried out. Pass journal entries.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c Premium on redemption a/c ToPreferencesharesholdersa/c (Beingamountdue)	Dr Dr	4,00,000 20,000	 4,20,000
Sharepremiuma/c	Dr	10,000	

P&La/c To Premium on Redemption a/c(Beingpremiumonredemptioncancelled)		10,000	 20,000
Banka/c ToEquitysharecapitala/c To securities premium (Beingfreshissueofshares)	Dr	1,10,000	 1,00,000 10,000
P&La/c ToCapitalredemptionreservea/c (Being amount taken from P&L a/c)	Dr	3,00,000	 3,00,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)		4,20,000	 4,20,000
Banka/c To 5% Debentures a/c (Beingdebenturesissued)		1,00,000	 1,00,000

RedemptionwithBalanceSheetModel

Illustration -7 Give journal entries and prepare revised balance sheet after redeeming the preference shares at a premium of 10%.

BalanceSheet

Liabilities	Amount	Assets	Amount

10%Redeemablepreference sharesofRs.100eachfullypaid	1,00,000	Fixedassets	8,10,000
EquitysharesofRs.10each fullypaid	5,00,000	Bank	90,000
GeneralReserve	1,00,000		
Creditors	1,50,000		
Capitalreserve	50,000		
	9,00,000		**9,00,000**

Forthepurposeof redemption,thecompanymadeafreshissueof4,500equitysharesof Rs.10 each, at a premium of 10%.

Solution

JournalEntries

Particulars	**LF**	**Debit**	**Credit**
Redeemablepreferencesharecapitala/c	Dr	1,00,000	
Premium on redemption a/c	Dr	10,000	
ToPreferencesharesholdersa/c			1,10,000
(Beingamountdue)			
Securitiespremiuma/c	Dr	4,500	
P&L a/c		5,500	
ToPremiumonRedemptiona/c			10,000
(Beingpremiumonredemptioncancelled)			

Banka/c	Dr	49,500	
ToEquitysharecapitala/c			45,000
To securities premium			4,500
(Beingfreshissueofshares)			
GeneralReservea/c	Dr	55,000	
ToCapitalredemptionreservea/c			55,000
(BeingamounttakenfromP&La/c)			
Preferenceshareholdersa/c		1,10,000	
To Bank a/c			1,10,000
(Beingamountpaidtoshareholders)			

BalanceSheet

Liabilities	Amount	Assets	Amount
EquitysharesofRs.10eachfullypaid	5,45,000	Fixedassets	8,10,000
Generalreserve(1,00,000-55,000)	45,000	Bank	29,500
Creditors	1,50,000	P&La/c	5,500
Capitalreserve	50,000		
Capitalredemptionreserve	55,000		
	8,45,000		**8,45,000**

Bank a/c

Particulars	Amount	Particulars	Amount
ToBalanceb/d	90,000	ByPreferenceshareholders	1,10,000
ToEquitysharecapital	49,000	ByBalancec/d(b/f)	29,000
	1,39,000		**1,39,000**

Illustration-8Givejournalentriesandpreparebalancesheet

Balancesheetason31-3-15

Liabilities	Amount	Assets	Amount
8%redeemablepreference sharesofRs.100each	10,00,000	Fixedassets	34,00,000

EquitysharesofRs.10each	10,00,000	cash	6,00,000
Capitalreserve	5,00,000		
ProfitandLossa/c	9,50,000		
Generalreserve	2,00,000		
Creditors	3,50,000		
	40,00,000		**40,00,000**

The preference shares were redeemable on March31,2015 at a premium of 25% and the company decided to issue 50,000 equity shares of Rs.10 each at premium of 4% per share for the purpose of redemption

Solution

JournalEntries

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c Premium on redemption a/c ToPreferencesharesholdersa/c (Beingamountdue)	Dr Dr	10,00,000 2,50,000	 12,50,000
Securitiespremiuma/c P&L a/c ToPremiumonRedemptiona/c (Beingpremiumonredemptioncancelled)	Dr	2,00,000 50,000	 2,50,000
Banka/c ToEquitysharecapitala/c To securities premium (Beingfreshissueofshares)	Dr	7,00,000	 5,00,000 2,00,000

P&La/c ToCapitalredemptionreservea/c (Being amount taken from P&L a/c)	Dr	5,00,000	5,00,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)		12,50,000	12,50,000

Casha/c

Particulars	Amount	Particulars	Amount
Tobalanceb/d	6,00,000	Bypreference shareholders	12,50,000
Toequitysharecapital	7,00,000	ByBalancec/d(b/f)	50,000
	13,00,000		**13,00,000**

P&La/c

Particulars	Amount	Particulars	Amount
ToPremiumonredemption	50,000	Bybalanceb/d	9,50,000
Tocapitalredemptionreserve	5,00,000		
Tobalancec/d(b/f)	4,00,000		
	9,50,000		**9,50,000**

Balancesheet

Liabilities	Amount	Assets	Amount
EquitysharesofRs.10each	15,00,000	Fixedassets	34,00,000
Capitalreserve	5,00,000	Cash	50,000
P&La/c	4,00,000		

Generalreserve	2,00,000		
Creditors	3,50,000		
Capitalredemptionreserve	5,00,000		
	34,50,000		**34,50,000**

Illustration-9 Givejournalentriesandpreparebalancesheet

Balancesheetason31-3-15

Liabilities	Amount	Assets	Amount
13%Redeemablepreference sharesofRs.100each	1,00,000	Fixedassets	2,10,000
EquitysharesofRs.10each	2,50,000	Othercurrentassets	1,79,000
Currentliabilities	22,500	Cash	4,950
Provisionfortaxation	19,500	Investments	60,000
Profitandlossa/c	55,000	Prepaidexpense	2,050
Securitiespremium	9,000		
	4,56,000		**4,56,000**

In order to redeem its preference shares, the company issued 5,000 equity shares of Rs.10 each at a premium of 10% and sold its investments for Rs. 70,800. Preference shares were redeemed at a premium of 10%.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Redeemablepreferencesharescapitala/c Premium on redemption a/c ToPreferenceshareholdersa/c (Beingamountdue)	Dr Dr	1,00,000 10,000	 1,10,000
Securitiespremiuma/c To Premium on Redemption a/c(Beingpremiumonredemptioncancelled)	Dr	10,000	 10,000
Banka/c ToEquitysharecapitala/c To securities premium (Beingfreshissueofshares)	Dr	55,000	 50,000 5,000
P&La/c ToCapitalredemptionreservea/c (Being amount taken from P&L a/c)	Dr	50,000	 50,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)		1,10,000	 1,10,000

Banka/c		70,800	
Toinvestmenta/c To			60,000
P&L a/c (b/f)			10,800

(Beinginvestmentsold)			

Casha/c

Particulars	Amount	Particulars	Amount
Tobalanceb/d	4,950	Bypreference shareholders	1,10,000
Toinvestment	70,800	ByBalancec/d(b/f)	20,750
Toequitysharecapital	55,000		
	1,30,750		**1,30,750**

P&L a/c

Particulars	Amount	Particulars	Amount
ToPremiumonredemption	50,000	ByBalanceb/d	55,000
ToBalancec/d(b/f)	15,800	ByInvestment	10,800
	9,50,000		**9,50,000**

Sharepremium

Particulars	Amount	Particulars	Amount
ToPremiumonredemption	10,000	ByBalanceb/d	9,000
ToBalancec/d(b/f)	4,000	ByInvestment	5,000
	14,000		**14,000**

Balancesheet

Liabilities	Amount	Assets	Amount
EquitysharesofRs.10each	3,00,000	Fixedassets	2,10,000
Currentliabilities	22,500	Othercurrent assets	1,79,000
Provisionfortaxation	19,500	Cash	20,750
P&La/c	15,800	Prepaidexpense	2,050
SecuritiesPremium	4,000		
Capitalredemptionreserve	50,000		

	4,11,800		**4,11,800**

Illustration-10 *Thefollowingisthebalancesheetofacompanyason31st April2015*

Liabilities	Amount	Assets	Amount
8%Redeemablepreference sharesofRs.100eachfullpaidup	4,00,000	Sundryassets	18,00,000
9%RedeemablePreferenceshares ofRs.100eachRs.80paidup	2,40,000	Cashatbank	6,60,000
EquityshareofRs.10eachfully paidup	10,00,000		
Securitiespremium	50,000		
Revenuereserve	5,00,000		
Currentliabilities	2,70,000		
	24,60,000		**24,60,000**

Itwasdecidedtoredeemboththeclassesofpreferencesshareson30th Juneatapremium of 5%. The company issued equity shares of Rs.10 each for redemption purpose. Pass journal entries and prepare balance sheet.

Solution

JournalEntries

Particulars	LF	Debit	Credit
Sharefinalcalla/c Tosharecapitala/c (Being final call due)		60,000	 60,000
Banka/c To share final call a/c (Beingfinalcallreceived)		60,000	 60,000
Redeemablepreferencesharecapitala/c	Dr	7,00,000	

Premiumonredemptiona/c ToPreferencesharesholdersa/c (Being amount due)	Dr	35,000	7,35,000
Securitiespremiuma/c To Premium on Redemption a/c(Beingpremiumonredemptioncancelled)	Dr	35,000	35,000
Banka/c To Equity share capital a/c (Beingfreshissueofshares)	Dr	2,00,000	2,00,000
Revenuereservea/c ToCapitalredemptionreservea/c (Being amount taken from P&L a/c)	Dr	5,00,000	5,00,000
Preferenceshareholdersa/c To Bank a/c (Beingamountpaidtoshareholders)	**Dr**	7,35,000	7,35,000

Balancesheet

Liabilities	Amount	Assets	Amount
EquitysharesofRs.10each	12,00,000	sundryassets	18,00,000
SecuritiesPremium	15,000	Cash	1,85,000
Capitalredemptionreserve	5,00,000		
Currentliabilities	2,70,000		
	19,85,000		**19,85,000**

Meaning

Debentures are a type of debt instrument issued by companies or governments to raise capital. They represent a form of borrowing for the issuer, where the issuer promises to repay the principal amount to the debenture holders at a specified maturity date, along with periodic interest payments.

DefinitionofDebentures:

Debentures are long-term debt instruments that are typically issued by corporations, government entities, or financial institutions to raise funds for various purposes, such as financing expansion projects, acquiring assets, or meeting working capital requirements. They are usually issued in the form of a written agreement or certificate, outlining the terms and conditions of the debt.

CharacteristicsofDebentures:

1. FixedMaturityDate: Debentureshaveapredeterminedmaturitydate,whichsignifiesthe date on which the principal amount will be repaid to the debenture holders.

2. **Principal Amount:** The principal amount (also known as face value or par value) represents the initial investment made by the debenture holders. It is the amount that will be repaid by the issuer upon maturity.

3. **Interest Payments:** Debentures typically carry a fixed or variable interest rate, known as thecouponrate.Theissuerisobligatedtomakeperiodicinterestpaymentstothedebenture holders at predetermined intervals, such as annually, semi-annually, or quarterly.

4. Priority of Payment: In the event of liquidation or bankruptcy, debenture holders have a higher priority of repayment compared to equity shareholders. This means that debenture holders are generally entitled to receive their principal and interest payments before equity shareholders receive any distribution of assets.

5. Security or Collateral: Debentures can be either secured or unsecured. Secured debentures are backed by specific assets of the issuer, which act as collateral to protect the

debenture holders' interests. Unsecured debentures, also known as "naked" debentures or debentures without security, do not have any specific assets attached as security.

6. Transferability: Debentures are often freely transferable, allowing debenture holders to sell or transfer their ownership rights to other parties in the secondary market

Debentures provide an avenue for investors to earn a fixed income through interest payments and the repayment of principal upon maturity. They offer a relatively safer investment option compared to equity shares, as they represent a debt obligation of the issuer. However, the risk associated with debentures depends on factors such as the creditworthiness of the issuer, prevailing interest rates, and the terms and conditions of the specific debenture issue.It is important for investors to carefully analyze the terms and creditworthiness of the issuer before investing in debentures.

DifferencebetweenDebenturesandShares

Debenturesandsharesarebothtypesofsecuritiesissuedbycompaniestoraisecapital,but they have significant differences in terms of their characteristics, ownership rights, and position in the company's capital structure. Here are the key differences betweendebentures and shares:

1. OwnershipandVotingRights:

- **Shares**: When an investor purchases shares of a company, they become an owner or shareholder of the company. Shareholders have ownership rights and are entitled to participate in the company's profits through dividends. They also have voting rights and can participate in decision-making processes by voting on matters such as the election of the board of directors and major corporate actions.

- **Debentures:** Debenture holders, on the other hand, are creditors of the company. They provide loans to the company by purchasing debentures and have no ownership rights or voting power in the company. Debenture holders are entitled to receive periodic interest payments and repayment of the principal amount at maturity, but they do not participate in the company's profits or decision-making processes.

2. **PositionintheCapitalStructure**:

- **Shares:** Shares represent ownership equity in the company and are considered a part of the company's capital. Equity shareholders have a residual claim on the company's assets and earnings after all debts and obligations have been paid. In the event of liquidation or bankruptcy, equity shareholders have the lowest priority of repayment.

- **Debentures:** Debentures, on the other hand, represent debt obligations of the company. Theyare considered apartof the company'sliabilitiesand arehigherin prioritycompared to equity shares. In the event of liquidation or bankruptcy, debenture holders have a higher priority of repayment compared to equity shareholders.

3. ReturnsandRisks:

- **Shares:** Shareholders participate in the company's profits through dividends, which are paid out of the company's earnings. The returns on shares are variable and depend on the company's performance. Shareholders also bear the risk of potential loss if the company's performance declines.

- **Debentures:** Debenture holders receive fixed interest payments at a predetermined rate, typically expressed as a percentage of the principal amount. The returns on debentures are relatively fixed and predictable. Debenture holders have lower risk compared to shareholderssince theyhave a higherpriorityof repaymentin caseof defaultorbankruptcy.

4. Transferability:

- **Shares:** Shares are generally freely transferable, allowing shareholders to buy or sell their ownership rights in the secondary market.

- **Debentures:** Debentures are also transferable, but the terms and conditions of transfer may vary. Some debentures may have restrictions on transferability, while others may be freely transferable.

5. ConversionandRedemption:

- **Shares:** Shares cannot be converted into any other form of security. However, some companies may issue convertible preference shares, which can be converted into equity shares at the option of the shareholder.

- **Debentures:** Debentures may have conversion features that allow debenture holders to convert their debentures into equity shares of the company, typically at a predetermined conversion ratio or price. Debentures also have a maturity date, after which the issuer is obligated to repay the principal amount to the debenture holders.

In summary, shares represent ownership in a company with voting rights and participation in profits, while debentures represent debt obligations with fixed-interest payments and repayment of principal. Shares have a higher risk and potential for returns, while debentures offer fixed returns and lower risk. Shares are part of the company's equity capital, while debentures are part of the company's debt liabilities.

MethodsofDebentures

There are several methods by which debentures can be issued. The choice of method depends on various factors, including the company's capital structure, financial requirements, market conditions, and regulatory considerations. Here are some common methods of debenture issuance:

1. Public Issue: Under this method, the company offers debentures to the general public through a prospectus. The prospectus contains details about the debentures, such as the terms, interest rate, maturity date, and any security or collateral attached to the debentures. Interested investors can apply for the debentures and, upon allotment, become debenture holders.

2. Private Placement: In a private placement, debentures are issued to a select group of investors, such as institutional investors, banks, or high-net-worth individuals. This method does not involve a public offering or the use of a prospectus. Private placements aretypically faster and involve lower transaction costs compared to public issues.

3. RightsIssue: Arights issue isamethodof debenture issuancewhere existingdebenture holders are given the right to subscribe to additional debentures in proportion to theirexisting holdings. This allows current debenture holders to maintain their proportionate ownership in the company. The terms and conditions of the rights issue, including the subscription price and ratio, are specified by the company.

4. Convertible Debentures: Convertible debentures are debentures that can be converted into equity shares of the company at the option of the debenture holder. This method provides flexibility to investors who may choose to convert their debentures into shares if they believe the company's share price will appreciate in the future. The terms and conditions of conversion, such as the conversion ratio and conversion price, are determined at the time of issuance.

5. Non-Convertible Debentures: Non-convertible debentures are debentures that cannot be converted into equity shares. These debentures are issued with the intention of raising debt capital for the company without diluting existing shareholders' ownership.

6. Secured Debentures: Secured debentures are backed by specific assets of the company, which act as collateral for the debenture holders. In case of default or non-payment by the company, the debenture holders have a claim on the collateral assets. This provides an added layer of security to the debenture holders.

7. Unsecured Debentures: Unsecured debentures, also known as "naked" debentures or debentures without security, are not backed by any specific assets. These debentures rely solely on the creditworthiness and financial strength of the issuing company. Unsecured debentures typically carry higher interest rates compared to secured debentures to compensate for the additional risk borne by the debenture holders.

It's important to note that the methods of debenture issuance may be subject to specific regulations and legal requirements in different jurisdictions. Companies should comply with applicable laws and regulations when issuing debentures.

IssueandRedemptionofDebentures

Particulars	LF	Debit	Credit
Banka/c To Debentures		**xxx**	 **xxx**
Banka/c Discountondebenturesa/c		Xxx xxx	

ToDebenturea/c			xxx
Banka/c Todebenturea/c Topremiumondebenturesa/c		xxx	 Xxx xxx
Banka/c Lossonissueofdebenturesa/c To debentures Topremiumonredemptionofdebenture		Xxx xxx	 Xxx xxx
Banka/c Discount on debentures Lossonissueofdebentures Todebentures Topremiumonredemptionofdebenture		Xxx Xxx xxx	 Xxx xxx

Illustration-1 Acompanyissuesthefollowingdebentures

i. 2,000,10%debenturesofRs.100eachat parbutredeemableatapremiumof10% after ten years.
ii. 500,13%debenturesofRs.100eachatapremiumof10%payableatparafterfive years.
iii. 1,000,11%DebenturesofRs.100eachatadiscountof10%butredeemableata premium of 5% after 8 years.
iv. 500DebenturesofRs.100eachascollateralsecuritytoacreditorwhoadvanceda loan of Rs. 40,000. Journalize the above transaction.

Particulars	LF	Debit	Credit
Banka/c Lossonissueofdebenturesa/c		2,00,000 20,000	
To10%Debenturesa/c			2,00,000

ToPremiumonredemptiona/c (BeingDeb.Issuedatparandredeemableat premium)			
Banka/c To13%Debentures To premium on issue of debentures (BeingDebenturesissuedatpremiumand redeemableatpar)		55,000	 50,000 5,000
Banka/c Discount on debentures a/c Lossonissueofdebenturesa/c To11%debentures Topremiumonredemption (BeingDebenturesissuedatdiscountand redeemable at premium)		90,000 10,000 5,000	 1,00,000 5,000
Debenturesuspensea/c To Debentures a/c (BeingDebenturesissuedascollateralsecurity)		50,000	 50,000

Illustration-2C Ltd. Issued 1,000, 12% Debentures of Rs.100 each. Give journal entriesunder two situations:

a) Issuedatadiscountof10%andredeemableatapremiumof10%
b) Issuedatparandredeemableatpar.

Solution

JournalEntries

Particular's	**LF**	**Debit**	**credit**
Banka/c Discountonissueofdebentures Loss on issue of debentures		90,000 10,000 10,000	

To12%Debentures			1,00,000
ToPremiumonredemption			10,000
(Being Debenture issued at discount and redeemable at premium)			
Banka/c		1,00,000	
To12%Debentures			1,00,000
(BeingDebenturesissuedatparandredeemableatpar)			

Illustration-3 Youarerequiredtosetoutthejournalentriesrelatingtotheissueoffollowing debentures in the books of X Ltd.

1. 8%120Rs.1,000Debenturesareissuedat5%discountandarerepayableatpar
2. Another7%150Rs.1,000debenturesareissuedat5%discountandrepayableat 10%premium.
3. Further809%Rs.1,000debenturesareissuedat5%premium.
4. Inaddition,another4008%Rs.100debenturesareissuedatcollateralsecurities against a loan of Rs. 40,000.

Solution **JournalEntries**

Particulars	LF	Debit	Credit
Banka/c		1,14,000	
Discountonissueofdebentures		6,000	
To8%debentures			1,20,000
(Beingdebenturesatdiscount)			
Banka/c		1,42,500	
Discountonissueofdebentures		7,500	

Lossonissueofdebentures To12%debentures ToPremiumonredemption (Being Debenture issued at par and redeemableatpar)		15,000	 1,50,000 15,000
Banka/c To12%Debentures Topremiumonredemption (Beingdebenturesissuedatpremium)		84,000	 80,000 4,000
Debenturessuspensea/c To debentures a/c (Beingdebenturesissuedascollateralsecurity)		40,000	 40,000

RedemptioninInstalments

Redemption in instalments refers to the repayment of a financial instrument, such as debenturesorbonds,in multipleperiodicpaymentsoverapredeterminedperiod.Instead of repaying the entire principal amount at once upon maturity, the issuer spreads the repayment over several instalments.This method allows the issuer to manage their cash flow by making smaller payments over time, rather than a single large payment. It can also provide flexibility to the issuer in terms of financial planning and allocating funds for debt repayment.

For debenture holders, redemption in instalments means they will receive periodic payments that include both principal and interest components. Each instalment reduces the outstanding balance of the debentures, resulting in gradual repayment of the debt. The schedule and frequency of instalments are determined at the time of issuance and specifiedin thetermsandconditionsof the debentures.Theinstalmentsmaybe equalor

vary in amount and are typically paid at regular intervals, such as monthly, quarterly, or annually, depending on the terms agreed upon.

Redemption in instalments allows issuers to manage their debt obligations more effectively while providing ongoing payments to debenture holders until the entire debt is repaid. It provides a structured and predictable repayment plan for both the issuer and the debenture holders. The following different methods can be adopted for redemption in instalments.

a. Drawingbylot
b. Openmarketbuying

a.**Drawing by lot:** A company may agree to repay every year predetermined amount of debentures by conducting a lot, using the distinctive number of the debentures. The debentures whose numbers or taken out in the lot will have to be repaid by thecompany by giving the debenture holders intimation about the repayment. The redemption may be or at par or at premium as per the terms of the debentures issue agreement.

JournalEntries

Particulars	LF	Debit	Credit
Debenturesa/c(facevalue) Premiumonredemption(ifpremiumispayable) ToDebentureholder’sa/c (Beingdebentures repayableand premium payable thereon)		Xxx xxx	 xxx
Debentureholder’sa/c To Bank (Beingpaymenttothedebentureholders)		xxx	 xxx
Profit&Lossappropriationa/c ToDebentureredemptionreservea/c (Beingtransferofprofitstodebentureredemptionreserve on redemption of debentures)		xxx	 xxx

Open market buying: The terms of issue of debentures may permit a company to buy its own debentures in the open market and cancel, or retain or reissue them. This provides tremendous flexibility to the company. Whenever the surplus funds are available and market price of debentures is favourable, the company can buy it own debentures as on investment. If there is an annual amount to be redeemed, the required number of debentures can be immediately cancelled. Any extra debentures can be retained as investment in own debentures. They can be resold also whenever need for liquid funds arises.

Cum- interest and Ex- Interest Quotations: When a company buys your sells its own debentures in the open market, the price quoted may include or exclude interest accruedtill that dateon the debentures. If the quotedprice includes interest on the debentures from the previous interest date till the date of sale, the price is known as cum- interest price. If the price quoted does not include the interest from the previous interest date till the date of sale, the prices known ex- interest price. When purchase and the sales transaction of own debentures are recorded in the books, the nature of quotation given weather the price quoted is cum- interest or ex-interest should be cash carefully observed.

1. **When own debentures are purchased in the market and immediate cancelled:** A companymaybuyitsowndebenturesintheopenmarketandimmediatelycancelthem. Any expenses related to the purchase also should be added to the purchase price.

JournalEntries

Particulars	LF	Debit	Credit
Debenturesa/c(facevalue)		Xxx	
ToBanka/c(Totalcashpayable)			Xxx
ToProfitonCancellation			XXX
(Being purchase and cancellation of own debentures and profit thereon)			

2. **Wen own debentures are purchased in the market and retained as investment:** Own debentures purchased on retained or like any other investment. Interest payable on debenture is saved because of such investment. Interest on debenture is recorded as usual and the interest on won debentures should be shown as an income.

JournalEntries

Particulars	LF	Debit	Credit
Whenowndebenturesarepurchased:			
Own debentures a/c		Xxx	
Debentureinteresta/c			Xxx
ToBank a/c			XXX
(Beingpurchaseofowndebenturesandinterestthereon)			
Onthedateofinterestpayment:			
Debentureinteresta/c		xxx	
Tointerestonowndebentures To			Xxx
bank			xxx
(Beinginterestpaidandinterestonowndebentures considered)			
Whenowndebenturesareresold Bank a/c			
Toowndebenturesa/c			
Tointerestonowndebenturesa/c			
(Beingtheamountreceivedonsaleofowndebentures and interest on the own debentures till the date of sale)			

3. **When own debentures are cancelled:** Own Debentures may be cancelled once forall, thus redeeming them. This may be as a part of annual redemption agreement or it may be independent of such agreements.

JournalEntries

Particulars	LF	Debit	Credit
%Debenturesa/c(facevalue)		Xxx	
Toowndebenturesa/c			Xxx
ToProfitoncancellationofdebenturesa/c			XXX
(Beingcancellationofowndebenturesandprofitthereon)			

4. **Redemptionbyconversion:**

Redemptionby conversionrefers to theprocess by whichadebenture or convertible security is converted into another form of security, oftenequityshares,attheoptionof

the holder. It allows debenture holders to exchange their debentures for a predetermined number of shares of the issuing company.

When a debenture is convertible, it means that the debenture holder has the right to convert the debenture into a specified number of shares within a predetermined conversion ratio or conversion price. The terms of conversion, including the conversion ratio or price, are typically specified at the time of debenture issuance.

Hereisanoverviewoftheprocessofredemptionbyconversion:

1. **Conversion Option**: The debenture holder exercises the conversion option by notifying the issuing company of their intent to convert the debenture into shares. The conversion option is exercised according to the terms and conditions outlined in the debenture agreement.

2. **Conversion Ratio or Price:** The conversion ratio or price determines the number of shares that the debenture holder will receive for each debenture converted. For example, if the conversion ratio is 1:1, it means that each debenture can be converted into one share.

3. **Calculation of Conversion Shares**: The number of shares to be issued upon conversion is calculated based on the conversion ratio or price. For example, if a debenture holder wishes to convert 100 debentures with a conversion ratio of 1:1, they will receive 100 shares.

4. **Adjustment for Fractional Shares**: If the conversion results in a fractional share, the terms of the debenture agreement will specify how such fractions are handled. It may involve rounding off the fractional shares, issuing additional shares to account for the fraction, or providing cash in lieu of fractional shares.

5. **RecordingtheConversion:**
- Dr.DebenturePayable(Liability) -Thecarryingvalueof theconverteddebenturesis reduced.

- Cr. Share Capital (Equity) - The value of the newly issued shares is recorded in the equity section of the balance sheet.

The accounting treatment for the conversion process may vary depending on the specific accounting standards and regulations applicable to the company.

Redemption by conversion provides debenture holders with an opportunity to convert their debt investments into equity ownership in the issuing company. It allows investors to participate in the potential growth and value of the company's shares, depending on the performance of the company's stock price.

JournalEntries

Particulars	LF	Debit	Credit
%Debenturesa/c(facevalue) Premiumonredemptionofdebenturesa/c ToDebentureholdera/c (Being debenture repayable and premium payable thereon)		Xxx	 Xxx XXX
Debentureholdera/c Tosharecapitala/c Tosecuritiespremiuma/c (Being conversion of debentures into shares and premium chargeable thereon)		xxx	 Xxx xxx

2.12Sinkingfundmethod:

The sinking fund method is a mechanism used by companies to systematically setaside funds over time for the purpose of repaying a specific debt obligation, such as bonds or debentures, at maturity. It involves the creation of a sinking fund, which is essentially a segregated pool of money accumulated over a period of time to ensure that sufficient funds are available to redeem the debt when it becomes due.

Here'showthesinkingfundmethodgenerallyworks:

1. **Establishment of Sinking Fund:** The company creates a sinking fund, which is separaate account or fund designated for the purpose of repaying the debt. The sinking

fundmaybemanagedbythecompanyitselforentrustedtoatrusteeorfinancial institution.

2. Regular Contributions: The Company makes regular contributions to the sinking fund at specified intervals, often on an annual or semi-annual basis. The amount of each contribution is predetermined and based on factors such as the debt amount, maturity date, and interest rate.

3. Investment of Sinking Fund: The accumulated funds in the sinking fund are typically invested in low-risk and liquid investments such as government securities, bonds, or money market instruments. The objective is to generate income or returns on the funds while ensuring their safety and liquidity.

4. Debt Redemption: When the debt reaches its maturity date, the funds accumulated in the sinking fund are used to repay the outstanding principal amount. The company may redeem the debt in whole or in part, depending on the availability of funds in the sinking fund.

Thesinkingfundmethodprovidesseveralbenefits:

a. Mitigating Default Risk: By setting aside funds regularly, the company reduces the risk of default by ensuring that funds are available to repay the debt at maturity. This helps maintain the company's creditworthiness and investor confidence.

b. Smoother Cash Flow Management: Making regular contributions to the sinking fund allows the company to manage its cash flow more effectively. It spreads out the repayment burden over time instead of facing a large repayment obligation at maturity.

c. Potential Cost Savings: By accumulating funds in the sinking fund, the company may have the option to redeem the debt earlier than the maturity date if market conditions allow. This can result in interest cost savings for the company.

d. Investor Protection: The existence of a sinking fund provides additional security to bondholders or debenture holders, as it demonstrates the company's commitment to meeting its debt obligations.

It's important to note that the sinking fund method may have specific terms and conditions outlined in the debt agreement. Companies should adhere to the agreed-upon provisions and legal requirements when implementing the sinking fund method.

Particulars	LF	Debit	Credit
Attheendofthefirstyear,formakingannualtransfer to sinking fund			
ProfitandLossappropriationa/c To		xxx	
Sinking fund a/c			xxx
(Beingannualtransfertosinkingfundforredemptionof debentures)			
Formakinginvestment			
Sinkingfundinvestment,a/c To			
Bank		xxx	
(Beinginvestmentmade)			xxx
Atendofthesecondyear			
Forreceivinginterestonsinkingfundinvestment:			
Banka/c		xxx	
Tointerestonsinkingfundinvestmenta/c (Being interest received)			xxx
Fortransferringinteresttosinkingfunda/c			
Interestonsinkingfundinvestmenta/c To			
sinking fund a/c		xxx	
(Beingtransferofinteresttothefund			xxx
Forannualtransfertosinkingfund			
P&L Appropriation a/c			
Tosinkingfunda/c		xxx	
(Beingannualtransfermade)			xxx
Formakinginvestment,includingtheinterestreceived			
Sinking fund investment, a/c			

ToBanka/c			
Forsaleofinvestment Bank a/cSinkingfund,a /c Tosinkingfundinvestmenta/c **(Beingsaleofsinkingfundinvestmentatloss)**		Xxx xxx	xxx
Forredemptionofdebentures %Debenturesa/c ToBank a/c (Beingrepaymentofthedebentures)		xxx	xxx
Forclosingthesinkingfund Sinkingfund,a/c ToGeneralreservea/c (Being transfer of sinking fund balance to the general reserve)		xxx	xxx

Illustration-1 Timex Ltd., issued 1,000 8% debentures of Rs.100 each.
Giveappropriatejournal entries in the books of the company, if the debenture were issued as follows;

1. Issuedatpar;redeemableatpar.
2. Issuedatadiscountof5%,repayableatpar.
3. Issuedatapremiumof10%,repayableatpar.
4. Issuedatpar,redeemableatapremiumof10%.
5. Issued at a discount of 5% repayable at a premium of 10%. You are also required to show how the items concerned appear in the balance sheet in each of the above cases.

Solution

JournalEntries

	LF	Debit	Credit
Banka/c		1,00,000	
To8%Debenturesa/c (Being issue of 1,000 debentures of Rs.100 each at par, repayable at par)			1,00,000
Banka/c Discountonissueofdebenturea/c To 8% Debentures a/c (Beingissueof1,000debenturesofRs.100eachat 5%discount,repayableatpar)		95,000 5,000	 1,00,000
Banka/c To8%Debenturesa/c Tosecuritiespremiuma/c (Being issue of 1,000 debentures of Rs.100 each at 10% premium, repayable at par)		1,10,000	 1,00,000 10,000
Banka/c Lossonissueofdebenturesa/c To 8% debentures a/c Topremiumonredemptionofdebenturesa/c (Being issue of 1,000 debentures of Rs.100 each at par, repayable at premium of 10%)		1,00,000 10,000	 1,00,000 10,000
Banka/c Discountonissueofdebenturesa/c Loss on issue of debentures a/c To8%Debenturesa/c To premium on redemption of debentures a/c (Beingissueof1,000debenturesofRs.100eachat 5%discount,repayableat10%premium)		95,000 5,000 10,000	 1,00,000 10,000

1. BalancesheetofTimexLtd.(includes)

Liabilities	Rs.
Non-currentliabilities	

Longtermborrowings: 8% Debentures	**1,00,000**
Assets	**Rs**
Currentassets Cashatbank	1,00,000

2. BalancesheetofTimexLtd.(includes)

Liabilities	Rs.
Non- current liabilities Longtermborrowings: 8% Debentures	1,00,000
Assets	**Rs**
Currentassets Cashatbank Othercurrentassets: Discountonissueofdebentures	95,000 5,000

3. BalancesheetofTimexLtd.(includes)

Liabilities	Rs.
Reserveandsurplus Securitiespremium Non-currentliabilities Longtermborrowings: 8%Debentures	10,000 1,00,000
Assets	**Rs**
Currentassets Cashatbank	1,10,000

4. **BalancesheetofTimexLtd.(includes)**

Liabilities	**Rs.**
Non-currentliabilities Longtermborrowings: 8%Debentures Premiumonredemptionofdebentures	 1,00,000 10,000
Assets	**Rs**
Currentassets Cashatbank Othercurrentassets: Lossonissueofdebentures	 1,10,000 10,000

5. **BalancesheetofTimexLtd.(includes)**

Liabilities	**Rs.**
Non-currentliabilities Longtermborrowings: 8%Debentures Premiumonredemptionofdebentures	 1,00,000 10,000
Assets	**Rs**
Currentassets Cashatbank Othercurrentassets: Lossonissueofdebentures Discountonissueofdebentures	 95,000 10,000 5,000

Illustration-2 ExcelLtd.madethefollowingissuesofdebentureson1.4.2017.

1. 20010%debenturesofRs.100eachtosettleacreditorwhosupplieda machine on credit some time ago at a price of Rs.18,000.
2. 30010%debenturesofRs.100eachforcashatadiscountof5%.
3. 1,000 10% debentures of Rs.100 each to the bankers as collateral security for a loan of Rs.80,000. All the above issues are redeemable at par. Pass journal entries to record the above in the books of the company and show how these items are to be shown when the company's Balance sheet is prepared.

Solution

JournalEntries

Particulars	LF	Debit	Credit
MachineVendor'sa/c Discountonissueofdebenturesa/c To 10% debentures (Being issue of 200 debentures of Rs.100eachatadiscountof10%to settlethea/cofmachinesupplier)		18,000 2,000	 20,000
Banka/c Discountonissueofdebenturesa/c To 10% Debentures a/c (Being issue of 300debentures of Rs.100atdiscountof5%)		28,500 1,500	 30,000
Debenturessuspensea/c To10%Debenturesa/c (Being 1,000 debentures of Rs.100 eachissuedascollateralsecurityto bankers against loan of Rs.80,000)		1,00,000	 1,00,000

BalancesheetofExcelLtd.ason(includes)

Liabilities	**Rs.**
Non- current liabilities	
Longtermborrowings:	
1,500 10% Debentures of Rs.100 each (of these, 1,000 debentures issued as collateral security as per contra)	1,50,000
Bank loan (security by issue of 1,000 debentures of Rs.100 each as collateral security)	80,000
Assets	**Rs**
Currentassets	
Cashatbank	28,500
Othercurrentassets:	
Discountonissueofdebentures	3,500
Debenturessuspensea/caspercontra	1,00,000

RedemptionbyConversion

On 1.4.2017,Rama Ltd.issued 2,5008% debenturesof Rs100each at5%discount. Holders of the debentures have option to convert their holding into equity shares of Rs.100 each at a premium of Rs.25 per share at any time within 3years. On 31.3.2018, holders of 500 debentures notified their intention to exercise the option. Show the necessary journal entries in the company's books relating to issue and conversion of the debentures. Also show how the items affected would appear in the company's balance sheet.

Particulars	LF	Debit	Credit
Banka/c		2,37,500	
Discountonissueofdebenturesa/c To		12,500	
8% debentures a/c			2,50,000
(Beingissueof2,500debenturesofRs.100each			

at5%discount)			
8%debenturesa/c ToDiscountonissueofdebenturesa/c To equity share capital a/c Tosecuritiespremium/c (Being conversion of 500 debentures of Rs.100 each issued at a discount of 5% into 380 equity sharesofRs.100eachatapremiumofRs.25per shares)		50,000	 2,500 38,000 9,500

BalancesheetofRamaLtd.(includes)

Liabilities	Rs.
Shareholdersfunds:	
Sharecapital 380equitysharesofRs.100each Reserve&surplus: SecuritiesPremium Non-currentliabilities Longtermborrowings: 2,0008%debenturesofRs.100each	 38,000 9,500 2,00,000
Assets	**Rs.**
Othercurrentassets: Discountonissueofdebentures(12,500-2,500)	 10,000

Workingnotes:Calculationofsharestobeissued

Sinceconversionisnotattheendofanyspecifiedperiodforredemption,actualcash collected on the issue of debentures alone should be converted.

Facevalueof500debenture	500x10	50,000
Less:discountallowedatthetimeofissue	5,000x5/100	2,500
Amountcollectedonthedebentureswhicharetobe converted		47,500
Facevalueofequityshare	100	
Add:premium	25	
Issuepricepershare	125	
Numberofsharestobeissued=Amountcollectedondebentures		

Issuepricepershare =14,500=380shares 125		
Facevalueoftheshares	=380x100	38,000
Sharepremium	=380x25	9,500

Redemptionininstalments

Illustration – Rashid Ltd. has Rs.10,00,000 8% debentures outstanding on 1.1.2020. The company has been redeeming every year on January 1st Rs.1,00,000 debentures by drawings by lot, at par. Give necessary journal entries.

a. Iftheredemptionisoutofprofits
b. Iftheredemptionisoutofcapital.

Solution:

Journal

Particulars	LF	Debit	credit
a.Iftheredemptionisoutofprofits			
8%Debenturesa/c To Bank a/c (Beingredemptionofdebenturesoutof profits)		1,00,000	1,00,000
Profit&Lossappropriationa/c ToDebentureredemptiona/c (Being transfer of revenue profit to debenture redemption reserve)		1,00,000	1,00,000
b.Iftheredemptionisoutofcapital.			
8%Debenturesa/c To Bank a/c (Beingredemptionofdebenturesoutof capital)		1,00,000	1,00,000

Openmarketbuyingmethod

Illustration–

KrishnaLtd,whichhadRs.50,00,00010%debenturesoutstanding,madethefollowing purchase in the open market for immediate cancellation.

1.4.2020 1,000 debentures of Rs.100 each at Rs.99

1.9.20202,000debenturesofRs.100eachatRs.97.

Youarerequiredtogivethejournalentriesforpurchaseandcancellationofthe debentures.

a) IftheabovepurchaseratesareEx-interest
b) If the above purchase rates are cum-interest". Assume that interest is payable every year on 30thJune and 31stDecember.

a) **Solution:**

Journal

Particulars	**LF**	**Debit**	**Credit**
10% Debentures a/c		1,00,000	
Debenturesinteresta/c		2,500	
ToBanka/c			1,05,000
ToProfitoncancellationofdebentures			1,000
(Beingpurchaseandcancellationof1,000debentures ofRs.100eachat Rs.99ex-interestandtheprofit thereon)			
10% Debentures a/c		2,00,000	
DebenturesInteresta/c		3,333	
ToBanka/c			1,97,333
ToProfitoncancellationofdebentures			6,000
(Being purchase and cancellation of 2,000 own debenturesofRs.100eachatRs.97ex-interestand profit thereon)			

b) **Solution**

JournalEntries

Particulars	**LF**	**Debit**	**Credit**

Particulars	LF	Debit	Credit
10% Debentures a/c		1,00,000	
Debenturesinteresta/c		2,500	
ToBanka/c			99,000
ToProfitoncancellationofdebentures			3,500
(Beingpurchaseandcancellationof1,000 own debentures of Rs.100 each atRs.99 cum -interest and the profit thereon)			
10%Debenturesa/c		2,00,000	
DebenturesInteresta/c		3,333	
ToBanka/c			1,94,000
ToProfitoncancellationofdebentures			9,333
(Being purchase and cancellation of 2,000 own debenturesofRs.100eachatRs.97cum-interestand profitthereon)			

SinkingFundMethod

Illustration: on 1-1-2018, Y Ltd., issued 4,000 12% Debentures of Rs.100 each repayable the end of four years at a premium of 5%. It has been decided to institute a sinking fund for the purpose, the investments being expected to realize 4% net. Sinking fund tables show that 0.235490 amounts to Rs.1 @ 4% in four years. Investments were in multiples of hundred only.

On 31.12.2021, balance at bank was Rs.1, 18,000 and the investments realized Rs.3, 13,600. The debentures were paid off. Give journal entries and show ledger accounts (Except for debentures interest).

