FINANCIAL ACCOUNTING

For IInd Semester B.Com

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SYLLABUS BCM2B02

FINANCIALACCOUNTING

Lecture Hours per week: 6 Credits: 4Internal: 20, External: 80, Examination 2.5 Hours

Objectives:¬¬ To equip the students with the skills of preparing financial statements for various type of organizations.¬ ¬ To enable the students to acquire knowledge about financial reporting standards and to understand corporate accounting methods.

Module I Single Entry System of Accounting: Definition – Objectives - Advantages- Limitations- Distinction between Double entry and Single entry- Types of Single entry- Determination of Profit or Loss under single entry- Statement of Affairs/ Capital comparison method- Distinction between Balance Sheet and Statement of Affairs- Distinction between Profit and loss account and Statement of Profit and Loss- Conversion method- Practical Problems. (16 Hours, 15 marks)

Module II Company Accounts- Issue of Shares: Introduction- Books of accounts maintained by companies- Share Capital- Phases of capital- Difference between Reserve capital and Capital Reserve- Shares and types of shares- Equity and Redeemable Preference shares - Convertible Cumulative Preference Shares (CCP shares) Sweat Equity shares- Employees Stock Option Scheme (Theory only)- Private Placement of shares- Issue of shares- Procedures- Minimum Subscription- Shares issued for consideration- Shares issued for consideration other than cash- Issue of shares at par and premium (issue at discount, not to be taught)- Treatment of Fraction shares- Application, Allotment and Calls on Shares- Share capital allotment- Calls in arrears and calls in advance- Interest on calls in arrears and calls in advance- Difference between calls in arrears and calls in advance- Oversubscription and under subscription- Prorata allotment- Forfeiture and reissue of shares-Annulment of forfeiture- Surrender of shares- Distinction between forfeiture and surrender- Journal entries- Practical problems. (30 Hours, 25 marks)

Module III Accounting for issue of Debentures :Definition – Types of debentures- Issue of Debentures- For cash, for consideration other than cash and issued as collateral security- Fraction debentures- Distinction between share and debenture- Terms of issue of debentures- Interest on debentures- Journal entries- Practical problems. (10 Hours, 10marks)

Module IV Convergence to International Financial Reporting Standards: Meaning of Accounting Standards- need and importance of global accounting standards- Role of IASB in developing IFRS – components of IFRS (IAS,IFRS,IFRIC and SIC)- process of setting IFRS – Conceptual Framework and its contents – Definition of elements in financial statements- Criteria or principles of recognition, measurement, presentation and disclosure-convergence to IFRS- Emergence of Ind AS – Standard setting process in India– Role of NFRA –Entities

Module V Ind. AS / IFRS complied Financial Statements of Companies (Ind AS1): Preparation of final accounts under new format (SOPL, SOCE and SOFP – excluding SOCF) - Treatment of adjustment items such as Corporate Dividend Tax- Transfer to Reserve-Provision for taxation- TDS on Interest income, implied adjustment of interest on loans and other usual adjustment items such as depreciation, Closing stock, provisions, outstanding, prepaid, accrued, and received in advance –Practical problems. (22 Hours, 15marks)

MODULE 1

ACCOUNTING FROM INCOMPLETE RECORDS-SINGLE ENTRY SYSTEM

Modern financial accounting is based on double entry system. under double entry system ,both the aspect of a transaction (debit and credit) are recorded. As a result, all personal. Real and nominal accounts are opened. But this method requires more time, efforts and money. Hence small sole proprietor and partnership firms do not follow strict rules of double entry system.

Single entry system is a system of accounting, which does not follow the double entry principles. Under this system, accounts relating to debtors and creditors are maintained. Kohler defines single entry system as "a system of book keeping which as a rule only records of cash and personal accounts are maintained, it is always incomplete double entry varying with circumstances"

Features of single entry system

(i) Maintenance of personal accounts

(ii) Maintenance of cashbook

(iii) Dependence on original vouchers

(iv) It does not follow strict double entry principles

(v) The system may differ from firm to firm and therefore, no uniformity.

(vi) The system suitable in case of small firms, partnership firm. Hence, it is not suitable for corporates

Merits

(ii) It is simple method of accounting

(iii) It is economical

(iv) It is suitable for small enterprises

(v) It is possible to record transactions quickly

Demerits

1. Arithmetical accuracy cannot be checked.
2. Nominal accounts are not maintained
3. It does not record of all assets and liability
4. Financial position of business cannot be judged
5. True profit cannot be ascertained
6. It is not suitable for limited companies
7. It is not acceptable to income tax authorities

Types of Single Entry System

1. Pure Single Entry System:

In this method, only the personal accounts are maintained and there is no information present, concerning the sales and purchases, cash in hand,and bank balance.

