UNIT 3

Module 3

COMPANY ACCOUNTS

Introduction to Company Accounts

The word company is derived from the Latin word, companies, _ come' meaning together and _panis' meaning bread. So, companies means earning bread together. This word came to be substituted to company which means carrying on a enterprise together.

A company is a voluntary association of persons formed for some common purpose, with capital divisible into parts, known as shares and with limited liability. It exists only in the eye of law and it may also be described as an artificial person created by law, having perpetual succession and a common seal.

On basis of the definitions, it becomes clear that a company is an association of persons which has a name of its own, a Joint capital and as a separate legal personality.

Features of a company

1. Separate legal assistance
2. Limited liability
3. Transfer of shares
4. Separate property
5. Perpetual succession
6. Ownership divorced from management.

Differences between Partnership and a company

Basis of Distinction	Partnership	Company
Law	It is regulated by the IndianPartnership Act 1932	It is regulated by the IndianCompanies Act 1956
Number of members	Minimum number is two Maximum is 20 but in the case of a banking business it is 10	In the case of public company, the minimum number is 7 without any maximum limit. A private company must have atleast two members but not more than 50

Transfer of shares	A partner cannot transfer his interest in the firm without the consent of all other partners	The shares of a public company are freely transferable.
Audit	A partnership firm is under no obligation to get its annual accounts audited by qualified auditors	Books of accounts of companies must be audited by qualified persons.
Book	It is not compulsory to maintain any books of account though normally they are maintained	A company must maintain proper books of account and other books required under the law, called statutory books
Registration	Law provides for registration of partnership but it is not compulsory	Every company is to be compulsorily registered either under the companies act or under the special act which has created it.
Duration	Death, Insolvency of a partner has the effect of dissolving the partnership	A company is independent of the lives of its members. The company continuous its affairs unaffected even if there is a total change in its membership

Kinds of companies

(i) Chartered companies

The earliest companies to be established in Great Britain were granted royal charters by the King or Queen of England. The charters granted the companies certain specified rights and privileges of trade.

(ii) Statutory companies

Such companies are established by a special Act of the Central or State legislatures they are governed by the Special Act as well as the company law.

(iii) Registered companies

A company which is established and registered under the Companies Act 1956 or any preceding companies act is known as a registered company. Registered companies account for the largest number of companies in India.

(iv) Limited companies

Such companies are registered under the Companies Act and have an authorized capital divided into a specified number of shares. The liability of each shareholder is limited to the extent of the amount of shares held by him and on which he has paid full amount.

(v) Guarantee companies

Like members of a company limited by shares, the members of a company limited by guarantee also have limited liability. But their liability is limited by the Memorandum to the amount which they had guaranteed to pay in the event of winding up of the company. Companies limited by guarantee are not formed for the purpose of profit but for the promotion of Art, Science, Culture, Religion, Charity, Literature, Sport, Commerce or for any other similar purpose. A company limited by guarantee may also have share capital. But the amount guaranteed to be paid by each member on its winding up is in the nature of its reserve capital.

(vi) Unlimited companies

Liability of shareholders of such companies is unlimited similar to that of partners in a partnership organization. Such companies do not exist in India. They may or may not have share capital.

(vii) Private companies

A private company is a company which by its articles. It restricts the right of its members to transfer shares. It limits the numbers of its members to fifty excluding the present and past employee members of the company and prohibits any invitation to the public to subscribe for any shares in or debentures of the company. A private company must use the words _Private Limited' after its name.

(viii) Public companies

Such companies are registered under the Companies Act. They invite subscriptions from public in the form of shares and debentures which can be freely transferred to others through an open sale at the stock exchanges. The size of members here is not limited to fifty, through its Articles of Association.

Unlike a sole proprietorship or partnership, company accounts have a different format. Here we have to account for the different ownership structure (shares, debentures). Company Law also has a definite format for the final accounts of a company. Let us study company accounts and their format.

Basic Concepts of Company Accounts

A company is a voluntary association of people who contribute money for a common purpose. A company is an artificial person and a separate legal entity. Let us now understand the basic concepts of company accounts. The contribution of money by people forms the capital of the company and the contributors are its members. Hence, the capital of a company is known as share capital and the contributors as shareholders. Indian Companies Act, 2013 governs all companies and provides guidelines for them to adhere to.

