LESSON ROUND –UP

COMPANY ACCOUNTS, COST AND MANAGEMENT ACCOUNTING

PART A- COMPANY ACCOUNTS

1. ACCOUNTING STANDARDS

- Indian Accounting Standards (AS) are prescribed by the Accounting-Standard Board (ASB) of the Institute of Chartered Accountants of India which are notified by the Central Government in consultation with the National Advisory Committee on Accounting Standards.

- International Accounting Standards (IAS) /International Financial Reporting Standards (IFRS) are issued by International Accounting Standard Board (IASB).

- Accounting Standards relate to the codification of generally accepted accounting principles and are stated to be the norms of accounting policies and practices.

- The objective of setting standards is to bring about uniformity in financial reporting and to ensure consistency and comparability in the data published by enterprises.

- Accounting standards facilitate uniform preparation and reporting of general purpose financial statements published annually for the benefit of shareholders.

- The preparation of financial statements with adequate disclosures as required by the accounting standards is the responsibility of the management of the organization.

- The main function of the ASB is to formulate Accounting standards so that such standards may be established by the ICAI in India.

- The Accounting standards are formulated under the authority of the Council of the ICAI.

- ASB has so far issued 31 Accounting Standards (AS 8 being withdrawn) and more new Accounting Standards are under finalization. The ICAI has decided in princilple to enforce the convergence of Indian accounting standards with IFRS by 1st April 2011.

2. ACCOUNTING FOR SHARE CAPITAL

- Accounting records should be prepared to enable the company to ascertain and know: the liabilities and assets of the company, the cost of goods sold or purchased and value of stock, the sales made and profit earned, the expenditure incurred and the losses incurred during the year.

- Managing director or manager, or every director of the company and every officer and other employees and agent are responsible for keeping the books of account.

- There are two basic types of share capital which can be issued by a company under the Companies act, 1956 i.e. (a) preference shares and (b) equity shares.

- Preference shares are those which carry preferential rights as to the payment of dividend at a fixed rate; and the return of capital on winding up of the company.

- An equity share is one which is not a preference share. Equity shares are normally risk bearing shares.

- Balance sheet of a company can be categorized as: Nominal or authorized capital; Issued Capital; Subscribed Capital; Called up Capital and paid up Capital.

- Shares of a Company may be issued at par; at premium and at discount.

- When the number of shares applied for exceeds the number of shares issued, the shares are said to be over-subscribed, in which case some applications are rejected out rightly; of some applications are accepted in full; and allotment is made to the remaining applicants on pro-rata basis.

- When shares are issued at price higher than the face value, they are said to be issued at premium.

- When shares are issued at a price lower than the face value, they are said to be issued at discount.

- A company may allot fully paid shares to promoters or any other party for the services rendered by them without payment which is known as issue of shares for consideration other than cash.

- Forfeiture of shares may be said to be the company termination of membership by way of penalty for non-payment of allotment and/or any call money.

- The forfeited shares may be re-issued at par, at a premium or even at a discount. If forfeited shares are re-issued at a discount, the amount of discount can, in no case, exceed the amount credited to shares Forfeited account.

- As per Sec.77A of the Companies Act. 1956 states that a company may purchase its own shares or other specified securities out of its free reserves, and the proceeds of any shares or other specified securities.

- According to Sec.80 of the Companies Act, a company limited by shares may if authorized by its articles, issued preference shares, which are, or at the option of the company are liable to be redeemed.

- A company under legal obligation to offer first the further issue of shares to its existing equity shareholders but he holders are not liable to necessarily accept the offer so made. This right is called right issue.

3. <u>ISSUE AND REDEMPTION OF DEBENTURES.</u>

- Debenture may be issued at par, or at a premium, or at a discount.

- Debentures may be issued by a company for cash, for consideration other than cash, and as collateral security.

- The issue of debentures to vendors is known as issue of debentures for consideration other than cash.

- The term “Collateral Security” implies additional security given for a loan. When a company takes a loan from bank or insurance company, it may issue its own debentures to the lender as collateral security against the loan in addition to any other security that may be offered, such as issue of debentures is known as “Debentures issued as Collateral Security”.

- A company may issue debentures on any specific condition as to its redemption such as: issued at par and redeemable at par, issued at discount redeemable at par, issued at premium redeemable at par, issued at par redeemable at premium, issued at discount, but redeemable at premium.

