FAA- 3rd sem

Subject- 3.3 Corporate Accounting

UNIT-I

1. Meaning of the Company

A company is a special type of business organization formed by a group of people to carry on business activities and earn profits. What sets a company apart is its recognition as a separate legal entity, meaning it exists independently from its owners or shareholders. Because of this distinction, a company enjoys unique features not seen in other business structures like partnership or sole proprietorship. These features define how a company functions legally, financially, and operationally in the business world.

Key Features and Characteristics of a Company

A company has certain core features that ensure smooth operation and offer considerable legal and financial benefits to its members. These characteristics are fundamental to understanding why so many businesses choose to incorporate as companies.

- Separate Legal Entity:

Once incorporated, a company becomes an independent legal person distinct from its shareholders. This status allows it to own property, enter into contracts, and be sued or sue others in its own name. Shareholders are not personally responsible for company liabilities.

- Limited Liability:

Shareholders' liability is restricted to the amount unpaid on their shares. This means their personal assets are protected even if the company faces financial losses or debts.

- Perpetual Succession:

The existence of a company is not affected by the death, insolvency, or removal of any of its members. It continues until legally dissolved, providing business stability and long-term planning abilities.

- Transferability of Shares:

In most companies, especially public limited companies, shares are easily transferable. This means ownership can change hands without disrupting the daily operations or legal identity of the company. In private companies, there may be some restrictions, but the principle remains.

- Separation of Ownership and Management:

Shareholders own the company but usually do not manage its daily affairs. Management is handled by the board of directors and professional managers, allowing expertise and efficiency in operations.

- Artificial Legal Person:

The law treats a company as an artificial person. It can own property, enter into contracts, incur debts, and bear legal rights and duties, though it must act through human agents like directors.

- Common Seal (Optional):

Earlier, companies used a common seal as an official signature for documents. Today, the use of a common seal is mostly optional, and authorized directors’ signatures often suffice.

- Capacity to Enter Contracts:

Being a separate legal person, a company can sign contracts independently of its shareholders, establishing business relationships and obligations.

- Corporate Veil:

The distinction between a company and its shareholders is called the corporate veil. Generally, shareholders enjoy protection, but courts may ignore the separation (“pierce the corporate veil”) in cases of fraud or illegal activity.

1.1 Issue of Shares: At Par, Premium, and at Discount

Introduction

A company raises capital by issuing shares to the public. When a company issues shares, they can be issued at face value (par), above face value (premium), or below face value (discount).
Meaning of share issue: The process through which a company offers its shares to investors to raise capital is known as the issue of shares. The issue can be done in different ways based on the price at which shares are offered.

Issue at Par

- When the shares are issued at their face value, it is called issue at par.
- Example: Face value ₹10, issued at ₹10.

Issue at Premium

- When the shares are issued at a price higher than the face value, the difference is called securities premium.
- Example: Face value ₹10, issued at ₹12 → ₹2 is premium.
- The premium amount is credited to Securities Premium A/c.

Issue at Discount

- When the shares are issued at a price lower than the face value, it is called issue at discount.
- Example: Face value ₹10, issued at ₹9 → ₹1 is discount.
- Companies Act restricts issue of shares at discount except in certain cases (e.g., sweat equity shares).

1.2 Calls in Arrear

Meaning

When a shareholder fails to pay the call money (i.e., allotment or subsequent calls), such unpaid amount is known as Calls in Arrear.

- It is the amount not received from shareholders.
- Treated as deduction from share capital in the balance sheet.

Accounting Treatment

- Debit: Calls in Arrear A/c
- Credit: Relevant Call A/c (Allotment, First Call, etc.)

Example Entry:

Share First Call A/c Dr.

To Calls in Arrear A/c

1.3 Calls in Advance

Meaning

When a shareholder pays call money in advance, i.e., before it is demanded, such amount is called Calls in Advance.

- It is shown as a liability in the balance sheet.
- Interest on calls in advance may be paid (if Articles of Association allow).

Accounting Treatment

- Debit: Bank A/c
- Credit: Calls in Advance A/c

Example Entry:

Bank A/c Dr.

To Calls in Advance A/c

When call becomes due:

Calls in Advance A/c Dr.

To Share Call A/c

1.4 Under Subscription

Meaning

When the number of shares applied for by the public is less than the number of shares issued, it is called Under Subscription.