Basic Concepts of Company Accounts

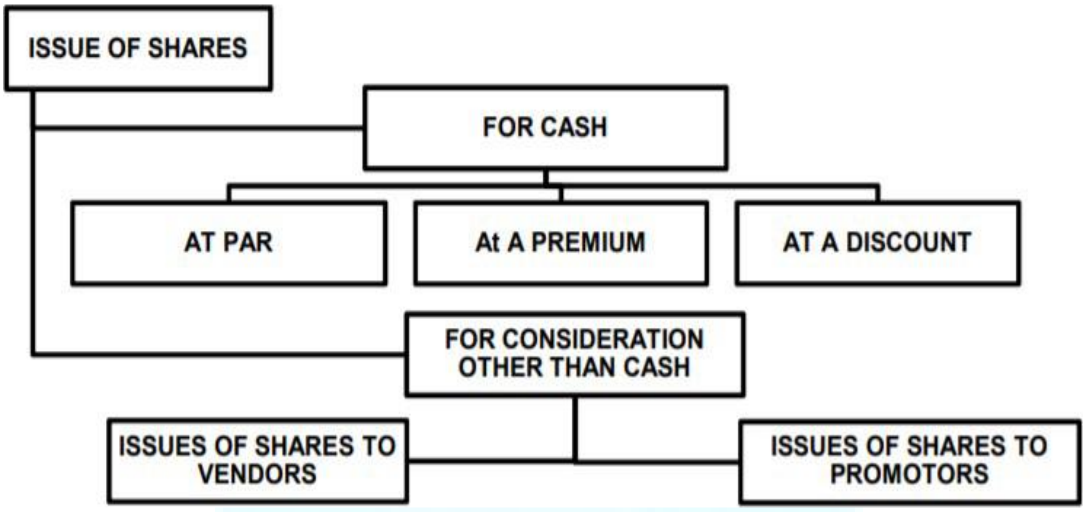
Meaning of Shares

Section 2(84) of the Companies Act, 2013 defines share as a share in the share capital of a company and it includes stock. The share capital of a company is divided into units of smaller denominations. Each such unit is called a Share. It entitles the holder to ownership in the company.

Types of share capital

As per Section 43 of the Companies Act, 2013 Share Capital of a company can be of two types:

1. Equity Share Capital
2. Preference Share Capital



Equity Share Capital

It consists of equity shares. Equity Shares are shares which are not Preference Shares. These carry maximum _risks and rewards' of the business. In the case of high profits, they receive a payment of higher dividends and appreciation in the market value of the shares. While, in the case of loss, there exists a higher risk of losing part or all the shares. Equity Share Capital may be with the voting rights or with the differential rights related to dividend, voting or any other right.

Preference Share Capital

Preference Share Capital consists of preference shares. As per Section 43(b) of the Companies Act, 2013, preference shares are shares which carry preferential rights. The preferential rights of preference shares are:

1. Preferential right to receive dividend: This implies that the company will first make payment to a person holding preference shares at fixed rate or amount and then to the equity shareholders. Thus, they receive dividend before Equity Shareholders.

2. Preferential right to repayment of capital: On the winding up of the company they receive the repayment of capital before paying the equity shareholders.

Deemed Preference Share Capital

The capital will be deemed to be preference share capital when it has either or both of the following rights:

1. In addition to the preferential right to payment of dividend, it possesses a right to participate. However, the right to participate may be fully or to a limited extent.

2. In addition to the preferential right to repayment of capital, it possesses a right to participate. However, the right to participate may be fully or to a limited extent.

Types of Share Capital Shown in The Balance Sheet

Authorized or Nominal Capital

It is the amount of capital with which a company registers itself and also states this

amount in the Memorandum of Association. It is the maximum amount of capital beyond which a company cannot issue shares to the public.

However, a company may issue shares of an amount more than the Nominal Capital, if it increases the Nominal Capital by altering the Capital clause in the Memorandum of Association.

Issued Capital

It is the amount of capital which a company offers to the public for subscription. Also, it includes the shares that a company allotted to the vendors or promoters of the company for consideration other than cash.

In the Balance Sheet, under the head Issued Capital, a company needs to state the different classes of share capital including the sub-classes of the preference shares, the date and the terms of the redemption or conversion of redeemable preference shares and any option on un-issued share capital.

Subscribed Capital

It is the amount of capital for which the company receives the subscription from the public and makes the allotment to them. It can be equal to or less than the Issued Capital.

Called-up Capital

It is the amount which the company calls from the shareholders to pay on the shares.

Usually, a company does not call the full amount at once from the shareholders.

Hence, the portion that the company calls is called-up capital and the remaining portion is un-called capital.

Paid-up Capital

It is the amount that is paid by the shareholders. This is the amount that we include in the Balance Sheet total. It may be less than or equal to the paid-up capital.