- When a company issues debentures it undertakes to pay interest thereon at a fixed percentage. The payment of interest on the debt is obligatory on the part of the company or not and the interest payable on debentures is a charge against the profits of the company.

- Discount on issue of debentures is a capital loss of the company and it is required to be shown on the assets side of the balance sheet under the heading “Miscellaneous Expenditure” until it is written off.

- When a company issue debentures at par or at a discount which are redeemable at a premium, the premium payable on redemption of the debentures is be treated as capital loss.

- Redemption of debentures refers to the discharge of the liability in respect of the debentures issued by a company. Debentures can be redeemed at any time either at par or at a premium or at a discount.

- Debentures may be redeemed by way of: annual drawings, payment in one lump sum at the expiry of a specified period or at the option of the company at a date within such specified period, purchase of debentures in the open market and conversion into shares.

- Interest on debentures is generally paid half-yearly to the holders on certain specified dates. If the purchase price for the debentures includes interest for the expired period, the quotation is said to be “cum-interest”, on the other hand, the purchase price for the debentures excludes the interest for the expired period, the quotation is said to be “ex-interest”.

4. UNDERWRITING OF ISSUES AND ACQUISITION OF BUSINESS

- Underwriting is an undertaking or guarantee given by the underwriters to the company that the shares or debentures offered to the public will be subscribed for in full.

- An underwriting agreement may be: Complete Underwriting, partial Underwriting and firm underwriting.

- Applications bearing the stamp of the respective underwriters are called marked applications and the applications received directly by the company which do not bear any stamp of the underwriters are known as unmarked applications.

- Acquisition of business by a limited company refers to the purchase of a non-corporate business like sole-proprietorship or partnership form of business by a company.

- The profit or loss of the business, acquired the period from the date of purchase till the date of incorporation is called profit or loss prior to incorporation.

- The apportionment of profit or loss between the pre-incorporation and post-incorporation periods can be done on: time basis, turnover basis and equitable basis.

- Preliminary expenses refer to those expenses incidental to the creation and floating of a company.

5. CONSOLIDATION OF ACCOUNTS

- A holding company is one which acquires all or a majority of the equity shares of any other company called subsidiary company in order to have control over the subsidiary company.

- Section 212 of the Companies Act, 1956 requires that the balance sheet of a holding company must attach the documents in respect each subsidiary company as regards; a copy of the balance sheet, a copy of its profit and loss account, a copy of the report of the Board of directors, a copy of its auditors, a statement of the holding company's interest and profit in the subsidiary, a statement regarding changes in interest, assets and liabilities in-between the period from the date of closing the accounts of subsidiary up to the date of closing of the holding company when the two dates do not coincide; and if the Bard of directors of the holding company for any reason is unable to obtain information about profits of the subsidiary, report in writing to that effect.

- Consolidation of balance sheet and profit and loss account implies preparation of a single balance sheet and profit and loss account of the holding company and its subsidiaries by aggregating all items of assets, liabilities, income, expenses, etc. of the holding company and its subsidiaries.

- Investment in shares of subsidiary company represents the ownership of the holding company in the equity or net assets of the subsidiary company.

- Minority interest is equal to the paid-up value of shares held by minority shareholders plus proportionate share of the company's profits and reserves plus proportionate share profits on revaluation of assets of the company minus proportionate share of company's loss minus proportionate share of loss on revaluation of assets of the company.

- Accumulated profits and reserves which appear in the balance sheet of the subsidiary company up to the date of acquisition of its shares by the holding company are called pre-acquisition profits and reserves.

- Accumulated loss of subsidiary company upto the date of acquisition of shares by the holding company are called pre-acquisition losses.

- If the price paid by the holding company for the shares acquired in the subsidiary company is more than the intrinsic value of the shares acquired, the difference is treated as capital profits and credited to capital reserve.

- Profits earned or losses incurred by the subsidiary company after the date of acquisition of its share by the holding company are called post-acquisition profits or losses.

- When goods are sold by one company to the other at a profit and a part of it remains unsold at the end of the year, there arise the unrealized profit on such goods remaining unsold.

- The holding company and the subsidiary company may have a number of intercompany transactions which may be eliminated while preparing the consolidated balance sheet.

- Contingent liabilities relate to the outsiders must be shown by way of a footnote in the consolidated balance sheet. But a contingent liability in respect of a transaction between holding and subsidiary companies will disappear from the foot note.

- Issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as the minority shareholders. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits.