Biyani's Think Tank

Concept based notes

Accountancy

Class XII

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Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the "Teach Yourself" style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Theoretical Question

Financial Statements of Not-For-Profit Organisations

Not-for-Profit organizations refer to those organizations which:

a) are formed for the purpose of promoting commerce, art, science, religion, charity or any other useful object.
b) intend to spend their income in promoting their objectives, and
c) prohibit the payment of any dividend to their members.

Examples of Not for Profit Organisation.

1. Sports Clubs
2. charitable Hospitals
3. Social Clubs
4. Charitable Schools
5. Charitable Schools/ Colleges
6. Temples/ Churches/ Gurudwaras/ Masjids

Difference between a Profit seeking organisation and a Not-for- profit Organisation
.

Basis of Distinction	Profit Seeking Organisation	**Not-for-Profit Organisation**
1. Primary Motive	The primary motive of such an entity is to earn profit	The Primary motive of such an entity is to provide services
2.Owner's Fund Vs. Capital Fund	Interest of owners is known as owner's fund which represents the owner's investments plus accumulated reserves and surplus	Interest of members is known as capital fund which represents the accumulated surplus of subscriptions, donations and net profits from activities carried on by such an entity.
3. Net result of activities	The net result of the activities of such an entity is known as the profit/loss.	The net result of the activities of such an entity is known as the surplus/deficit.
4. Accounting Statements	The accounting statements of such type of entity include a) a Manufacturing A/C b) a Trading A/c c) a Profit and Loss A/.c d) a Balance Sheet	The accounting statements of such an entity include: a) a Receipts and Payments A/c b) a Trading A/c c) an Income and Expenditure A/c d) a Balance Sheet

Fund based Accounting

Fund based accounting essentially involves preparation of financial statements fund wise and consolidation of those statements to represent the financial results/ position of the organisation as a whole.

What is meant by Revenue Fund in a Not-for – Profit Organisation ?

Revenue funds essentially record normal revenue transactions. In other words, revenue funds are received to meet operating expenses. The accrual basis of accounting is used to recognize revenue and expense in the revenue fund for Operating Funds). However, the use of revenue fund may be restricted or unrestricted.

What is meant by Special Funds in a Not-for-Profit Organisation?

Special funds essentially record transactions of capital nature. There funds account for those resources which may not be currently expended.

What is meant by Receipts & Payments Account ?

The 'Receipts & Payment Account' is an asset account (or Real Account) which shows all receipts and payments (whether Capital or Revenue or relating to Previous or Current or following accounting year) along with the Cash & Bank balances in the beginning and at the end of an accounting period.

What is meant by Income & Expenditure Account ?

An Income and Expenditure Account is a final account like Profit & Loss Account, which shows the classified summary of revenue incomes, revenue expenses and losses for current accounting period along with surplus (i.e. the excess of income over expenditure) or deficit (i.e. exceess of expenditure over income) which is transferred to the Capital Fund.

Differences between Receipts & Payments Account and Income & Expenditure Account

Basis of Distinction	Receipts & Payments Account	Income & Expenditure Account
1. Nature of Account	It is a real account	It is a nominal account
2. Basic Structure	It is basically a summarised Cash Book.	It is like a Profit & Loss Account.
3. Object	It is prepared to present a summary of cash transactions during an accounting period	It is prepared to ascertain the net results of all the transactions during an accounting period.
4. Opening Balance	Opening balance represents cash or bank balances (or Bank Overdraft) in the beginning of the accounting period.	It has no opening balance
5. Items of Debit side	It is debited with all the sums received.	It is debited with the expenses and losses .
6. Items of Credit side	It is credited with all the sums paid out.	It is credited with the incomes.
7. Closing Balance	Closing balance represents cash or bank balance {or bank overdraft} at the end of the accounting period.	Its closing balance Represents either net Surplus or net deficit.
8. Treatment of Closing balance	Its closing balance is Carried forward in the same Account of the next period.	Its closing balance is transferred to the capital fund in the balance sheet.
9. Non-cash ltems	Non-cash items are not Shown in this account.	Non-cash items such as depreciation, bad debts, Etc., are shown.
10.Period to which Items relate	It records the receipts and payments whether they relate to previous, current or following accounting period.	It records only those incomes. expenses and losses which relate to current accounting period.
11.nature of items Recorded-revenue Vs. capital	It records the receipts and payments whether of capital or revenue nature.	It records the incomes, expenditures and losses of revenue nature.