The various classes of Preference shares are:

1. Cumulative Preference Shares:

   These are Preference Shares which carry right to receive arrears of dividend before the company makes payment to Equity Shareholders.

2. Non- Cumulative Preference Shares:

   These are Preference Shares which do not carry the right to receive arrears of dividend.

3. Participating Preference Shares:

   The Articles of Association may provide that after paying the dividend to the Equity Shareholders, the Preference shareholders will also have a right to participate in the remaining profits. Thus, the Preference Shares carrying this right are Participating Preference Shares.

4. Non-Participating Preference Shares:

   These are Preference Shares which do not carry the right to participate in the profits remaining after paying the Equity Shareholders.

5. Convertible Preference Shares:

   These Preference Shares have a right to conversion into Equity Shares.

6. Non-Convertible Preference Shares:

   These Preference Shares do have a right to conversion into Equity Shares.

7. Redeemable Preference Shares:

   These Preference Shares are redeemable by the company at a specific time (not exceeding 20 years from the date of issue) for the repayment.

8. Irredeemable Preference Shares:

   These are not redeemable and thus, the company pays the amount only at the time of the winding up of the company.

Under and Over Subscription

A company issues shares to the general public for subscription. It receives the applications along with the application money so that it can allot the shares to the applicants. It may hardly happen that it receives the applications equal to the number of shares issued. Thus, there may be either under subscription or oversubscription.

Under Subscription of shares

A company offers shares to the public inviting applications for their subscription. When the number of shares applied for by the public is less than the number of shares issued by the company, it is a situation of under-subscription. Generally, a company that is newly set up or does not have a good reputation in the market receives under-subscription. Usually, such companies opt for underwriting of the shares. However, if a company receiving under- subscription receives the minimum subscription, it can allot the shares for which it receives the application.

Oversubscription of shares

When a company receives applications for shares more than the number of shares it has offered to the public, it is known as over-subscription of shares. Usually, the companies with strong financial background or good reputation in the market or profitable future prospects receive over-subscription of shares. According to the guidelines of SEBI, a company cannot out- rightly reject any application. However, it can do so where the information is incomplete, the signature is not there or the application money is insufficient.

In this case, it is not possible for the company to allot shares to every applicant in the number that he desires. Thus, the company needs to allot the shares in a proper manner. The company has the following three alternatives:

1. Reject some applications totally.

2. Accept some applications in full.
3. Make Pro-Rata Allotment to the remaining applicants.

Pro-rata allotment implies the allotment of shares in proportion of the shares applied for. In the case of pro-rata allotment, the company adjusts the excess money received at the time of application towards the allotment and refund the excess.

However, it can transfer the excess amount to Calls-in Advance A/c if its articles of association permit and takes the consent of the applicant by a separate letter or by inserting a clause in the Prospectus.

Issues shares at discount:

The issue of shares at a discount means the issue of the shares at a price less than the face value of the share. For example, if a company issues share of Rs.100 at Rs.90, then Rs.10 (i.e. Rs 100—90) is the amount of discount.

It is nothing but a loss to the company. One must remember that the issue of share below the Market Price (MP) but above the Face Value (FV) is not termed as _Issue of Share at Discount.

The issue of Share at Discount is always below the Nominal Value (NV) of the shares. The company debits it to a separate account called _Discount on Issue of Share Account.

Conditions for Issue of Shares at Discount

1. In order to issue the shares at a price less than the face value, the company has to get permission from the relevant authority. For seeking permission, they should call and upon a general meeting and discuss and authorize the matter in that meeting.
2. There is a cap on the rate of discount. A company cannot issue any shares at more than 10% discount.
3. The company should issue the shares within 60 days of receiving permission from the relevant authority. In

certain cases, the company can extend this time frame after getting permission in the permission.

4. The company cannot issue these shares before passing of 1 year from the date of commencement of business.
5. The shares must belong to the same class of shares which are already available in the market. For example, if the has previously issued Equity shares then this time also, the company has to issue Equity shares only.
6. Also, the company has to acquire the sanction by the Central Government after getting approval from the general meeting.

Issue of Shares at Premium

The issue of shares at premium refers to the issue of shares at a price higher than the face value of the share. In other words, the premium is the amount over and above the face value of a share.

Usually, the companies that are financially strong, well- managed and have a good reputation in the market issue their shares at a premium. For example, if a company issues a share of nominal or face value of ` 10 at ` 11, it issues it at 10% premium.

A company may call the amount of premium from the applicants or shareholders at any stage, i.e. at the time of application, allotment or calls. However, a company generally calls the amount of Premium at the time of allotment.

Accounting treatment of Securities Premium

The company needs to credit the amount of Premium in a separate account i.e. Securities Premium A/c, as it is not a part of the Share Capital. It is actually a gain for the company. As per the Companies Act, 2013 the company shows the credit balance of the Securities Premium A/c under the heading _Reserves and Surplus' on the liabilities side of the Balance Sheet.

Also, section 52 of the Companies Act, 2013 states how a company can use the Securities Premium. The following are the provisions regarding this:

1. The company can use the amount towards the issue of un-issued shares to the shareholders or members of the company as fully paid bonus shares.
2. It can use this amount to write off the preliminary expenses.
3. The company may use it to pay the premium on the redemption of debentures or redeemable preference shares.
4. It can also use this amount to write off the expenses incurred, commission paid or discount allowed on the issue of any securities or debentures.
5. It can also use it for buy-back of own shares or any other securities.

For example, X Ltd. offers 20000 shares to the public. It receives applications for 40000 shares. When the company decides to allot the shares at pro-rata basis, then it has to allot 20000 shares to the applicants of 40000 shares. Thus, the ratio will be 40000:20000. Hence, each applicant for 2 shares will receive 1 share. This is Pro-rata allotment.

Journal Entries

Date	**Particulars**	**Amount (Dr.)**	**Amount (Cr.)**
1. On receipt of Application money	Bank A/c Dr. (Total application amount)		

	To Share Application A/c (Being application money received)		
2. Transfer of application money to Share Capital A/c and refund of excess	**Share Application A/c Dr.**		
	To Share Capital A/c (Application amount) To Share Allotment A/c (excess) To Calls-in-advance A/c (balance, if any) To Bank A/c (refund)		
3. On Share Allotment due	**Share Allotment A/c Dr. (Amount due on allotment)**		
	To Share Capital A/c (Being share allotment due on .....shares)		
4. Share Allotment money received	**Bank A/c Dr. (Actual amount received)**		

	To Share Allotment A/c **(Being share allotment money received)**		
5. On Share call due	**Share Call A/c Dr.**		
	To Share Capital A/c **(Being money on share call due on shares)**		
6. Share call amount received	**Bank A/c Dr.**		
	Calls-in-advance A/c Dr.		
	To Share Call A/c **(Being share call amount received and calls-in-advance adjusted)**		

Forfeiture of Shares

Forfeiture of shares signifies cancellation of shares and the company seizes the amount of the shares. The shareholder, who applies for the purchase of shares, makes an offer on the one hand. On the other hand, the company by accepting or allotting shares shows acceptance. Hence, offer and acceptance with the lawful consideration create a valid contract between the shareholder and the company. In this article, we will look at the aspects of forfeited shares.

As we know, a company can forfeit shares on non-payment of the number of calls. The company before forfeiture must first give clear 14 days' notice to the defaulting shareholder that he shall pay the due amount along with the interest.

If not paid by the specified date, the shares shall be forfeited. If the shareholder still does not pay, the company may forfeit the shares by passing an appropriate resolution.

Accounting Entries on Forfeiture of Share

The company may issue the forfeited shares at par or at a premium. Accounting entry for forfeiture will vary according to the situation.

1. When Forfeiture of shares Issued at Par

In this case,

1. The company debits the Share Capital Account with the amount called-up up to the date of forfeiture on shares.
2. It credits the Shares Allotment Amount or Shares Call Account with amount called-up on forfeited shares but due from the shareholders. If we are maintaining Calls-in-Arrears Account then we credit Calls-in-Arrears Account.

The company credits the Forfeited Shares Account by the receipt of the amount on the shares forfeited.

Notice before Forfeiture

There are instances when a member who is liable to pay any call money on his shares, fails to pay the amount. In such cases, the directors may either by the implementation of Table A or express provision on the articles proceed to forfeit the shares of such a defaulting member. Before the actual forfeiture of the shares, the company may send a notice to the defaulting member asking payment of the call.

The notice must give not less than 14 days time from the date of service of notice for the payment of the amount of the call. The notice must also state the consequences of not fulfilling the requirements of the notice. It generally states that if the shareholder fails to pay the amount within a time which the notice mentions then his shares will be liable for forfeiture.

Accounting Treatment

In the case of Share Forfeiture (Par)

Date	**Particulars**	**L.F.**	**Amount (Dr.)**	**Amount (Cr.)**
	Share Capital A/c Dr.		XXX	
	To Forfeited Shares Account A/c			XXX
	To Shares Allotment A/c			XXX
	To Shares Call A/c			XXX

If, we maintain Calls-in-Arrears Account we will credit Calls-in-Arrears Account instead of

—Shares Allotment Amount‖ and —Shares Call Account‖.