2. Simple Single Entry System:

In a simple single entry system, cash book is maintained along with the personal accounts and these are maintained as per double entry system of bookkeeping. Cash received or paid, from/to business debtors or creditors are merely written on the bills issued or received.

3. Quasi Single Entry System:

In this system, subsidiary books such as sales book, purchases book, bills receivable book and bills payable book are maintained in addition to cash book and personal accounts.

Statement of Affairs

Statement of affairs (SOA) is also identified as a record of financial position of a particular business entity at a given time. The key purpose of SOA is to afford relevant information for the interested parties such as shareholders, customers, employees, competitor, etc. Rather than exhibiting book values of the assets and liabilities, SOA considers the amount at which the organization can recover after selling off their assets and settling their outside obligations.

Computation of profit

The profit or loss in case of a business maintaining accounts according to single entry system can be computed by two methods namely, statement of affairs method and conversion method

Statement of affairs method or net worth method

According to this method, the profit or loss made by the business is computed by comparing the capital of the business on two different dates. The following procedure is followed

(a) A statement of affairs at the beginning of the year is prepared to ascertain capital atthe beginning. .

(b) Closing statement of affairs is prepared to ascertain capital at the end

(c) Profit is ascertained by

Module 2

Company Accounts

Issue of Shares

Meaning of Company

A company may be viewed as an association of person who contribute money or Money's worth to a common inventory and use it for a common purpose. It is an artificial person having corporate legal entity distinct from its members (shareholders) and has a Common seal used for its signature.

Features of Company

1. Body Corporate:
   A company is formed according to the provisions of Law enforced from time to time
2. Separate Legal Entity:
   A company has a separate legal entity which is distinct and separate from its members
3. Limited Liability:
   The liability of the members of the company is limited to the extent of unpaid amount of the shares held by them

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4. Perpetual Succession:
   The company being an artificial person created by law continues to exist irrespective of the changes in its membership. A company can be terminated only through law.
5. Transferability of Shares:
   The shares of a public limited company are freely transferable affects the existence of the company. Members may come and go but the company continues

6. Common Seal
   The company being an artificial person, cannot sign its name by itself.

Therefore, every company is required to have its own seal which acts as official signatures of the company. Any document which does not carry the common seal of the company is not binding on the company

7. May Sue or be Sued:

A company being a legal person can enter into contracts and can enforce the contractual rights against others. It can sue and be sued in its name if there is a breach of contracts by the company

KINDS OF COMPANIES

A. On the basis of liability

1. Companies Limited by Shares:

In this case, the liability of its members is limited to the extent of the nominal value of shares held by them. He need not pay a single paise from his private property.

2. Companies Limited by Guarantee:

In this case, the liability of its members is limited to the amount they undertake to contribute in the event of the company being wound up. Thus, the liability of the members will arise only in the event of its winding up.

3. Unlimited Companies:

When there is no limit on the liability of its members, the company is called an unlimited company. When the company's property is not sufficient to pay off its debts, the private property of its members can be used for the purpose.

B. On the basis of the number of members,

Companies can be divided into two categories as follows:

1. Private Company:

A private company is one which has a minimum paid up capital of Rs. 1 Lakh rupees or such higher paid-up share capital as may be prescribed, and
which by its articles:
(a) restricts the right to transfer its shares;
(b) limits the number of its members from 2 to 200
(c) prohibits any invitation to the public to subscribe for any shares in or debentures of the company.
(d) prohibits any invitation or acceptance of deposits from person other than its members, directors, and relatives.
(e) The word PVT LTD should be added at the end of the name

2. Public Company

Public company means a company which is

(a) Not a private company
(b) Has minimum paid up share capital of 5 lakhs rupees or such higher paid

up capital omitted by Companies Act

C. Kinds of companies under Companies Act 2013

1. Royal Chartered Company

Royal Chartered Companies are companies created by the Royal Charter. This means they are granted power or a right by the monarch or by special order of a king or a queen. Examples of Royal Chartered Companies are East India Company, BBC, Bank Of England, etc.

2. Statutory Companies

Statutory Companies are companies incorporated by means of a special act passed by the central or state legislature. They are mostly invested with compulsory powers and are responsible to carry out some special business of national importance. Some examples of statutory companies are The Reserve Bank of India (formed under RBI act, 1934), Life Insurance Corporation of India (formed under LIC Act, 1956).

3. Registered Or Incorporated Companies

All the other companies which are incorporated under the companies act passed by the government comes under this head. Google India Pvt Ltd is an example of incorporated companies.

4. One Person Company

One Person Company (OPC) as a company type was introduced in the Companies Act of 2013 in India. It is similar to a sole proprietorship but the owner shall have limited liability and thus his personal assets would not be at risk if losses need to be recovered or if the company is liquidated.

5. Holding company and Subsidiary Company

When one company controls the management of another company, the former is called holding company and the later over which the control is exercised is termed as subsidiary Company

6. Domestic Company

A company which is based in India registered under the companies act 2013. The head office and its business operations are conducted within the country. It can either be a private or public.

7. Foreign company

A foreign company is a company incorporated outside India which establishes its business operations within India under the companies act 2013.

8. Companies not for profit

These companies obtain a license from the central government before they are registered. They are limited liability but are not required to use a word limited or private with their names.

Share Capital of a Company

A company, being an artificial person, cannot generate its own capital which has necessarily to be collected from several persons. These persons are known as shareholders and the amount contributed by them is called share capital.

Categories of Share Capital

1. Authorised Capital: Authorised capital is the amount of share capital which a company is authorised to issue by its Memorandum of Association. The company
Cannot raise more than the amount of this capital

2. Issued Capital:

It is that part of the authorised capital which is actually issued to the public for subscription including the shares allotted to vendors and the signatories to the company's memorandum. The authorised capital which is not offered for public subscription is known as 'unissued capital'.

3. Subscribed Capital:

It is that part of the issued capital which has been actually subscribed by the public.

4. Called up Capital:

It is that part of the subscribed capital which has been called up on the shares. The company may decide to call the entire amount or part of the face value of the shares.

5. Paid up Capital:

It is that portion of the called up capital which has been actually received from the shareholders.

6. Uncalled Capital:

That portion of the subscribed capital which has not yet been called up

7. Reserve Capital:

A company may reserve a portion of its uncalled capital to be called only in the event of winding up of the company. Such uncalled amount is called 'Reserve Capital' of the company. It is available only for the creditors on winding up of the company.

Difference between Capital Reserve and Reserve Capital

The following are the major differences between capital reserve and reserve capital:

1. A portion of profit set aside that can be used for specific purposes only is known as Capital Reserve. Reserve Capital is that form of uncalled share capital that can be called up by the company only in the event of the liquidation of the company.
2. Capital Reserve the result of accumulating capital profit, whereas Reserve Capital is created out of authorized capital.
3. On the equity & liabilities side of the Balance Sheet, Capital Reserve appears under the head Reserves & Surplus. Unlike Reserve Capital, which is not disclosed at all.
4. There is a compulsion in the creation of capital reserve by every company which is not in the case of reserve capital.
5. For the creation of reserve capital, the special resolution should be passed by the

company at Annual General Meeting (AGM).
6. Capital Reserve has various uses like writing off fictitious assets, or capital losses, etc. but Reserve Capital is used only when the company goes into liquidation.

Nature and Classes of Shares

Shares, refer to the units into which the total share capital of a company is divided. Thus, a share is a fractional part of the share capital and forms the basis of ownership interest in a company. The persons who contribute money through shares are called shareholders.
As per Section 86 of The Companies Act, a company can issue two types of shares (1) preference shares, and (2) equity shares (also called ordinary shares).

Preference Shares
According to Section 85 of The Companies Act, 1956, a preference share is one,
which fulfils the following conditions :
(a) That it carries a preferential right to dividend to be paid either as a fixed amount payable to preference shareholders or an amount calculated by a fixed rate of the nominal value
(b) That with respect to capital it carries or will carry, on the winding up of the company, the preferential right to the repayment of capital before anything is paid to equity shareholders.

Equity Shares
According to Section 85 of The Companies Act, 1956, an equity share is a share
which is not a preference share. In other words, shares which do not enjoy any preferential right in the payment of dividend or repayment of capital, are termed as equity/ordinary shares.

Difference between Preference Shares and Equity Shares

1. Equity shares cannot be converted into preference shares. However, Preference shares could be converted into equity shares.

2. Equity shares are irredeemable, but preference shares are redeemable.
3. The next major difference is the ‘right to vote’. In general, equity shares carry the right to vote, although preference shares do not carry voting rights.
4. Arrear is available in preference shares . Arrear is not available in equity shares
5. The rate of dividend is consistent for preference shares, while the rate of equity dividend goes on changing

Sweat equity shares

Sweat equity shares is one of the modes of making share based payments to employees of the company. The issue of sweat equity shares allows the company to retain the employees by rewarding them for their services. Sweat equity shares development of the company.