Example:

If a company issues 1,00,000 shares but receives applications for only 90,000 shares, it is an under subscription.

Effects:

- Shares are allotted only to the extent of applications received.
- If under subscription is significant, SEBI guidelines may not permit the issue.

1.5 Over Subscription

Meaning

When the number of shares applied for is more than the number of shares issued, it is called Over Subscription.

Example:

If a company issues 1,00,000 shares but receives applications for 1,50,000 shares, there is over subscription.

Methods of Allotment in Over Subscription:

1. Full Allotment to some applicants
2. Pro-rata Allotment to all or some applicants
3. Rejection of excess applications and refund of application money

Accounting Treatment for Excess Application Money:

- Adjusted against allotment or calls
- Excess refunded if not adjustable

1.6 Forfeiture of Shares (At Par, Premium, and Discount)

Meaning

If a shareholder fails to pay allotment or call money, the company can forfeit (cancel) the shares. This is called forfeiture of shares.

Forfeiture at Par

Example:

If ₹6 (out of ₹10 face value) is unpaid and company forfeits the shares.

Entry:

Share Capital A/c Dr. ₹X
  To Calls in Arrear A/c ₹X
  To Forfeited Shares A/c ₹X

Forfeiture at Premium

If premium is not received, it is not credited to Securities Premium A/c. If premium was already received, it is not affected by forfeiture.

Entry (if premium unpaid):

Share Capital A/c Dr.
Securities Premium A/c Dr.
  To Calls in Arrear A/c
  To Forfeited Shares A/c

Entry (if premium already received):

Share Capital A/c Dr.
  To Calls in Arrear A/c
  To Forfeited Shares A/c

Forfeiture at Discount

Shares issued at discount and later forfeited → discount is debited back.

Entry:

Share Capital A/c Dr. (including discount)
  To Calls in Arrear A/c

To Discount on Issue of Shares A/c
To Forfeited Shares A/c

UNIT II: Issue of Debentures

2.1 Issue of Debentures – At Par, Premium and at Discount

Meaning

A debenture is a long-term borrowing instrument used by companies to raise funds. It is an acknowledgment of debt under the company's seal and carries a fixed rate of interest.

Types of Issue of Debentures

1. At Par: When debentures are issued at their face value (e.g., ₹100 debenture issued at ₹100).

Entry:

Bank A/c ....Dr.
To Debentures A/c
(Being debentures issued at par)

2. At Premium: When debentures are issued at an amount more than their face value.

Entry:

Bank A/c ....Dr.
To Debentures A/c
To Securities Premium A/c
(Being debentures issued at premium)

3. At Discount: When debentures are issued at less than face value.

Entry:

Bank A/c ....Dr.
Discount on Issue of Debentures A/c ....Dr.
To Debentures A/c
(Being debentures issued at discount)

2.2 Writing Off Discount and Loss on Issue of Debentures

Meaning

The discount allowed or loss incurred on the issue of debentures is a capital loss and should be written off over the period during which the debentures are outstanding.

Journal Entry for Writing Off Discount

- When written off from Profit and Loss Account:

Profit & Loss A/c ....Dr.
To Discount on Issue of Debentures A/c
(Being the discount written off)

Writing Off from Securities Premium Reserve

- If permitted by law, discount can be written off using the premium collected:

Securities Premium A/c ....Dr.
  To Discount on Issue of Debentures A/c
(Being discount written off using premium)

2.3 Issue of Debentures as Collateral Security

Meaning

Sometimes, companies issue debentures as additional security while obtaining loans. These are known as collateral securities.

Two Methods of Accounting

1. No Entry Method (Only a note is appended below the loan liability):
   No journal entry, only disclosure in notes.
2. Entry Method:

Debenture Suspense A/c ....Dr.
  To Debentures A/c
(Being debentures issued as collateral security)

At the time of repayment of loan:

Debentures A/c ....Dr.
  To Debenture Suspense A/c
(Being cancellation of debentures issued as collateral)

2.4 Issue of Debentures for Considerations Other Than Cash

Meaning

Debentures can be issued to vendors for purchasing assets or settling liabilities without involving cash transactions.

