CORPORATE ACCOUNTING

Calicut University Examination questions and answers

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CHAPTER I- ISSUE OF SHARE CAPITAL

Define company?

A company is an association of persons who contribute money or money's worth to a common stock and uses it for a common purpose. In the words of Justice James, "a company is an association of persons united for a common object". Sec 3(1) (i) of the Companies Act 1956 defines a company as "company formed and registered under this Act or an existing company".

What are Chartered companies?

Those companies which are incorporated under a special charter by the king or sovereign such as East India Company.

What are statutory companies?

These companies are formed by the special Act of legislature or parliament like RBI.

What are registered companies?

Such companies are incorporated under the Companies Act 1956 or were registered under any previous Companies Act.

What are Limited companies?

In these companies, the liability of each member is limited to the extent of face value of shares held by him.

What are Guarantee companies?

The liabilities of member of such companies are limited to the amount he has undertaken to contribute to the assets of the company in the event of its winding up.

What is Unlimited Companies?

In these companies, the liability of the members is unlimited and members are personally liable to the creditors of the company fop making up the deficiency. Such companies are rare these days.

Define Shares?

According to Sec 2(46) of the Companies Act 1956, share has been defined as a Share in the share capital of the company; and includes stock except where a distinction between stock and share is expressed or implied.

What is Preference Shares

Shares which enjoy the preferential rights as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. The holder of preference shares will get a fixed rate o dividend.

Types of preference shares

1. **Cumulative preference shares** – In case of these shares, the arrears of dividend are carried forward and paid out of the profits of the subsequent years.
2. **Non-cumulative preference shares** – If dividend not to accumulate and not to carried forward to next year, these are called non-cumulative preference shares.
3. **Participating preference shares** – In addition to a fixed dividend, balance of profit (after meeting equity dividend) shared by some preference shareholders. Such shares are participating preference shares.
4. **Non-participating preference shares** – These shares get only a fixed rate of dividend. These do not get share in the surplus profit.
5. **Redeemable preference shares** – If preference shares are returned after a specified period to shareholders, these preference shares e shares are called redeemable preference shares.
6. **Convertible preference shares** – These shares are given the right of conversion into equity shares within a specified period or at a specified date according to the terms of issue.

What is Equity Shares

Equity shares are those which are not preference shares. Equity shares do not carry any preferential gain in respect of dividend or repayment of capital. So these are known as ordinary shares.

Types of share capital

1. **Authorized (Registered or Nominal) Capital** – It is the maximum amount of capital which the company is authorized to raise by way of public subscription.
2. **Issued Capital** – The part of authorized capital which is offered to the public for subscription is called issued capital.
3. **Subscribed Capital** – That part of the issued capital for which applications are received from the public is called subscribed capital.
4. **Called-up Capital** – That part of subscribed capital which has been called-up or demanded by the company is called called-up capital.
5. **Paid-up Capital** – The part of called-up capital which is offered and actually paid by the members is known as paid-up capital. Any unpaid amount of balance on the called-up capital is known as unpaid capital or calls in arrears.
6. **Reserve Capital** – It is that portion of the uncalled capital which called-up only at the event of company's winding is up.

Meaning of Allotment of shares

Allotment of shares means the acceptance of offer of the applicant for the purchase of shares. Directors have the discretionary power to reject or accept the applications. But the public company cannot allot its shares unless the minimum subscription has been subscribed by the public and the amount of application has been received. After the allotment of shares to the applicants who will become the shareholders of the company.

Issue of shares at premium

Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. The excess amount received over the face value is called share premium. It is a capital receipt. The share premium shall be transferred to "Securities Premium A/c". It should be shown on the liability side of balance sheet under the head "Reserves and Surplus".

Under subscription of shares

Sometimes the applications for shares received will be less than the number of shares issued. This is called under subscription. In such a case, the allotment will be equal to the number of shares subscribed and not to the shares issued.

Over subscription of shares

Sometimes the applications for shares received will be more than the number of shares issued. This is called over subscription.

Calls in Arrears and Calls in Advance

Sometimes shareholders may fail to pay the allotment money and or call money. Such dues are called calls in arrears.

When a shareholder pays more money than called up, the excess money is called calls in advance.

Forfeiture of shares

The cancellation of shares due to non-payment of allotment money or call money within a specified period is called forfeiture of shares.

Reissue of forfeited shares

Forfeited shares may be reissued by the company either at pr, premium or discount. But the discount on reissue should not exceed the amount forfeited

CHAPTER II
REDEMPTION OF PREFERENCE SHARES

Redemption of preference shares?