Differences between Profit and Loss Account and Income & Expenditure Account.

Basic of Distinction	Income & Expenditure Account	Profit & Loss Account
1. Object	The main object of Income and Expenditure Account is	The main object of Profit and Loss Account is to ascertain net profit or net loss

	to ascertain excess of income over expenditure of excess of expenditure over income.	
2. Who Prepares ?	This account is prepared by non-profit organisations	This account is prepared by trading institutions.
3. Basis of Preparation	This account is prepared on the basis of Receipts and Payments Account and other information	This account is prepared on the basis of trial balance.
4. Balance	The balance of this account represents surplus or deficit.	The balance of this account represents net profit or net loss.

Method of calculating the current year's income by way of subscription

Statement showing Computation of Subscriptions Income for the Current Year

Particulars			Rs.
A.	Subscriptions received during the current year		xx
B.	Add :		
	(i) Outstanding Subscriptions at the end of current year	xx	
	(ii) Advance subscriptions in the beginning of current year	xx	xx
C.	Less :		
	(i) Outstanding subscriptions in the beginning of current year	xx	
	(ii) Advance subscriptions at the end of current year	xx	xx
D.	Subscription Income to be credited to Income & Expenditure Account (A+B-C)		xx

How will you account for Life Membership Fees ?

Life Membership may be treated in any one of the following ways : -

(a) These subscriptions may be treated as a capital receipt and thus be transferred to a " Life membership Fund Account" which shall be shown in the Balance Sheet till the membership ceases when the same may be transferred to the Capital Fund Account.

(b) These subscriptions may be treated as deferred revenue receipts and thus be transferred to Life Membership Fund Account. In such a case, an amount representing the normal annual subscription is treated as a revenue receipt and thus transferred out of Life Membership Fund Account to Income & Expenditure Account and the balance appears in the Balance Sheet till the amount is exhausted or till the memberships ceases, whichever is earlier.

How will you account for Entrance Fee/ Admission Fee ?

The entrance fees may be accounted for in any of the following three ways:

1. It may be treated exclusively as a revenue receipt and thus, be transferred to the credit of Income & Expenditure Account.
2. It may be treated exclusively as a capital receipt and thus, be added to the Capital Fund on the liabilities side of the Balance Sheet.
3. Some portion of Entrance Fee (say 40%) may be treated as a revenue receipt and thus, be transferred to the credit of Income & Expenditure Account and remaining portion (say 60%) may be treated as a capital receipt and thus, be added to the Capital Fund on the liabilities side of the Balance Sheet.

How will you account for Donation & Legacies ?

Types of Donations and Legacies	**Accounting Treatment**
(a) General Donations and Legacies	(a) These donations & legacies are treated as revenue receipts and thus, are transferred to the credit of Income & Expenditure Account.
(b) Specific Donations	(b) These donations & legacies are treated as capital receipts and thus, are transferred to a ' Special Fund Account' (e.g., expenditure on the construction of building out of Building Fund) should be shown on the assets side of the Balance Sheet and an equal amount should be transferred from that Special Fund to the Capital Fund.

Accounting For Partnership Firms- Fundamentals

Define Partnership. Give five essential elements of a partnership.

- Meaning of Partnership

According to Sec. 4 of the Indian Partnership Act, 1932, the term ' Partnership' is the relation between two or more persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

- Five Essential Elements of Partnership

1. At least 2. Persons 2. Business 3. Mutual Agency 4. Agreement 5. Sharing of profits

What is the maximum limit of partners ?

- The maximum limit of partners in case of a partnership for a banking business is 10 and in case of other partnership is 20.

Can a minor become a partner ?

With the consent of all the partners, a minor may be admitted to the benefits of partnership.

Is Registration of a firm compulsory ?

-No.

What is a Partnership Deed ?Give five contents of a partnership deed. Why is it considered better to make a partnership agreement in writing ?

-*Meaning of Partnership Deed* – A document which contains the terms of partnership as agreed among the partners is called a ' Partnership Deed. " The deed is required to be duly stamped as per Indian Stamp Act, 1889 and duly signed by all the partners.

- *Five contents of a partnership Deed*

1. Name of Firm
2. Names and Addresses of all partners
3. Name and place of business
4. Date of Commencement of Partnership
5. Capital Contribution of each partner

Why in Writing ? Though the law does not expressly require that the partnership agreement be in writing, it is desirable to have it in writing so that in case of any dispute with regard to the terms of partnership, it may be readily referred to.

In the absence of a partnership deed explain the rules relating to any three of the following:

(a) Profit & Loss Ratio
(b) Interest on Partner's capital
(c) Interest on Partner's drawings

(d) Interest on partner's loan (6%p.a.)
(e) Salary to a partner.

Accounting Treatment in the absence of express provision in Partnership Deed

(a) Sharing of Profits & Losses	- Profits & Losses are to be shared equally (Sec 13 (b)
(b) Interest on Capital	- No interest is to be allowed on Capital (Sec 13 (c)
(c) Interest on Drawings	- No interest is to be charged on Drawings
(d) Interest on Advances/ Loans by a partner	- Interest @ 6 % p.a. is to be allowed on Advances/ Loans. (Sec. 13 (d)
(e) Salary to a partner	- No remuneration for taking part in the conduct of business is to be allowed to any partner. (sec 13 (a)

Give any three points of differences between Fixed Capital Method & Fluctuating Capital Method

Basis of Distinction	**Fixed Capital Method**	**Fluctuating Capital Method**
1. Change in Capital	The capital normally remains unchanged except under special circumstances	The capital fluctuates quite frequently from period to period.
2. No. of Accounts maintained	In case of Fixed Capital Method, two accounts are maintained for each partner viz. (a) Fixed Capital Account. (b) Current Account.	In case of Fluctuating capital method only one account viz. Capital Account) is maintained for each partner.
3. Adjustment for	All adjustments for drawings	All adjustments for drawing, interest on capital salary share of profit/ lose are made in Capital Account.
4. Can Capital Account show a negative balance?	Fixed Capital Account can never show a negative balance.	Fluctuating Capital Account can show a negative balance.

Give any two points of differences between Drawings Against Profits and Drawings Against Capital.

Basis of Distinction	**Drawings Against Profits**	**Drawings Against Capital**
1. Part of	It is part of expected profits	It is part of Capital
2. Whether Considered for calculation of Interest on Capital	It is not considered to calculate interest on capital	It is considered to calculate interest on capital

3. Where debited ?	It is debited in Drawings Account	It is debited in Capital Account
4. Whether reduces fixed capital	It does not reduce fixed capital	It reduces fixed Capital.

What is the objective of preparing Profit & Loss Appropriation Account ?

- *Objective of Profit & Loss Appropriation Account*

After ascertaining the Net Profit as per Profit & Loss Account, usually the Profit & Loss Appropriation Account is prepared to show how Net Profit has been distributed among the partners. The balance in Profit & Loss Appropriation Account may be used :

1. To provide for interest on Capital of Partners (if Partnership Deed so provides)
2. To provide for Salary or Commission to partners (if Partnership Deed so provides)
3. To transfer the profits to General Reserve or Specific Reserve.
4. To distribute the profits among the partners in their profit sharing ration.

This account is merely an extension of the Profit & Loss Account and is credited with Net Profits and interest on drawings and debited with Interest on Capitals, salary or commission to partners if provided under the terms of partnership agreement and its balance is transferred to the partners Capital (or Current) Accounts in their agreed profit sharing ratio.

What is the purpose of Profit & Loss Adjustment Account ?