Employees Stock Option Scheme

Under ESOS, companies offer their equity shares to their employees. It is a scheme under which the company gives options to the whole time directors, officers or employees to purchase, or subscribe at a future date, the equity shares at a predetermined price.

Stock

Stock represents a portion of the capital of a company just like shares. It is a consolidation of fully paid shares. In the words of lord Hatherly, “stock is a set of shares put together in a bundle”. Stock has no definite value. It can be of any value.

Difference between Shares and stock

The principal points of difference between share and stock are as follows:

1. A share is that smallest part of the share capital of the company which highlights the ownership of the shareholder. On the other hand, the bundle of shares of a member in a company, are collectively known as stock.
2. The share is always originally issued while the original issue of Stock is not -possible.
3. A share has a definite number known as a distinctive number which distinguishes it from other shares, but a stock does not have such number.

4. Shares can be partly paid or fully paid. Conversely, Stock is always fully paid.

5. Shares can never be transferred in the fraction. As opposed to stock, can be transferred in the fraction.

6. Shares have nominal value, but the stock does not have any nominal value

Minimum Subscription

The minimum amount that, in the opinion of directors, must be raised to meet the needs of business operations of the company

The journal entries with regard to allotment of shares are as follows

Bank a/c Dr.

To share application (Amount received on application for — shares @ Rs. ______ per share)

1. For Transfer of Application Money

Share Application A/c Dr.

To Share Capital A/c (Application money on _____ Shares allotted/transferred to Share Capital)

2. For Money Refunded on Rejected Application

Share Application A/c Dr.

To Bank A/c (Application money returned on rejected application for ___shares)

3. For Amount Due on Allotment

Share Allotment A/c Dr.

To Share Capital A/c

4. For Adjustment of Excess Application Money

Share Application A/c Dr

To Share Allotment A/c (Application Money on __Shares @ Rs__per shares adjusted to the amount due on allotment

5.For Receipt of Allotment Money

Bank A/c Dr.

To Share Allotment A/c (Allotment money received on ___Shares @ Rs. — per share

MODULE 3

DEBENTURE

The word ‘debenture’ itself is a derivation of the Latin word ‘debere’ which means to borrow or loan. Debentures are written instruments of debt that companies issue under their common seal. They are similar to a loan certificate.

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.

Bond	Debenture
It can be issued without pre-determined rate of interest	1. It can be issued at a pre-determined rate of interest
It is issued at maximum discount	2. It is issued at lesser discount
The difference between redemption price and issue price of bond is treated as interest.	3. The interest on debenture is calcualted on the basis of its face value and rate of interest

Charge

The term 'charge' simply refers to mortgage. It means securing the loan by encumbering assets against the loans. This implies that if the borrower (or company) fails to meet its obligation (or fails to repay the loan) the lender can secure his payment from the asset or assets mortgaged.

There are two types of charge—fixed charge and floating charge. A charge created on specific assets of a permanent nature such as land, building, machinery etc. is known as fixed charge. A charge created not on specific assets but generally on all assets is known as floating charge.

Nature of Debenture

The following characteristics of debenture will indicate its nature:

1. It is a debt instrument.
2. It is issued under the seal of the company.
3. It carries fixed rate of interest.
4. It contains a contract for the repayment of principal amount at a specified date.
5. It is generally secured by a charge on the assets of the company.
6. It represents a loan capital.
7. It is repaid after a long period. Hence it is a long term finance.
8. It carries no voting rights.

Difference Between Share and Debenture

Share	Debenture
I. Share is a part of owned capital.	1. Debenture is a part of loan or borrowed capital.
2. Dividend is paid on shares.	2. Interest is paid on debentures.
3. The rate of dividend may vary from year to year.	3. The rate of interest is fixed.
4. Shareholder gets dividend only if there is a profit. Thus it is an appropriation item.	4. The debentureholder gets interest whether the company makes profit or not. Thus it a charge item.
5. A share is unsecured.	5. Debenture is generally secured.
6. Shareholder is a proprietor.	6. Debentureholder is a creditor.
7. Shareholder enjoys voting right.	7. Debentureholder has no voting right.
8. Shares cannot be issued at discount	8. Debentures can be issued at discount

Kinds of Debentures (Classification of debentures)

The following are the different types of debentures:

1. On the basis of registration:

   (a) Registered Debentures: These debentures are payable to persons recorded in the register of debentureholders. These can be transferred only with the knowledge of the company. This means that these are transferable only by transfer deed.

   (b) Bearer Debentures: These debentures are payable to the bearer. The company maintains no register for these debentures. These are transferable by mere delivery. No deed is required for their transfer.