Solution

Journal

Date	Particulars	LF	Debit	Credit
1-1-18	Banka/c		4,00,000	

	Lossonissueofdebenturesa/c To 12% Debentures a/c To Premium on Redemption of Debentures a/c (Beingtheissueof4,00010%debenturesof Rs.100eachatpar,redeemableatapremium of 5%)		20,000	 4,00,000 20,000
31-12-18	Profit&Lossappropriationa/c To sinking fund a/c (Being the annual sum requires to provide for the redemption of debentures)		98,906	 98,906
31-12-18	Sinkingfundinvestmenta/c To Bank (Beingtheinvestmentmadetothenearest hundredrupees)		99,000	 99,000
31-12-19	Banka/c Tointerestonsinkingfundinvestment a/c (BeinginterestreceivedonS.F.I)		3,960	 3,960
31-12-19	InterestonS.Finvestmenta/c To Sinking fund a/c (BeingthetransferofinterestonS.F.ItoS.F a/c)		3,960	 3,960
31.12.19	Profit&Lossappropriationa/c To sinking fund a/c (Being the annual sum set aside for redemption)		98,906	 98,906
	Sinkingfundinvestmenta/c To Bank (Beingthesuminvested(annualinvestment plusinterest)tothenearesthundredrupees)		1,02,900	 1,02,900
31-12-20	Banka/c		8,076	

	TointerestonS.FInvestmenta/c (BeinginterestreceivedonS.F.I)			8,076
	InterestonS.Finvestmenta/c To sinking fund a/c (BeinginterestonS.F.ItransferredtoS.Fa/c)		8,076	8,076
	Profit&Lossappropriationa/c To sinking fund a/c (Being the annual sum set aside for redemption)		98,906	98,906
	Sinkingfundinvestmenta/c To Bank a/c (Being the sum invested, the annual instalmentplusinterest)		1,07,000	1,07,000
31-12-2021	Banka/c TointerestonS.Finvestmenta/c (Being interest received on S.F.I)		12,356	12,356
	InterestonS.Finvestmenta/c To sinking fund a/c (BeingthetransferofinterestonSFItoS.F a/c)		12,356	12,356
	Profit&Lossappropriationa/c To Sinking fund a/c (Beingtheannualinvestmentsetasidefor redemption)		98,906	98,906
	Banka/c Tosinkingfundinvestmenta/c\ (BeingS.Finvestmentsoldtopayoff12% debentures)		3,13,600	3,13,600
31-12-21	12%Debenturesa/c Premiumonredemptionofdebenturea/c To Debenture holders a/c (Beingtheamountduetodebentureholders)		4,00,000 20,000	4,20,000
	Debentureholdersa/c		4,20,000	

	ToBank a/c (Being the payment made to debenture holders)			4,20,000
	Sinkingfundinvestmenta/c To sinking fund a/c (BeingtheprofitsaleofS.F.Itransferredto S.Fa/c)		4,700	4,700
	sinkingfunda/c ToLossonissueofDebenturesa/c (Being the losson issue of debentures written offagainst sinking fund)		20,000	20,000
	Sinkingfunda/c ToGeneralreservea/c (Being the sinking fund a/c Balance transferredtogeneralreserve)		4,07,716	4,04,716

Ledgeraccounts

Sinking Fund

31-12-18	Tobalancec/d	98,906	31-12-18	ByP&LAppA/c	98,906
		98,906			98,906
31-12-19	ToBalancec/d	2,01,772		Bybalanceb/d ByinterestonS.F.Ia/c ByP&LAppA/c	98,906 3,960 98,906
		2,01,772			**2,01,772**
31-12-20	Tobalancec/d	3,08,754		Bybalanceb/d	2,01,772
				ByinterestonS.F.Ia/c	8,076
				ByP&Lappa/c	98,906
		3,08,754			**3,08,754**
31-12-21	ToLoss on issueof Debenture	20,000	1-1-21	Bybalanceb/d ByinterestonS.F.Ia/c ByP&LAppa/c Bysinkingfund investment,a/c	3,08,754 12,306 98,906 4,700

				Profitonsale	
	SinkingfundInvestmenta/c				
31-12-18	Tobanka/c	99,000	31-12-18	Bybalancec/d	99,000
		99,000			**99,000**
1-1-19	Tobalanceb/d	99,000			
	Tobanka/c	1,02,900			
		2,01,900			**2,01,900**
1-1-20	Tobalanceb/d	2,01,900	31-12-20	Bybalancec/d	3,08,900
	ToBanka/c	1,07,000			
		3,08,900			**3,08,900**
1-1-21	ToBalanceb/d	3,08,900	31-12-21	Bybanka/c	3,13,600
	Tosinkingfund a/c Profitonsale	4,700			
		3,13,600			**3,13,600**
	InterestonSinkingFundInvestmenta/c				
31-12-19	Tosinkingfund a/c	3,960	31-12-19	ByBanka/c	3,960
		3,960			**3,960**
31-12-20	Tosinkingfund a/c	**8,076**		**Bybanka/c**	**8,076**
		8,076			**8,076**
	Tosinkingfund a/c	12,356		Bybanka/c	12,356
		12,356			**12,356**
	12%Debenturesa/c				
31-12-18	Tobalancec/d	4,00,000	1-1-18	Bybanka/c	4,00,000
		4,00,000			**4,00,000**
31-12-19	Tobalancec/d	4,00,000		Bybalanceb/d	4,00,000
		4,00,000			**4,00,000**
31-12-20	ToBalancec/d	4,00,000		**Bybalanceb/d**	4,00,000
		4,00,000			**4,00,000**
31-12-21	Todebenture	4,00,000		Bybalanceb/d	4,00,000

	holdera/c				
		4,00,000			**4,00,000**
	Debentureholdersa/c				
31-12-21	ToBanka/c	4,20,000	31-12-21	By12%Debenturesa/c	4,00,000
				By Premium on redemptionofdebentures a/c	20,000
		4,20,000			**4,20,000**

CheckYourProgress

1. Redeemablepreferencesharesareclassifiedas:

a) Equityshares

b) Debtinstruments

c) Hybridinstruments

d) Noneoftheabove

2. Redeemablepreferenceshareshavetheoptiontoberedeemedbythe

a) Shareholders

b) Companyissuingtheshares

c) Regulatoryauthorities

d) Auditors

3. Theredemptionofpreferencesharesrefersto:

a) Conversionofpreferencesharesintoequityshares

b) Repaymentoftheprincipalamounttothepreferenceshareholders

c) Paymentofdividendstothepreferenceshareholders

d) Noneoftheabove

4. Theredemptionofpreferencesharescanbedone:

a) Atanytimeduringthetenureoftheshares

b) Onlyafteraspecificperiodmentionedintheshareagreement

c) Onlywiththeapprovaloftheshareholders

d) Asper the discretion ofthe company

5. Theredemptionofpreferencesharesistypicallyfundedthrough:

a) Retainedearnings

b) Issuingnewshares

c) Borrowingsfrombanks

d) Saleofassets

6. Theaccountingtreatmentfortheredemptionofpreferencesharesinvolves:

a) Recognizingagainorlossonredemption

b) Decreasingequityreserves

c) Increasingliabilities

d) Allofthe above

7. Theredemptionpremiumonpreferencesharesrepresents:

a) Additionaldividendspaidtopreferenceshareholders

b) Theexcessamountpaidonredemptionoverthefacevalueoftheshares

c) Thediscountofferedontheredemptionofshares

d) Theinterestcostassociatedwithredeemingtheshares

8. Theredemptionreserveiscreatedto:

a) Ensuretheavailabilityoffundsforredemption

b) Recognizethereductioninequityduetoredemption

c) Provideadiscounttopreferenceshareholders

d) Noneoftheabove

9. Theaccountingtreatmentfortheredemptionofpreferencesharesisgovernedby:

a) IndAS109-FinancialInstruments

b) IndAS32-FinancialInstruments:Presentation

c) IndAS101-First-timeAdoptionofIndianAccountingStandards

d) IndAS103-BusinessCombinations

10. Redeemablepreferencesharesaretypicallyissuedbycompaniesto:

a) Raiselong-termcapital

b) Providevotingrightstopreferenceshareholders

c) Increasetheliquidityofthecompany

d) Obtaintaxbenefits

11. Debenturesare:

a) Equityshares

b) Debtinstruments

c)Hybridinstruments

d)Noneoftheabove

12. Theprocessofofferingdebenturestothepublicforthefirsttimeiscalled:

a) Redemption

b) Conversion

c) Issuance

d) Amortization

13. Theinterestpayableondebenturesisknownas:

a) Dividend

b) Coupon

c) Premium

d) Redemptionamount

14. Redeemabledebenturesare:

a) Repaidtothedebentureholdersonafixedmaturitydate

b) Convertedintoequitysharesattheoptionofthedebentureholders

c) Non-repayableandnon-convertible

d) Noneoftheabove

15. Irredeemabledebenturesarealsoknownas:

a) Convertibledebentures

b) Perpetualdebentures

c) Callabledebentures

d) Participatingdebentures

16. Theprocessofrepayingtheprincipalamountofdebenturesbeforethematuritydateis called:

a) Redemption

b) Conversion

c) Amortization

d) Calloption

17. Theaccountingtreatmentfortheissueofdebenturesinvolves:

a) Recognizingagainorlossonissue

b) Increasingequityreserves

c) Decreasingliabilities

d) Alloftheabove

18. Theaccountingtreatmentfortheredemptionofdebenturesinvolves:

a) Recognizingagainorlossonredemption

b) Decreasingequityreserves

c) Increasingliabilities

d) Allofthe above

19. Asinkingfundiscommonlyusedfor:

a) Issuingdebentures

b) Redeemingdebentures

c) Convertingdebenturesintoequityshares

d) Payinginterestondebentures

20. Theredemptionofdebenturescanbefundedthrough:

a) Retainedearnings

b) Issuingnewdebentures

c) Borrowingsfrombanks

d) Allofthe above

Exercise

1. ThebalancesheetofWallaceLtd.ason31st Dec.2009wasasunder:

Liabilities	Rs.	Assets	Rs.
Sharecapital: 1,000redeemablepreference shares of Rs.100 each	1,00,000	Sundryassets	3,65,000
2,000equitysharesofRs.100 eachfullypaid	2,00,000	BankBalance	1,40,000
GeneralReserve	80,000		
Profit&Loss	50,000		
Sundrycreditors	75,000		
	5,05,000		**5,05,000**

Onthisdate,thepreferenceshareswereredeemedatpar.Journalizeand prepare balance sheet after redemption.

2. ThesummarizedbalancesheetofGaurLtd.on31st Dec.2004wasasfollows

Liabilities	Rs.	Assets	Rs.
Sharecapital: 2,000redeemablepreference shares of Rs.100 each fully paid	2,00,000	Sundryassets	9,80,000

80,000equitysharesofRs.10 each,fullypaid	8,00,000	BankBalance	4,20,000
Profit&Loss	2,60,000		
Sundrycreditors	1,40,000		
	14,00,000		**14,00,000**

On the above date, the preference shares were redeemed at a premium of 10%. You are required to pass journal entries and give the amended balance sheet.

3. ThefollowingisthebalancesheetofRajLtd.ason31st Dec.2009.

Liabilities	Rs.	Assets	Rs.
Sharecapital: 50,000equitysharesofRs.10 each	5,00,000	Sundryassets	6,00,000
2,000 8% redeemable preferencesharesofRs.100 each	2,00,000	CashatBank	4,40,000
Profit&LossA/c	2,40,000		
SundryCreditors	1,00,000		
	10,40,000		**10,40,000**

The company resolved to redeem its preference shares at a premium of 20% out of profits. Pass the necessary journal entries and show the important ledger accounts and the company's balance sheet after completion of redemption.

4. A company wishes to redeem its preference shares amounting to Rs.1,00,000 at a premium of 5% and for this purpose issued 5,000 equity shares of Rs.10 each at a premium of 5%. The company has also a balance of Rs.1,00,000 on general reserve and Rs. 50,000 on profit &loss account. Pass the necessary journal entries to record the above transactions.

5. B Ltd. had issued 50,000 redeemable preference shares of Rs.10 each, Rs.8 paid. In order to redeem these shares, the company issued for cash 30,000 equity of Rs.10 each at a premium of Rs.2 per share. Out of the cash Proceeds the redeemable preference shares were paid and the balance was met out of the reserve fund which stoodatRs.2,50,000.Givejournalentriesinthebooksofthecompany.

6. A company had, as part of its share capital, 1,000 redeemable preference shares of Rs.100 each fully paid up. When the shares become due for redemption, the companyhad Rs.60, 000 in its reserve fund.The companymademinimum newissue of equitysharesof Rs.25 each necessaryforthe purposeof redemption and received cash in full. Make the necessary journal entries recording the above transactions.
7. Thefollowingisthesummarizedbalancesheetofacompany

Liabilities	Rs.	Assets	Rs.
10%redeemablepreference shares: 1,000sharesofRs.100each	1,00,000	Sundryassets	8,10,000
50,000equitysharesofRs.10 eachfullypaid	5,00,000	Cashatbank	90,000
Generalreserve	1,00,000		
Capitalreserve	50,000		
Creditors	1,50,000		
	9,00,000		**9,00,000**

For the purpose of redemption of preference shares, the company made a fresh issue of 4,500 equity shares of Rs.10 each, at a premium of 10%. The preference shares were redeemed at a premium of 10%. Show journal entries and prepare the balance sheet after redemption.

IssueofDebentures

8. Goodwill Ltd. issues 1,000 6% debentures of Rs.100 each. Give journal entries in each of the following cases:
   a) Thedebenturesareissuedandredeemableatpar.
   b) Theyareissuedatadiscountof6%,butredeemableatpar.
   c) Theyareissuedatapremiumof5%,butredeemableatpar.
   d) Theyareissuedatadiscountof4%butareredeemableatapremiumof5%.

9. Journalize the following transaction at the time of issue of Debentures and Redemption of Debenture:
   a) DebenturesissueatRs.95,repayableatRs.100
   b)DebenturesissueatRs.95,repayableatRs.105

c) DebenturesissueatRs.100,repayableatRs.105
d) Debentures issue at Rs.95, repayable at Rs.100. the face value of each debenture: Rs.100.

10. Eastern Plastics Ltd. issued fully convertible 10% debentures of Rs.100 each for Rs.10,00,000. The following were the terms of issue:
    a) DateofissueJanuary1,1993.
    b) 60% of the debentures issued will be converted into equity shares of Rs.10 each at a premium of 20% on 31.12.1995.
    c) Balanceof40%ofthedebentureswillbeconvertedintoequitysharesofRs.10 eachatapremiumofRs.6pershareon31.12.1996.passjournalentriesinthe books of the company for conversion of the debentures.
11. A company issued 6% Debentures of Rs.10,00,000 with a condition that they should beredeemedafter3yearsat10%premium.Theamountallocatedfortheredemption of debentures is invested in 5%. State government securities. The sinking fund table shows that Rs.0.317209 at 5% compound interest in 3 years will become Re.1. Pass journal entries and prepare ledger accounts for the three years.
12. A company issued 5,000 debentures of Rs.100 each at par on 1.1.81, redeemable at par on 31.12.85. A sinking fund was established.Investment would earn 5% interest. Table show that Re..180975 amounts to Re.1 at the end of 5 years at 5%. On 31.12.85, investment was realised at Rs.3,90,000. The debentures were redeemed. Give ledger accounts in the books of the company.

SELF-LEARNINGMATERIAL

CORPORATEACCOUNTING-I

CompanyFinalAccounts(SimpleAdjustments)

3.1 Introduction

All types of business organization prepare their final accounts, mainly profit and loss account and balance sheet. In case of a sole proprietor concern or a partnership firm maintenance of proper books of account and preparation of the final accounts at the end of an accounting period is desirable but not compulsory. But companies have a statutory obligation to prepare the final accounts as required by section 209 of the companies Act. Section 209of the companies Act makes it compulsory for every company to keep proper books of account of the companies Act makes it compulsory for every company to keep proper books of account with respect to

- All sums of money received and spent by the company and the matters in respectof which the receipt and expenditure takes place.
- Allsalesandpurchaseofgoodsbythecompany
- The assets and liabilities of the company

The books of account and the relevant vouchers to any entry therein relating to aperiod of at least eight years immediately preceding the current year must be preserved

2.2BooksofAccountstobeMaintainedbyaCompany

Section 128 of the Companies Act, 2013 the A company is typically required to maintainseveralbooksof accountstoensureaccurateandreliablefinancialrecord-keeping. The specific books of accounts to be maintained may vary based on the jurisdiction and applicable regulations. However, here are some common booksof accounts that companies are often required to maintain:

1. **GeneralLedger:**Thegeneralledgeristheprimarybookofaccountsthatcontainsa record of allfinancialtransactionsof the company.Itincludesentriesforrevenue,expenses,

assets, liabilities, equity, and other relevant financial information. The general ledger serves as the foundation for preparing financial statements.

2. Cash Book: The cash book records all cash and bank transactions of the company. It includes details of cash receipts, cash payments, bank deposits, bank withdrawals, andbank reconciliations. The cash book helps track the company's cash flow and ensures accurate recording of cash transactions.

3. Sales Journal: The sales journal, also known as the sales daybook or sales register, records all sales transactions made by the company. It includes details such as the date of the sale, customer information, invoice number, description of goods or services sold, and the amount of the sale. The sales journal helps monitor sales activity and facilitates the preparation of sales invoices and statements.

4. Purchase Journal: The purchase journal, also called the purchases daybook or purchases register, records all purchases made by the company. It includes details such as the date of purchase, supplier information, invoice number, description of goods or services purchased, and the amount of the purchase. The purchase journal helps track procurement activities and facilitates the recording of purchase invoices and payments.

5. Inventory Register: The inventory register maintains a record of all inventory items held by the company. It includes details such as the description of the items, quantities on hand, unit costs, and total value of inventory. The inventory register helps monitor stock levels, track inventory movements, and calculate the cost of goods sold.

6. Journal Entries: Journal entries are used to record specific transactions or adjustments that do not fit into other specialized books of accounts. They capture entries such as depreciation, accruals, prepayments, provision for doubtful debts, and other adjusting entries. Journal entries ensure accurate recording of financial transactions and adjustments that impact the company's financial statements.

7. Fixed Assets Register: The fixed assets register maintains a record of all fixed assets ownedbythecompany,suchasland,buildings,machinery,vehicles,andequipment.It

includes details such as the description of the asset, date of acquisition, cost, accumulated depreciation, and net book value. The fixed assets register helps track the company's fixed asset base, calculate depreciation, and monitor asset values.

Apart from these books of accounts, companies may also maintain subsidiary ledgers, payroll records, tax records, accounts receivable and accounts payable ledgers, and other specialized records as required by the applicable accounting standards and regulations. It's important to note that companies should comply with the specific legal and regulatory requirements of their jurisdiction regarding the maintenance and retention of books of accounts. Consulting with accounting professionals or legal advisors can help ensure compliance with the applicable regulations.

PartII:FormofStatementofProfitandLoss

StatementofProfitandLossof….fortheyearended……(asperrevisedScheduleVI)

	NoteNo.	**Rs.**
Revenuefromoperations	1	Xxx
Otherincome	2	xxx
Totalrevenue(A)		
Expenses		
Costofmaterialsconsumed	3	xxx
Purchaseofstock-in-trade		
Changesininventoriesoffinishedgoods/WIP		
Stock-in-trade		
Employeebenefitsexpenses	4	Xxx
Financecosts	5	Xxx
Depreciationandamortizationexpenses	6	Xxx
Otherexpense	7	xxx
Totalexpenses(B)		**xxx**
Profitbeforeextraordinaryitemsandtax(A-B)		Xxx
Less:Extraordinaryitems		Xxx
Tax		xxx
Profitorlossfortheperiod		**xxx**

Part-I:FormoftheBalanceSheet

Balancesheetof…ason….(asperrevisedScheduleVI)

I. EquityandLiabilities		
i. Shareholders'funds Share capital Reserve&surplus Moneyreceivedagainstsharewarrants	1 2 3	**Xxx** **Xxx** **xxx**
IiNon-currentliabilities		
Longtermborrowing	**4**	**Xxx**
Deferredtaxliabilities	**5**	**Xxx**
Otherlongtermliabilities	**6**	**Xxx**
Longtermprovisions	**7**	**Xxx**
Iiicurrentliabilities		
Shorttermborrowings	**8**	**Xxx**
Tradepayables	**9**	**Xxx**
othercurrentliabilities	**10**	**Xxx**
shorttermprovisions	**11**	**xxx**
Total		
II. Assets		
Non-CurrentAssets		
a)Fixedassets		
Tangible**assets**	**12**	**Xxx**
Intangibleassets	**13**	**Xxx**
Capitalwork-in-progress	**14**	**Xxx**
Intangibleassetsunderdevelopment	**15**	**Xxx**
b)Non-currentinvestments	**16**	**Xxx**

c)Deferredtaxassets(net)	**17**	**xxx**
d)Longtermloansandadvances	**18**	**xxx**
e)Othernoncurrentassets	**19**	**xxx**
Ii.currentassets:		
Currentinvestments Inventories Tradereceivables Cashandcashequivalents Shorttermloansandadvances Othercurrentassets	**20** **21** **22** **23** **24** **25**	**Xxx** Xxx Xxx Xxx Xxx Xxx Xxx xxx
Total		**Xxx**

ManagerialRemuneration

The companies Act lays down restriction on the managerial remuneration to be provided bya public company or a private company which is a subsidiary of a public company. The section doesnot apply to private company unless it is a subsidiary of a public company. The term managerial remuneration includes remuneration payable to the managing director, manager and directors. It excludes executives who are not members

APPOINTMENTS

No person shall be eligible for appointment as a managing or whole-time director or amanager (hereinafter referred to as managerial person) of a companyunless he satisfies the following conditions, namely: —

(a) They had not been sentenced to imprisonment for anyperiod, or to a fine exceeding one thousand rupees, for the conviction of an offence under any of the followingActs,namely:—

(i) theIndianStampAct,1899(2of1899);

(ii) theCentralExciseAct,1944(1of1944);

(iii) theIndustries(DevelopmentandRegulation)Act,1951(65of1951);

(iv) thePreventionofFoodAdulterationAct,1954(37of1954);

(v) theEssentialCommoditiesAct,1955(10of1955);

(vi) theCompaniesAct,2013;

(vii) theSecuritiesContracts(Regulation)Act,1956(42of1956);

(viii) theWealth-taxAct,1957(27of1957);

(ix) theIncome-taxAct,1961(43of1961);

(x) theCustomsAct,1962(52of1962);

(xi) theCompetitionAct,2002(12of2003);

(xii) theForeignExchangeManagementAct,1999(42of1999);

(xiii) theSickIndustrialCompanies(SpecialProvisions)Act,1985(1of1986);

(xiv) theSecuritiesandExchangeBoardofIndiaAct,1992(15of1992);

(xv) theForeignTrade(DevelopmentandRegulation)Act,1922(22of1922);

(xvi) thePreventionofMoney-LaunderingAct,2002(15of2003);

(b) he had not been detained for any period under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (52 of 1974): Provided that where the Central Government has given its approval to the appointment of a person convicted or detained under sub-paragraph

(a) orsub-paragraph

(b), as the case may be, no further approval of the Central Government shall be necessary for the subsequentappointment of that person if he had not been so convicted or detained subsequent to such approval.

(c) he has completed the age of twenty-one years and has not attained the age of seventy years: Provided that where he has attained the age of seventy years; and where his appointment is approved by a special resolution passed by the company in general meeting, no further approval of the Central Government shall be necessary for such appointment;

(d) where he is a managerial person in more than one company, he draws remuneration from one or more companies subject to the ceiling provided in section

(e) heisresidentofIndia.

Explanation I.—For the purpose of this Schedule, resident in India includes a person who has been staying in India for a continuous period of not less than twelve months immediately preceding thedate of his appointment as a managerial person and who has come to stay in India, —

(i) fortakingupemploymentinIndia;or

(ii) forcarryingonabusinessorvacationinIndia.

Explanation II. This condition shall not apply to the companies in Special Economic Zones as notified by Department of Commerce from time to time: Provided that a person, being a non-resident in India shall enter India only after obtaining a proper Employment Visa from the concerned Indian missionabroad.Forthispurpose,suchpersonshallberequiredtofurnish,alongwiththevisa

applicationform,profileofthecompany,theprincipalemployerandtermsandconditionsofsuch person'sappointment.

Remuneration

Section I.Remuneration payable by companies having profits: Subject to the provisions of section 197, a company having profits in a financial year may pay remuneration to a managerial person or persons not exceeding the limits specified in such section.

Section II.Remuneration payable by companies having no profit or inadequate profit without Central Government approval: Where in any financial year during the currency of tenure of a managerial person, a company has no profits or its profits are inadequate, it may, without Central Government approval, pay remuneration to the managerial person not exceeding the higher of the limits under (*A*) and (*B*) given below: —

(1)	**(2)**
Wheretheeffectivecapitalis	Limitofyearlyremuneration payableshallnotexceed(Rupees)
(*i*)Negativeorlessthan5crores	30lakhs
(*ii*)5croresandabovebutless than 100crores	42lakhs
(*iii*)100croresandabovebutless than250crores	60lakhs
(*iv*)250croresandabove	60lakhs*plus*0.01%oftheeffective capitalinexcessofRs.250crores:

(A) Provided that the above limits shall be doubled if the resolution passed by the shareholders is a special resolution.

***Explanation*.**Itisherebyclarifiedthatforaperiodlessthanoneyear,thelimitsshallbepro-rated.

(B) In the case of a managerial person who was not a security holder holding securities of the companyofnominalvalueofrupees fivelakhor moreoranemployeeor adirectorofthecompanyor not related to any director or promoter at any time during the two years prior to his appointment as a managerialperson, —2.5%ofthecurrentrelevantprofit:Providedthatiftheresolutionpassedbythe shareholders is a special resolution, this limit shall be doubled:

Providedfurtherthatthelimitsspecifiedunderthissectionshallapply,if—

(i) payment of remuneration is approved by a resolution passed by the Board and, in the case of a company covered under sub-section (*1*) of section 178 also by the Nomination and Remuneration Committee;

(ii) thecompanyhas not madeany default in repayment ofanyofits debts (includingpublic deposits) or debentures or interest payable thereon for a continuous period of thirty days in the preceding financial year before the date of appointment of such managerial person;

(iii) aspecialresolutionhasbeenpassedatthegeneralmeetingofthecompanyfor payment of remuneration for a period not exceeding three years;

(iv) astatementalongwithanoticecallingthegeneralmeetingreferredtoinclause(*iii*)isgivento the shareholders containing the following information, namely: —

I. GeneralInformation:

(1) Natureofindustry

(2) Dateorexpecteddateofcommencementofcommercialproduction

(3) Incaseofnewcompanies,expecteddateofcommencementofactivitiesasperproject approved by financial institutions appearing in the prospectus

(4) Financialperformancebasedongivenindicators

(5) Foreigninvestmentsorcollaborations,ifany.

II. Informationabouttheappointee:

(1) Backgrounddetails

(2) Pastremuneration

(3) Recognitionorawards

(4) Jobprofileandhissuitability

(5) Remunerationproposed

(6) Comparativeremunerationprofilewithrespecttoindustry,sizeofthecompany,profileof the position and person (in case of expatriates therelevant details would be with respect to the country of his origin)

(7) Pecuniary relationship directly or indirectly with the company, or relationship with the managerial personnel, if any.

III. Otherinformation:

(1) Reasonsoflossorinadequateprofits

(2) Stepstakenorproposedtobetakenforimprovement

(3) Expectedincreaseinproductivityandprofitsinmeasurableterms.

IV. Disclosures:

Thefollowingdisclosuresshallbementionedinthe BoardofDirector'sreportunderthe heading"CorporateGovernance",ifany,attachedtothefinancialstatement:—

(i) all elements of remuneration package such as salary, benefits, bonuses, stock options, pension, etc., of all the directors;

(ii) (*ii*)detailsoffixedcomponentandperformancelinkedincentivesalongwiththe performance criteria;

(iii) (*iii*)servicecontracts,noticeperiod,severancefees;

(iv) (*iv*) stock option details, if any, and whether the same has been issued at a discount as well as the period over which accrued and over which exercisable.

Section III. Remuneration payable by companies having no profit or inadequate profitwithout Central Government approval in certain special circumstances: In the following circumstances a companymay, without the Central Governmentapproval, payremuneration to a managerial person in excess of the amounts provided in Section II above:—

(a) where the remuneration in excess of the limits specified in Section I or II is paid by any other company and that other company is either a foreign company or has got the approval of its shareholders in general meeting to make such payment, and treats this amount as managerial remuneration for the purpose of section 197 and the total managerial remuneration payable by such other company to its managerial persons including such amount or amounts is within permissible limits under section 197.

(b) wherethecompany—(*i*)isanewlyincorporatedcompany,foraperiodofseven yearsfromthe date of its incorporation, or

(*ii*) is a sick company, for whom a scheme of revival or rehabilitation has beenordered bythe Board for Industrial and Financial Reconstruction or NationalCompany Law Tribunal, for a period of five years from the date of sanction ofscheme of revival, it may pay remuneration up to two times the amount permissible under Section II.

(c) where remuneration of a managerial person exceeds the limits in Section II but the remuneration hasbeenfixedbytheBoardforIndustrialandFinancialReconstructionortheNationalCompany

LawTribunal:ProvidedthatthelimitsunderthisSectionshallbeapplicablesubjecttomeetingallthe conditions specified under Section II and the following additional conditions: —

(i) Except as provided inPara (*a*) of this Section, the managerial person is notreceivingremuneration from any other company;

(ii) TheauditororCompanySecretaryofthecompanyorwherethecompanyhas not appointed a Secretary, a Secretary in whole-time practice, certifies that all secured creditors and term lenders have stated in writing that they have no objection for the appointment of the managerial person as well as the quantum of remuneration and such certificate is filed along with the return as prescribed under sub-section (*4*) of section 196.

The auditor or Company Secretaryor where the companyhas not appointed a secretary, a secretaryin whole-time practice certifies that there is no default on payments to any creditors, and all dues to deposit holders are being settled on time. A company in a Special Economic Zone as notified by DepartmentofCommercefromtimetotime whichhasnotraised anymoneybypublicissue ofshares or debentures in India, and has not made any default in India in repayment of any of its debts (including public deposits) or debentures or interest payable thereon for a continuous period of thirty days in any financial year, may pay remuneration up to Rs. 2,40,00,000 per annum.

SectionIVPerquisitesnotincludedinmanagerialremuneration:

1. A managerial person shall be eligible for the following perquisites which shall not be included in the computation of the ceiling on remuneration specified in Section II and Section IIIcontribution to provident fund, superannuation fund or annuity fund to the extent these either singly or put together are not taxable under the Income-tax Act, 1961 (43 of 1961);

(b) gratuity payable at a rate not exceeding half a month's salary for each completed year of service; and

(c) encashmentofleaveattheendofthetenure.

2. In addition to the perquisites specified in paragraph 1 of this section, an expatriate managerial person (including a non-resident Indian) shall be eligible to the following perquisites which shall not be included in the computation of the ceiling on remuneration specified in Section II or Section III—

(a) *Children'seducationalallowance*:IncaseofchildrenstudyinginoroutsideIndia, an allowance limited to a maximum of Rs. 12,000 per month per child or actual expenses incurred, whichever is less. Such allowance is admissible up to a maximum of two children.

(b) *Holiday passage for children studying outside India or family staying abroad:* Return holiday passageonceinayearbyeconomyclassoronceintwoyearsbyfirstclasstochildrenandtothe

members of the family from the place of their studyor stay abroad to India if they are not residing in India, with the managerial person.

(c) *Leave travel concession:*Return passage for self and familyin accordance with therules specified by the company where it is proposed that the leave be spent in home country instead of anywhere in India.

ExplanationI.—Forthe purposesofSection IIof thisPart,"effectivecapital"meanstheaggregate of the paid-up share capital (excluding share application money or advances against shares); amount, if any, for the time being standing to the credit of share premium account; reserves and surplus (excluding revaluation reserve); long-term loans and deposits repayable after one year (excluding working capital loans, over drafts, interest due on loansunless funded, bank guarantee, etc., and other short-term arrangements) as reduced by the aggregate of any investments (except in case of investment by an investment company whose principal business is acquisition of shares, stock, debentures or other securities), accumulated losses and preliminary expenses not written off.

***ExplanationII*.**(*a*)Wheretheappointmentofthemanagerialpersonismadeintheyearinwhich company has been incorporated, the effective capital shall be calculated as on the date of such appointment;

(*b*)Inanyothercasetheeffectivecapitalshallbecalculatedasonthelastdateofthe financialyearprecedingthefinancialyearinwhichtheappointmentofthemanagerialpersonis made.

Explanation III For the purposes of this Schedule, ''family'' means the spouse, dependent children and dependent parents of the managerial person.

Explanation IV.The Nomination and Remuneration Committee while approving the remunerationunder Section II or Section III, shall—

(a) takeintoaccount,financialpositionofthecompany,trendintheindustry,appointee's qualification,experience,pastperformance,pastremuneration,etc.;

(b) beinapositiontobringaboutobjectivityindeterminingtheremuneration package while striking a balance between the interest of the company and the shareholders.

***ExplanationV*.**Forthepurposesofthis Schedule,"negativeeffectivecapital"means theeffective capital which is calculated in accordance with the provisions contained in *Explanation* Iof this Part is less than zero.

***ExplanationVI*.**ForthepurposesofthisSchedule:—

(A) "current relevant profit" means the profit as calculated under section 198 but without deductingthe excess of expenditure over income referred to in sub-section 4

(l)thereofinrespectofthoseyearsduringwhich themanagerialpersonwasnotanemployee,director or shareholder of the company or its holding or subsidiary companies.

(B) "Remuneration" means remuneration as defined in clause (*78*) of section 2 and includes reimbursement of any direct taxes to the managerial person.

SectionV.Remunerationpayabletoamanagerialpersonintwocompanies:

Subjecttotheprovisionsofsections Ito IV, amanagerialpersonshalldraw remunerationfrom oneor both companies, provided that the total remuneration drawn from the companies does not exceed the higher maximum limit admissible from anyone of the companies of whichhe is a managerial person.

Provisions applicable to Parts I and II of this Schedule

1. The appointment and remuneration referred to in Part Iand Part IIof this Schedule shall be subject to approval by a resolution of the shareholders in general meeting.
2. The auditor or the Secretary of the company or where the company is not required to appointed a Secretary, a Secretary in whole-time practice shall certify that the requirement of this Schedule have been complied with and such certificate shall be incorporated in the return filed with the Registrar under sub-section (*4*) of section 196.

The Central Government may, bynotification, exempt any class or classes of companies from any of the requirements contained in this Schedule.

Tableshowingplaceofenteringvariousitemsinfinalaccountsofcompanies

Item	**Mainhead**	**Sub-head**
Sale	Revenueoperations	-
Grossprofit	Revenueoperations	-
Discountreceived	Otherincome	-
Commissionreceived	Otherincome	-
Interestonoverdraft	Financecosts	-
Interestondebentures	Financecosts	-
Salaries	Employeesbenefitsexp.	-
Wages	Employeesbenefitsexp.	-
Carriageoutwards	Otherexpenses	-
Discount(Dr.)	Otherexpenses	-
Sellingexp;	Otherexpenses	-
Advertisementexp;	Otherexpenses	-
Directors'fees	Otherexpenses	-
Baddebts	Otherexpenses	-
Rentandrates	Otherexpenses	-
Deliveryexp.	Otherexpenses	-

Generalexp	Otherexpenses	-
Travellingexp.	Otherexpenses	-
Legalcharges	Otherexpenses	-
Paymenttoauditors	Otherexpenses	-
Provisionsforbaddebts	Otherexpenses	-
Miscellaneousexp	Otherexpenses	-
Commissionpaid	Otherexpenses	-
Officeexp.	Otherexpenses	-
Repairsandmaintenance	Otherexpenses	-
M.Dremuneration	Otherexpenses	-
Distributioncosts	Otherexpenses	-
Preliminaryexp.writtenoff	Dep.andamortizationexp.	-
Debentures	Non-currentliabilities	Longtermborrowing
Publicdeposits	Non-currentliabilities	Longtermborrowing
Securitiespremium	Shareholders'funds	Reserveandsurplus
Capitalreserve	Shareholders'funds	Reserveandsurplus
Forfeitedsharesaccount	Shareholders'funds	Subscribedcapital (Shownbywayofaddition
Interestaccruedanddue ondebentures	Currentliabilities	OtherCurrentliabilities
Advancedreceivedfrom customers	Currentliabilities	OtherCurrentliabilities
Sundrycreditors	Currentliabilities	Tradepayables
Unclaimeddividend	Currentliabilities	Othercurrentliabilities
Calls-in–arrears	Shareholders'funds	Subscribedcapital (Shownbywayofaddition
Calls–in–advance	Currentliabilities	OtherCurrentliabilities
Interestaccruedbutnot dueondebentures	Asafootnoteascontingent liability	-
Interestaccruesanddue onsecuredloans	Currentliabilities	Othercurrentliabilities
Interestaccruedbutnot dueonunsecuredloans	Currentliabilities	Othercurrentliabilities
Debenturesredemption reserve	Shareholders'funds	Reserveandsurplus
Capitalredemptionreserve	Shareholders'funds	Reserveandsurplus
Advancesfromcustomers (longterm)	Non-currentliabilities	Otherlongtermliabilities
Tradepayable	Currentassets	-
Provisionfortax	Currentliabilities	Short-termprovisions
Surplus i. e balance in statementofprofitandloss (Dr.)	Reserveandsurplus	Asnegativeamount
Computersoftware	Non-currentassets	Intangibleassets
Loosetools	Currentassets	Inventories
Proposeddividend	Currentliabilities	Shorttermprovisions
Chequesanddraftinhand	Currentassets	Cashandcashequivalents

Goodwill	Non-currentassets	Intangibleassets
Bankoverdraft	Currentliabilities	Othercurrentliabilities
Capitaladvances	Non-currentassets	Longtermloansand advances
Tradedebtors	Currentassets	Tradereceivable
Interestaccruedon investments	Currentassets	Othercurrentassets
Outstandingexpenses	Currentliabilities	Othercurrentassets
Corporatedividendtax	Currentliabilities	Shorttermprovisions
Furniture	Non-currentassets	Tangibleassets
Plant&Machinery	Non-currentassets	Tangibleassets
BankLoan	Non-currentassets	Longtermborrowings
Advancetaxadvances	Currentassets	Shorttermloansand
Motorvehicles	Non-currentassets	Tangibleassets
Sharecapital	Shareholders'funds	-

FormandContentsofFinancialStatementsasperScheduleofCompaniesAct 2013

The Companies Act, 2013 in India specifies the form and contents of financial statements to be prepared by companies. The financial statements include the Balance Sheet,Profitand LossAccount, Cash FlowStatement,Statement ofChanges in Equity, and Notes to Accounts. Here's an overview of the form and contents of these financial statements:

1. BalanceSheet:

a) TheBalanceSheetpresentsthefinancialpositionofthecompanyataspecificdate.

b) It should be prepared in the prescribed form (Schedule III of the Companies Act, 2013) and include the following components:

c) Equity and Liabilities: This section includes shareholders' funds, long-term borrowings,short-term borrowings, trade payables, other current liabilities, and provisions.

d) Assets:Thissectionincludesnon-currentassets,currentassets,andmiscellaneous expenditures.

e) TheBalanceSheetshouldprovideatrueandfairviewofthecompany'sfinancialposition.

2. ProfitandLossAccount:

a) The Profit and Loss Account, also known as the Income Statement or Statement of ComprehensiveIncome,presentsthecompany'srevenue,expenses,gains,andlosses for a specific accounting period.
b) It should be prepared in the prescribed form (Schedule III) and include the following components:
c) Revenuefromoperations
d) Otherincome
e) Expenses, including cost of materials, employee benefits, depreciation, finance costs, and other expenses
f) Exceptionalitems,ifany
g) Profitorlossbefore tax
h) Taxexpense
i) Profitorlossfortheperiod
j) TheProfitandLossAccountshouldprovideatrueandfairviewofthecompany's financial performance.

3. CashFlowStatement:

a) The Cash Flow Statement presents the cash inflows and outflows of the company during a specific accounting period, classified into operating, investing, and financing activities.
b) It should be prepared in the prescribed form (Schedule III) and include the following sections:
c) Cashflowsfromoperatingactivities
d) Cashflowsfrominvestingactivities
e) Cashflowsfromfinancingactivities
f) Netincreaseordecreaseincashandcashequivalents
g) TheCashFlowStatementhelpsassessthecompany'scashgenerationand utilization.

4. StatementofChangesinEquity:

a) TheStatementofChangesinEquitypresentsthechangesintheshareholders' equity of the company during a specific accounting period.
b) Itshouldincludedetailsofsharecapital,reservesandsurplus,andotherequity components, along with any changes in these items.

c) The Statement of Changes in Equity helps track the movement in shareholders' equity.

5. NotestoAccounts:

a) The Notes to Accounts provide additional information and explanations regarding the items presented in the financial statements.

b) They include disclosures about accounting policies, significant accountingestimates and judgments, contingent liabilities, related-party transactions, segment reporting, and other relevant information.

c) The Notes to Accounts provide further clarity and context to the financialstatements.

It is important to note that the specific format and disclosure requirements for financial statements may undergo updates or amendments. Therefore, it is advisable to refer to the most recent version of Schedule III of the Companies Act, 2013, and consult with professionals or advisors to ensure compliance with the applicable regulations.

Illustration1

Moon and star Co. Ltd is a company with an authorized capital of Rs.5, 00,000 divided into 5,000 equity shares of Rs.100 each on 31.12.2015 of which 2,500 shares were fully called up. The following are the balances extracted from the ledger as on 31.12.2015.

TrialbalanceofMoon&StarCo.Ltd.

Debit	Rs.	Credit	Rs.
Openingstock	50,000	Sales	3,25,000
Purchase	2,00,000	Discountreceived	3,150
Wages	70,000	Profit&LossA/c	6,220
Discountallowed	4,200	Creditors	35,200
Insurance(upto31.03.20216)	6,720	Reserves	25,000
Salaries	18,500	Loanfrommanagingdirector	15,700
Rent	6,000	Sharecapital	2,50,000
Generalexpenses	8,950		
Printing	2,400		
Advertisements	3,800		
Bonus	10,500		

Debtors	38,700		
Plant	1,80,500		
Furniture	17,100		
Bank	34,700		
Baddebts	3,200		
Calls-in-arrears	5,000		
	6,60,270		**6,60,270**

You are required to prepare statement of profit &Loss for the year ended 31.12.2015 and a balance sheet as on that date. The following further information is given:

a) ClosingstockwasvaluedatRs.1,91,500.

b) Depreciationonplantat15%andonfurnitureat10%shouldbeprovided.

c) AtaxprovisionofRs.8,000isconsiderednecessary.

d) Thedirectorsdeclaredaninterimdividendon15.08.2015for6monthsending June30,2015 @ 6%

Solution:

Notestoaccountsonstatementofprofitandloss

			Rs.
1	**Revenuefromoperations:**		
	Sales		3,25,000
2	**Otherincome**		
	Discountreceived		3,150
2	**Costofgoods sold**		
	Openingstock	50,000	
	Add:purchases	2,00,000	
		2,50,000	
	Less:ClosingStock	1,91,500	
	Costofgoodssold		**58,500**
3	**Employeebenefitsexpenses**		
	Wages		70,000
	Salaries		18,500
	Bonus		10,500

			99,000
5	**Depreciationandamortization expenses**		
	Dep.on plant		27,075
	Dep.onfurniture		1,710
			28,785
6	**Otherexpenses**		
	Discountallowed		4,200
	Insurance	6,720	
	Less:Prepaid(6,720×3/12)	1,680	5,040
	Rent		6,000
	Generalexpenses		8,950
	Printing		2,400
	Advertising		3,800
	Baddebts		3,200
			33,590

ALtd.

StatementofProfitandLossfortheended31.3.2018(asperRevisedScheduleVI)

	NoteNo.	Rs.
Revenuefromoperations	**1**	3,25,000
Otherincome	**2**	3,150
Totalrevenue(A)		**3,28,150**
Expenses		
Costofgoodssold	**3**	58,500
Employeebenefitsexpenses	**4**	99,000
Dep.Andamortizationexp.	**5**	28,785
Otherexpenses	**6**	33,590
Totalexpenses(B)		**2,19,875**
Profitbeforetax(A-B)		1,08,275
Less:Taxexpense:currenttax		8,000
Profitfortheperiod		**1,00,275**

Notestoaccountsonstatementofprofitandloss

1	**Sharecapital :**		
	Authorizedcapital: 5,000equitysharesofRs.100each		**5,00,000**
	Issued,Subscribedandcalledup:		
	2,500sharesofRs.100each	2,50,000	
	Less:callsinarrears	5,000	**2,45,000**
2	**Reserve&surplus:**		
	Reserve		
	Surplusinstatementofprofitandloss		
	Balanceatbeginningoftheyear:	6,220	
	Profitfortheyear	1,00,275	
	Less:Appropriations:	1,06,495	
	Interimdividend(2,45,000×6%)	14700	**91,795**
			1,16795
3	**Longtermborrowings:**		
	Unsecuredloan		**15,700**
4	**Tradepayables**		
	Creditors		**35,200**
5	**Shorttermprovisions:**		
	Provisionfortax		**8,000**
6	**Othercurrentliabilities**		
	Interimdividendpayable		
7	**Tangibleassets**		
	PlantlessDep.(1,80,500-27,075)		**1,53,425**
	FurniturelessDep.(17,100-1,710)		**15,390**
8	**Tradereceivable**		**1,68,815**
	Debtors		**38,700**
9	**Shorttermloansandadvances**		
	Prepaidinsurance		**1,680**

Moon&StarLtd.

Balancesheetason31.12.2015 (as per Revised Schedule VI)

	Particulars	Note No.	Rs.
I	**Equityandliabilities**		
i	**Shareholders'funds:**		
	Sharecapital	1	2,45,000
	Reserve&surplus	2	1,16,795
ii	**Non-Currentliabilities**		
	Longtermborrowings	3	15,700
iii	**Currentliabilities**		
	Tradepayable	4	35,200
	Shorttermprovisions	5	8,000
	Othercurrentliabilities	6	14,700
	Total(i +ii+iii)		**4,35,395**
II	**Assets**		
i	**Non-currentassets**		
	Tangibleassets	7	1,68,815
ii	**Currentassets**		
	Tradereceivables	8	38,700
	Closingstock		1,91,500
	Bank		34,700
	Shorttermloansandadvances	9	1,680
			4,35,395

Illustration2A Ltd.WasregisteredwithanauthorizedcapitalofRs.6,00,000inequity shares of Rs.10 each. The following is its Trial Balance on 31st March 2018.

TrialBalanceofALtd.

	Debit	Credit
Goodwill	25,000	

cash	750	
Bank	39,900	
Purchases	1,85,000	
Preliminaryexpenses	5,000	
Sharecapital		4,00,000
12%debentures		3,00,000
P&LA/c (Cr)		26,250
Calls-in–arrears	7,500	
premises	3,00,000	
Plant&Machinery	3,30,000	
Interimdividend	39,250	
Sales		4,15,000
Stock(1.4.2017)	75,000	
Furniture&fixtures	7,200	
Sundrydebtors	87,000	
Wages	84,865	
Generalexpenses	6,835	
Freightandcarriage	13,115	
Salaries	14,500	
Directors’fees	5,725	
Baddebts	2,110	
Debenturesinterestpaid	18,000	
Billspayable		37,000
Sundrycreditors		40,000
Generalreserve		25,000
Provisionforbaddebts		3,500
	12,46,750	**12,46,750**

Preparestatementofprofit&LossandBalancesheetinproperfromaftermakingthe following adjustments:

i. Depreciateplantandmachineryby15%

ii. Writeoffpreliminaryexpenses

iii. Providefor6months'interestondebentures

iv. Leavebadanddoubtfuldebtsprovisionat5%onsundrydebtors.

v. Provideforincometaxat50%.

vi. Stockon31.3.2018wasRs.95,000.