Journal entry for this will be:

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Equity Share Capital A/c Dr.		XXX	
	To Forfeited Shares Account A/c			XXX
	To Calls-in-Arrears A/c			XXX

In the case of Share Forfeiture (Premium)

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Share Capital A/c Dr.		XXX	
	To Shares Allotment A/c			XXX
	To Forfeited Shares A/c			XXX
	To First Call A/c			XXX

Date	Particulars	L.F.	Amount (Dr.)	Amount (Cr.)
	Share Capital A/c Dr.		XXX	
	Securities Premium A/c Dr.		XXX	
	To Shares Allotment A/c			XXX

	To Forfeited Shares A/c			XXX
	To First Call A/c			XXX

Calls-in-Advance

Excess Money received by the company which has been called up isknown as calls in advance. If authorized by its Articles, A Company may accept call in advance from its shareholders. When a company receives such an amount, it needs to credit it to the calls-in- advance account.

Calls in Advance

The company treats calls-in-advance as a debt of until it makes the calls. The amount already paid is adjusted. Calls-in-advance may also arise when the number of shares allotted to a person is much smaller than the number applied by him for and the terms of issue allow the company to retain the amount received in excess of application and allotment money.

The company can retain only such amount as is required to make the allotted shares fully paid. After transferring the amount to the relevant call accounts, the company closes the calls-in- advance account. It shows this amount under a separate heading, namely _calls-in-advance' on the liabilities side. A company may pay interest on such amount received in advance at the rate of 12% p.a. No dividend is payable on this amount. It adjusts the amount of calls-in-advance for the payment of calls when they become due. Interest payable on Calls-in- Advance is a liability against the profits of the company. A company has to pay Interest on Calls-in-Advance even when there is no profit.

Journal Entries

Date	Particulars	Amount(Dr.)	Amount(Cr.)
(i) On receipt of call money	Bank A/c Dr.	XXXX	
	To Call-in-Advance A/c (Being receipt of calls in advance)		XXXX
(ii) On making calls	Calls-in-Advance A/c Dr.	XXXX	
	To Relevant Call A/c (Being transfer of the calls-in-advance)		XXXX

(iii) When Interest on Calls-in-Advance is paid in cash	Interest on Calls-in-Advance A/c Dr.	XXXX	
	To Bank (Being payment of Interest on Calls-in- Advance)		XXXX
(iv) When interest on Calls-in-Advance is not paid in cash	Interest on Calls-in-Advance A/c Dr.	XXXX	
	To Sundry Shareholders A/c (Being Interest on Calls-in-Advance due)		XXXX
(v) For payment to shareholders	Sundry Shareholders A/c Dr.	XXXX	
	To Bank (being interest paid)		XXXX
(vi) On transfer of interest on Calls-in-Advance to P & L A/c	Profit and Loss A/c Dr.	XXXX	
	To Interest on Calls-in-Advance A/c (Being the transfer of interest expenses to profit and loss A/c)		XXXX

Issue of Shares for Cash

Joint stock companies carry their business on a large scale. Hence, these companies require a huge amount of capital. They fulfill their requirement by issuing shares and debentures to the public. Moreover, after receiving the certificate of incorporation, they can offer shares to the public under different methods. In this article, we will discuss the issue of share for cash.

Methods of Issue

Mostly, a company issues equity shares to the general public. When the capital raised through ordinary shares is not enough, the company can also go for preference shares. They can issue it either by collecting the full par value of shares at the time of issue or collecting the face value in different calls. It includes application, allotment, first call, etc.

Issue of share at Par

Par value is the value given or mentioned on the certificate of share. Each company can mention its own par value like Rs.10, Rs.20, etc. When the company asks the total par value of at the time of application; it is called the issue of shares on a lump sum basis.

The following entries are made for issuing shares.

Date	Particulars	Amount (Dr.)	Amount (Cr.)

1. Application money	Bank A/c (actual amount received) Dr.		
	To Share Application A/c (Being application money received on shares)		
2. Application Money transfer	Share Application A/c Dr.		
	To Share Capital A/c (Being share application money transferred to share capital)		
3. Share Allotment	Share Allotment A/c (amount due on allotment) Dr		
	To Share Capital A/c (Being share allotment due)		
4. Money received	Bank A/c (actual amount received) Dr.		
	To Share Allotment A/c (Being share allotment money received)		
5. Share call due	Share Call A/c Dr.		
	To Share Capital A/c (Being money on share call due)		
6. Call amount received	Bank A/c Dr.		
	To Share Call A/c (Being share call amount received)		

Issue of share at Premium

When a share is issued at a price which is more than the par value, it is called the issue of share at a premium. For example, if a share of Rs.10 is issued t Rs. 12, then it is called the issue of share at a premium. Here Rs. 2 is the premium amount per share.

Journal entries for the issue of shares at Premium
1. Premium is due at the time of application.

Date	Particulars	Amount (Dr.)	Amount (Cr.)
1. On receipt of Application money	Bank A/c (application and premium amount) Dr. To Share Application A/c Cr. (Being application money received on shares)		
2. Transfer of application money to Share Capital A/c and Securities Premium A/c	Share Application A/c Dr. To Securities Premium A/c Cr. To Share Capital A/c Cr. (Being share application money transferred to share capital)		
3. On Share Allotment due	Share Allotment A/c (amount due on allotment) Dr. To Share Capital A/c Cr. (Being share allotment due)		
4. Share Allotment money received	Bank A/c (actual amount received) Dr.		

	To Share Allotment A/c Cr. (Being share allotment money received)		
5. On Share call due	Share Call A/c Dr. To Share Capital A/c Cr. (Being money on share call due)		
6. Share call amount received	Bank A/c Dr. To Share Call A/c Cr. (Being share call amount received)		

2. Premium is due at the time of allotment.

Date	Particulars	Amount (Dr.)	Amount (Cr.)
1. On receipt of Application money	Bank A/c (actual amount received) Dr. To Share Application A/c Cr. (Being application money received on shares)		
2. Transfer of application money	Share Application A/c Dr.		

to Share Capital A/c	To Share Capital A/c Cr. (Being share application money transferred to share capital)		
3. On Share Allotment and Premium due	Share Allotment A/c (amount due on allotment including premium) Dr. To Securities Premium A/c Cr. To Share Capital A/c Cr. (Being share allotment money and premium due)		
4. Share Allotment money received	Bank A/c (allotment and premium amount received) Dr. To Share Allotment A/c Cr. (Being share allotment money received)		
5. On Share call due	Share Call A/c Dr. To Share Capital A/c Cr. (Being money on share call due)		
6. Share call amount received	Bank A/c Dr. To Share Call A/c Cr. (Being share call amount received)		

Issue of Debentures

The issue of Debentures is very similar to the issue of shares by a company. Here to the money can be collected lump sum or in installments. The accounting treatment of the two is also quite similar. Now debentures can be issued for cash or some other consideration. At times issue of debentures is also done as a collateral security.

Issue of Debentures for Cash

Debentures in the general course of business are issued for cash. This issue of debentures that happens can be of three kinds, just like an issue of shares, at par, at a discount, and at a premium.

Issue at Par

Here the debentures will be issued exactly at their nominal price, i.e. not above or below the face value of the debentures. Now the company can decide to collect the cash all at once, in a lump sum. Or the money will be collected in installments, like with allotment, first call, second call, last call etc.

(A) Money Received in One Installment

Particulars		Amount	Amount
Bank A/c	Dr	xxx	
To Debenture Application & Allotment A/c			xxx
(Being amount received in one installment)			

Particulars	Amount	Amount
Debenture Application & Allotment A/c Dr	xxx	
To Debenture A/c		xxx
(Being allotment being done)		

(B) Being Money Received in Two or More Installments

Particulars		Amount	Amount
Bank A/c	Dr	xxx	
To Debenture Application A/c			xxx
(Being amount received on application)			

Particulars		Amount	Amount
Debenture Application A/c	Dr	xxx	
To Debenture A/c			xxx
(Being allotment being done)			

Particulars		Amount	Amount
Debenture Allotment A/c	Dr	xxx	
To Debenture A/c			xxx
(Being allotment money becoming due)			

Particulars		Amount	Amount
Bank A/c	Dr	xxx	
To Debenture Allotment A/c			xxx
(Being allotment money received)\			

Issue at Discount

When the debentures are issued at below face value, such issue of debentures is known as a discount issue.