2. On the basis of security:

   (a) Secured or Mortgage Debentures: These debentures are secured by the assets of the company. These are secured either on a particular asset or on the assets of the company in general.

   (b) Un-secured or Naked Debentures: These debentures are not secured on any asset.

3. On the basis of redemption:

   (a) Redeemable Debentures : These debentures are repayable after a fixed period either in lumpsum or by instalments.

   According to the rules 4.16 of the Companies Act, 2013, the period of redemption of secured debentures shall not exceed 10 years from the date of issue but in case of the companies engaged in infrastructure projects, the period will be more than 10 years and maximum 30 years.

   (b) Irredeemable or Perpetual Debentures: These are not redeemable during the life time of the company.

4. On the basis of convertibility:

   (a) Convertible Debentures : These debentures are convertible, at the option of the holder, into shares within or after a certain period. These are classified into two Fully Convertible Debentures (FCDs) and Partly Convertible Debentures (PCDs).

   (b) Non-Convertible Debenture: These debentures do not give any option to convert into shares.

These days companies issue some Other types of debentures like zero-interest debenture, deep discount debenture, deep gain debenture etc.

Debentures with PariPassu Clause usually, the terms of issue include 'PariPassu' clause. This means all debentures of a particular series will rank together with regard to the security irrespective of different timings ofissue. It means that all debentures of a series are to be paid rateably and proportionately in case of shortfall.

ISSUE OF DEBENTURES

The issue of debentures may be studied from two different angles.

1. From consideration point of view:

(a) Issued for cash.

(b) Issued for consideration other than cash. (c) Issued as collateral security.

2. From price point of view: (a) Issued at par.

(b) Issued at premium.

(c) Issued at discount. Issue of Debentures for Cash

When full amount is collected with the application, the entry will be:

Bank A/c Dr.

To Debentures A/c

B. When Debentures are issued for Cash in Installments

If amount of debenture is payable in instalments (application, allotment and call), !entries will be made similar to that under issue of shares. These entries are as follows:

1. On receipt of application money

Bank A/c Dr.

To Debenture Application A/c

2. On transfer of application to debentures

Debenture Application A/c

To Debentures A/c

3. On allotment money due

Debenture Allotment A/c To Dr.

Debenture A/c

4. On receipt ofallotment money

Bank A/c Dr.

To Debenture Allotment A/c

5. On making calls (cal/ money due)

Debenture Call A/c Dr.

To Debentures A/c

6. On receipt ofcal/ money

Bank A/c Dr.

To Debenture Call A/c

Terms of Issue of Debentures

Debentures may be issued either at par or at premium or at discount.

A. Issue of Debentures at Par

1. When the entire amount is collected along with application (i.e., in lump- sum):

Bank A/c Dr.

To Debentures A/c

To Securities Premium Reserve A/c

When the amount is collected in instalments (application, allotment, and call)

When allotment money with premium is due

Debenture Allotment A/c Dr. (Total including premium)

To Debentures A/c (Face Value)

To Securities Premium Reserve A/c (Premium)

When allotment money is received

Bank A/c

To Debenture Allotment A/c

Note: Usually the debenture premium is collected at the time of allotment.

C. Issue of Debentures at Discount

Joumal Entries

1) When the entire amount is collected at the time of application itself (i.e., in lump- sum)

Bank A/c Dr. (Actual amount collected)

Discount on issue of Issue of Debentures A/c Dr. (Discount)

To Debentures A/c (Face Value)

2) When the amount is collected in installments

When allotment money is due

Debenture Allotment A/c Dr. (Amount receivable)

Discount on Issue of Debentures A/c Dr. (Discount)

To Debentures A/c

When allotment money is received

Bank A/c

To Debenture Allotment A/c

Note: Usually, discount on issue of debentures account is shown along with allotment

Expenses on Issue of Debentures

Some expenses will be incurred on the issue of debentures. The expenses may include duty, filing fees, printing, advertising , brokerage etc. These expenses are debited to "Expenses on Issue of Debentures" A/c. This account is written off to Profit and Loss Account. Securities premium account or any other capital reserve may also be used for writing off this account.

Issue of Debentures for Consideration other than Cash

When a company purchases some assets or a running business, it may issue fully paid debentures instead of paying cash. This is said to be issue of debentures for consideration other than cash. Such debentures may be issued at par, at premium, or at a discount. The journal entries will be as follows :

1. On purchases of assets or business :

Assets A/c	Dr.	(with the agreed value of assets taken over)
To Liabilities		(with the agreed value of liabilities taken over)
To Vendors A/c		(with purchase consideration)

Issue of Debenture as Collateral Security

When a loan is taken from a bank or a financial institution, the company may issue its debentures as a collateral security. These debentures are issued as additional security for loan taken. Thus collateral security means additional or secondary security in addition to the main or principal security. For example, a company takes a loan of 15 lakhs from a bank on the security of land and building worth 25 lakhs. In addition to land and building, the bank also asked the company to issue debentures oft 10 lakhs. In response to this, company would issue debentures of 10 lakhs as collateral or subsidiary security. Land and building is the main or principal security. When the loan is repaid, the debenture issued as collateral security will be returned to the company. The collateral security will be realized by the bank (lender) only when the principal security fails to pay the amount of loan. The debentures issued as collateral security are by nature a contingent liability as far as the issuing company is concerned.

Issue of Debentures and Conditions of Redemption

Most of the companies issue debentures with specific conditions at which debentures will be redeemed. Conditions of redemption affect accounting treatment of issue of debentures. The followings are the six probable cases on the basis of terms of issue and conditions of redemption of debentures :

(a) Issued at par and redeemable at par.

(b) Issued at premium and redeemable at par.

(c) Issued at discount and redeemable at par.

(d) Issued at par and redeemable at premium.

(e) Issued at discount and redeemable at premium. (f)Issued at premium and redeemable at premium. Accounting Treatment

A. When debentures are issued at par and redeemable at par

Bank A/c	Dr.
To Debentures A/c	

B. When debentures are issued at premium and redeemable at par

Bank A/c	Dr. (Face value + Premium)
To Debentures A/c	(Face value)
To Securities Premium Reserve A/c	(Premium)

Securities premium reserve is a capital profit. Hence it is shown in Equity and Liabilities under the subhead "Reserves and Surplus" under the head "Equity" in the Balance Sheet.

C. When debentures are issued at discount and redeemable at par

Bank A/c	Dr. (Amount received)
Discount on issue of Debentures A/c	Dr. (Discount)

To Debentures A/c (Face value)

Discount on issue of debentures is a capital loss. It is shown under "Other Non-cu rrentAssets" until it is written off. It is advisable to write off the discount through the Statement Of Profit and Loss during the life time of debentures.

D. When debentures are issued at par and redeemable at premium

Bank A/c Dr. (Amount received)

Loss on issue of debenture A/c Dr. (Premium on redemption)

To Debentures A/c (Face value)

To Premium on Redemption (Premium payable on Redemption)

E. When debentures issued at discount and redeemable at premium

Bank A/c Dr. (Amount received)

Loss on Issue of debentures A/c Dr. (Discount on issue + redemption premium)

To Debentures A/c (Face value)

To Premium on redemption (Premium payable on redemption)

In this case the loss is two-fold, i.e., the discount at the time of issue plus the premium payable on redemption.

F. When debentures issued at premium and redeemable at premium

Bank A/c Dr. (Amount received)

Loss on Issue of Debenture A/c Dr. (Redemption premium)

To Debenture A/c (Face value)

To Securities Premium Reserve A/c (Premium on issue)

To Premium on Redemption A/c (Redemption premium)

Interest on Debentures

Generally interest on debenture is paid half yearly either on 31st March and 30th september or on 30th June and 31st December every year.

Interest payable on debenture is a charge against profits. This means that the company must pay a fixed rate of interest when there is a profit or not. The company is also required to deduct income tax (at source) at the prescribed rate before paying interest to debenture holder.

(i) When the interest is due

Interest on Debentures A/c Dr.

To Debenture holders A/c

To Income Tax Payable A/c

(ii). When interest is paid

Debenture holders A/c Dr.

To Bank A/c

(iii)

For closure of debenture interest:

Statement of Profit and Loss Dr.

To Interest on Debentures A/c

(iv) On payment of income tax deducted at source:

Income Tax Payable A/c Dr.

To Bank

Note: No interest is payable on debentures issued as collateral security.

Interest on Debentures Accrued but Outstanding

Interest on debenture is payable on specific dates say 315t December and 30th June each year. If interest on these dates is not paid, then it will be treated as interest accrued or outstanding. If this amount remains unpaid on the date of B/S, then it will be shown in the Balance Sheet under "Non-current Liabilities" under the subhead"LongtermBorrowing

MODULE V
Ind. AS/IFRS COMPILED FINANCIAL STATEMENTS OF COMPANIES (Ind AS1)

Financial Statements are set of documents representing the state of affairs of a company to the external users. Different components of the statements are interrelated and should be interpreted in totality to understand financial performance of an enterprises. The component parts of the financial statements are interrelated because they reflect different aspects of the same transactions or other events. Although each statement provides information that is different from others, none is likely to serve only a single purpose nor to provide all the information necessary for particular needs of user.

As per section 2(40) of the Companies Act 2013, financial statements of a company includes a) A balance sheet as at the end of the financial year. b) A profit and loss account, or in case of a company carrying on any activity not for profit, an income and expenditure account for the financial year, c) Cash flow statement for the financial year d) A statement of changes in equality, if applicable e) Any explanatory note annexed to, or forming part of any document referred to in sub clause (a) to sub clause (d)

To ensure standardized presentation for easy comparability, the format of the Balance Sheet and the Statement of Profit and Loss has been prescribed in the Schedule 128 of the Companies Act, 2013. Additionally, Ind AS 1 lays down the basic requirements for the presentation of financial statements.

As per Ind AS, a complete set of financial statements comprises the following:

a) A balance sheet

b) A statement of profit and loss

c) A statement of changes in equity

d) A statement of cash flows

e) Notes comprising significant accounting policies and other explanatory information.

Key requirements for presentation of financial statements

Ind AS 1 also lays down some key requirements to be followed for presenting information in financial statements. They are:

1. Going Concern: Financial statements are prepared on a going concern basis. Management has to assess the entity’s ability to continue as a going concern,

2. Accrual Basis of Accounting: Financial statements, except cash flow statement, are required to be prepared using accrual basis of accounting.

3. Materiality: Each material class of similar items must be presented separately and same has to be followed for the items of dissimilar nature or function. If a line item is not individually material, it is aggregated with other items either in those statements or in the Notes.

4. Offsetting: Assets and liabilities or income and expenses are required to be shown on gross basis without offsetting against each other, unless required or permitted by an Ind AS.

5. Frequency Reporting: Financial statements must be presented annually. If the entity changes its accounting period, then financial statements are prepared for a period longer or shorter than one year.

6. Comparative Information: Comparative information in respect of the preceding accounting period for all amounts presented in the current year's financial statements shall be given foe better analysis.

7. Consistency: Presentation and classification of items in the financial statements from period to period shall be consistently followed. However, if an Ind AS requires a change in presentation or another presentation or classification is considered to be more appropriate, the classification and presentation may be changed.

8. True and Fair: Financial statements shall present information which is relevant, reliable, comparable and understandable.

SCHEDULE III OF COMPANIES ACT 2013

Schedule III of Companies Act, 2013, is applicable for financial year commencing on or after 1st April, 2014. [Earlier, Revised Schedule IV was applicable w.e.f 1st April, 2011 as per notification dated 30th March 2011 and it was same as Schedule III.] All companies whether private or public, whether listed or unlisted, and irrespective of their size in terms of turnover, assets, etc. will have to adhere to new format of financial statements from 2011-12 onwards.

STATEMENT OF FINANCIAL POSITION (SOFP) OR BALANCE SHEET

The statement of financial position, often called the balance sheet, is a financial statement that reports the assets, liabilities, and equity of a company on a given date. In other words, it lists the resources, obligations, and ownership details of a company on a specific day. When reading a balance sheet, it represents what the business owns and controls (the Assets), what it owes (the Liabilities) and the investment that the owner has contributed (the Equity) at a particular point in time.

The accounting equation is:

Assets = Liabilities + Equity

FORMAT OF BALANCE SHEET (Table 1)

Name of the Company…………………

Balance Sheet as at……………

PARTICULARS	NOTE No.	FIGURES AS AT THE END OF CURRENT YEAR	FIGURES AS AT THE END OF PREVIOUS YEAR
I ASSETS **(1) Non-current Assets** a) Property, Plant and Equipment b) Capital work-in-progress c) Investment property d) Goodwill e) Other tangible assets f) Intangible assets under development g) Biological assets other than bearer plants h) Financial assets i. Investments ii. Trade receivables iii. Loans			

iv. Others (to be specified) i) Deferred tax assets (net) j) Other non-current assets **(2) Current Assets** a) Inventories b) Financial Assets i. Investments ii. Trade receivables iii. Cash and cash equivalents iv. Bank balance other than (iii) above v. Loans vi. Others (to be specified) c) Current tax asset (Net) d) Other current assets **Total Assets** **EQUITY AND LIABILITIES** **II EQUITY** a) Equity Share Capital b) Other Equity **III LIABILITIES** **(1) Non-current liabilities** (a) Financial liabilities i. Borrowings ii. Trade payables iii. Other financial liabilities (other than those specified in item (b), to be specified) (b) Provisions (c) Deferred tax liabilities (Net) (d) Other non-current liabilities **(2) Current Liabilities** (a) Financial liabilities i. Borrowings ii. Trade Payables iii. Other financial liabilities (other than those specified in item (c)) (b) Other current liabilities (c) Provisions (d) Current Tax Liabilities (Net) **Total Equity and Liabilities**			

A. NON-CURRENT ASSETS

Non – current assets are those assets which are held for more than one year. They are also called long term or fixed assets. These are the assets which are intended to be used in the business over a long period of time (exceeding 12 months or the normal operating cycle of the business).

