

# DegreeLive

## **CORPORATE ACCOUNTING**

B.Com Semester 3 – Calicut University

DegreeLive

## MODULE 1: PREPARATION OF FINAL ACCOUNTS OF JOINT STOCK COMPANIES

---

### Company Final Accounts and Regulatory Framework

1. Company final accounts show financial performance and financial position of a company.
2. Prepared according to Schedule III of the Companies Act, 2013.
3. Helps shareholders, investors and regulators evaluate company performance.

### Need and Objectives

1. Determine profit or loss.
2. Present financial position.
3. Ensure legal compliance.
4. Assist decision making.

### Ind AS 1 (Presentation of Financial Statements)

1. Prescribes presentation of financial statements.
2. Ensures comparability and transparency.
3. Specifies minimum disclosure requirements.

### Statement of Profit and Loss

1. Shows income, expenses and profit/loss of a company during an accounting period.

### Main Items

#### Income

1. Revenue from operations.
2. Other income.

#### Expenses

1. Cost of materials consumed.
2. Employee benefits expense.
3. Finance cost.
4. Depreciation.
5. Other expenses.

### Profit Flow

1. Profit Before Tax (PBT)
2. ↓
3. Tax
4. ↓
5. Profit After Tax (PAT)

### Statement of Financial Position (Balance Sheet)

1. Shows assets, liabilities and equity on a specific date.

### Major Heads

#### Assets

1. **Non-Current Assets:** Fixed assets, Investments.
2. **Current Assets:** Inventory, Trade receivables, Cash and bank balance.

#### Equity and Liabilities

1. **Shareholders' Funds:** Share capital, Reserves and surplus.
2. **Non-Current Liabilities:** Long-term borrowings.
3. **Current Liabilities:** Trade payables, Short-term provisions.

### Statement of Changes in Equity and Notes to Accounts

#### Statement of Changes in Equity

1. Shows changes in share capital and reserves during the year.

#### Includes:

1. Opening balance.
2. Profit for the year.
3. Dividend.
4. Closing balance.

#### Notes to Accounts

1. Additional explanations supporting financial statements.
2. Provide detailed information on accounting policies and figures.