Discount on issue of debentures is treated as a capital loss and put under "Miscellaneous Expenses" on the asset side of the balance sheet until it can be written off. Then during the life of the debentures, such discount amount is written off by debiting it to the Profit and Loss A/c. It can also be charged against the Capital Profits of the company. The accounting entries for the issue of debentures on discount and the writing off the expense are as below,

Particulars		Amount	Amount
Debenture Allotment A/c	Dr	xxx	
Discount on Debenture A/c	Dr	xxx	

Particulars		Amount	Amount
To Debenture A/c			xxx
(Being allotment money becoming due)			

Particulars		Amount	Amount
Bank A/c	Dr	xxx	
To Debenture Allotment A/c			xxx
(Being allotment money received)			

Particulars		Amount	Amount
Profit and Loss A/c	Dr	xxx	
To Discount on Debenture A/c			xxx
(Being discount written off)			

Issue at Premium

Now we come to the issue of debentures at a premium, that is when more money than the nominal value is charged. So if a debenture with a face value of 100/- is sold at 110/- then it is issued at a premium. The amount of the premium is charged to a special account known as Securities Premium Reserve Account. This account will be shown on the liabilities side of the Balance Sheet under the heading of Reserves and Surplus.

The accounting entries for the issue of debentures at a premium will be as below,

Particulars		Amount	Amount
Debenture Allotment/Call A/c	Dr	xxx	
To Debenture A/c			xxx
To Securities Premium A/c			xxx
(Being allotment/call money becoming due)			

Particulars		Amount	Amount
Bank A/c	Dr	xxx	
To Debenture Allotment/Call A/c			xxx
(Being allotment/call money received)			

Issue of Debentures for Consideration other than Cash

Debentures can be issued for non-cash considerations. The company may have purchased assets from some vendors or acquired some other business. Then instead of paying cash, the company may issue debentures to such vendors. Such an issue for debentures can be at par, or for a discount or at a premium.

Accounting entries for all these possibilities.

Particulars		Amount	Amount
Asset A/c	Dr	xxx	
To Vendors A/c			xxx
(Being asset purchased from vendor)			
Vendors A/c	Dr	xxx	
To Debentures A/c			xxx
(Being debentures issued at par against the purchase of asset)			
Vendors A/c	Dr	xxx	
To Debentures A/c			xxx
To Securities Premium A/c			xxx
(Being debentures issued at a premium against the purchase of asset)			
Vendors A/c	Dr	xxx	
Discount on Debentures A/c		Dr xxx	
To Debentures A/c			xxx
(Being debentures issued at a discount against the purchase of asset)			

Issue of Debentures as Collateral Security

Debentures can also be issued by a company as collateral security against a bank loan or any such borrowings. A collateral security is like a parallel security which is provided along with the actual security against the loan taken. Debentures issued as such a collateral liability are a contingent liability for the company, i.e. the liability may or may not arise. Only when the company defaults on such a loan will this liability arise.

Generally, because it is a contingent liability no entry is passed in the books of the company against such an issue of debentures. However, if some companies opt to pass an entry to record such a transaction, the following entries may be passed

Particulars		Amount	Amount
Debentures Suspense A/c	Dr	xxx	
To Debentures A/c			xxx
(Being debentures issued as a collateral security)			

Particulars		Amount	Amount
Debentures A/c	Dr	xxx	
To Debenture Suspense A/c			xxx
(Being debentures cancelled on repayment of the loan)			

VALUATION OF GOODWILL AND SHARES

Good Will

Goodwill is an intangible asset that is associated with the purchase of one company by another. Specifically, goodwill is the portion of the purchase price that is higher than the sum of the net fair value of all of the assets purchased in the acquisition and the liabilities assumed in the process. The value of a company's brand name, solid customer base, good customer relations, good employee relations, and proprietary technology represent some reasons why goodwill exists.

Concept of Goodwill

When one company buys another company, the purchasing company may pay more for the acquired company than the fair market value of its net identifiable assets (tangible assets plus identifiable intangibles, net of any liabilities assumed by the purchaser). The amount by which the purchase price exceeds the fair value of the net identifiable assets is recorded as an asset of the acquiring company. Although sometimes reported on the balance sheet with a descriptive title such as "excess of acquisition cost over net assets acquired", the amount is customarily called goodwill.

Goodwill arises only part of a purchase transaction. In most cases, this is a transaction in which one company acquires all the assets of another company for some consideration other than an exchange of common stock. The buying company is willing to pay more than the fair value of the identifiable assets because the acquired company has a strong management team, a favourable reputation in the marketplace, superior production methods, or other unidentifiable intangibles. The acquisition cost of the identifiable assets acquired is their fair market value at the time of acquisition. Usually, these values are determined by appraisal, but in some cases, the net book value of these assets is accepted as being their fair value. If there is evidence that the fair market value differs from net book value, either higher or lower, the market value governs.

Methods of Valuation of Goodwill

Various ways are used in the valuation of goodwill. However, the valuation methods are based on the situation of an individual company and different practices of the trade. The top three processes of valuation of goodwill are mentioned below.

⇨ **Average Profits Method –** This method is divided into two sub-division.