Entries:

1. When asset is purchased:

Asset A/c ....Dr.
  To Vendor A/c
(Being asset purchased from vendor)

2. When debentures are issued:
   - At Par:

Vendor A/c ....Dr.
  To Debentures A/c
(Being debentures issued at par)

   - At Premium:

Vendor A/c ....Dr.
  To Debentures A/c
  To Securities Premium A/c

(Being debentures issued at premium)

- At Discount:

Vendor A/c ....Dr.
Discount on Issue of Debentures A/c ....Dr.
  To Debentures A/c
(Being debentures issued at discount)

UNIT III: Redemption of Debentures

3.1 Sources of Redemption of Debentures

Meaning

Redemption of debentures refers to the repayment of the amount borrowed by the company through debentures. It can occur at maturity or earlier, depending on the terms of issue.

Sources of Redemption

1. Out of Capital – The company uses available funds without setting aside any reserves.
2. Out of Profits – The company sets aside part of its profits into a reserve to ensure redemption.
3. Fresh Issue of Shares or Debentures – Funds from new issues are used to redeem existing ones.
4. Sinking Fund or Insurance Policy – A fund or policy is set up to accumulate money for redemption.

3.2 Redemption Out of Profits

Meaning

When redemption is made from accumulated profits, it shows financial discipline and maintains capital structure by setting aside funds gradually.

Steps Involved

1. Transfer a portion of profit to the Debenture Redemption Reserve (DRR).
2. Invest required amount in Debenture Redemption Investments (DRI), if legally required.

Journal Entry

Profit & Loss Appropriation A/c ....Dr.
  To Debenture Redemption Reserve A/c
(Being DRR created from profits)

Advantages

- Maintains solvency
- Builds investor trust
- Meets statutory obligations

3.3 Debenture Redemption Reserve (DRR)

Meaning

DRR is a reserve created from profits to ensure that funds are available for redemption of debentures at maturity.

Key Features

- Created from Profit & Loss Appropriation Account.
- DRR amount depends on the legal requirement (e.g., earlier 25% of value).
- Not used for other purposes before redemption.

Utilization

After debentures are redeemed, the DRR can be transferred to General Reserve.

Journal Entry

Debenture Redemption Reserve A/c ....Dr.

To General Reserve A/c

(Being transfer of DRR balance after redemption)

UNIT IV: Final Accounts of Joint Stock Company

4.1 Format of Profit and Loss Account

Meaning

The Profit and Loss Account is prepared to determine the net profit or net loss of the company during the financial year. It includes all indirect incomes and indirect expenses.

Format of Profit and Loss Account of a Company

XYZ Ltd.

Profit and Loss Account for the year ended...

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salaries	………………….	By Gross Profit b/d	……………………….
To Rent	……………….	By Commission Received	…………………..
To Insurance	…………………	By Interest Received	…………………..
To Depreciation	………………….		
To General Expenses	………………….		
To Directors' Remuneration	………………….		
To Audit Fees	………………….		
To Provision for Tax	………………….		
To Net Profit c/d (transferred to P&L Appropriation A/c)	………………….		
Total		Total	

4.2 Format of Profit and Loss Appropriation Account

Meaning

This account shows how the net profit is distributed among shareholders, reserves, and dividends. It is an extension of the Profit and Loss Account and is prepared by companies only.

Format of Profit and Loss Appropriation Account

XYZ Ltd.

Profit and Loss Appropriation Account for the year ended...

Particulars	Amount (₹)	Particulars	Amount (₹)
To General Reserve		By Net Profit b/d	
To Proposed Dividend		By Balance of Profit from last year	
To Interim Dividend			
To Corporate Dividend Tax			
To Balance Carried Forward			
Total		Total	

4.3 Format of Balance Sheet

Meaning

The Balance Sheet is a financial statement that shows the financial position of a company on a specific date. It contains assets, liabilities, and shareholders' equity.

Format of Balance Sheet (as per Schedule III of Companies Act, 2013)

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XYZ Ltd.

Balance Sheet as at 31st March, 20XX

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
1. Shareholders' Funds		
a) Share Capital		
b) Reserves and Surplus		
2. Non-Current Liabilities		
a) Long-term Borrowings		
b) Deferred Tax Liabilities		
3. Current Liabilities		
a) Short-term Borrowings		
b) Trade Payables		

c) Other Current Liabilities

d) Short-term Provisions

Total | |

II. Assets

1. Non-Current Assets

a) Property, Plant, and Equipment

b) Intangible Assets

c) Non-Current Investments

d) Deferred Tax Assets

2. Current Assets

a) Inventories

b) Trade Receivables

c) Cash and Cash Equivalents

d) Short-term Loans and Advances

Total | |