When the preference shares are issued it is to be paid back by the company to such shareholders after the expiry of a stipulated period whether the company is to be wound up or not.

Methods of Redemption

(a) Redemption out of fresh issue of shares

(b) Redemption out of profits

(c) Redemption partly out of fresh issue and partly out of profit

Buy back of shares?

Buy back is a method of cancellation of share capital. It simply means buying of own shares. It leads to reduction in the share capital of a company.

Methods of buy back

As per SEBI guidelines, there are two methods of buy back of shares. They are:

1. Buy back through tender offer – Under this, a company can buy back its shares from its Existing shareholders on a proportionate basis.
2. Buy back from the open market – A company can also buy back its shares from the open market either through stock exchanges or book building process.

CHAPTER III- DEBENTURES

Define debenture?

The Companies Act defines debenture as "debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not".

What are the Classification of debentures?

1. Secured or Mortgage debentures – These debentures are secured either on a particular asset or on the assets of the company in general.
2. Unsecured or Naked debentures – These debentures do not create any charge on the assets of the company.
3. Registered debentures – These debentures arte payable to the persons recorded in the register of debenture holders of the company and these are transferable only with the knowledge of the company.
4. Bearer debentures – In these debentures company maintains no register of debenture holders and these are transferable by mere delivery.
5. Redeemable debentures – These debentures are repayable after a fixed period either in lump sum or in installments.
6. Perpetual or Irredeemable debentures – These debentures are not repayable during the life time of the company.

7. Convertible debentures – These debentures can be converted into the shares within or after a Specified period, at the option of the holder.
8. Non-Convertible debentures – These debentures can't be converted into shares.

CHAPTER IV-REDEMPTION OF DEBENTURES

Redemption of debentures

Redemption of debentures refers to the discharge of liability on account of debentures. It simply means repayment of debentures.

CHAPTER V
FINAL ACCOUNTS OF COMPANIES

Profit and Loss Appropriation Account?

The account showing the disposal of divisible profits is called Profit and Loss Appropriation Account. The credit balance of Profit and Loss Appropriation Account is shown on the liability side of the Balance sheet under the head 'Reserves and Surplus'. Debit balance is shown on the assets side of the balance sheet under the head 'Miscellaneous expenditure'. Profit and Loss Appropriation Account items are called as items 'below the line'.

What is Dividend?

The divisible profit (profit available to shareholders) of a company is distributed among the shareholders of the company on the basis of number of shares held. This is called dividend. The Board of Directors recommends the amount of dividend and the shareholders in their annual general meeting declare the dividend recommended by the Board of Directors. Dividend is usually paid on paid up capital.

Proposed dividend

It is the dividend recommended by Board of Directors after the close of the books of account. When it I approver by the shareholders in the annual general meeting, it becomes final dividend.

Interim dividend

Interim dividend refers to the dividend paid by the company before the preparation of final accounts. It is declared between two annual general meetings.

Final dividend

It is the dividend which is proposed and declared at the end of the accounting year after the close of the books of account.

Unclaimed dividend

It refers to the dividend not yet claimed by the shareholders within 30 days of declaration of dividend. It is shown as a current liability in the balance sheet.

Corporate Dividend Tax (CDT)

The companies distributing dividend are required to pay tax on such dividends. It is called Corporate Dividend Tax (CDT). CDT is payable on any amount declared, distributed or paid by a company as dividend. At present, the rate of CDT is 16.995 %(17%). Corporate Dividend Tax is shown on the debit side of Profit and Loss Appropriation Account and on the liability side of Balance sheet under the head 'Current liabilities and Provisions' (Provisions).

Transfer to Reserves

Generally, Board of Directors has the discretionary power regarding the transfer of profit to the reserve. However, as per Section 205(2A) of the Act, it is compulsory for a company to transfer certain minimum amount to the reserve at a rate not exceeding 10%.

CHAPTER VI
AMALGAMATION OF COMPANIES

Amalgamation

Amalgamation means an amalgamation pursuant to the provisions of the Companies Act 1956 or any other statute which may be applicable to companies.

Transferor Company?

Transferor Company means the company which is amalgamated into another company.

Transferee Company?

Transferee Company means the company to which a 6ransferor company is amalgamated.

Objectives of amalgamation

1. To avoid competition
2. To enjoy the benefits of large scale production
3. To increase share capital

External reconstruction

External reconstruction takes place when an existing weak company goes in to liquidation and new company is formed to take over its business

Intercompany owing

If there is any purchase or sales between Vendor Company and purchasing company, there will be some amount owing between the two companies. It is called intercompany owing

Types of Amalgamation

1. **Amalgamation in the nature of Merger (Pooling Interest Method):**

An amalgamation should be considered to be an amalgamation in the nature of merge when all the following conditions are satisfied:

I. All the assets and liabilities of the Transferor Company or companies before amalgamation should become the assets and liabilities of the transferee company.

ii. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (excluding the proportion held by the transferee company) should become the shareholders of the transferee company.

iii. The consideration payable to the above mentioned shareholders should be discharged by the transferee company by the issue of the equity shares and cash can be payable in respect of fractional shares.

iv. The business of the Transferor Company/ companies is intended to be carried on by the transferee company.

v. No adjustment is intended to be made to the book values of the assets and liabilities of the Transferor Company/ companies when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

2. Amalgamation in the nature of purchase

An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified for amalgamation in the nature of merger is not satisfied.

Forms or Methods of Internal reconstruction

1. Alteration of share capital.
2. Reduction of share capital.

Alteration of Share Capital

According to Sec. 94 of the Companies Act, a limited company can, if authorized by its articles of association, alter the capital clause of its memorandum of association in any of the following ways.

a. By increasing its share capital by issue of new shares.

b. By consolidating existing shares of smaller amounts into shares of larger amo9unts.

c. By subdividing the existing share into shares of smaller amounts.

d. By converting fully paid shares into stock 0or stock into fully paid shares.

Reduction of Share Capital

Reduction of capital is unlawful except when sanctioned by the court because conservation of capital is one of the main principles the Company Act. In order to reduce the share capital, the company must be authorized by its articles of association, a special resolution must be passed at general meeting, and confirmation of court etc. is required. A company can reduce its share capital by any of the following ways:

a. By reducing the liability of the shareholders for uncalled capital.

b. By paying off the surplus capital.

C. By reducing paid up capital which is not represented by available assets.

Capital Reduction Account

Capital Reduction Account is a new account opened for transferring that part of capital which is lost or not represented by the assets. It is a temporary account opened for carrying out

Surrender of shares

Under reconstruction, the shareholders may be required to surrender a part of their share holdings. Such surrendered shares may be reissued to other parties (creditors, debenture holders etc.) in whole or in part satisfaction of their claims.

CHAPTER VII

FINAL ACCOUNTS OF BANKING COMPANIES

Define banking?

Section 5 of the Act defines banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise".

Statutory Reserve

As per Section 17, banking companies incorporated in India hall transfer every year at least 25% of its profit before any dividend is declared to a Statutory reserve (Reserve fund) until the amount of the reserve together with the security premium Account is equal to the paid up capital.

Cash Reserve Ratio (CRR)

Banks are required to maintain with the Reserve Bank of India a cash reserve of at least 3% of the total of its demand and time liabilities in India.

Statutory Liquidity Ratio (SLR)

Banks are also required to maintain atleas6t 25% of the demand and time liabilities in the form of liquid

assets like cash, gold or unencumbered. SLR may vary in a range of 25% to 40%.

Non – Banking Assets

These are the assets which are not used in the ordinary course of business of banking, but they are such immovable and movable properties which come under the possession o t he banking company for recovering the amount due from customers.

Minimum Capital and Reserves

In case of a banking company incorporated in India, the sum of its paid up capital and reserves shall not be less than the amount mentioned below:

a. If it has places of business in more than one state Rs.500000, and if any such place of business is situated in Mumbai or Kolkata or in both, Rs.1000000.

b. If it has all its places of business in one state, none of which is Mumbai or Kolkata,Rs.100000 in respect of its principal place of business plus Rs.10000 for each additional place of business in the same district plus Rs.25000 for each place of business elsewhere in the state(the maximum amount required being Rs.500000).

Books maintained by banks

1. Receiving Cashier's Counter Cash Book.
2. Paying Cashier's Counter Cash Book.
3. Current Accounts Ledger.
4. Saving Bank Accounts Ledger.
5. Fixed Deposit Accounts Ledger.
6. Investment ledger.
7. Bills Discounted and Purchased Ledger.
8. Loan Ledger.
9. Cash Credit Ledger.
10. Customers' Acceptances, endorsements and Guarantee Ledger.
11. Recurring Deposits Accounts Ledger, etc.

The Slip System

This is not a system of book keeping, but a method of rapidly posting entries to books kept on double entry system. In this system, posting is made from slips prepared inside the organization itself or from slips filled in by its customers. In a banking company, the main slips are pay-in-slips, withdrawal slips and cheques and all these slips are filled in by clients of the bank.

Money at call and short notice:

It represents temporary loans to bill brokers, stock brokers and other banks. If the loan is given for one day, it is called "money at call" and if the loan cannot be called back on demand and will require at least a notice of three days for calling back, it is called "money at short notice".

Advances:

Advances include Bills discounted and purchased, loans, cash credit and overdraft.

Inter - office adjustments:

Every head office will have a number of transactions with its branches. The head office makes necessary adjustments in its books on the receipt of information from the branches. On the date of balance sheet some transaction may remain unadjusted in the books of the head office. Such entries are recorded in the balance sheet under the sub-heading 'Branch Adjustments' and may appear on the assets side under the heading 'Other Assets' if it has a debit balance and on t e liabilities side under the heading 'Other Liabilities' if it has a credit balance.

Bills for Collection:

When the bank receives bills receivables from its customers for collection, it keeps them till maturity. On the date of maturity when bills are collected, customers account is credited with the amount collected. If some bills remain outstanding, such bills are treated by the banks as outstanding bills for collection. It is shown as 'Contingent Liability (Schedule 12)'.

Non-Performing Assets (NPA)

Bank advances can be classified as Performing Assets and Non-Performing Assets (NPA). An asset becomes NPA when it ceases to generate income for the bank. NPA means a credit facility in respect of which interest and/or principal repayment installments is in arrears for more than 90 days. Interest income from NPA is considered as income as and when it is received rather than on accrual basis

Rebate on bills discounted or unexpired discounts

The whole amount of discount on bills discounted may no t be related to that accounting year. A part of it may be related to next accounting period. This is so because at the close of the accounting year, some of the bills discounted may not have matured. In short rebate on bills discounted means the unearned amount or discount received for those bills which mature after the date of closing the final accounts. It is also called unexpired discount or discount received in advance.

CHAPTER VIII
FINAL ACCOUNTS OF INSURANCE COMPANIES

Insurance

Insurance is a contract whereby one party agrees for a consideration called premium to indemnify the other against a possible loss or to pay a stated sum of money on the happening of a particular event.

Policy

This agreement or contract when put in writing is known as policy.

Insured or assured

The person whose risk is covered is called insured or assured

Insurer, assurer or underwriter

The company or corporation which insures is known as insurer, assurer or underwriter.

Premium

The consideration in return for which the insurer agrees to make good the loss is known as premium.

Types of Insurance

1. **Life Insurance**

A life insurance contract is a long term contract in which the assured must pay the premium at stated intervals and the insurer guarantee to pay a certain sum of money to the assured on the happening of the event which is certain (either death or expiry of the fixed period). Section 2 of Indian Insurance Act 1938 defines life insurance as "life insurance business is the business of effecting contracts upon human life".

2**. General Insurance**

All insurance other than life insurance is general insurance. Under this type of insurance, the insurer undertakes to indemnify the loss suffered by the insured on happening of a certain event in consideration for a fixed premium. Usually all these are short term agreements for a year.

Fire insurance, marine insurance, accident insurance, burglary insurance, third party insurance etc. are the examples for general insurance.

Claims

Claim is the amount payable by the insurance company. In life insurance business, claims may arise due to two reasons i.e., by death or maturity.

Annuity

It is an annual payment which a life insurance company guarantees to pay for lump sum money received in the beginning.

Surrender value

If an insured is unable to pay the further premium, he can get his policy paid from the company. It is the present cash value of the policy which a holder gets from the company on surrendering all the rights of the policy.

Bonus in reduction of premium

Instead of paying bonus in cash, the insurance company may deduct the bonus from the premium due from the insured. This is known as bonus in reduction of policy.

Consideration for annuities granted

Any lump sum payment received by the insurance company in lieu of granting annuity is called consideration for annuity granted.

Re-insurance

When a company accepts a business of more value and in order to reduce the risk, may pass on some business to the other company, it is called reinsurance.

Commission on Reinsurance Accepted or Ceded

The Company which passes some business to the other company gets some commission which is known as *commission on reinsurance business ceded*. Commission paid on reinsurance business accepted is known as *Commission on Reinsurance Accepted.*

Reserve for Unexpired Risk

The reserve maintained to meet any possible liability in respect of those policies which are not expired at the end of an accounting year is called reserve for unexpired risk. Opening balance for reserve for unexpired risk is added to the premium and closing balance of reserve for unexpired risk is deducted from the premium. The net premium should be shown in revenue account. The closing balance of reserve for unexpired risk should be shown in the balance sheet under the head 'provisions'.

Difference between internal reconstruction and external reconstruction

Internal reconstruction	External reconstruction
1.A company does not lose its identity	A company lose its identity
2.No new company is formed	New company is formed to take over the business
3.Debenture holders and creditors may continue	These parties will have to be settled