Notestoaccountsonstatementofprofitandloss

			Rs.
1	**Revenuefromoperations:**		
	Sales		4,15,000
2	**Costofgoods sold**		
	Openingstock	75,000	
	Add:purchases	1,85,000	
	Add:Freight&Carriage	13,115	
		2,73,115	
	Less:ClosingStock	95,000	
	Costofgoodssold		**1,78,115**
3	**Employeebenefitsexpenses**		
	Wages	84,865	
	Salaries	14,500	**99,365**
4	**Financecosts:**		
	Interestondebentures	18,000	
	Add:Outstanding((1,00,000×12%×6/12)	18,000	**36,000**
5	**Depreciationandamortizationexpenses**		
	Dep.onplantandmachinery		49,500

	Preliminaryexpenseswrittenoff		5,000
6	**Otherexpenses**		
	Generalexpenses		6,835
	Directors'fees		5,725
	Baddebts	2,110	
	Add:NewPBDD	4,350	
		6,460	
	Less:OldPBDD	3,500	2,960
			15,520

ALtd.

StatementofProfitandLossfortheended31.3.2018(asperRevisedScheduleVI)

	NoteNo.	Rs.
Revenuefromoperations	**1**	4,15,000
Otherincome		-
Totalrevenue(A)		**4,15,000**
Expenses		
Costofgoodssold	**2**	1,78,115
Employeebenefitsexpenses	**3**	99,365
Financecosts	**4**	36,000
Dep.Andamortizationexp.	**5**	54,500
Otherexpenses	**6**	15,520
Totalexpenses		**3,83,500**
Profitbeforetax		31,500
Less:taxexpense		
Currenttax(31,500×50%)		15,750
Profitfortheperiod		**15,750**

NotestoaccountsonBalanceSheet

1	**Sharecapital:**		
	Authorizedcapital: 60,000equitysharesofRs.10each		6,00,000
	Issued,subscribedandcalledup: 40,000sharesofRs.10each Less: Calls in arrears	4,00,000 7,500	**3,92,500**
2	**Reserve&Surplus:**		
	Generalreserve		25,000
	Surplusinstatementofprofitandloss		
	Balanceatthebeginningoftheyear	26,250	
	Profitfortheyear	15,750	**42,000**
	Less:Appropriations:		
	Interimdividend	39,250	
	Corporatedividendtax(39,250×17%)	6,673	(3,923)
			21,077
3	**Longtermborrowings**		
	12%Debentures		3,00,000
4	**TradePayables**		
	Creditors		40,000
	Billspayable		37,000
			77,000
5	**Shorttermprovisions:**		
	Dividendtaxpayable		6,673
	Provisionsfortax		15,750
			22,423
6	**Othercurrentliabilities**		
	Outstandinginterestondebentures		18,000
7	**Tangibleassets**		
	PlantandmachinerylessDep:(3,30,000-49,500)		2,80,500

	Premises		3,00,000
	Fixtures		7,200
			5,87,700
8	**Intangibleassets**		
	Goodwill		25,000
9	**Tradereceivable**		
	DebtorslessPBDD(87,000-4,350)		82,650

A Ltd

BalanceSheetason31.3.1998(asperRevisedScheduleVI)

		NoteNo.	Rs.
I	**Equityandliabilities:**		
i	**Shareholders'funds:**		
	Sharecapital	**1**	3,92,500
	Reserve&Surplus	**2**	21,077
ii	**Non-currentliabilities**		
	Longtermborrowings	**3**	3,00,000
iii	**Currentliabilities**		
	Tradepayable	**4**	77,000
	Shorttermprovisions	**5**	22,423
	Othercurrentliabilities	**6**	18,000
	Total(i+ii+iii)		**8,31,000**
II	**Assets:**		
i	**Non-Currentassets**		
	Tangibleassets	**7**	5,87,700
	Intangibleassets	**8**	25,000
ii	**Currentassets**		
	Tradereceivables	**9**	82,650
	Closingstock		95,000
	Cashinbank		39,900
	Cashinhand		750

	Total(i+ii)		8,31,000

Illustration3

Big bull Ltd. has a nominal capital of Rs.6,00,000 dividends into shares of Rs.10 each. The following Trial Balance is extracted from the books of the company as on 31.12.1987.

	Rs		Rs
Callsinarrear	7,500	6%Debentures	3,00,000
Premises(Rs.60,000addedon 1.7.1987)	3,60,000	P&LA/c(1.1.87)	14,500
Machinery	3,00,000	Creditors	50,000
Interimdividendpaid	7,500	Generalreserve	25,000
Purchases	1,85,000	Sharecapital(calledup)	4,60,000
Preliminaryexpenses	5,000	Billspayable	38,000
Freight	13,100	Sales	4,15,000
Directors'fees	5,740	Provisionforbaddebts	3,500
Baddebts	2,110		
4%Governmentsecurities	60,000		
Stock(1.1.87)	75,000		
Furniture	7,200		
Sundrydebtors	87,000		
Goodwill	25,000		
Cash	750		
Bank	39,900		
Wages	84,800		
Generalexpenses	16,900		
Salaries	14,500		
Debenturesinterest	9,000		

	13,06,000		13,06,000

Prepare final accounts of the companyfor the year ending 31.12.87 in the prescribed from after taking into account the following adjustments:

a) Depreciationmachineryby10%andfurnitureby5%.
b) Writeoffpreliminaryexpenses
c) WagesincludeRs.10,000paidfortheconstructionofacompoundwalltothepremises and no adjustment was made.
d) Provide5%forbaddebtsonsundrydebtors.
e) TransferRs.10,000togeneralreserve
f) ProvideforincometaxRs.25,000.
g) Stockon31.12.87wasRs.1,01,000.

Notestoaccountsonstatementofprofitandloss

			Rs.
1	**Revenuefromoperations:**		
	Sales		4,15,000
2	**Costofgoods sold**		
	Openingstock	75,000	
	Add:purchases	1,85,000	
	Add:Freight&Carriage	13,100	
		2,73,100	
	Less:ClosingStock	1,01,000	
	Costofgoodssold		**1,72,100**
3	**Employeebenefitsexpenses**		
	Wages	84,800	
	Less:Wagesforpremises	10,000	74,800
	Salaries		14,500
			89,300
4	**Financecosts:**		
	Interestondebentures	9,000	
	Add:Outstanding((1,00,000×12%×6/12)	9,000	**18,000**

5	**Depreciationandamortizationexpenses**		
	Dep.onplantandmachinery		30,000
			360
	Preliminaryexpenseswrittenoff		5,000
			35,360
6	**Otherexpenses**		
	Directors'fees		5,740
	Baddebts	2,110	
	Add:NewPBDD	4,350	
		6,460	
	Less:OldPBDD	3,500	2,960
	GeneralExpense		16,900
			15,520

BigBullLtd.

StatementofProfitandLossfortheended31.3.2018(asperRevisedScheduleVI)

	NoteNo.	Rs.
Revenuefromoperations	**1**	4,15,000
Otherincome		-
Totalrevenue(A)		**4,15,000**
Expenses		
Costofgoodssold	**2**	1,72,100
Employeebenefitsexpenses	**3**	89,300
Financecosts	**4**	18,000
Dep.Andamortizationexp.	**5**	35,360
Otherexpenses	**6**	25,600
Totalexpenses(B)		**3,40,360**
Profitbeforetax(A-B)		74,640
Less:taxexpenseCurrenttax (31,500×50%)		25,000
Profitfortheperiod		**49,640**

NotestoaccountsonBalanceSheet

1	**Sharecapital:**		
	Authorizedcapital: 46,000sharesofRs.10each	**4,60,000**	
	Less:Calls–in-arrears	**7,500**	**4,52,500**
2	**Reserve&Surplus:**		
	Generalreserve		25,000
	Add:Additionduringtheyear		10,000
	Surplusinstatementofprofitandloss		
	Balanceatthebeginningoftheyear	14,500	
	Profitfortheyear	49,640	
	Less:Appropriations:	**64,140**	
	Interimdividend	7,500	
	Corporatedividendtax(39,250×17%)	1,275	
	Generalreserve	**10,000**	
			45,365
3	**Longtermborrowings**		
	12%Debentures		3,00,000
4	**TradePayables**		
	Creditors		50,000
	Billspayable		38,000
			88,000
5	**Shorttermprovisions:**		
	Dividendtaxpayable		1,275
	Provisionsfortax		25,000
			26,275
6	**Othercurrentliabilities**		
	Outstandinginterestondebentures		9,000
7	**Tangibleassets**		
	Premises	3,60,000	
	Add:Wronglydebitedtowagesa/c	10,000	**3,70,000**
	Machinery	3,00,000	

	Less:10%Dep.	30,000	**2,70,000**
	Fixtures	7,200	
	Less:5%dep	360	**6,840**
			6,46,840
8	**Intangibleassets**		
	Goodwill		25,000
9	**Non-Currentinvestments**		
	4%Govt.Securities		**60,000**
9	**Tradereceivable**		
	DebtorslessPBDD(87,000-4,350)		82,650

BigBullLtd

BalanceSheetason31.3.1998(asperRevisedScheduleVI)

		NoteNo.	**Rs.**
I	**Equityandliabilities:**		
i	**Shareholders'funds:**		
	Sharecapital	**1**	4,52,500
	Reserve&Surplus	**2**	80,365
ii	**Non-currentliabilities**		
	Longtermborrowings	**3**	3,00,000
iii	**Currentliabilities**		
	Tradepayable	**4**	88,000
	Shorttermprovisions	**5**	26,275
	Othercurrentliabilities	**6**	9,000
	Total(i+ii+iii)		**9,56,140**
II	**Assets:**		
i	**Non-Currentassets**		
	Tangibleassets	**7**	6,46,840
	Intangibleassets	**8**	26,275
	Non-currentinvestments		9,000
ii	**Currentassets**		

	Tradereceivables	**9**	82,650
	Closingstock		1,01,000
	Cashinbank		39,900
	Cashinhand		750
	Total(i+ii)		**9,56,140**

CheckyourProgress

1. Amountrealisedfromsaleofgoodsinshowinthestatementofprofitandlossas
   a) Otherincome
   b) Revenuefromoperations
   c) Anyoftheabove
   d) Noneoftheabove
2. Gainonsaleoffixedassetsisshowninthestatementofprofitandlossas
   a) Otherincome
   b) Revenuefromoperations
   c) Anyoftheabove
   d) Noneoftheabove
3. Dividendreceivedbya financialcompanyisshowninthestatementofprofitandloss as
   a) Otherincome
   b) Revenuefromoperations
   c) Anyoftheabove
   d) Noneoftheabove
4. Rawmaterialpurchasesareshowninthestatementofprofitandlossas
   a) Costofmaterialconsumed
   b) Purchaseofstockintrade
   c) Changesininventories
   d) Noneoftheabove
5. Goodspurchasedforresellingisshowninthestatementofprofitandlossas
   a) Costofmaterialconsumed
   b) Purchaseofstockintrade

c) Changesininventories

d) Noneofthese

6. Paymentofwagesandsalariesisshowninthestatementofprofitandlossunder

a) Employeesbenefitsexpenses

b) Otherexpenses

c) Financecosts

d) Noneofthese

7. Paymentofinterestondebenturesandbankoverdraft isshowninthestatementof profit and loss under

a) Employeesbenefitsexpenses

b) Otherexpenses

c) Financecosts

d) Noneofthese

8. Preliminaryexpenseswrittenoffisshowninthestatementofprofitandlossunder.

a) Employeesbenefitsexpenses

b) Otherexpenses

c) Financecosts

d) Depreciationandamortizationexpenses

9. Carriageoutwardsisshowninthestatementofprofitandlossunder

a) Employeesbenefitsexpenses

b) Otherexpenses

c) Financecosts

d) Depreciationandamortizationexpenses

10. Debenturesredeemableafter10yearsofissueareshownas

a) Longtermborrowings

b) Short-termborrowings

c) Othercurrentliabilities

d) Noneofthese

Otherexercises

1. Fromthefollowingbalance,preparetheBalancesheetofacompanyinthe prescribed format. Goodwill Rs.1,50,000; investment Rs.2,00,000; share capital

Rs.5,00,000;reservesRs.1,10,000;securitiespremiumRs.15,000;preliminary expense Rs. 10,000; profit & Loss A/c (Cr)Rs. 25,000; Debentures Rs.2,50,000. Other fixed assets Rs.4,70,000; stock Rs. 80,000; Debtors Rs. 60,000; Bank balance Rs. 30,000; secured loan Rs. 65,000; sundry creditors Rs. 35,000.

[Ans: shareholders' fund: Rs.10,50,000; Non-current liabilities; Rs.5,00,000; current liabilities Rs.2,50,000; Non –current assets Rs.13,00,000; current assets Rs.5,00,000; B/S Rs.Rs.18,00,000].

2. Prepare a Balance sheet as at 31stmarch 2000 from the following information of ABC Ltd as required under the companies Act 1956.

	Rs.		Rs.
Termloan	10,00,000	Lossfortheyear	3,58,000
Creditors	11,45,000	SundryDebtors	12,25,000
Advances	3,72,000	LoansfromDirectors	2,00,000
Cash&BankBalances	2,75,000	Provisions for Doubtful debts	20,200
Staffadvances	55,000	Stock	4,00,000
Provisionfortax	1,70,000	Fixedassets(W.D.V)	51,50,000
Securitiespremium	4,75,000	Finishedgoods	7,50,000
Loosetools	50,000		
Investments	2,25,200		
GeneralReserve	20,50,000		
Capitalworkinprogress	2,00,000		

Additionalinformation

a) Sharecapitalconsistsof
   i. 30,000equitysharesofRs.100eachfullypaidup
   ii. 10,000-10%pref.sharesofRs.100eachfullypaidup
b) Termloanissecured
c) DepreciationonassetsRs.5,00,000

[Ans:Shareholdersfunds:Rs.61,67,000;Non-currentliabilitiesRs.10,00,000;current liabilities Rs.15,15,000; non- current assets Rs.56,25,000; current assets Rs.30,56,800; B/S total Rs.86,82,000.

3. A limited company was registered with an authoriesd capital of Rs.30,00,000 in equity shares of Rs.10 each. The following is the list of balances extracted from its books on31.12.94.

	Rs.
Purchases	9,25,000
Wages	4,24,325
Manufacturingexpenses	65,575
Salaries	70,000
Baddebts	10,550
Directors’fees	31,125
Debenturesinterestpaid	45,000
Preliminaryexpenses	25,000
Calls–in–arrears	37,500
Plant&Machinery	15,00,000
Premises	16,50,000
Interimdividendpaid	1,87,500
Furnitureandfittings	35,000
Sundrydebtors	4,36,000
Generalexpenses	84,175
Stockon1.1.94	3,75,000
Cashinhand	1,00,000
Goodwill	28,750
cashatbank	1,99,500
Subscribedandfullycalledupcapital	20,00,000
Profit&Lossa/c (cr)	72,500
6%Debentures	15,00,000
Sundrycreditors	2,90,000
Billspayable	1,67,500
Sales	20,75,000
Generalreserve	1,25,000

Youarerequiringtopreparestatementofprofitandlossfortheended 31.12.94andthebalancesheetasonthatdate,aftermaking,thefollowing adjustments.

Depreciate plant & Machinery by 10%. Provide half years' interest on Debentures. Also write off preliminary expenses and making the provision for bad debts of Rs. 4,250 on Sunday debtors. Stock on 31st December 1994 was Rs.4,55,000. Provide for corporate dividend tax @17%.

[Ans: Revenue from operations Rs.20,75,000; cost of goods sold Rs.8,45,000; employee benefits expense Rs.4,94,325; finance cost Rs. 90,000; Dep.and amortized exp.Rs.1,75,000; other expenses Rs.1,95,675' profit Rs.2,75,000; shareholders' fund Rs.22,15,625; Non-current liabilities Rs.15,00,000; current liabilities Rs.5,34,375; Non-current assets: Rs.30,63,750; current assets Rs.11,86,250; B/S total Rs.42,50,000.]

4. ThefollowingistheTrialBalanceofABCcompanyLtdason31.12.1994.Prepare statement of Profit &Loss account and Balance sheet.

	Dr	Cr.
Authoriesdcapital:50,000sharesofRs.10 each		5,00,000
Subscribedcapital:10,000sharesofRs.10 each		1,00,000
Calls-in-arrears	6,400	
Land	10,000	
Building	25,000	
Machinery	15,000	
Furniture	3,200	
Carriageinwards	2,300	
wages	21,400	
Salary	4,600	
Baddebtsreserve(1.1.94)		1,400
Sales		80,000
Salesreturns	1,700	
Bankcharges	100	
Coal	700	
Ratedandtaxes	800	
Purchases	50,000	
Billsreceivable		3,400
Generalexpenses	1,200	

Sundrydebtors	1,900	
Sundrycreditors	42,800	
Stockon1.1.94		13,200
Fireinsurance	25,000	
Cashatbank	400	
Cashinhand	13,000	
Securitiespremium	2,500	
Generalreserve		6,000
		24,000
	2,28,000	**2,28,000**

Charges depreciation on building at 2 ½ % on Machinery at 10% and on furnitureat10%.Makeareserveof5%ondebtorsforbaddebts. Carryforwardthe following unexpired amount:

i. FireinsuranceRs.120
ii. Provideforliabilities:wagesRs.3,200.SalariesRs.500andRates Rs.200. The value of stock on 31.12.94 was Rs. 30,000.

[Ans: RevenuefromoperationsRs.78,300;costofgoodssoldRs.43,900;employees benefit expenses Rs. 29,700; Dep.and amortized exp.Rs. 2,445; other expenses Rs. 4,720; Loss Rs. 2,465; shareholders' funds Rs.1,21,135; current liabilities Rs. 17,100; non- current assets Rs. 50,775; current assets Rs. 87,480; B/S Rs.1,38,235.]

Valuationofgoodwill

The valuation of goodwill is an important aspect of financial analysis and accounting. Goodwill represents the intangible value of a business, including its reputation, customer relationships, brand recognition, and other non-physical assets that contribute to its earning capacity. There are several methods commonly used to determine the value of goodwill:

1. **Earnings Multiplier Method**: This method calculates goodwill based on a multiple of the average earningsorprofitsof the business.The exactmultiplierused dependson various factors such as industry norms, growth prospects, and the specific circumstances of the business.
2. **Net Asset Method:** In this approach, the value of goodwill is derived by subtracting the net tangible assets (such as property, plant, and equipment) from the total purchase price or market value of the business. The difference represents the value of goodwill.
3. **Excess Earnings Method:** This method estimates the value of goodwill by calculating the earnings attributable to tangible assets and deducting them from the total earnings. The remaining excess earnings are considered to be generated by the intangible assets, including goodwill.
4. **Market Capitalization Method:** For publicly traded companies, the market capitalization (total market value of its shares) can be used as an indicator of the value of goodwill. The difference between the market capitalization and the net tangible assets is often considered to be the value of goodwill.

It's important to note that the valuation of goodwill can be subjective and may require professional judgment. Factors such as industry conditions, competitive landscape, growth prospects, and the specific circumstances of the business should be taken into account when determining the value of goodwill. It's recommended to consult with a qualified accounting or valuation professional who can provide specific guidance and expertise in valuing goodwill based on the applicable accounting standards and regulations.

Meaning

The valuation of goodwill refers to the process of determining the monetary value of the intangible assets associated with a business. Goodwill represents the reputation, brand value, customer relationships, employee expertise, and other intangible factors that contribute to a business's ability to generate earnings and maintain a competitiveadvantage.

When a business is acquired or sold, goodwill often arises as the difference between the purchase price and the net tangible assets of the company. It reflects the value of intangible assets that cannot be separately identified or measured but are considered valuable in the context of the business.

Valuing goodwill is important for various reasons, including financial reporting, taxation, and investment decision-making. It allows stakeholders to understand the total worth of a business, including both tangible and intangible assets.

Valuationmethodsforgoodwillcanvarydependingonthespecificcircumstancesand regulatory requirements. Common approaches include the earnings multiplier method, net asset method, excess earnings method, and market capitalization method. These methods aim to estimate the fair value of goodwill based on factors such as historical financial performance, market conditions, industry standards, and the specific characteristics of the business.

However, it's important to note that goodwill valuation is subjective and can involve a degree of judgment. Different valuation professionals or methodologies may yield different results. Therefore, it's crucial to consider various factors and consult with experts to ensure an accurate and reliable valuation of goodwill.

Need or valuation of goodwill: Valuation of goodwill is a complex process that requires a thorough understanding of accounting principles, financial analysis, and businessdynamics.If youneedassistanceorinformationspecificallyonthevaluation of goodwill, here are some key points to consider:

1. **Professional Guidance:** It is recommended to seek the guidance of a qualified valuation expert or accountant who specializes in business valuation and has experience in valuing intangible assets like goodwill. They can provide you with specific advice tailored to your situation and help ensure compliance with applicable accounting standards and regulations.

2. **Understanding Intangible Assets:** Goodwill is just one type of intangible asset. Familiarize yourself with the various categories of intangible assets, such as trademarks, patents, copyrights, and customer relationships. This understanding will help you differentiate between goodwill and other intangible assets during the valuation process.
3. **Financial Statements Analysis**: Analyze the financial statements of the business, including the balance sheet, income statement, and cash flow statement. Pay particular attention to any information related to intangible assets, acquisitions, or purchase price allocations. This analysis will provide insights into the presence and potential value of goodwill.
4. **Valuation Methods:** Become familiar with the different valuation methods commonly used to determine the value of goodwill, such as the earnings multiplier method, net asset method, excess earnings method, and market capitalization method. Each method has its advantages and limitations, and the choice of method depends on factors such as industry norms, the nature of the business, and available data.
5. **Consideration of Relevant Factors**: Factors such as industry conditions,competitive landscape, growth prospects, and the specific circumstances of the business can significantly impact the valuation of goodwill. It is essential to consider these factors and their potential influence on the value of goodwill during thevaluation process.
6. **Regulatory Compliance:** Ensure that your valuation of goodwill adheres to the accounting standards and regulations applicable in your jurisdiction. Familiarize yourself with relevant standards, such as International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP), and any specific guidelines or requirements related to the valuation of intangible assets.

Remember, the valuation of goodwill can be a complex and nuanced process. Seeking professional advice and conducting thorough research will help ensure a reliable and accurate valuation outcome

Methods of valuing Goodwill: There are several methods commonly used to value goodwill. The suitability of each method depends on factors such as the nature of the business, available data, and industrynorms. Here are some widely used methods of valuing goodwill:

1. **Earnings Multiplier Method:** This method is based on the assumption that goodwill can be estimated by applying a multiple to the average earnings or profits of a business. The multiple is typically derived from comparable transactions or industry benchmarks. The earnings used can be net earnings, operating profits, or other relevant measures.
2. **Net Asset Method:** The net asset method calculates goodwill as the difference between the total purchase price or market value of a business and the net tangible assets. Net tangible assets include items such as property, plant, and equipment, as well as liabilities. The residual amount represents the value of goodwill.
3. **Excess Earnings Method:** This method determines goodwill by calculating the earnings attributable to the tangible assets of a business and deducting them from thetotalearnings.Theremainingexcessearningsareconsideredtobegeneratedby the intangible assets, including goodwill. The excess earnings are capitalized using an appropriate rate of return to determine the value of goodwill.
4. **Market Capitalization Method:** For publicly traded companies, the market capitalization (total market value of its shares) can be used as an indicator of the value of goodwill. The difference between the market capitalization and the net tangible assets is often considered to be the value of goodwill.
5. **Royalty Relief Method:** This method estimates the value of goodwill by calculating the hypothetical royalty payments that would be required to license the intangible assets of a business from a hypothetical third party. The present value of these royalty payments represents the value of goodwill.
6. **Comparable Transactions Method:** This method involves analyzing comparable transactions in the industry to determine the value of goodwill. It looks at the purchase prices paid for similar businesses and considers factors such as market conditions, growth prospects, and synergies to estimate the value of goodwill.

It’s important to note that the valuation of goodwill can be subjective and may require professional judgment. Factors such as industry conditions, competitive landscape, growth prospects, and the specific circumstances of the business should be taken into account when selecting and applying a valuation method. Consulting with a qualified valuation expert or accountant is recommended to ensure an accurate and reliable valuation of goodwill.

Average profit: To calculate the average profit, you need to have a series of profit figures for a specific time period. The average profit represents the mean or average value of those profit figures. Here's how you can calculate it:

1. **Gather Profit Figures:** Collect the profit figures for the desired time period. For example, if you want to calculate the average profit over the past five years, gather the profit figures for each of those five years.
2. **Add Up the Profit Figures:** Sum up all the profit figures. Add each profit figure together to obtain the total profit for the given time period.
3. **DividebytheNumberofPeriods:** Dividethetotalprofitbythenumberofperiods(in thiscase,the numberof years)tofindthe average profit.So,if youhave profitfigures for five years, divide the total profit by 5.

AverageProfit=TotalProfit/NumberofPeriods

Forexample,let'ssaytheprofitfiguresfor thelastfiveyearsare asfollows:$10,000, $12,000,$14,000,$11,000,and$13,000.Tocalculatetheaverageprofit:

TotalProfit=$10,000+$12,000+$14,000+$11,000+$13,000=$60,000

NumberofPeriods=5(sincewehaveprofitfiguresforfiveyears)

Average Profit = $60,000 / 5 = $12,000

Therefore,theaverageprofitoverthefive-yearperiodis$12,000.

SimpleProfitMethod/AverageProfitMethod

CalculationofActualProfit	
Profitfortheyear	**Xxx**
Add:AbnormalLoss	**Xxx**
	Xxx
Less:abnormalgain	**Xxx**
ActualProfit	**xxx**

Average Profit = $\frac{\textbf{TotalofActualProfit}}{\textbf{No. of years}}$

CalculationofAdjustedAverageProfit	
AverageProfit	**Xxx**

Less:Expensestobepaid	**Xxx**
	Xxx
Less:Expensesnottobepaid	**Xxx**
ActualAverageProfit	**xxx**

Illustration 1: Calculate the amount of goodwill on the basis of three years purchase of the last five years' average profits. The profits for the last five years are:

	Rs
IYear	4,800
IIYear	7,200
IIIYear	10,000
IVYear	3,000
VYear	5,000

Solution:

a. **AverageProfit**

	Rs
IYear	4,800
IIYear	7,200
III Year	10,000
IVYear	3,000
VYear	5,000
Total	

b. **Goodwill=**AverageProfit×No,ofyearsofpurchase

=Rs.6,000×3

=Rs.18,000.

Illustration2Thefollowinginformationispresentedforfiveyearsending31st Dec.1998:

Year	Profits (aftertax)	Taxation Rs.	Transferto reserveRs.	Director's Remuneration
1994	25,000	9,000	5,000	2,000
1995	27,500	10,000	6,000	2,250

1996	24,000	7,500	4,000	2,250
1997	32,500	12,500	7,500	2,500
1998	36,000	17,500	7,500	3,000

Fixed assets have been revalued and the same showed an appreciation of Rs.2,50,000 (depreciation to be provided for @ 10%). The company has a 8% preference share capital of Rs. 50,000. The current rate of taxation may be taken @50%.

Calculation the value of goodwill on the basis of four years' purchase of the last five years' average profits.

Solution

a. **Calculationofaveragemaintainableprofit:**

Adjusted profit (before tax and director's remuneration =	Profit (given)+Rs	TaxRs. +	Director's Remuneration +	Rs. =
1994	25,000	9,000	2,000	36,000
1995	27,500	10,000	2,250	39,750
1996	24,000	7,500	2,250	33,750
1997	32,500	12,500	2,500	47,500
1998	36,000	17,500	3,000	56,500
			Total	**2,13,500**
	AverageProfit=2,13,500 / 5(years)			42,700
Less:	Depreciation @10%on Rs.2,50,000= 25,000 Director'sremuneration 3,000			28,000
				14,700
Less	Incometax@50%			7,350

		7350
Less	**Preferencedividend**	**4,000**
	Averagemaintainableprofit	**3,350**

b. **Goodwill=**Averagemaintainableprofit×No.ofyears'purchase

=Rs.3,350×4

=Rs.13,400.

Yearspurchaseofweightedaverageprofit

Illustration3: TheprofitsofThilagaLtd.Forthelast5yearswereasfollows

1994	15,000
1995	18,000
1996	22,000
1997	25,000
1998	27,000

Compute the value of goodwill of Thilaga Ltd. On the basis of 4 years purchase of weighted average profit after assigning weights 1,2,3,4 and 5 serially to the profits:

Solution:

i. Calculationofweightedaverageprofit

Year (1)	**Annualprofits (2) Rs.**	**Weight (3)**	**Product (2)×(3) Rs.**
1994	15,000	**1**	15,000
1995	18,000	**2**	36,000
1996	22,000	**3**	66,000
1997	25,000	**4**	1,00,000
1998	27,000	**5**	1,35,000
		15	**3,52,000**

Weightedaverageprofits=Rs.3,52,000 / 15 =Rs.23,467

ii. calculationofvalueofgoodwill

Goodwill=WeightedAverageProfit×No.ofyears' purchase

=Rs.23,467×4

=Rs.93,868

Super profit: Super profit, also known as supernormal profit, refers to the profit earned by a business that exceeds the normal or expected level of profit. It represents the excess profit earned above the minimum required return on investment.Super profit occurs when a business is able to generate higher profits due to various factors such as a unique competitive advantage, market dominance, superior products or services, economies of scale, or successful innovation. It indicates that the business is achieving a higher level of profitability compared to its competitors or the industry average.

The conceptof superprofit is often used ineconomic andfinancialanalysis to assess the performance and attractiveness of a business. It can be an indicator of business strength, sustainability, and the potential for long-term success.Super profit is important for several reasons:

1. **Competitive Advantage:** Super profit suggests that a business has a competitive advantage over its rivals, allowing it to generate higher returns and potentially maintain market leadership.
2. **Investment Attractiveness**: Super profit can make a business more attractive to investors as it indicates the potential for above-average returns on their investment.
3. **Growth and Expansion:** Excess profits can provide the financial resources necessary for a business to invest in growth initiatives, expand into new markets, or fund research and development activities.
4. **Industry Analysis:** Analyzing super profit across different companies or industries can help identify sectors with above-average profitability and potential investment opportunities.

It's important to note that super profit is not sustainable in the long run, as competitors may enter the market or market dynamics may change, leading to a reduction in profit levels. Therefore, businessesshould strive tomaintain and enhance their competitive advantage to sustain profitability over time.

Purchaseofsuperprofitsmethod:

Illustration4 Afirmearnednetprofitsduringthelastthreeyearsasfollows:

	Rs.
IYear	36,000
IIYear	40,000
III Year	44,000

The capital investment of the firm is Rs.1,00,000. A fair return on the capital, having regard to the risk involved, is 10%. Calculation the value of goodwill on the basis of 3 years' purchase of super profit.

Solution

i. **Calculationofaverageexpectedprofit**

	Rs.
IYear	36,000
IIYear	40,000
III Year	44,000
TotalProfit	**1,20,000**

Averageexpectedprofit$=\frac{\text{Rs.}1{,}20{,}000}{3}$ =Rs.40,000

ii. **Calculationofnormalprofit**

NormalProfit =Capitalemployed×NormalrateofReturn

=1,00,000×10%

=Rs.10,000.

iii. **Calculationofsuperprofits**

SuperProfits=Averageexpectedprofit-NormalProfit

=Rs.40,000-Rs.10,000

=Rs.30,000

iv. **Calculationofvalueofgoodwill**

Goodwill=SuperProfit×No.ofyears'purchase

=Rs.30,000×3

=Rs.90,000

Illustration5 From thefollowinginformationcalculatethevalueofgoodwillonthebasisof3 years purchase of super profit.

a. AveragecapitalemployedinthebusinessisRs.20,00,000
b. Rateofinterestexpectedfromcapitalhavingregardtotheriskinvolvedis10%.
c. Net trading profits of the firm for the past three years were Rs.3,50,400; Rs.2,80,300 and Rs.3,10,100.
d. FairremunerationtothepartnersfortheirservicesisRs.48,000perannum.
e. SundayassetsofthefirmareRs.23,50,400andcurrentliabilitiesareRs.95,110.

Sunday

i. **Calculationofadjustedaverageprofit**

	Rs.
Tradingprofitforthelastthreeyears	3,50,400
	2,80,300
	3,10,100
TotalProfits	**9,40,800**
Averageprofit=Rs.9,40,800 / 3	3,13,600
Less:Fairremuneratiointopartners	48,000
Averageprofit	**2,65,600**

ii. **Calculationofnormalprofit**

NormalProfit =AverageCapitalemployed×NormalrateofReturn

=Rs.20,00,000×10%

=Rs.2,00,000

iii. **Calculationofsuperprofit**

SuperProfits=Averageexpectedprofit-NormalProfit

=Rs.2,65,600-Rs.2,00,000

=Rs.65,000

iv. Calculationofvalueofgoodwill

Goodwill=SuperProfit×No.ofyears'purchase

=Rs.65,600× 3

=Rs.1,96,800

Illustration 6 Average capital employed in Kaushik Ltd. Is rs.35,00,000 whereas net trading profits before tax for the last three years have been Rs.14,75,000; Rs.14,55,000 and Rs.Rs.15,25,000. In these three years, the managing director was paid a salary of Rs. 10,000 p.m. but now he would be paid a salary of Rs. 12,000 p.m. Normal rate of return expected in the industry in which Kaushik Ltd. Is engaged is 18%. Rate of tax is 50%. Calculate goodwill on the basis of threes' purchase of the super profits.

Solution

i. Calculationofaverageannualtradingprofits:

	Rs.
Totaltradingprofitsforthelastthreeyears	14,75,000 14,55,000 15,25,000
	44,55,000
Averageannualtradingprofits=Rs.44,55,000 / 3(years)	14,85,000
Less: Additionalsalarytomanagingdirector (Rs.12,000-Rs.10,000)×12=	24,000
	14,61,000
Less: Incometax@50%	7,30,500
AdjustedaverageProfits	**7,30,500**

ii. Calculationofnormalprofit

NormalProfit =AverageCapitalemployed×NormalrateofReturn

=Rs.35,00,000×18%

=Rs.6,30,000

iii. **Calculationofsuperprofit**

SuperProfits=Adjustedaverageprofits-NormalProfits

=Rs.7,30,500-Rs.6,30,000

=Rs.1,00,500.

iv. **Calculationofvalueofgoodwill**

Goodwill=SuperProfit×No.ofyears'purchase

=Rs.1,00,500×3

=Rs.3,01,500

Illustration 7 The average net profits of a business as adjusted for valuation of goodwill amounted to Rs.2,35,450. The net tangible assets employed were of the of Rs.14,50,000. But upon valuation, they amounted to Rs.15,00,000. Assuming that 10% represented a fair commercial return, calculation the amount of goodwill by capitalizing super profits.

Solution

i. **Calculationofnormalprofit**

NormalProfit =AverageCapitalemployed×NormalrateofReturn

=Rs.15,00,000×10%

=Rs.1,50,000

ii. **Calculationofsuperprofit**

SuperProfits=Averageprofits-NormalProfits

=Rs.2,35,000-Rs.1,50,000

=Rs.85,450.

iii. **Calculationofvalueofgoodwill**

Goodwill =SuperProfit / NormalRateofReturn

=Rs.85,450 / 10%

=Rs.8,54,500

Illustration 8 Amaranth runs a cosmetic store. His net assets on 31st December 1998 amounted to Rs.25,00,000. After paying rent of Rs. 2,500 a year and a salary of Rs. 12,000 tohismanager,heearnsaprofitofRs.75,000.Hislandlordisinterestsinacquiringthe

business.15%isconsideredtobereasonablereturnoncapitalemployed.Calculatethe value of goodwill by capitalizing super profits.

i. **Calculationoffurthermaintainableprofit**

	Rs.
Profitafterpayingrent&Manager'ssalary	**75,000**
Add:Rentnottobepaidbythelandlord	**2,500**
Futuremaintainableprofit	**77,500**

ii. **Calculationofnormalprofit**

NormalProfit =AverageCapitalemployed×NormalrateofReturn

=Rs.2,50,000×15%

=Rs.37,500

iii. **Calculationofsuperprofit**

SuperProfits=Futuremaintainableprofit-NormalProfits

=Rs.77,500-Rs.37,500

=Rs.40,000.

iv. **Calculationofvalueofgoodwill**

Goodwill =SuperProfit / NormalRateofReturn

=Rs.40,000 / 15%

=Rs.2,66,667

Illustration9 Wastidiedon20th December1998.TheBalancesheetofhisbusinesson 31st December1998wasunder

Liabilities	Rs.	Assets	Rs.
Capital	1,50,000	Buildings	1,00,000
Tradecreditors	75,000	Furniture	1,000
Incometaxpayable	20,000	Motorvehicle	9,500
		Stock-in–trade	35,000
		Sundrydebtors	69,500

		Cash	30,000
	2,45,000		**2,45,000**

The net profits of the business for the five year ended 31st December 1998 were Rs. 77,500; Rs. 93,340; Rs.1,12,240; Rs. 92,960 and Rs.1,04,240. Wasti was actively engaged in the business but did not drawsalary. The debts due to the business are all good and on a revaluation the values of the fixed assets are as follows:

Buildings – Rs.1,50,000; furniture – Rs. 1,500 and Motor vehicle – Rs. 20,000assuming the management remuneration for the services of the proprietor to be Rs. 1,000 per month and 12% is the fair return on investment, calculate the amount of goodwill by capitalizing super profits.

Solution:

i. Calculationofaverageannualprofits

TotalProfit=Rs.77,500+Rs.93,340+Rs.1,12,240+Rs.92,960+Rs.1,04,240= Rs.4,80,280	
AverageProfits= $\frac{\text{Rs.4,80,280}}{\text{5(years)}}$	Rs.96,056
Less:Managerialremuneration(Rs.1,000×12)	Rs.12,000
AverageannualProfits	**Rs.84,056**

ii. Calculationofaveragecapitalemployed

Assets	**Rs.**
Fixedassets: Buildings	1,50,000
Furniture	1,500
Motorvehicle	20,000
Currentassets: Stock–in-trade	35,000
Sundrydebtors	69,500

cash		30,000
Totalassets		3,06,000
Less:ExternalLiabilities:Tradecreditors	75,000	
Incometaxpayable	20,000	95,000
Capitalemployed		**2,11,000**
Capitalemployed		2,11,000
Less: Halfofcurrentyear'sProfit 1,04,240×1/2		52,120
Averagecapitalemployed		**1,58,880**

iii. **NormalProfits**

1,58,880×12%=19,066

iv. **SuperProfit**

84,056-19,066=64,990

v. **Goodwill**

64,900×12/100:Rs.5,41,583.

Annuity and capitalization method.: The annuity method and capitalization method are two common approaches used in financial analysis and valuation to estimate the value of an investment or an income stream. Let's explore each method:

1. **AnnuityMethod:**

The annuity method is used to determine the present value of a series of future cash flows, typically of equal amounts, over a specified period. It assumes that the cash flows will continue regularly and at a constant rate. The method involves discounting each cash flow back to its present value using an appropriate discount rate.Here's a step-by-step process for applying the annuity method:

a. Determinetheexpectedcashflowamountperperiod.
b. Determine the discount rate to be applied. The discount rate should reflect the timevalue of money and the risk associated with the cash flows.
c. Calculatethepresentvalueofeachcashflowbyapplyingthediscountrate.

d. Sum up the present values of all the cash flows to obtain the total present value, which representstheestimatedvalueoftheannuity.Theannuitymethodisoftenused in the valuation of investment projects, retirement plans, and certain financial instruments that provide a regular stream of cash flows over a specific time period.

Illustration From the following information, compute the value of goodwill as per annuity method

AveragecapitalemployedRs.10,00,000 Normal

Rate of profit 10%

For 1991-Rs.1,40,000

For1992–Rs.1,22,000

For1993–Rs.1,70,000

Profit for 1992 have been arrived at after writing off abnormal loss of Rs. 10,000 and profits of 1993 include a non-recurring income of Rs. 22,000. Goodwill is to be calculated on the basisofannuityof 3yearspurchase ofsuperprofits.The presentvalue ofannuityof Re.1for 3years at 10% is Rs.2.4868.

i. **CalculationofAdjustedaverageprofits**

	Rs.	**Rs.**
Profitof1991		**1,40,000**
Profitof1992	1,22,000	
Add:Non-recurring	10,000	**1,32,000**
Profitof1993	1,70,000	
Less:Non-recurringincome	22,000	**1,48,000**
Totaladjustedprofits		**4,20,000**
Adjustedaverageprofits=Rs.4,20,000 / 3years **=Rs.1,40,000**		

ii. **Calculationofnormalprofit**

NormalProfit=Averagecapitalemployed×Normalrateofreturn

=Rs.10,00,000×10%

=Rs.1,00,000

iii. **CalculationofsuperProfits**

SuperProfit=Adjustedaverageprofit-NormalProfit

=Rs.1,40,000-Rs.1,00,000

=Rs.40,000

iv. **Calculationofvalueofgoodwill**

Goodwill=SuperProfits×Annuityfactor

=Rs.40,000×2.4868

=Rs.99,472.

2. CapitalizationMethod:

The capitalization method,also known as the income capitalizationapproach, isused to estimate the value of an income-producing asset, such as a business or real estate property. It calculates the present value of the expected future income generated by the asset. Here’s a general process for applying the capitalization method:

a. Determinetheexpectedannualincomeorcashflowgeneratedbytheasset.
b. Determine the appropriate capitalization rate, also known as the discount rate or the required rate of return. This rate reflects the risk associated with the asset and the prevailing market conditions.
c. Divide the expected income or cash flow by the capitalization rate to obtain the estimated value of the asset.The capitalization method is commonly used in real estate valuation, particularly for rental properties, where the value is based on the income generated by the property.

Bothmethodsinvolvediscountingfuturecashflowstotheirpresentvalue,buttheannuity method is typically applied to a series of equal cash flows over a specified period, while the capitalization method is used to estimate the value of an income stream or an income-producing asset.

It’s important to note that the accuracy of the results obtained from these methods depends on the accuracy of the cash flow projections, the selection of an appropriate discount rate, and the assumptions made regarding the stability and growth of the cash flows. Professional judgment and expertise are often required to apply these methods effectively in practice.

IllustrationFindthegoodwillofthefirmusingcapitalization,methodfromthefollowing information:

TotalCapitalEmployedinthefirmRs.8,00,000; Reasonable

Rate of Return 15%;

ProfitsfortheyearRs.12,00,000.

Solution

Calculationofgoodwillunder*capitalization*basis:

Capitalemployed=Rs.800000 Rate

of return = 15%

Averageprofit=Rs.1200000

Normalvalueofbusiness=(Averageprofit/Rateofreturn)*100 Normal

value of business = Rs. (1200000/15) * 100

Normalvalueofbusiness=Rs.8000000

Goodwill=Normalvalueofbusiness-capitalemployed

Goodwill = Rs. (8000000 - 800000)

Goodwill=Rs.7200000

IllustrationFindthegoodwillofthefirmusingcapitalization,methodfromthefollowing information:

TotalCapitalEmployedinthefirmRs.8,00,000; Reasonable

Rate of Return 15%;

ProfitsfortheyearRs.12,00,000.

Solution

Calculationofgoodwillundercapitalizationbasis: Capital

employed = Rs. 800000

Rate of return = 15%

Averageprofit=Rs.1200000

Normalvalueofbusiness=(Averageprofit/Rateofreturn)*100 Normal

value of business = Rs. (1200000/15) * 100

Normalvalueofbusiness=Rs.8000000

Goodwill=Normalvalueofbusiness-capitalemployed

Goodwill = Rs. (8000000 - 800000)

Goodwill=Rs.7200000

Illustration A firm earned Rs. 60,000 as profit, the normal rate of return being 10%.Assetsof the firm are Rs. 7,20,000 (excluding goodwill) and Liabilities are Rs. 2,40,000.Find the value of goodwill by Capitalization of Average Profit Method.

Solution

TotalCapitalizedValueoftheFirm=AverageProfit×100NormalRateofReturn

=Rs.60,000×10010=Rs.6,00,000

NetAssetsoftheFirm=TotalAssets-Liabilities

=Rs.7,20,000-Rs.2,40,000=Rs.4,80,000

Goodwill=TotalCapitalizedValueoftheFirm-NetAssets

=Rs.6,00,000-Rs.4,80,000=Rs.1,20,000.

Valuation of shares: Valuation of shares refers to the process of determining the fair value or worth of a company's shares or stock. It is an important aspect of investing, mergers and acquisitions, and corporate finance. Here are some commonly used methods for the valuation of shares:

1. **Market Capitalization Method:** This method is widely used and straightforward. It involvesmultiplyingthecurrentmarketpricepersharebythetotalnumberof outstanding shares. Market capitalization represents the total value of a company's equity in the market.
2. **Price-to-Earnings (P/E) Ratio:** The P/E ratio is calculated by dividing the market price per share by the earnings per share (EPS). It indicates how much investors are willing to pay for each unit of earnings generated by the company. The P/E ratio can vary across industries and companies, and comparing it to industry peers can provide insights into the relative value of the shares.
3. **Dividend Discount Model (DDM):** This method focuses on valuing shares based on the present value of expected future dividend payments. It requires estimating the expected dividends and applying a discount rate to reflect the time value of money and the risk associated with the investment. The DDM assumes that dividends are the primarysource of returns for shareholders.
4. **Discounted Cash Flow (DCF) Analysis:** DCF analysis involves estimating the future cash flows expected to be generated by the company and discounting them back to their present value using an appropriate discount rate. It considers not only dividends but also othercashflowssuchasfreecashflowtoequity(FCFE)orfreecashflowtofirm

(FCFF). DCF analysis is often considered a comprehensive method as it takes into account the company's cash flows and the time value of money.

5. **Comparable Company Analysis:** This method involves comparing the valuation multiples (such as P/E ratio or price-to-sales ratio) of the target company to similar publicly traded companies in the same industry. The valuation multiples of the comparable companies are used as benchmarks to estimate the fair value of the target company's shares.
6. **Asset-Based Valuation:** In asset-based valuation, the value of the company's assets is considered, including tangible assets (such as property, plant, and equipment) and intangible assets (such as patents, trademarks, and goodwill). The value of liabilities is subtracted from the total asset value to arrive at the net asset value (NAV). The NAV is then divided by the number of outstanding shares to determine the value per share.

It's important to note that the choice of valuation method depends on various factors, such as the industry, the company's financial characteristics, available data, and thepurpose of the valuation. Different methods may be more applicable in different situations, and it's often valuable to consider multiple methods for a more comprehensive analysis. Additionally, seeking professional advice from a qualified financial analyst or valuationexpert is recommended to ensure accurate and reliable share valuation results.

Need for valuation of shares: Valuation of shares is important for several reasons, including:

1. **Investment Decision-Making:** Valuation helps investors make informed decisions about buying, selling, or holding shares. By assessing the fair value of shares, investors can determine whether a stock is overvalued, undervalued, or fairly priced. This information is crucial for making investment choices that align with an investor's financial goals and risk tolerance.
2. **Mergersand Acquisitions:** Valuationisessentialinmergersandacquisitions(M&A) transactions. Both the acquiring company and the target company need to determine the value of shares to negotiate a fair deal. Valuation methods help establish an exchange ratio or purchase price for the shares involved in the transaction. Accurate valuation enables both parties to evaluate the financial impact of the deal and make informed decisions.

3. **Corporate Finance:** Valuation is relevant in corporate finance activities such as raising capital, issuing new shares, or repurchasing shares. Companies need to determine the fair value of their shares to make strategic decisions related to equity financing. Valuation helps establish a reasonable offering price, assess the dilution impact on existing shareholders, and evaluate the financial implications of share repurchases or stock-based compensation plans.
4. **Financial Reporting:** Valuation plays a crucial role in financial reporting, particularly for publicly traded companies. Fair value measurements of shares are required for financial statements, such as the balance sheet, income statement, and statement of shareholders' equity. These valuations enable investors, analysts, and stakeholders to assess the financial health and performance of a company accurately.
5. **Dispute Resolutionand LegalPurposes:** Valuation isoftennecessaryfor resolving disputes related to share ownership, shareholder disputes, or litigation matters. In legal proceedings, an independent valuation can help determine the fair value of shares and assist in resolving conflicts or disputes between parties.
6. **Strategic Decision-Making:** Valuation helps company management make strategic decisions, such as evaluating potential investments, assessing the impact of new projects on shareholder value, or determining the value of joint ventures or partnerships. Valuation methods provide insights into the financial implications of strategic choices and assist in maximizing shareholder value.

Overall, the valuation of shares provides essential information for investors, companies, and other stakeholders in making informed decisions, assessing financial performance, negotiating transactions, and ensuring fair and transparent capital markets.

Methods of valuation of shares: There are several methods used for the valuation of shares. The choice of method depends on various factors, including the availability of financial information, the nature of the business, the purpose of the valuation, and the preferences of the valuator. Here are some commonly used methods:

1. Market-BasedMethods:

a. Market Capitalization Method: This method values shares based on the current market price per share multiplied by the total number of outstanding shares. It reflects the collective perception of investors regarding the company's value.

b. Price-to-Earnings (P/E) Ratio: The P/E ratio compares the market price per share to the company's earnings per share (EPS). It provides an indication of how much investorsare willing to pay for each unit of earnings generated by the company.

2. Income-BasedMethods:

a. Dividend Discount Model (DDM): This method estimates the value of shares based on the present value of expected future dividends. It requires forecasting future dividend payments and applying an appropriate discount rate to reflect the time value of money and the risk associated with the investment.

b. Earnings Multiples: This approach values shares based on a multiple of the company's earnings or earnings per share. Common multiples used include the price-to-earnings ratio (P/E), price-to-earnings growth ratio (PEG), and enterprise value-to-EBITDA ratio (EV/EBITDA).

c. Discounted Cash Flow (DCF) Analysis: DCF analysis estimates the value of shares by projecting the company's future cash flows and discounting them back to their present value using an appropriate discount rate. It takes into account the timing and risk associated with the cash flows.

3. Asset-Based Methods:

a. Net Asset Value (NAV) Method: This method values shares based on the net value of thecompany's assetsafterdeductingliabilities. Itinvolves assessingthefairmarket valueof tangible assets (e.g., property, equipment) and intangible assets (e.g., patents, trademarks) and subtracting liabilities to determine the net asset value. The net asset value is then divided by the number of outstanding shares to arrive at the value per share.

b. Liquidation Value: This method estimates the value of shares based on the assumption that the company is liquidated and its assets are sold. It calculates the valuethat shareholders would receive if all assets were sold and liabilities were settled.

4. ComparableCompanyAnalysis:

This method compares the valuation multiples (e.g., P/E ratio, price-to-sales ratio) of the target company to similar publicly traded companies in the same industry. The valuation multiples of the comparable companies serve as benchmarks for estimating the fair value of the target company's shares.

It's important to note that these methods are not mutually exclusive, and multiple methods can be used in combination to provide a more comprehensive and reliable valuation.Additionally,professionaljudgment,experience,andconsiderationofspecific

industry factors are crucial in selecting and applying the most appropriate valuationmethods.

Net assets method: The Net Asset Value (NAV) method is an asset-based approach used to determine the value of shares based on the net value of a company's assets after deducting liabilities. It calculates the value that would be available to shareholders if the company's assets were sold and liabilities were settled. Here's a general process for applying the Net Asset Value method:

1. **Identify the company's assets**: Determine the fair market value of the company's tangible assets, such as property, plant, and equipment, inventory, and investments. Also, consider the value of intangible assets like patents, trademarks, brand value, and customer relationships. These values can be obtained from the company's financial statements or through independent valuation methods.
2. **Assess the liabilities:** Determine the company's outstanding liabilities, including loans, debts, and other obligations. These liabilities may be obtained from the company's financial statements or by conducting a thorough review of its financial records.
3. **Calculate the net asset value:** Subtract the total liabilities from the total value of the company'sassets.Theresultingfigurerepresentsthenetvalueofthecompany'sassets.
4. **Divide the net asset value by the number of outstanding shares:** Divide the netasset value by the number of shares outstanding to determine the value per share.

It's important to note that the NAV method provides a snapshot of the company's value based on its assets and liabilities at a given point in time. It may not capture the full value of intangible assets such as intellectual property, brand reputation, or future growth potential. Additionally, certain industries or companies with significant intangible assets may require adjustments or alternative valuation methods to accurately reflect their value.

The NAV method is commonly used in situations where the underlying assets of a company are considered the primary driver of value, such as in holding companies, investment funds, or companies with a significant asset base. However, it may be less applicable for companies focused on growth, intellectual property, or other value drivers that are not adequately captured by the balance sheet. As with any valuation method, professional judgment, expertise, and consideration of industry-specific factors are essential for accurate and reliable results.

Netassetsmethod(or)intrinsicvalue(or)Breakupvalue(or)assetbackingmethod Illustration

ThefollowingistheBalancesheetofNSCLtdason31st Dec.1998

Liabilities	Rs.	Assets	Rs.
4,00010%pref.sharesofRs.100 each	4,00,000		12,00,000
60,000equitysharesofRs.10each	6,00,000		
Billspayable	50,000		
Creditors	1,50,000		
	12,00,000		**12,00,000**

The market value of 60% of the assets is estimated to be 15% more than the book value and that of the remaining 40% at 10% less than the book value. There is an unrecorded liability of Rs. 10,000.

Find the value of each equity share (it is to be assumed that preference shares have no prior claim as to payment of dividend or to repayment of capital.

Solution

Calculationofnetassets

	Rs.	Rs.
Sundryassets		
12,00,000×60%×115%		8,28,000
12,00,000×40%×90%		4,32,000
		12,60,000
Less:CurrentLiabilities	50,000	
	1,50,000	
	10,000	2,10,000
		10,50,000
Less:Preferencesharecapital		4,00,000
Netassetsavailableforequityshareholders		6,50,000

Intrinsicvaluepershare = $\frac{\text{Netassetsforequityshareholders}}{\text{No.ofEquityshares}}$

=Rs.6,50,000

Rs.60,000

=Rs.10.83

Illustration

ThebalancesheetofSaraswatiCo.Ltd.Disclosedthefollowingpositionason31st December2018.

Liabilities	Rs.	Assets	Rs.
ShareCapital: 6,000 equity shares of Rs.100 each	6,00,000	Goodwill	1,65,000
Profit&Loss	75,000	Investments	5,25,000
GeneralReserve	2,25,000	Stock	6,60,000
6%Debentures	4,50,000	Sundrydebtors	3,90,000
Sundrycreditors	1,50,000	CashatBank	60,000
Workmen'ssavingsbankA/c	3,00,000		
	18,00,000		18,00,000

i. Theprofitsforthepastfiveyearswere:2014-Rs.30,000;2015-Rs.70,000;2016-Rs.50,000;2017-Rs.55,000;and2018-Rs.95,000.

ii. ThemarketvalueofinvestmentswasRs.3,30,000.

iii. Goodwill is to be valued at three years purchase of the average annual profits for the last five years. Find the intrinsic value of each share.

Solution

i. Calculationofvaluegoodwill

Total profits for 5 years = Rs.30, 000+ Rs.70, 000+ Rs.50, 000+Rs.55, 000+ Rs.95, 000=Rs.3, 00,000

Averageprofitsperyear=Rs.3,00,000
5

=Rs.1,80,000

ii. Calculationofintrinsicvalueofshare

Calculationofnetassets:

		Rs.

Assetsatmarketvalue		
Goodwill		1,80,000
Investments		3,30,000
Stock		6,60,000
Sundrydebtors		3,90,000
Cashatbank		60,000
		16,20,000
Less: Liabilities		
6%debentures	4,50,000	
Sundrycreditors	1,50,000	
Workmen'ssavingsbankA/c	3,00,000	9,00,000
Netassets		7,20,000

iii. **Intrinsicvalueofeachshare** $= \frac{\textbf{Netassets}}{\textbf{No.ofequityshare}}$

$$= \frac{Rs.7,20,000}{6,000 shares}$$

=Rs.120

4.12Yield and fair value methods: The "yield" and "fair value" methods are two differentapproaches used in the valuation of shares. Let's explore each method:

1. YieldMethod:

The yield method, also known as the dividend yield method, focuses on the yield or return that an investor can expectfrom owning shares in a company. It values shares based on the expected dividend payments and the required rate of return of investors. The general process for applying the yield method is as follows:

a. Estimate the expected future dividends that the company is likely to pay out to its shareholders.
b. Determine the required rate of return or yield that investors would expect for investingin the company's shares. This rate is usually based on the company's risk profile and comparable investment opportunities.
c. Calculate the present value of the expected future dividends by discounting them back to the present using the required rate of return.
d. Sumup the presentvaluesof the expectedfuture dividendsto arrive atthe value of the shares.

Theyieldmethodassumesthatdividendsaretheprimarysourceofreturnsforshareholders. It is commonly used for valuing companies that have a stable dividend payout historyandareexpectedtocontinuepayingdividendsinthefuture.Thismethodmaybe less suitable for companies that do not pay regular dividends or have high growth potential. **Illustration**

Fromthefollowinginformationcalculatethevalueperequityshare:

	Rs.
5,0008%preferencesharesofRs.100each	5,00,000
75,000equitysharesofRs.10each,Rs.8persharepaidup	6,00,000
Expectedprofitsperyarebeforetax	2,80,000
Rateof tax	50%
Transfertogeneraleveryyear	20%oftheprofit
Normalrateofearnings	10%

Solution

i. Calculationofprofitavailableforequitydividend

	Rs
Expectedprofit	2,80,000
Less:Taxat50%	1,40,000
	1,40,000
Less:Transfertogeneralreserveat20%	28,000

Profitaftergeneralreserve&tax	**1,12,000**
Less:8%preferencedividendonRs.5,00,000 (5,00,000×8/100)	40,000
Profitavailableforequitydividend	**72,000**

ii. Calculationofexpectedrateofreturn

$$\text{Expectedrateofreturn} = \frac{\text{Profitavailableforequitydividend}}{\text{Paidupequitycapital}} \times 100$$

$$= \frac{72,000}{6,00,000} \times 100$$

$$= 12\%$$

iii. Calculationofvalueoftheequityshare

$$\text{Yieldvaluepershare} \quad \frac{\text{Expectedrateofreturn}}{\text{Normalrateofreturn}} \times \text{paidupvalueperequityshare}$$

$$= \frac{12\%}{10} \times \text{Rs.}8$$

$$= \text{Rs.}9.60$$

Illustration

TheissuedsharecapitalofacompanywasRs.10,00,000consistingof10,000equity shares of Rs.100 each. The net profits for the last 5 years were: Rs.1,00,000; Rs.80,000; Rs.1,20,000; 1,60,000 and Rs.1,40,000 of which 20% was placed to reserve, this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 12%. Compute the value of the company's share by the yield value method.

Solution:

i. Calculateofprofitavailableforequityshareholders:

	Rs.
Average profit= $\frac{\text{Rs.1,00,000+Rs.80,000+Rs.1,20,000+Rs.1,60,000+Rs.1,40,000}}{5}$	1,20,000

Less:Transfertoreserveat20%on1,20,000	24,000
Profitavailableforequitydividend	96,000

ii. Calculationofexpectedrateofreturn

$$= \frac{\text{profit available for equity dividend}}{\text{Paid up equity capital}} \times 100$$

$$= \frac{\text{Rs.}96{,}000}{10{,}00{,}000} \times 100$$

iii. Calculationofyieldvalue

Yieldvaluepershare

$$= \frac{\text{Expectedrateofreturn} \times \text{paidupvalueperequityshare}}{\text{Normal rate of return}}$$

Yieldvaluepershare $= \frac{9.6}{12\%} \times 100$

=Rs.80

2. FairValueMethod:

The fair value method, also known as the intrinsic value method, focuses on determining the intrinsic or true value of shares based on the company's underlying fundamentalsandfinancial performance.It considersvariousfactors suchasearnings, cash flows, growth prospects, and comparable market data.

The fair value method involves a comprehensive analysis of the company's financial statements, industry trends, market conditions, and other relevant factors. It may utilize different valuation techniques such as discounted cash flow (DCF) analysis, price-to-earnings (P/E) multiples, or other comparable company analysis methods.

The fair value method aims to estimate the value of shares based on the company's underlying economic worth rather than just the dividend yield. It takes into account the company's future earnings potential, cash flow generation, growth prospects, and other value drivers.

It's important to note that the fair value method requires making assumptions and projections about future performance, which can introduce uncertainties and risks. It is often

used by investors and analysts who take a more comprehensive approach to valuation and consider multiple factors beyond just dividends.

Boththe yieldmethodandfair valuemethodhave their own strengths and limitations. Thechoiceofmethoddependsonfactorssuchasthenatureofthecompany,theavailability of information, the purpose of the valuation, and the preferences of the valuator or investor.

Illustration

Determine the fair value of 200 shares held by Mr.Arul in Abbas Co. Ltd. To be transferred to Mr. Balu on the basis of majority and minority holdings. The balance sheet of Abbas Co.Ltd as on 30thJune,2018 is as follows;

Liabilities	**Rs**	**Assets**	**Rs**
ShareCapital: 40,000 equity shares of Rs.10 each fully paid up	4,00,000	Goodwill	20,000
Generalreserve	1,30,000	Building	1,50,000
Profit&LossA/c	80,000	Machinery	1,80,000
Sundrycreditors	40,000	Debtors	2,00,000
		Stock	80,000
		Caskatbank	10,000
		Preliminaryexpenses	10,000
	6,50,000		**6,50,000**

Debtors are estimate to be 10% below book value and goodwill is valued at its book value. Profit & Lossaccount shows the net profit of the yearafter transfer to general reserve and payment of income tax.

Dividendwaspaid for thelast 3yearsattherateof14%;18% and16%respectively. Normalexpectedreturnis12%.

Solution:

i. Valuationofshareundernetassetsmethod:

Assetsatmarketvalue	Rs.
Goodwill	20,000
Building	1,50,000

Machinery	1,80,000
Debtors(Rs.2,00,000-Rs.20,000)	1,80,000
Stock	80,000
Bank	10,000
	6,20,000
Less:Creditors	40,000
Netassetsavailabletoequityshareholders	**5,80,000**

Intrinsicvalueofeachshare=Rs.5,80,000/40,000share
=Rs.14.50

Intrinsicvalueof200shares=200×Rs.14.50
=Rs.2,900.

ii. **Valuationofshareunderyieldmethod;**

i. Profitfortheyearaftertaxandtransfertogeneralreserve=Rs.80,000

ii. Expectedrateofreturn =Rs.80,000/Rs.4,00,000×100
=20%

iii. Yieldvalueperequityshare=20%/12%×Rs.10
=Rs.16.67

Yieldvalueof200 =200shares×Rs.16.67
=Rs.3,334.

iii. **Yieldvalueofminorityholding;**

Averagerateofactualdividend=14+18+16/3
=16%

Valueofeachshare =16%/12%×Rs.10
=Rs.13.33

Yieldvalueof200shares =200shares×Rs.13.33
=Rs.2,666

Fairvalueformajorityholding =Rs.2,900+Rs.3,334/2
=Rs.3,117

Fairvalueforminorityholding =Rs.2,900+Rs.2,666/2
=Rs.2, 783.

CheckyourProgress

1. Goodwillis
   a) Tangibleasset
   b) Intangibleasset

c) Fictitiousasset
d) Noneoftheabove

2. Goodwillisshownincompany’sbalancesheetunderthehead
   a) Fixedassets
   b) Investments
   c) Miscellaneousexpenditure
   d) Currentassets

3. Thevalueofgoodwillaccordingtothesimpleprofitmethodis
   a) Theproductofcurrentyear’sprofitandnumberofyears
   b) Theproductoflastyear’sprofitsandnumberofyears
   c) Theproductoflastyear’sprofitsofthegivenyear’sandnumberofyear
   d) Noneoftheabove

4. Superprofitisthedifferencebetween
   a) Capitalemployedandaveragecapitalemployed
   b) Averageprofitandnormalprofit
   c) Currentyearprofitandlastyearprofitand
   d) Noneoftheabove

5. Theaveragereturnofsimilarconcernshouldbeconsideredas
   a) Averageprofit
   b) Expectedrateofreturn
   c) Normalrateofreturn
   d) Noneoftheabove

6. Fromthepointofviewofvaluationofgoodwill,theterm‘capitalemployed’meansthe funds provided by
   a) Shareholdersonly
   b) Debentureholdersonly
   c) Bothshareholders,debentureholdersandcreditors
   d) Shareholders,debentureholdersandcreditors

7. Theaveragecapitalemployedcanbeascertained
   a) Bydeductinghalfofcurrentyear’sprofitfromopeningcapitalemployed
   b) Bydeducting½ofcurrentyearprofitfromclosingcapitalemployed
   c) Byadding½ofcurrentyearprofittoclosingcapitalemployed

d) Noneoftheabove

8. AbusinesshasacapitalofRs.80,000attheend.Ithadearnedprofitsof10,000during the year. The average capital employed of the business will be
   a) Rs.85,000
   b) Rs.75,000
   c) Rs.70,000
   d) Rs.90,000
9. Forcalculatingthevalueofequitysharebyintrinsicvaluemethod,itisessentialtoknow
   a) Normalrateofreturn
   b) Expectedrateofreturn
   c) Capitalemployed
   d) Noneoftheabove
10. Forcalculatingthevalueofanequitysharebyyieldmethod,itisessentialtoknow
    a) Expectedrateofreturn
    b) Calledupequitysharecapital
    c) Netassets
    d) Noneoftheabove
11. Forcalculatingprice–earningsratio,itisessentialtoknow
    a) Marketvaluepershare
    b) Nominalvaluepershare
    c) Paid–upvaluepershare
    d) Noneoftheabove

Exercises

1. Goodwill is tobe valued at3 yearspurchaseof five years'average profits. The profits for the last years of the firm were; 1994- Rs. 2,400; 1995 -Rs.3, 000; 1996- Rs.Rs.3,400; 1997 – Rs.3,200; 1998 – Rs.4,000.

(**Ans**:AverageProfitR.3,200;GoodwillRs.9,600)

2. Calculate the amount of goodwill in the following case, on the basis of the threeyears' purchase of the last years' average profits. The profits and losses for the last four years are;

Year	Rs.
1995	10,000
1996	16,000
1997	6,000(Loss)
1998	12,000

(Ans:GoodwillRs.24,000)

3. Madhan & Co. decided to purchase a business for Rs.2,40,000. Its profits for the last four years 1995 were Rs. 60,000; 1996- Rs. 75,000; 1997- Rs. 72,000 and 1998- Rs. 69,000.Theownerofthe businesswaspersonally managingit.Amanagerto replace him has to be paid Rs. 9,000 p.a. calculate the value of goodwill if it is valued on the basis of three years' purchase of the average net profit for the last four years.