I. Property, Plant and Equipment:

II. Capital Work-in-Progress

III. Investment Property

IV. Goodwill

V. Other Intangible Assets

VI. Intangible Assets under Development

VII. Biological Asset other than Bearer Plants

VIII. Financial Assets

IX. Deferred Tax Assets

X. Other Non-current Assets

B. CURRENT ASSETS

1. Inventories

1) Goods-in-transit shall be disclosed under the relevant sub-head of inventories

2) Mode of valuation shall be stated.

1. Current Financial Assets

a) Current Investments

b) Current Trade receivables

c) Cash and cash equivalents

d) Current Loan

e) Current tax assets (Net)

f) Other current assets(specify nature)

STATEMENT OF PROFIT AND LOS (SOPL)

Also known as Profit and Loss Account. It is the primary financial statement to understand the operative performance of an enterprise during a given period. It summarize incomes earned and expenses incurred by an enterprise during a given period.The purpose of the Statement of Profit and Loss is to provide information about different sources of income and gains and also expenses and losses incurred during an accounting period. The Schedule III prescribes the vertical format to be followed showing income first followed by expenses

FORMAT OF STATEMENT OF PROFIT AND LOSS (Table 2)

Name of the Company

	Particulars	Note No.	Figures as at the end of current year	Figures as at the end of previous year
I	Revenue from operations			
II	Other Income			
III	Total Income (I + II)			
IV	**EXPENSES**			
	Cost of materials consumed			
	Purchases of Stock –in-Trade			
	Changes in inventories of finished goods, Stock in Trade and work –in – progress			
	Employee benefits expenses			
	Finance cost			
	Depreciation			
	Other Expenses			
	Total expenses (IV)			
V	Profit / Loss before exceptional items and tax			
VI	(I-IV)			
VII	Exceptional items			
VIII	Profit / Loss before tax (V-VI)			
	Tax expense:			
	a. Current tax			
IX	b. Deferred Tax			
	Profit (Loss) for the period from continuing			
X	operations (VI-VIII)			
XI	Profit/Loss from discontinued operations			
XII	Tax expense of discontinued operations			
	Profit/Loss from discontinued operations (after			
XIII	tax) (IX-XI)			

XIV	Profit/Loss for the period (IX+XII)			
	Other Comprehensive Income			
	A			
	a. Items that will not be reclassified to profit or loss			
	b. Income tax relating to items that will not be reclassified to profit or loss			
	B			
	a. Items that will be reclassified to profit or loss			
XV	b. Income tax relating to items that will be reclassified to profit or loss			
XVI	Total Comprehensive Income for the period (XIII+XIV) (Compromising Profit (Loss) and Other Comprehensive Income for the period)			
XVII	Earnings per equity share (for continuing operation): 1. Basic 2. Diluted			
XVIII	Earnings per equity share (for discontinued operation): 1. Basic 2. Diluted			
	Earnings per equity share (for discontinued & continuing operation): 1. Basic 2. Diluted			

Statement of Profit and Loss for the period ended

TREATMENT OF ADJUSTMENT ITEMS

4. CORPORATE DIVIDEND TAX
5. TRANSFER OF RESERVE
6. PROVISION FOR TAXATION
7. TDS ON INTEREST INCOME
8. IMPLIED ADJUSTMENT OF INTEREST ON LOANS
9. DEPRECIATION
10. CLOSING STOCK
11. PROVISIONS
12. OUTSTANDING EXPENSES
13. PREPAID EXPENSES
14. ACCRUED INCOME
15. RECEIVED IN ADVANCE (OR UNEARNED INCOME)

Treatment in Final Accounts

i. Income received in advance should be deducted from the concerned income in the Notes to Accounts to be shown in the Statement of Profit and Loss. ii. It is also shown in the Balance Sheet under the Sub head ‘Other Current Liabilities’ under the main head ‘Current Liabilities’. If income received in advance or unearned income is given in trail balance (Cr. balance), then it should be taken only in Balance Sheet. This implies that the adjustment entry has already been made.