Simple Average – In this process, goodwill evaluation is done by calculating the average profit by the number of years it is called years purchase. It can be calculated by using the formula. Goodwill = Average Profit x No. of years' of purchase.
Weighted Average – Here, last year's profit is calculated by a specific number of weights. It is used to obtain the value of goods, which is divided by the total number of weights for determining the average weight profit. This technique is used when there is a change in profits and giving high importance to the present year's profit. It is evaluated by using the formula.
Goodwill = Weighted Average Profit x No. of years' of purchase, where Weighted Average Profit = Sum of Profits multiplied by weights/ Sum of weights

⇨ **Super Profits Method** – It is a surplus of expected future maintainable profits over normal profits. The two methods of these methods are.

The Purchase Method by Number of Years – The goodwill is established by evaluating super-profits by a specific number of the purchase year. It can be estimated by applying the below formula. Super Profit = Actual or Average profit – Normal Profit
Annuity Method –Here, the average super profit is taken as an annuity value over a definite number of years. A discounted amount of super profit calculates the current value of an annuity at the given rate of interest. The formula to be used here is.
Goodwill = Super Profit x Discounting Factor

⇨ **Capitalisation Method** – Under this method, goodwill can be evaluated by two methods.

Average Profits Method – In this process, goodwill is measured by subtracting the original capital applied from the capitalised amount of the average profits based on the average return rate. The formula used is mentioned below.

Capitalised Average profits = Average Profits x (100/average return rate)

Super Profits Method- Here, the super profit is capitalised, and the goodwill is calculated.
The formula applied is. Goodwill = Super Profits x (100/ Normal Rate of Return)

Methods of Valuation of Shares

Valuation of shares is the process of determining the fair value of the company shares. The methods of valuation depend on the purpose for which valuation is required. Share valuation is done based on quantitative techniques and share value will vary depending on the market demand and supply. Generally, there are three methods of valuation of shares:

Net Assets Method of Valuation of Shares

Under this method, the net value of assets of the company is divided by the number of shares to arrive at the value of each share. Since the valuation is made on the basis of the assets of the company, it is known as Asset-Basis or Asset-Backing Method. For the determination of the net value of assets, it is necessary to estimate the worth of the assets and liabilities. The goodwill, as well as non-trading assets, should also be included in total assets. Under this method, the value of the net assets of the company is to be determined first. The following points should be considered while valuing of shares according to this method:

Goodwill must be properly valued
The fictitious assets such as preliminary expenses, discount on issue of shares and debentures, accumulated losses, etc. should be eliminated.
The fixed assets should be taken at their realizable value.
Provision for bad debts, depreciation, etc. must be considered.
All unrecorded assets and liabilities (if any) should be considered.
Floating assets should be taken at market value.

The external liabilities such as sundry creditors, bills payable, loan, debentures, etc. should be deducted from the value of assets for the determination of net value.

The net value of assets, determined so has to be divided by a number of equity shares for finding out the value of the share. Thus the value per share can be determined by using the following formula:

Value Per Share=(Net Assets-Preference Share Capital)/Number Of Equity Shares

Yield or Market Value Method of Valuation of Shares

Yield is the effective rate of return on investments that is invested by the investors. The expected rate of return in investment is denoted by yield. The term "rate of return" refers to the return which a shareholder earns on his investment. Since the valuation of shares is made on the basis of Yield, it is called Yield-Basis Method. Further, it can be classified as (a) Rate of earning and (b) Rate of dividend. In other words, yield may be earning yield and dividend yield.

Earnings Yield
Under this method, shares are valued on the basis of expected earning and a normal rate of return. The value per share is calculated by applying the following formula:

Value Per Share = (Expected rate of earning/Normal rate of return) X Paid-up value of equity share

Expected rate of earning = (Profit after tax/paid-up value of equity share) X 100

Dividend Yield
Under this method, shares are valued on the basis of expected dividend and normal rate of return. The value per share is calculated by applying following formula:

Expected rate of dividend = (profit available for dividend/paid up equity share capital) X 100

Value per share = (Expected rate of dividend/normal rate of return) X 100

Earning Capacity Method Of Valuation Of Shares

Under this method, the value per share is calculated on the basis of disposable profit of the company. The disposable profit is found out by deducting reserves and taxes from net profit. The following steps are applied for the determination of value per share under earning capacity:

Step 1: To find out the profit available for dividend

Step 2: To find out the capitalized value

Capitalized Value =(Profit available for equity dividend/Normal rate of return) X 100

Step 3: To find out value per share

Value per share = Capitalized Value/Number of Shares.