**Importance:** Improves transparency, Helps users understand accounts.

### Accounting Standards

1. Rules and guidelines for preparation of financial statements.

### Objectives

1. Uniformity.
2. Comparability.
3. Reliability.
4. Transparency.

### Examples

1. Ind AS 1.
2. Ind AS 110.
3. Ind AS 16.

## MODULE 2: BONUS ISSUE, RIGHT ISSUE AND DEBENTURES

---

### Bonus Shares

#### Meaning

1. Free shares issued to existing shareholders from reserves.

#### Features

1. No cash received.
2. Capitalizes reserves.
3. Increases number of shares.

## Provisions

1. Governed by Companies Act and SEBI guidelines.

## Journal Entry

```
Bonus to Shareholders A/c Dr
    To Share Capital A/c
```

## Right Issue

### Meaning

1. Existing shareholders get the right to buy additional shares before public issue.

### Features

1. Offered in proportion to existing holdings.
2. Usually issued at a concessional price.

### Advantages

1. Protects ownership rights.
2. Raises capital quickly.

### Accounting Treatment

```
Bank A/c Dr
    To Share Capital A/c
    To Securities Premium A/c (if any)
```

## Accounting for Debentures

### Debenture

1. Written acknowledgement of debt issued by a company.

### Redeemable Debentures

1. Repaid after a specified period.

### Issue of Debentures

#### 1. At Par

```
Bank A/c Dr
    To Debentures A/c
```

#### 2. At Premium

```
Bank A/c Dr
    To Debentures A/c
    To Securities Premium A/c
```

#### 3. At Discount

```
Bank A/c Dr
Discount on Issue of Debentures A/c Dr
    To Debentures A/c
```

## MODULE 3: CONSOLIDATED FINANCIAL STATEMENTS (IND AS 110)

### Group Companies and Consolidation

#### Group Company

1. Parent company and its subsidiaries together form a group.

#### Need for Consolidation

1. Presents financial position of entire group as a single entity.
2. Provides complete information to stakeholders.

#### Group Structure

1. Parent Company.
2. Subsidiary Company.

### Pre-Acquisition and Post-Acquisition Profits

#### Pre-Acquisition Profit

1. Profit earned before acquisition of subsidiary.
2. Treated as capital profit.

#### Post-Acquisition Profit

1. Profit earned after acquisition.
2. Treated as revenue profit.

### Importance

1. Required for calculating goodwill and non-controlling interest.

### Non-Controlling Interest (NCI)

#### Meaning

1. Portion of subsidiary ownership not held by parent company.

### Importance

1. Represents minority shareholders' claim in subsidiary.

### Shown Under

1. Equity section of consolidated balance sheet.

### Cost of Control (Goodwill) and Capital Reserve

#### Goodwill

1. Excess of purchase consideration over parent's share in net assets acquired.
2. **Arises When:** Purchase Consideration > Net Assets

#### Capital Reserve

1. Arises when net assets exceed purchase consideration.
2. **Arises When:** Net Assets > Purchase Consideration

### Consolidated Balance Sheet

1. Combined balance sheet of parent and subsidiary.

Includes:

1. Combined assets.
2. Combined liabilities.
3. Goodwill/Capital Reserve.
4. Non-Controlling Interest.

**Objective:** Show financial position of group as one economic unit.

## MODULE 4: ACCOUNTING OF BANKING AND LIFE INSURANCE COMPANIES

### Banking Company Accounting

#### Meaning of Banking

1. Accepting deposits and lending money for profit.

#### Slip System of Ledger Posting

1. Transactions first recorded on slips and later posted to ledgers.

**Advantages:** Faster recording, Better internal control, Division of work.

#### Important Banking Terms

1. **Cash Credit:** Loan facility against security.
2. **Overdraft:** Withdrawal beyond account balance.
3. **Bills Discounted:** Bank purchases bill before maturity at discount.
4. **Doubtful Debts:** Debts whose recovery is uncertain.

#### Interest on Doubtful Debts

1. Interest on doubtful debts is generally not treated as income until realized.
2. Prevents overstatement of profits.

#### Revenue Recognition in Banks

1. Income recognized only when earned and reasonably certain.
2. Governed by RBI and accounting standards.

**Examples:** Interest income, Commission income, Discount income.

#### Rebate on Bills Discounted

##### Meaning

1. Portion of discount income relating to future accounting period.

##### Treatment

1. Treated as liability.
2. Deducted from current year's income.

##### Importance

1. Ensures correct profit calculation.

#### Non-Performing Assets (NPA)

##### Meaning

1. Loan or advance where interest/principal remains overdue for prescribed period.

##### Classification

1. **Standard Assets:** Regular repayment.
2. **Sub-Standard Assets:** NPA up to specified period.
3. **Doubtful Assets:** Remain NPA for longer period.
4. **Loss Assets:** Considered unrecoverable.

#### Provision for NPA

1. Amount set aside for expected loan losses.

### Life Insurance

#### Meaning

1. Contract under which insurer agrees to pay a specified amount on death or maturity in return for premium.

#### Features

1. Risk coverage.
2. Long-term contract.
3. Premium payments.
4. Savings component.

#### Types

1. Whole Life Policy.
2. Endowment Policy.
3. Term Insurance.
4. Money Back Policy.

#### Important Insurance Terms

1. **Premium:** Amount paid by policyholder.
2. **Sum Assured:** Amount guaranteed by insurer.
3. **Claim:** Amount payable by insurer.
4. **Life Fund:** Accumulated fund of insurance company.

#### Revenue Account of Life Insurance Company

1. Prepared to determine surplus or deficit from insurance operations.

##### Major Items

1. **Income:** Premium received, Interest and dividends.
2. **Expenses:** Claims paid, Commission, Management expenses.

#### Life Fund and Valuation Balance Sheet

##### Life Fund

1. Total accumulated fund available with insurer.

##### Calculation

1. Opening Life Fund
2. + Surplus
3. + Other Additions
4. = Closing Life Fund

##### Valuation Balance Sheet

1. Prepared to determine actuarial surplus or deficit.

##### Purpose

1. Assess financial strength of insurance company.
2. Determine policyholder liabilities.
3. Measure profitability of insurance operations.