KARPAGAM ACADEMY OF HIGHER EDUCATION

(Deemed University Established Under Section 3 of UGC Act 1956)

COIMBATORE-21

	SEMESTER II	L	T	P	C
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16BPU411 CORPORATE ACCOUNTING (PRACTICAL)

COURSE OBJECTIVE:

Corporate Accounting describes the basic accounting procedures and application of respective accounting standards for Amalgamation of companies, accounting for holding companies and parent companies, shares and debentures.

LEARNING OUTCOME:

- To Enable the students to acquire the basic knowledge on the application of accounting standards for amalgamation
- To make the students to learn the techniques and application of accounting standards in the preparation of financial statements.

List of Practical

1. Prepare format and procedure of Amalgamation Companies as per Accounting
2. Prepare format and procedure of Accounting for Holding Companies and parent companies as per AS 21
3. Prepare the procedure for valuation of Goodwill of companies under Accounting Standard 36.
4. Financial Reporting standard (FRS)10 – Valuation of Goodwill
5. Prepare final accounts of Companies as per Accounting Standard.
6. Accounting standard for share.
7. Accounting Standards for Debenture.

Note: Record note to be submitted and Viva Voce will be conducted.

Suggested Readings:

Text Book:

1. Reddy & Moorthy (2012) Corporate Accounting {Vol 1} Chennai, Margham Publications.

Reference Books

1. M.C.Shukla, T.S Grewal and S.C Gupta (2013) Advanced Accounts [Vol-ii Revised Edition]. New Delhi, S.Chand & Co
2. S.N.Maheshwari and S.K Maheshwari (2013) Corporate Accounting[5th Edition] New Delhi, Vikas Publishing House.

3. V.K.Goyal and Ruchi Goyal.(2012) Corporate Accounting [3rd editioin] New Delhi. PHI Learning Pvt Ltd.
4. Jain S.P and K.L Narang (2014) corporate Accounting [Vol - II] New Delhi, Kalyani Publishers.
5. P.C.Tulsian and Bharat Tulsian(2016) Corporate Accounting [11th edition] New Delhi, S.Chand.

EX.No: 1 Format and Procedure for Amalgamation of Companies as per Accounting Standard 14

Date:

Aim : To prepare the format and procedure for amalgamation of companies as per accounting

Particulars	Debit	Credit
For purchase consideration payable: Business purchase A/c Dr To liquidators of transfer company A/C (Being purchase price payable)	 xxx	 xxx
For Sundry Asset&Liability: Sundry Asset A/C DR To Sundry Liability A/C To Business purchase A/C To Profit&Loss A/C To Reserve A/C (being asset&liability taken over and reserves of transferor company recorded)	 Xxx	 Xxx Xxx Xxx Xxx
For Payment Of Purchase Price: Liquidator of transferor company A/C DR To Bank A/C To Share capital A/C To share premium A/C (Being shares issued to settle the purchase consideration)	 Xxx	 Xxx Xxx Xxx
For expenses of winding up paid by transferee company: General Reserve A/C DR To Bank A/C (Being expenses of transferee company paid as per agreement)	 Xxx	 Xxx
For formation expenses: Preliminary expenses A/C DR To Bank A/C (Being formation expenses paid)	 Xxx	 Xxx
For payment of any debentures of transferor company: Debenture(transferor company) A/C DR To Debenture A/C To Bank A/C (Being payment made to debenture holder of transferor company as per agreement)	 Xxx	 Xxx Xxx
For payment to creditors of transferor company: Creditors(transferor company) A/C DR To Bank A/C (Being payment as per agreement)	 Xxx	 Xxx

standard 14

Procedure for amalgamation of companies:

Accounting for amalgamation

This standard deals with accounting for amalgamations and treatment of any resultant goodwill of reserves .The standard classifies amalgamations into two categories i.e.

I. Amalgamation in the nature of merger
II. Amalgamation in nature of purchase

I Amalgamation in nature merger:

An amalgamation should be considered to be on amalgamation in the nature, to merge when all the following are fulfilled:

a) All the assets and liabilities of the transferor company become, after amalgamation ,the assets and liabilities of the transferee company.
b) Share holder holing not less than 90% of the face value of the equity share of the transferee company (other than equity shares already held there in, immediately before the amalgamation by the transferee company or its subsidiary or their nominees)become equity share holders of the transferee companies by virtue of amalgamation.
c) The consideration for the amalgamation receivable by those equity share holders of the transferor company who agree to become equity share holders of the transferee by the issue of equity shares in the transferee company, expect that cash may be paid in respect of any Fractional shares.
d) The business of transferee company is intended to be carried on, after amalgamation, by the transferee company.
e) No adjustment is intended to be made to the book value of the assets and liabilities of the transferor company when they are incorporated in the final statement of the transferee company except to ensure uniformity to accounting policies.

The most important points which have significant accounting impact are that :

a) All the assets and liabilities are to be taken over by the purchasing company.
b) Purchase consideration should be issued to the shareholders of the selling company in shares only ,expect for cash to satisfy fractions of shares; and
c) Assets and liabilities taken over should be shown in purchasing company at their book values except in cases requiring changes for ensuring uniform accounting practices.

2. Amalgamation in the nature of purchase:

Amalgamations which do not satisfy one or more conditions specified for amalgamation in the nature of merger should be treated as ‘Amalgamations in the nature of purchase’. Thus, in amalgamation in the nature of purchase,

a) All the assets and liabilities of the selling company may not be taken over.
b) Less than 90% of the selling company's shareholders may become shareholders in the purchasingcompany.
   Consideration payable to shareholders of selling company may be in the form of shares or cash or in any other form agreed upon.
c) Selling company's business may or may not be carried on in future.

Assets and liabilities taken over by the purchasing company may be shown at values other than values at the discretion of the purchasing company.

Methods of Accounting for Amalgamation:

There are two main methods of accounting for amalgamations.

A. The pooling of interests methods; and
B. The purchase method.

A. The Pooling of Interests Methods: The use of this methods is confined to the 'merger' type of amalgamation. The following are the salient feature of the methods:

I. In the books of the transferee company all the assets , liabilities and reserves (whether capital or revenue or arising on revaluation) of the transferor company should be recorded at their existing carrying amounts and in the same form as at the date of amalgamation .The exception is the adjustments needed to follow uniformity in accounting policies.
II. If any conflicting accounting policies are followed by the transferor and the transferee companies on the date of amalgamation, the effects on the financial statements of any changes in the accounting policies should be reported in accordance with AS-5 'prior period and extra ordinary items and changes in accounting policies'.
III. The balance of the profit and loss account of the transferor company should be aggregated with the corresponding balance of the transferee company or it may be transferred to the general reserve accounting.
IV. All the reserves of the transferor company are merged with reserves of the same title in the transferee company. If similar reserve does not exist in the transferee company ,they have to be separately shown . Thus,general reserve is merged with general reserve , capital reserve is merged with capital reserve . if there is a dividend
equivalisation reserve is merged with capital reserve. If there is a dividend equivalisation reserve in the transferor company and no such reserve exists in the transferee company, it should be separately shown in the transferee company's books.
V. Any excess amount paid as purchase consideration as shown by the difference between the amount recorded as share capital issued and other amounts paid as

purchase price to transferor company's shareholders and the amount of share capital of the transferor company should be adjusted in reserves.

VI. Pooling of interest methods has no specific effect company should be adjusted company.

B. Purchase Method: when amalgamation is considered to be an amalgamation in the nature of purchase, it should be accounted for under the purchase methods whose main features are as given below:

I. In the books of the transferee company, assets and liabilities taken over from transferor company should be incorporated either:
   a) at their existing amounts or alternatively
   b) The consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair value on the date of amalgamation.
II. Transferor company's reserves, whether capital or revenue or arising on revaluation other than statutory reserves should not be recorded in the transferee company's books.
III. However, statutory reserves in the transferor company's books, if they should be continued for some specific future period, should be recorded in the transferee company's books. The corresponding debit should be to 'Amalgamation Adjustments A/c'. When the continuance of the reserves is not required, a revers entry can be passed to close the reserve as well as 'Amalgamation Adjustment A/c'. Till such time ,the 'Amalgamation Adjustments A/c ' is shown on the assets side of balance sheet under the heading 'Miscellaneous Expenditure'.
IV. Purchase consideration paid by the transferee company has to be shown at agreed values of the shares or debentures issued, showing face value, premium and discount on issue separately.
V. If the purchase consideration agreed to be paid exceeds the net assets taken over, the excess amount should be debited to 'goodwill a/c'. if the amount of consideration is less than the value of the net assets acquired, the difference should be treated as 'Capital Reserve'.
VI. The goodwill arising on amalgamation should be written off to the profit and loss account in systematic manner. Normally, the period to write off the goodwill should not exceed five years, unless a longer period, can be justified.

Ex.No:2 Procedure and Format for Holding Companies

Date:

Aim: To prepare the format and the procedure for Holding companies.

This Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprise under the control of a parent. This Statement should also be applied in accounting for Investment in subsidiaries in the separate financial statements of apparent.

Consolidation Procedure:-

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis by adding together like items of assets liabilities, income and expenses, In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:-

(a) The carrying amount of the parent's investment in each subsidiary and the parent's portion of equity of each subsidiary are eliminated.

(b) Non-controlling interests in the profit or loss of consolidated subsidiaries for the reporting period are identified; and

(c) Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the parent's ownership interests in them.

1. When potential voting rights exist, the proportions of profit or loss and changes in equity allocated to the parent and non-controlling interests are determined on the basis of present ownership interests and do not reflect the possible exercise or conversion of potential voting rights.

2. Intragroup balances, transactions, income and expenses shall be eliminated in full.

3. Intragroup balances and transactions, including income, expenses and dividends, are eliminated in full. Profits and losses resulting from intragroup transactions that are recognised in assets, such as inventory and fixed assets, are eliminated in full. Intragroup losses may indicate an impairment that requires recognition in the consolidated financial statements. *Income Taxes* apply to temporary differences that arise from the elimination of profits and losses resulting from intergroup transactions.

4. The financial statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary prepares, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent unless it is impracticable to do so.

5. When, in accordance with paragraph 4, the financial statements of a subsidiary used in the preparation of consolidated financial statements are prepared as of a date different from that of the parent's financial statements, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the parent's financial statements. In any case, the difference between the end of the reporting period of the subsidiary and that of the parent shall be no

more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.

6 Consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.

7 If a member of the group uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

8 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in *Business Combinations*. Income and expenses of the subsidiary shall be based on the values of the assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated statement of profit and loss after the acquisition date shall be based on the fair values of the related depreciable assets recognised in the consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date when the parent ceases to control the subsidiary.

9 Non-controlling interests shall be presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent.

10 Profit or loss and each component of other comprehensive income are attributed to the owners of the parent and to the non-controlling interests. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

11 If a subsidiary has outstanding cumulative preference shares that are classified as equity and are held by non-controlling interests, the parent computes its share of profit or loss after adjusting for the dividends on such shares, whether or not dividends have been declared.

12 Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e transactions with owners in their capacity as owners).

13 In such circumstances the carrying amounts of the controlling and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognised directly in equity and attributed to the owners of the parent.

Format for Holding Companies

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share capital: Share capital of holding Co.		Xxx	**Fixed Assets**: (1)cost of control goodwill	Xxx	

Reserves and surplus: (1)capital reserves of holding Co.	Xxx		Add:goodwill in B/S of Holding Co.	Xxx	
Add:share in pre-acquisition Reserves & profits of subsidiary	Xxx Xxx Xxx		Add:Goodwil in B/s of subsidiary Co.	Xxx Xxx Xxx	
Less:goodwill as per contra	------- Xxx		Less: capital reserve as per contra	--------- Xxx	Xxx
(ii)Revenue reserves of holding Co.	Xxx		(ii)All other fixed assets of holding Co.	Xxx	
Add:share and revenue reserves Of subsidiary	Xxx Xxx		Add:All other fixed assets of subsidairy	Xxx	
(iii)P&L a\c balance of holding co.	Xxx Xxx		**Investment:** Investments of holding co. except investment in subsidiray		
Add: share and revenue reserves Subsidiary co.	Xxx				
Less: share in unrealised profits	Xxx Xxx			Xxx Xxx	
Secured loans Secured loans of holding co.	Xxx		**Current assets and loans and advances:** current assets loans advances of subsidiary co.	Xxx Xxx	
Add:secured loans of subsidiary Co.	Xxx Xxx		less: inter company debts	Xxx	
Unsecured loans: Unsecured loans of holding Co.	Xxx Xxx Xxx				
Add:Unsecured loans of	xxx		Less:unrelised profit in stock	Xxx	

subsidiary Co. **Current liabilities and provisions;** (i)currentliabililties& provision of holding Co. Add:current liabilities & provision of substiary Co. Less:inter-company liabilities (i) Minority Interest	 xxx xxx xxx xxx Xxx	 Xxx xxx	**Miscellancous expenditure:** P&L a/c of holding Co.	 Xxx	 xxx

Example problem with solution:

The following are the abridged balance sheet of P.Ltd.and S.Ltd.as on 31st,March,1999.

Liabilities	P.Ltd. (in Rs.'000)	S.Ltd. (in Rs.'000)	Assets	P.Ltd. (in Rs.'000)	S.Ltd. (in Rs.'000)

Equity Share Capital of Rs.10 each	8000	3000	Fixed Assets	11,000	4,730
			Current Assets	4,000	1,970
10% Preference Share capital of Rs. 100 each	------	1,000			
General Reserve	4,610	980			
Statutory Reserve	390	125			
Profit and Loss A/C	563	355			
12% Debentures	-----	250			
Current Liabilities	1,437	990			
	15,000	6,700		15,000	6,700

On 1st April,1999,P.Ltd. Takes over S.Ltd. on the following terms:

(i). P.Ltd. will issue 3,50,000 equity shares of Rs. 10 each at par to the equity shareholders of S.Ltd.

(ii). P.Ltd. will issue 11,000 10%Preference shares of Rs. 100 each at par to the preference shareholders of S.Ltd.

(iii). The Debentures of S.Ltd. will be converted into an equal number of 12.5% Debentures of the same denomination.

You are informed that the statutory Reserves of S.Ltd. are to be maintained for two more years. You are required to show the balance sheet of P.Ltd. immediately after the above mentioned scheam of amalgamation has been implemented assuming that:

The amalgamation is in the nature of merger :

Solution:
When the amalgamation is in the nature of merger
Balance Sheet of P.Ltd. as on 1-4-1999

Liabilities	Rs	Assets	Rs
Equity share capital: 11,50,000 shares of Rs. 10 each.	1,15,00,000	Fixed Assets	1,57,30,000
		Current Assets	59,70,000
Pref.shares capital 11,000 10% shares of Rs. 100 each	11,00,000		
General Reserve (W.N.1)	49,90,000		
Statutory Reserves	5,15,000		
Profile and Loss A/C	9,18,000		
12.5% Debentures	2,50,000		
Current Liabilities	24,27,000		
	2,17,00,000		2,17,00,000

Note 1:Calculation of general reserve to be shown in Balance sheet:

Add: P.Ltd.'s general reserve	46,10,000
S.Ltd.'s general reserve	9,80,000
	55,90,000
Less: Excess of purchase consideration over share capital of S.Ltd. 46,00,000-40,00,000.	6,00,000
General Reserve to de shown in Balance sheet	**49,90,000**

Liabilities	P.Ltd. (in Rs.'000)	S.Ltd. (in Rs.'000)	Assets	P.Ltd. (in Rs.'000)	S.Ltd. (in Rs.'000)

In the nature of purchase:

The following are the abridged balance sheet of P.Ltd.and S.Ltd.as on 31st,March,1999.

Equity Share Capital of Rs.10 each	8000	3000	Fixed Assets	11,000	4,730
			Current Assets	4,000	1,970
10% Preference Share capital of Rs. 100 each	------	1,000			
General Reserve	4,610	980			
Statutory Reserve	390	125			
Profit and Loss A/C	563	355			
12% Debentures	-----	250			
Current Liabilities	1,437	990			
	15,000	6,700		15,000	6,700

On 1st April,1999,P.Ltd. Takes over S.Ltd. on the following terms:

(i). P.Ltd. will issue 3,50,000 equity shares of Rs. 10 each at par to the equity shareholders of S.Ltd.

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You are informed that the statutory Reserves of S.Ltd. are to be maintained for two more years. You are required to show the balance sheet of P.Ltd. immediately after the above mentioned scheam of amalgamation has been implemented assuming that:

The amalgamation is in the nature of purchase:

Solution:

When the amalgamation is in the nature of purchase

Balance Sheet of P.Ltd. as on 1-4-1999

Liabilities	Rs	Assets	Rs
Equity share capital: 11,50,000 shares of Rs. 10 each fully paid	1,15,00,000	Fixed Assets	1,57,30,000
11,000 10% Pref.shares of Rs. 100 each fully paid	11,00,000	Current Assets	59,70,000
Capital Reserve (W.N.2)	8,60,000	Amalgamation adjustment A/C(Note 1)	1,25,000
General Reserve	46,10,000		
Statutory Reserves	5,15,000		
Profile and Loss A/C	5,63,000		
12.5% Debentures	2,50,000		
Current Liabilities	24,27,000		
	2,18,25,000		2,18,25,000

Note 1: Statutory Reserves of selling company should be shown in purchasing company's Balance sheet on Liabilities side in case they are required to be continued.(as is given in this problem). In such cases an equal amount should be shown on the Assets side of Balance sheet as 'Amalgamation adjustment A/C'. Both can be eliminated from Balance sheet when the reserve is no more needed.

W.N.2

Calculation of Capital Reserve or Goodwill

Total assets of S.Ltd taken over.		67,00,000
Less: Debentures of S.Ltd.	2,50,000	
Less: Current Liabilities of S.Ltd.	9,90,000	
		12,40,000
		54,60,000
Less: Consideration payable to Eq. Shareholders	35,00,000	
Pref. Shareholders	11,00,000	
		46,00,000
Capital Reserve to be shown in B/S		8,60,000

EX.No: 3 **Valuation of Goodwill**

Date:

Aim: To understand the valuation of the goodwill in the companies.

Procedure:

There are four main methods for valuation of Goodwill. They are as follows.

1. Average Profit Method
2. Super Profit Method
3. Capitalization Method
4. Annuity Method

1. **Average Profit Method:**

   Average Profit= Total profit/No. of years.

   Goodwill=Average profit*No of years of purchase.

2. **Super Profit Method:**
   Normal profit=Average capital employed*Normal rate of returns
   Super profit=Expected Average profit-Normal profit
   Goodwill=Super profit*No. of years purchased
3. **Capitalization Method:**
   Capitalized value of business=Expected average method/Normal rate of return *100
4. **Annuity Method:**
   Present value of an annuity method =1-(1+r/100)-n/r/100

Steps, Method and Formula for Calculation of Goodwill

(I)Goodwill by purchase of average profit method:

Steps:

(a) Find out average trading profit.

(b) Find out the number of year purchase (it will always be given in problem).

(c) Goodwill: Number of year purchase × Average trading profit.

(II) Goodwill by purchase of future maintainable profit method:

Steps:

(a) Find out future maintainable profit.

(b) Number of year purchase (given in problem).

(c) Goodwill: No of years purchase × Future maintainable profit.

(III) Goodwill by capitalisation of future maintainable profit method:

Steps:

(a) Find out future maintainable profit.

(b) Find out capitalised value of future maintainable profit. Capitalisation Value of Future Maintainable Profit = N.R.R F.M.P × 100

(c) Calculate capital employed.

(d) Goodwill = Capitalised Value of E.M.P. – Capital Employed

(IV) Goodwill by purchase of super profit method:

Steps:

(a) Find out average trading profit.

(b) Find out future maintainable profit.

(c) Find out capital employed.

(d) Find out Normal Rate of Return (always given in the problem in terms of %).

(e) Find out number of year purchase (given in the problem).

(f) Find out normal profit: Valuation of Goodwill and Shares 9 Normal Profit =100 N.R.R.×Capital Employed

(g) Find out super profit: Super Profit = Future Maintainable Profit – Normal Profit

(h) Goodwill = Number of year purchase × Super Profit.

(V) Goodwill by capitalisation super profit method:

Steps:

(a) Calculate super profit as discussed above. Goodwill = Annuity Rate × Super Profit Notes: Annuity Rate will always be given in the problem

Illustration 1:

From the following information calculate the value of goodwill on the basis of 3 years purchase of super profits of the business calculated on the average profit of the last four years (simple average and weighted average):

(i) Capital employed – Rs. 50,000

(ii) Trading profit (after tax):

2010	Rs. 12,200;
2011	Rs. 15,000;
2012	Rs. 2,000 (loss); and
2013	Rs. 21,000

(iii) Rate of interest expected from capital having regard to the risk involved is 10%.

(iv) Remuneration from alternative employment of the proprietor (if not engaged in business) Rs. 3,600 p.a.

Solution: (Simple Average)

(*i*) **Calculation of Average Profits**

Year	Profits (₹)
2010	12,200
2011	15,000
2012	(2,000)
2013	21,000
Total	46,200

Average Profit = ₹ 46,000/4 = ₹ 11,550

(*ii*) **Calculation of Super Profits**

Particulars	₹
Average profits	11,550
Less: Remuneration	3,600
Average Trading Profit	7,950
Less: Normal Return @ 10% on capital employed *i.e.*, ₹ 50,000	₹ 5,000
Super Profits	2,950

Goodwill = 3 years' purchase of Super Profit
= ₹ 2,950 × 3
= ₹ 8,850

Weighted Average

Year	Profit (₹)	Adjusted Profit		Weight	Product
2010	12,200	12,200 – 3,600	8,600	1	8,600
2011	15,000	15,000 – 3,600	11,400	2	11,400
2012	(2,000)	[(2,000) – 3,600)]	(5,600)	3	(16,800)
2013	21,000	21,000 – 3,600	17,400	4	69,600
				Total	84,200

Average Profit = 84,200/10
= 8,420

Normal Profit = 5,000 (As Calculated Earlier)

Super Profit = ₹ 8,420 – 5,000 = 3,420

Goodwill = Super profit × 3
= ₹ 3,420 × 3
= ₹ 10,260.

Illustration 2:

From the following calculate the value of goodwill according to capitalisation of Average Profits Method:

(*i*) Average Capital employed in the business ₹ 7,00,000.

(*ii*) Net trading profit of the firm for the past three years

Years	Profits (₹)
2011	1,47,600
2012	1,48,100
2013	1,52,500

(*iii*) Rate of interest expected from Capital having regard to the risk involved –18%

(*iv*) Sundry Assets (excluding goodwill) – ₹ 7,54,762

Sundry liabilities – ₹ 31,329

(*v*) Fair remuneration to the partners for the services – ₹ 12,000 p.a.

Solution: **Calculation of Average Future Profit**

Years	**Profit (₹)**
2011	1,47,600
2012	1,48,100
2013	1,52,500
Total	4,48,200

Average Profit = 4,48,200/3 = ₹ 1,49,400

Less: Fair Remuneration to Partners –12,000

Average Future Maintainable Profit = ₹ 1,37,400

Capitalised Value

$$\text{(Normal Capital Employed)} = \frac{\text{Average Future Profits} \times 100}{\text{Normal Rate of Return}}$$

= 1,37,400/18 × 100

= ₹ 7,63,333

Actual Capital Employed = Sundry Assets – Sundry Liabilities

= ₹ 7,54,762 – 31,329

= ₹ 7,23,433

Goodwill = Capitalised Value (Normal Capital Employed) – Net Assets

= 7,63,333 – 7,23,433 = ₹ 39,900

Illustration 3:

The net profit of a company after providing for taxation for the past five years is:

Year	Profit (₹)
2009	40,000
2010	50,000
2011	30,000
2012	70,000
2013	80,000

The net tangible assets in the business are Rs. 4, 00,000 on which the normal rate of return is expected to be 10%. It is also expected that the company will be able to maintain its super profits for next five years. Calculate the value of goodwill of the business on the basis of an annuity of super profits, taking present value of an annuity of Rs. 1 for five years at 10% interest is Rs. 3.78.

Solution: **Calculation of Average Profits**

Year		Profit (₹)
2009		40,000
2010		50,000
2011		30,000
2012		70,000
2013		80,000
Total		2,70,000
Average Profit	= 2,70,000/5	
	= ₹ 54,000	

Calculation of Super Profit

Particulars		Profit (₹)
Average Profit		54,000
Less: Normal Profit (10% of 4,00,000)		40,000
Super Profit		14,000
Value of Goodwill	= Super Profit × Value of an Annuity	
	= ₹ 14,000 × 3.78 = ₹ 52,920.	

Ex.No:4 Financial Reporting Standard (FRS)10- Valuation of Goodwill.

Date:

Aim:

The objective of FRS 10 is to ensure that purchased goodwill and intangible assets are charged to the profit and loss account (income statement) in the periods in which they are depleted.

The standard takes the view that goodwill arising on an acquisition (ie, the cost of acquisition less the aggregate of the fair value of the purchased entity's identifiable assets and liabilities) is neither an asset like other assets nor an immediate loss in value. Rather, it forms a bridge between the cost of an investment shown as an asset in the acquirer's own financial statements and the values attributed to the acquired assets and liabilities in the consolidated financial statements. Although purchased goodwill is not in itself an asset, its inclusion amongst the assets of the reporting entity, rather than as a deduction from shareholders' equity, recognises that goodwill is part of a larger asset, the investment, for which management.

An intangible item may meet the definition of an asset when access to the future economic benefits that it represents is controlled by the reporting entity, whether through custody or legal protection. However, intangible assets fall into a spectrum ranging from those that can readily be identified and measured separately from goodwill to those that are essentially very similar to goodwill. The basic principles set out in the standard for accounting for intangible assets that are similar in nature to goodwill are therefore closely aligned with those set out for goodwill.

The standard requires purchased goodwill and certain intangible assets to be capitalised and, in most circumstances, to be amortised systematically through the profit and loss account (usually over 20 years or less). Impairment reviews must be undertaken, particularly if the goodwill or intangible asset is regarded as having an infinite life and is therefore not being amortised. Internally generated goodwill should not be capitalised and internally developed intangible assets should be capitalised only where they have a readily ascertainable market value.

EX.No:5 **Preparation of final accounts for companies as per Accounting Standards**

Date:

Aim: To prepare the companies balance sheet.

Company Name Here

Balance Sheet

For the Period Ended ____________

Assets

Current Assets			
Cash		000000	
Short-term Investments		00000	
Accounts Receivables		00000	
Inventories		0000000	
Prepaid Insurance		000000	
Others		00000	000000
Long Term Investments			
Stock Investments		000000	
Cash Value of Insurance		0000000	000000
Fixed Assets			
Land		000000	
Building and Equipment	0000000		
Less Accumulated Depreciation	(00000)	000000	0000000
Intangible Assets			
Good Will			0000000
Other Assets			
Receivables from Employees			00000000
Total Assets			000000000

Liabilities

Current Liabilities			
Accounts Payable		000000	
Salaries Payable		00000	
Accrued Interest		00000	
Taxes Payable		0000	
Current Portion of Notes		000000	00000000
Long Term Liabilities			
Note Payable		000000	
Mortgage Liability		000000	00000000
Total Liabilities			00000000
Stock Holder's Equity			
Capital Stock		00000000	
Retained Earnings		0000000	
Total Stock Holder's Equity			000000
Total Liabilities			000000000

EX.No: 6 **Accounting Standard for Share**
Date:

Aim: To understand the accounting standard for the share.

Basic Earnings Per Share
1. Basic earnings per share should be calculated by dividing the net.Profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period.

Earnings - Basic
2. For the purpose of calculating basic earnings per share, the net.Profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax thereto for the period.

3. All items of income and expense which are recognised in a period, including tax expense and extraordinary items, are included in the determination of the net profit or loss for the period unless an Accounting Standard requires or permits otherwise *(see Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies)*. The amount of preference dividends and any attributable tax thereto for the period is deducted from the net profit for the period (or added to the net loss for the period) in order to calculate the net profit or loss for the period attributable to equity shareholders.

4. The amount of preference dividends for the period that is deducted from the net profit for the period is:

(a) the amount of any preference dividends on non-cumulative preference shares provided for in respect of the period; and

(b) the full amount of the required preference dividends for cumulative preference shares for the period, whether or not the dividends have been provided for. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

5. If an enterprise has more than one class of equity shares, net profit or loss for the period is apportioned over the different classes of shares in accordance with their dividend rights.

Per Share - Basic
6. For the purpose of calculating basic earnings per share, thenumber of equity shares should be the weighted average number ofequity shares outstanding during the period.

7. The weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or lesser number of shares outstanding at any time. It is the number of equity shares outstanding at the beginning of the period, adjusted by the number of equity shares bought back or issued during the period multiplied by the time-weighting factor.

8. In most cases, shares are included in the weighted average number of shares from the date the consideration is receivable, for example:
(a) equity shares issued in exchange for cash are included when cash is receivable;
(b) equity shares issued as a result of the conversion of a debt instrument to equity shares are included as of the date of conversion;
(c) equity shares issued in lieu of interest or principal on other financial instruments are included as of the date interest ceases to accrue;
(d) equity shares issued in exchange for the settlement of a liability of the enterprise are included as of the date the settlement becomes effective;
(e) equity shares issued as consideration for the acquisition of an asset other than cash are included as of the date on which the acquisition is recognised; and
(f) equity shares issued for the rendering of services to the enterprise are included as the services are rendered.

9. Equity shares issued as part of the consideration in an amalgamation in the nature of purchase are included in the weighted average number of shares as of the date of the acquisition because the transferee incorporates the results of the operations of the transferor into its statement of profit and loss as from the date of acquisition. Equity shares issued during the reporting period as part of the consideration in an amalgamation in the nature of merger are included in the calculation of the weighted average number of shares from the beginning of the reporting period because the financial statements of the combined enterprise for the reporting period are prepared as if the combined entity had existed from the beginning of the reporting period. Therefore, the number of equity shares used for the calculation of basic earnings per share in an amalgamation in the nature of merger is the aggregate of the weighted average number of shares of the combined enterprises, adjusted to equivalent shares of the enterprise whose shares are outstanding

10. Partly paid equity shares are treated as a fraction of an equity share to the extent that they were entitled to participate in dividends relative to a fully paid equity share during the reporting period.

11. Where an enterprise has equity shares of different nominal values but with the same dividend rights, the number of equity shares is calculated by converting all such equity shares into equivalent number of shares of the same nominal value.

12. Equity shares which are issuable upon the satisfaction of certain conditions resulting from contractual arrangements (contingently issuable shares) are considered outstanding, and included in the computation of basic earnings per share from the date when all necessary conditions under the contract have been satisfied.

13. The weighted average number of equity shares outstanding during the period and for all periods presented should be adjusted for events, other than the conversion of potential equity shares, that have changed the number of equity shares outstanding, without a corresponding change in resources.

14. Equity shares may be issued, or the number of shares outstanding may be reduced, without a corresponding change in resources. Examples include:
(a) a bonus issue;
(b) a bonus element in any other issue, for example a bonus element in a rights issue to existing shareholders;
(c) a share split; and
(d) a reverse share split (consolidation of shares).

15. In case of a bonus issue or a share split, equity shares are issued to existing shareholders for no additional consideration. Therefore, the number of equity shares outstanding is increased without an increase in resources. The number of equity shares outstanding before the event is adjusted for the proportionate change in the number of equity shares outstanding as if the event had occurred at the beginning of the earliest period reported. For example, upon a two-for-one bonus issue, the number of shares outstanding prior to the issue is multiplied by a factor of three to obtain the new total number of shares, or by a factor of two to obtain the number of additional shares.

EX. No: 7 Accounting Standard for Debenture

Date:

Aim: To understand the accounting standard for debentures.

1. A company raises its capital by means of issue of shares. But the funds raised by the issue of shares are seldom adequate to meet their long term financial needs of a company. Hence, most companies turn to raising long-term funds also through debentures which are issued either through the route of private placement or by offering the same to the public. The finances raised through debentures are also known as long-term debt. This chapter deals with the accounting treatment of issue and redemption of debentures and other related aspects.

1.1 Meaning of Debentures

Debenture: The word 'debenture' has been derived from a Latin word 'debere' which means to borrow. Debenture is a written instrument acknowledging a debt under the common seal of the company. It contains a contract for repayment of principal after a specified period or at intervals or at the option of the company and for payment of interest at a fixed rate payable usually either half-yearly or yearly on fixed dates. According to section 2(12) of The Companies Act,1956 'Debenture' includes Debenture Inventory, Bonds and any other securities of a company whether constituting a charge on the assets of the company or not.

Bond: Bond is also an instrument of acknowledgement of debt. Traditionally, the Government issued bonds, but these days, bonds are also being issued by semi-government and non-governmental organisations. The terms 'debentures' and 'Bonds' are now being used inter-changeably

1.2 Distinction between Shares and Debentures

Ownership: A 'share' represents ownership of the company whereas a debenture is only acknowledgement of Debt. A share is a part of the owned capital whereas a debenture is a part of borrowed capital. Return: The return on shares is known as dividend while the return on debentures is called interest. The rate of return on shares may vary from year to year depending upon the profits of the company but the rate of interest on debentures is prefixed. The payment of dividend is an appropriation of profits, whereas the payment of interest is a charge on profits and is to be paid even if there is no profit. Repayment: Normally, the amount of shares is not returned during the life of the company, whereas, generally, the debentures are issued for a specified period and repayable on the expiry of that period. However, in the year 1998, the amendment's (Section 77A and 77 B sub Section 2) in the Companies Act, 1956 permitted companies to buy back its shares specially when market value of shares are less than its book value. Voting Rights: Shareholders enjoy voting rights whereas debenture holders do not normally enjoy any voting right. Rate of Discount on issue: Both shares and debentures can be issued at a discount. However, shares can be issued at discount in accordance with the provisions of Section 79 of The Companies Act, 1956 which stipulates that the rate of discount must not exceed 10% of the face value while debentures can be issued at any rate of discount. Security: Shares are not secured by any charge whereas the debentures are generally secured and carry a fixed or floating charge over the assets of the company. Convertibility: Shares cannot be converted into debentures whereas debentures can be converted into shares if the terms of issue so provide, and in that case these are known as convertible debenture.

1.3 Types of Debentures

A company may issue different kinds of debentures which can be classified as under:

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1.3.1 From the Point of view of Security

(a) Secured Debentures: Secured debentures refer to those debentures where a charge is created on the assets of the company for the purpose of payment in case of default. The charge may be fixed or floating. A fixed charge is created on a specific asset whereas a floating charge is on the general assets of the company. The fixed charge is created against those assets which are held by a company for use in operations not meant for sale whereas floating charge involves all assets excluding those assigned to the secured creditor's (b) Unsecured Debentures: Unsecured debentures do not have a specific charge on the assets of the company. However, a floating charge may be created on these debentures by default. Normally, these kinds of debentures are not issued.

1.3.2 From the Point of view of Tenure

(a) Redeemable Debentures: Redeemable debentures are those which are payable on the expiry of the specific period either in lump sum or in Instalments during the life time of the company. Debentures can be redeemed either at par or at premium. (b) Irredeemable Debentures: Irredeemable debentures are also known as Perpetual Debentures because the company does not give any undertaking for the repayment of money borrowed by issuing such debentures. These debentures are repayable on the winding-up of a company or on the expiry of a long period.

1.3.3 From the Point of view of Convertibility

(a) Convertible Debentures: Debentures which are convertible into equity shares or in any other security either at the option of the company or the debenture holders are called convertible debentures. These debentures are either fully convertible or partly convertible. (b) Non-Convertible Debentures: The debentures which cannot be converted into shares or in any other securities are called nonconvertible debentures. Most debentures issued by companies fall in this category.

1.3.4 From Coupon Rate Point of view

(a) Specific Coupon Rate Debentures: These debentures are issued with a specified rate of interest, which is called the coupon rate. The specified rate may either be fixed or floating. The floating interest rate is usually tagged with the bank rate.

Issue and Redemption of Debentures

(b) Zero Coupon Rate Debentures: These debentures do not carry a specific rate of interest. In order to compensate the investors, such debentures are issued at substantial discount and the difference between the nominal value and the issue price is treated as the amount of interest related to the duration of the debentures.

1.3.5 from the view Point of Registration

(a) Registered Debentures: Registered debentures are those debentures in respect of which all details including names, addresses and particulars of holding of the debentureholders are entered in a register kept by the company. Such debentures can be transferred only by executing a regular transfer deed. (b) Bearer Debentures: Bearer debentures are the debentures which can be transferred by way of delivery and the company does not keep any record of the debenture holders Interest on debentures is paid to a person who produces the interest coupon attached to such debentures.

Types of Debenture/Bond

Security Tenure Mode of Coupon Registration Redemption rate

Secured/ Unsecured/ Redeemable Perpetual/ Convertible Non- Zero Specific Registered Unregistered/ Mortgage Naked debenture Irredeemable debenture convertible coupon rate debenture Bearer debenture rate/Deep debenture Discount Rate

Fully Partly convertible convertible debenture debenture

1.4 Issue of Debentures

The procedure for the issue of debentures is the same as that for the issue of shares. The intending investors apply for debentures on the basis of the prospectus issued by the company. The company may either ask for the entire amount to be paid on application or by means of instalments on application, on allotment and on various calls. Debentures can be issued at par, at a premium or at a discount. They can also be issued for consideration other than cash or as a collateral security.

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1.4.1 Issue of Debentures for Cash

Debentures are said to be issued at par when their issue price is equal to the face value. The journal entries recorded for such issue are as under:

(a) If whole amount is received in one instalment:

(i) On receipt of the application money

Bank A/c Dr.	Xxx	
To Debenture Application &Allotment A/c		Xxx

(ii) On Allotment of debentures

Debenture Application & Allotment A/c Dr.	Xxx	
To Debentures A/c		Xxx

(b) If debenture amount is received in two instalments:

(i) On receipt of application money

Bank A/c Dr.	Xxx	
To Debenture Application A/c		Xxx

(ii) For adjustment of applications money on allotment

Debenture Application A/c Dr.	Xxx	
To Debentures A/c		Xxx

(iii) For allotment money due

Debenture Allotment A/c Dr.	Xxx	
To Debentures A/c		Xxx

(iv) On receipt of allotment money

Bank A/c Dr.	Xxx	
To Debenture Allotment A/c		Xxx

(c) If debenture money is received in more than two instalments Additional entries:

(i) On making the first call

Debenture First Call A/c Dr.	Xxx	
To Debentures A/c		Xxx

(ii) On the receipt of the first call

Bank A/c Dr.	Xxx	
To Debenture First Call A/c		Xxx

Note: Similar entries may be made for the second call and final call. However, normally the whole amount is collected on application or in two instalments, i.e., on application and allotment.