(Ans:Goodwill–Rs.1,80,000)

4. Mr. Viswanath has invested Rs.4,00,000 in a business. His net profit tax at 50% is Rs.1,60,000, out of which Rs.12, 000 annual rent of own building used as businesspremises and Rs. 24,000 p.a as his salary were not deducted. For starting this business, he left a job fetching him a monthly salary of Rs. 2,000. Before starting this business, he had invested this amount on 10% securities. Fair compensation for the risk involved is 2%. Calculated the value of goodwill on the basis of three purchase of the average annual super profits.(Ans: Adjusted annual profit- Rs. 68,000; Super Profit Rs. 20,000; Goodwill Rs. 60,000)

5. fromthefollowinginformation,computethevalueofgoodwillbycapitalizingsuperprofits;

a) AveragecapitalemployedisRs.2,00,000
b) Normalrateofprofitis10%
c) Profitfor1991Rs.31,000;1992Rs.29,500;1993-Rs.33,000

d) Profit for 1992 has been arrived after writing off abnormal loss of Rs. 1,000 and profit for 1993 includes a non-recurring income of Rs. 1,500. (Ans:Super Profit – Rs.11,000; Goodwill Rs.1,10,000)

6. The net profits of a company after providing for taxation for the past five years are Rs. 40,000; Rs. 42,000; Rs. 45,000; Rs. 46,000 and Rs. 47,000. The capital employed in the business is Rs.4,00,000 on which a reasonable rate of return of 10% is expected. It is expected that the company will be able to maintain its super profits for the next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking the present value of annuity of one rupee for 5 years @ interest as Rs.3.78.
[Ans:superProfit-Rs.4,000;Goodwill Rs.
15,120].

7. A runs a chemist shop. His net assets as on 31st March 1996 amounted to Rs.20,00,000. After paying a rent of Rs. 45,000 a year and a salary of Rs. 30,000 to the chemist, he earns a profit of Rs.2,10,000. His landlord, who happens to be an expert chemist, its interests in purchasingthe shop. 8% is considered to bea reasonable return on capitalemployed. What can A expect as payment for goodwill? [Ans:Goodwill- Rs.11,87,500; capitalized value of business Rs.31,87,500].

SELF-LEARNINGMATERIAL

CORPORATEACCOUNTING-I

INDIANACCOUNTINGSTANDARD

Introduction

International Financial Reporting Standards (IFRS) are a set of accounting standards developed and maintained by the International Accounting Standards Board (IASB). They provide a globally accepted framework for the preparation and presentation of financial statements.

IFRSaimtoenhancetransparency,comparability,andreliabilityoffinancialreportingacross different countries and industries. They provide guidelines for recognizing, measuring, presenting, and disclosing various financial transactions and events in the financial statements of companies.

In India, the Ministry of Corporate Affairs (MCA) has adopted IFRS-converged accounting standards known as Indian Accounting Standards (Ind AS). Ind AS are largely based on IFRS with certain modifications and carve-outs to suit the Indian business environment.

ApplicabilityofIndASinIndia:

1. **Listed Companies**: As per the notification by the MCA, certain categories of companies are required to adopt Ind AS. This includes companies listed on stock exchanges in India and their subsidiaries, joint ventures, and associates.

2. **Voluntary Adoption**: Companies not covered under the mandatory adoption criteria can choose to adopt Ind AS voluntarily, subject to certain criteria specified by the MCA.

3. **Banking and Insurance Companies**: Banking companies and insurance companies in India follow a different set of accounting standards specified by their respective regulators (Reserve Bank of India and Insurance Regulatory and Development Authority). However, they are required to converge their financial statements with Ind AS for consolidatedfinancial reporting purposes.

The adoption of Ind AS in India has brought about significant changes in financial reporting practices. It has aligned Indian accounting standards with global standards, facilitating better comparability of financial statements across borders. The transition to Ind AS requires companies to make adjustments to their accounting policies, systems, and financial reporting processes.

The adoption of IFRS/Ind AS in India benefits various stakeholders, including investors, lenders, regulators, and analysts, by providing them with more accurate and reliable financial information for decision-making and analysis. It also enables Indian companies to raise capital in international markets more effectively and enhances the global competitiveness of Indian businesses.

IndianAccountingStandards(IndAS)

Indian Accounting Standards (Ind AS) are a set of accounting principles and guidelines issued by the Accounting Standards Board (ASB) under the authority of the Institute of Chartered Accountants of India (ICAI). Ind AS are aimed at harmonizing accounting practices in India with internationally recognized accounting standards, specifically the International Financial Reporting Standards (IFRS).

ObjectivesofIndAS:

1. Enhancing Transparency: Ind AS aim to improve transparency and clarity in financial reporting, enabling stakeholders to make informed decisions basedon accurate and reliable financial information.

2. Improving Comparability: By aligning Indian accounting standards with international standards, Ind AS facilitate better comparability of financial statements across different countries and industries.

3. Enhancing Investor Confidence: Ind AS contribute to building investor confidence by providing a robust and consistent framework for financial reporting, reducing the risk of manipulation and fraud.

4. FacilitatingGlobalBusinessOperations: AdoptionofIndASenablesIndiancompanies to compete globally by ensuring consistency and compatibility in financial reporting, making it easier to attract foreign investment and participate in international capital markets.

SignificanceofIndAS:

1. ImprovedFinancialReportingQuality: IndASpromotehigherqualityfinancialreporting by requiring more comprehensive disclosures, fair value measurements, and recognition of complex financial instruments.

2. ConsistencyinFinancialReporting: IndASbringconsistencyinaccountingtreatments, reducing variations in reporting practices and facilitating better comparability among companies.

3. BetterDecision-making: IndASprovidemorerelevantand reliablefinancial information, enabling stakeholders to make well-informed decisions regarding investments, lending, and other business transactions.

ProcedureforFormulationofStandards:

TheformulationofIndASinvolvesthefollowingsteps:

1. Identification of Accounting Issues: The ASB identifies accounting issues and areas where there is a need for new or revised accounting standards.

2. Research and Analysis: The ASB conducts research, analyzes international accounting standards (IFRS), and examines the specific requirements and practices prevalent in India.

3. Drafting of Exposure Draft: Based on the research and analysis, the ASB prepares an Exposure Draft of the proposed accounting standard, which includes the proposed accounting treatment and disclosures.

4. Public Comments and Feedback: The Exposure Draft is published on the ICAI's website and other platforms, inviting public comments and feedback from various stakeholders, including companies, professionals, regulators, and the general public.

5. Redrafting and Finalization: The ASB reviews the comments received and makes necessary revisions to the Exposure Draft. The final accounting standard is then prepared and issued by the ASB.

6. Implementation and Monitoring: Once an accounting standard is finalized, it is notified by the Ministry of Corporate Affairs (MCA) and becomes applicable to the specified categories of companies. The ASB continues to monitor the implementation and effectiveness of the accounting standards and makes amendments as required.

The formulation of Ind AS involves a collaborative process, considering the perspectives of various stakeholders and aligning with international best practices to ensure high-quality financial reporting in India.

IndASPresentationofFinancialStatements:

UnderIndAS,thepresentationoffinancialstatementsfollowsaprescribedformattoprovide relevant and reliable information to users. The key aspects of the presentation of financial statements under Ind AS include:

1. **Structure and Components**: The financial statements consist of the following components:balancesheet,statementofprofitandloss(orincomestatement),statementof changes in equity, statement of cash flows, and notes to the financial statements.

2. **Comparative Information:** Ind AS requires the presentation of comparative financial information for the previous period, enabling users to analyze and compare performanceand financial position over time.

3. **Materiality and Aggregation**: Financial statements should present information in a manner that is material to the understanding of the entity's financial position, performance, and cash flows. Items with similar nature and function can be aggregated to enhance understandability.

4. **Classification and Order:** Assets, liabilities, equity, income, and expenses are classified and presented based on their nature and function. The order of presentation should be logical and aid in understanding the financial statements.

5. **DisclosureRequirements:** IndASlaysdowndetaileddisclosurerequirementstoprovide additional information that may not be apparent from the face of the financial statements. These disclosures help users understand the nature, extent, and impact of various transactions and events.

Presentationoffinancialstatement:

The formulation of Indian Accounting Standards (Ind AS) and the presentation of financial statements in accordance with these standards involve a structured process. Here is an overview of the procedure for the formulation of Ind AS standards and the presentation of financial statements:

1. SettinguptheAccountingStandardsBoard(ASB):

a) TheMinistryofCorporateAffairs(MCA)inIndiaestablishestheASB,whichis responsible for formulating and revising accounting standards.
b) The ASB comprises experts from various fields, including accounting, finance, and law, along with representatives from regulatory bodies and industry associations**.**

2. AdoptionofInternationalFinancialReportingStandards(IFRS):

a) TheASB,inconsultationwiththeNationalAdvisoryCommitteeonAccounting Standards (NACAS), decides to adopt IFRS as the basis for formulating Ind AS.
b) IFRSistheglobally acceptedsetofaccountingstandardsissuedbythe International Accounting Standards Board (IASB).

3. FormulationofIndAS:

a) The ASB, with inputs from various stakeholders, including industry experts, professional bodies, and regulators, formulates Ind AS based on the corresponding IFRS.
b) The ASB considers the Indian legal and regulatory framework, business practices, and specific requirements while formulating Ind AS.
c) The ASB releases exposure drafts of proposed Ind AS for public comments and considers the feedback received before finalizing the standards.

4. RecognitionbytheCentralGovernment:

a) After the ASB finalizes the Ind AS, it submits the standards to the MCA for recognition.
b) The MCA reviews the Ind AS and, if satisfied, notifies them for application by companies.

5. ApplicabilityandTransition:

a) The MCA specifies the effective date and the categories of companies required to adopt Ind AS based on criteria such as net worth, listing status, and industry
b) Companies falling under the prescribed criteria are required to transition from previous accounting standards (such as Indian Generally Accepted Accounting Principles - GAAP) to Ind AS.

6. PresentationofFinancialStatements:

a) Companies adopting Ind AS are required to present their financial statements in accordance with the prescribed format and disclosure requirements of Ind AS.
b) The financial statements include the Balance Sheet, Statement of Profit and Loss, Cash Flow Statement, Statement of Changes in Equity, and accompanying notes.
c) The financial statements should provide a true and fair view of the company's financial position, performance, and cash flows in compliance with the applicable Ind AS.

7. ComplianceandAudit:

a) Companies are required to ensure compliance with Ind AS while preparing and presenting their financial statements.

b) The financial statements need to be audited by qualified auditors who express an opinion on their compliance with the applicable accounting standards, including Ind AS.

It is important for companies to stay updated with the latest revisions and amendments to Ind AS and comply with the disclosure and presentation requirements. Consulting with accounting professionals and referring to the relevant notifications and guidance issued by the MCA and professional accounting bodies can help ensure adherence to the prescribed procedures and standards.

IndASValuationofInventories:

IndAS2,"Inventories,"providesguidanceonthevaluationandmeasurementofinventories, including raw materials, work in progress, and finished goods. The key principles for inventory valuation under Ind AS include:

1. **Cost Formulation:** Inventories are initially measured at cost, which includes all costs directly incurred in bringing the inventories to their present location and condition. This includes purchase costs, production costs, transportation costs, and applicable overheads.

2. **Cost Flow Assumptions**: Under Ind AS, inventories can be valued using various cost flow assumptions, such as First-In, First-Out (FIFO), Weighted Average Cost, or Specific Identification. The chosen cost flow assumption should be consistent and reflect the actual flow of goods.

3. **Net Realizable Value**: If the net realizable value (estimated selling price less estimated costs to complete and sell) of inventories is lower than their cost, the inventories should be written down to their net realizable value. This ensures that inventories are not carried at a value higher than their recoverable amount.

4. **Measurement of Service Inventories**: Ind AS also provides guidance for the measurement of service inventories, which are inventories that are not held for sale but are consumed in the production of services. Service inventories are generally measured at the cost of their production or acquisition.

It's important for entities to apply consistent and appropriate valuation methods for inventories, ensuring that they are measured at the lower of cost and net realizable value. This helps in presenting a fair and reliable representation of the entity's financial positionand performance.

IndAS7-StatementofCashFlows:

IndAS7providesguidanceonthe preparation andpresentationofthe statementof cash flows. The statement of cash flows helps users understand the cash flows generated and used by an entity during a specific period. It classifies cash flows into three categories: operating activities, investing activities, and financing activities. The statement provides valuable information regarding the cash inflows and outflows, helping users assess an entity's liquidity, solvency, and ability to generate future cash flows.

IndAS8-AccountingPolicies,ChangesinAccountingEstimates,andErrors:

Ind AS 8 establishes the framework for selecting and applying accounting policies, handling changes in accounting estimates, and correcting errors in financial statements. It requires entities to use consistent accounting policies for similar transactions and events. Ifa change in accounting policy is necessary, entities must apply the change retrospectively, adjusting the opening balances of affected prior periods. Changes in accounting estimates are applied prospectively, reflecting the impact in the current and future periods. Material errors in financial statements should be corrected retrospectively.

5.14IndAS16-Property,Plant,andEquipment:

IndAS16providesguidanceonthe recognition,measurement,presentation,and disclosure of property, plant, and equipment (PPE). PPE includes tangible assets held for use in the production or supply of goods and services, for rental to others, or for administrative purposes. Ind AS 16 requires entities to initially measure PPE at cost, including directly attributablecosts.Subsequently,entitiescanchooseeitherthecostmodelortherevaluation model to measure PPE. The cost model involves depreciating the assets over their useful lives, while the revaluation model allows for periodic revaluation to fair value.

5. 15IndAS38-IntangibleAssets:

Ind AS 38 prescribes the accounting treatment for intangible assets, which are identifiable non-monetary assets without physical substance. It provides guidance on the recognition, measurement, presentation, and disclosure of intangible assets. Intangible assets can includepatents,copyrights,trademarks,brandnames,software,andcustomerrelationships. Ind AS 38 requires entities to initially measure intangible assets at cost and subsequently amortize them over their useful lives. Intangible assets with indefinite useful lives are not amortized but are subject to impairment testing.

Ind AS 103, "Business Combinations," deals with the accounting treatment for business combinations, including the recognition and measurement of intangible assets acquired in a businesscombination.However,thedetailedguidanceforaccountingforintangibleassetsis provided by Ind AS 38, "Intangible Assets."

Ind AS 38 provides the framework for recognizing, measuring, and disclosing intangible assets in the financial statements. Intangible assets are identifiable non-monetary assets without physical substance. Examples of intangible assets include patents, copyrights, trademarks, brand names, software, customer relationships, and licenses. Key aspects of Ind AS 38 related to intangible assets include:

1. Recognition: Ind AS 38 requires an entity to recognize an intangible asset if it meets certain criteria. The asset must be identifiable, controlled by the entity, and expected to generate future economic benefits. It is important to note that internally generated goodwill and internally generated brands, mastheads, publishing titles, customer lists, and similar items are not recognized as intangible assets.

2. Measurement: Initially, an intangible asset is measured at cost, which includes the purchase price, direct costs incurred to acquire the asset, and any directly attributable costs necessaryto make the asset readyfor its intended use. Subsequently, an entitycan choose between the cost model and the revaluation model for measuring intangible assets. Under thecostmodel,theassetisrecordedatcostlessanyaccumulatedamortizationand

impairment losses. Under the revaluation model, the asset is periodically revalued to its fair value.

3. Amortization: Intangible assets with finite useful lives are systematically amortized over theirusefullives.Theamortizationperiodshouldreflecttheexpectedpatternofconsumption of the asset's economic benefits. The amortization method used should be based on the best estimate of the pattern of consumption.

4. Impairment: Intangible assets are subject to impairment testing when there is an indication of impairment. If the carrying amount of an intangible asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is thehigher of the asset's fair value less costs to sell and its value in use.

5. Disclosure: Ind AS 38 requires entities to disclose information about their significant intangible assets, including the nature, useful lives, and carrying amounts. Additionally, if an intangible asset is revalued, the entity should disclose the methods and significant assumptions used in determining the fair value.

Ind AS 38 provides comprehensive guidance on the recognition, measurement, and disclosure of intangible assets. It ensures that intangible assets are accounted for in a consistentandtransparentmanner,enablingusersofthefinancialstatementstounderstand the value and significance of these assets to the entity.

Ind AS 110, "Consolidated Financial Statements,"provides guidance on accounting for business combinations and the preparation of consolidated financial statements. A business combination occurs when an entity acquires control over one or more other entities.

KeyaspectsofIndAS110relatedtobusinesscombinationsinclude:

1. **Control:** Ind AS 110 defines control as the power to govern the financial and operating policies of an entity to obtain benefits from its activities. Control is the determiningfactor in deciding whether an entity is a subsidiary andshould be included in the consolidated financial statements.

2. Acquisition Method: Ind AS 110 requires the use of the acquisition method for accounting for business combinations. Under this method, the acquiring entityrecognizes and measures the identifiable assets, liabilities, and contingent liabilities of the acquired entity at their fair values at the acquisition date.

3. Fair Value Measurement: Fair value is a fundamental concept in the acquisition method. Ind AS 110 requires the acquiring entity to measure the fair value of the consideration transferred, which includes the fair value of any equity instruments issued, liabilities incurred, or contingent consideration.

4. Recognition of Goodwill: Goodwill arises when the consideration transferred in a business combination exceeds the fair value of the identifiable assets, liabilities, and contingentliabilitiesacquired.IndAS110requirestherecognitionofgoodwillasanasset in the consolidated financial statements. Goodwill is not amortized but is subject to impairment testing.

5. Non-controlling Interests: Non-controlling interests (NCIs), also known as minority interests,representtheportionofthesubsidiary'sequity notheld by theparent.IndAS 110 requires the recognition of NCIs as a separate component of equity in the consolidated financial statements.

6. Subsequent Measurement: After the initial recognition, the assets and liabilities of the acquired entity are accounted for in accordance with the relevant Ind AS standards. For example, property, plant, and equipment are accounted for under Ind AS 16, and intangible assets are accounted for under Ind AS 38.

7. PresentationandDisclosure: IndAS110providesguidanceonthepresentationand disclosure requirements for business combinations and consolidated financial statements. This includes disclosure of the nature of the business combinations, the effects on the financial statements, and any contingent consideration arrangements.

IndAS 110ensures thatbusiness combinations areaccounted for inaconsistentand transparentmanner,resultinginthepreparationofmeaningfulandreliableconsolidated

financial statements. Itprovides guidance onrecognizing, measuring, and presentingthe assets, liabilities, and equity of the acquired entity, as well as the treatment of goodwill and non-controlling interests in the consolidated financial statements.

Consolidated financial statements are financial statements that present the financial position, performance, and cash flows of a group of entities as if they were a single economic entity. These statements are prepared by a parent company that has control over one or more subsidiary entities.

The purpose of consolidated financial statements is to provide a comprehensive view of thefinancialpositionandperformanceoftheentiregroup,ratherthanviewingeachentity separately. They are important for stakeholders, including investors, lenders, and regulators, as they provide a consolidated picture of the group's financial health andallow for better analysis and decision-making.

Keycomponentsandconsiderationsofconsolidatedfinancialstatementsinclude:

1. Parent-Subsidiary Relationship: Consolidated financial statements are prepared when a parent company has control over one or more subsidiary entities. Control is typically achieved through ownership of more than 50% of the voting rights or throughthe ability to control the financial and operating policies of the subsidiary.

2. Consolidation Process: The consolidation process involves combining the financial statements of the parent and its subsidiaries. This includes aggregating the assets, liabilities, equity, income, expenses, and cash flows of the group, while eliminating any intercompany transactions and balances.

3. Non-controlling Interests: Non-controlling interests (NCIs), also known as minority interests, represent the ownership in subsidiaries held by entities other than the parent. NCIs are presented separately in the consolidated financial statements to reflect the portion of the group's results and equity attributable to outside shareholders.

4. Elimination of Intercompany Transactions and Balances: Intercompany transactions and balances between the parent company and its subsidiaries are eliminated in the consolidation process to avoid double counting and ensure that only externaltransactionsand balances arereflected intheconsolidatedfinancialstatements.

5. Presentation and Disclosure: Consolidated financial statements should comply with applicable accounting standards and regulatory requirements. They include financial statements such as the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, and consolidated statement of cash flows. Additionally, disclosures are provided to explain the consolidation process, the nature of subsidiaries, and any significant related party transactions.

CheckyourProgress

1. Which standard provides guidance on the recognition and measurement of revenue from contracts with customers in India?

a) IndAS 18

b) IndAS115

c) IndAS116

d) IndAS 101

2. IndAS16dealswiththeaccountingtreatmentfor:

a) Intangibleassets

b) Property,plant,andequipment

c) Financialinstruments

d) Leases

3. Whichstandardprovidesguidanceonthepresentationoffinancialstatementsin India?

a) IndAS1

b) IndAS 16

c) IndAS38

d) IndAS 103

4. IndAS109dealswiththeaccountingtreatmentfor:

a) Revenuerecognition

b) Financialinstruments

c) Leases

d) Businesscombinations

5. Whichstandardprovidesguidanceontheaccountingtreatmentforleasesin India?

a) IndAS 17

b) IndAS 109

c) IndAS116

d) IndAS 103

6. IndAS38providesguidanceontheaccountingtreatmentfor:

a) Revenuerecognition

b) Intangibleassets

c) Financialinstruments

d) Businesscombinations

7. Which standard provides guidance on the accounting treatment for employee benefits in India?

a) IndAS19

b) IndAS 103

c) IndAS109

d) IndAS 116

8. IndAS2dealswiththeaccountingtreatmentfor:

a) Revenuerecognition

b) Inventories

c) Financialinstruments

d) Leases

9. Which standard provides guidance on the accounting treatment for financial instruments in India?

a) IndAS 17

b) IndAS 109

c) IndAS116

d) IndAS9

10. IndAS101providesguidanceon:

a) First-timeadoptionofInd AS

b) Employeebenefits

c) Revenuerecognition

d) Consolidatedfinancialstatements

Answer:a)First-timeadoptionofIndAS

LonganswerQuestion

1. WhatareIFRS?Givetheirobjectivesandfeatures
2. Whatareaccountingstandards.Discussthemainobjectivesofsuchstandards.
3. Statetheobjectivesandfunctionsoftheaccountingstandardsboard.
4. Explainadvantagesanddisadvantagesofsettingaccountingstandards.
5. GiveinbriefsalientfeaturesofIndAs-16.
6. GiveninbriefsalientfeaturesofInd-2andIndAS-38.
7. GivesalientfeaturesofIndAS-7.
8. GivesalientfeaturesofIndAS-8