Profit & Loss-Adjustment Account is prepared to show the effect of revaluation of assets and liabilities at the time of reconstitution of partnership. (i.e. Change in Profit Sharing Ratio, Admission, Retirement and Death of a partner).

Define Goodwill. What is the nature of goodwill ?

- *Meaning of Goodwill*

Goodwill is the value of reputation of a firm in respect of the profit expected in future over and above the normal profits earned by other similar firms belonging to the same industry. Such excess of future profits over the normal profits is known as super profits. Thus, goodwill exists only when the firm earns super profits. Any firm that earns only normal profits or is incurring losses has no goodwill. If time value of money is considered, goodwill can be defined as the present value of anticipated super profits.

Nature of Goodwill

Goodwill is regarded as an intangible asset and not a fictitious asset. Goodwill is a valuable asset if the firms is earning profits and is a valueless asset if the firm is incurring losses. However, in the periods of temporary recession, the goodwill of the firm which is incurring least losses as compared to other similar firms, may be a valuable asset.

List any four factors affecting goodwill.

(a) Technical know-how
(b) Favourable Location,
(c) Efficiency of Management,
(d) Market Situation
(e) Special Advantages (if any) enjoyed by the firm, like import license, patent, trade marks etc.
(f) Quality of Products
(g) After Sales Service
(h) Producing' providing customers satisfying products
(i) Management's attitude towards fulfillment of commitments (e.g. Timely delivery of goods to customers, timely payment to creditors, delivery of goods to customers at committed prices inspite of increase in market prices)

Mention any four circumstances when goodwill of a partnership firm may have to be valued.

(a)When there is a change in profit- sharing ratio amongst the existing partners
(b) When a new partner is admitted
(c) When a partner retires or dies :
(d) When the firm is sold
(d) When the firm is amalgamated with another firm.

List the methods of Valuation of Goodwill,.

(1) Average Profits Method.
(2) Super Profits Method, and
(3) Capitalisation Method.

Give any two points of differences between Average Profits & Super Profits

Particulars	**Average Profit**	**Super Profit**
1. Meaning	Average Profit is the average of the profits of past few years	Super Profit is the excess of Average profits over normal profits.
2. Whether Average Capital Employed considered for calculation ?	Average Capital Employed is not considered while calculating Average Profits.	Average Capital Employed is considered while calculating Super profits.
3. Whether Normal Rate of Return considered for calculation ?	Normal Rate of Return is not considered while calculating Average Profits.	Normal Rate of Return is considered while calculating Average profits.

4. Relevance while valuing Super Goodwill	Average profit is relevant for Average Profits Method. Super Profits Method and Capitalization Methods of valuation of Goodwill.	Super Profit is relevant for Profit Method and Capitalization of Super Profit Method of valuation of Goodwill.

What is a Joint Life Policy ? What is the objective of taking a joint life policy by the partners ? -*Meaning* – Joint Life Policy is an assurance policy covering the lives of the partner jointly.

Objective – The main objective behind taking out a joint life policy is to make provision for payment of the amount due to the executors of a deceased partner so that the working capital of the firm may not be adversely affected to that extent.

RECONSTITUTION OF PARTNERSHIP – CHANGE IN PROFIT

The need for change in profit sharing ratio

The Need for Change in Profit Sharing Ratio arises –

1. When the partners so decide
2. When a new partner is admitted.
3. When a partner retires.
4. When a partner dies.

Why are assets and liabilities revalued at the time of change in profit sharing ratio ?

Assets and liabilities are revalued at the time of change in profit sharing ratio so that the profit/ loss on account of such revaluation up to the date of change in profit sharing ratio may be ascertained and adjusted in the partners' capital accounts in their old profit sharing ratio.

Why is it necessary to distribute accumulated Reserves, Profits & Losses at the time of change in profit sharing ratio ?

It is necessary to distribute accumulated reserves, profits & losses at the time of change in profit sharing ratio so that such profits/ losses up to the date of change in profit sharing ratio may be ascertained and adjusted in the partners' capital accounts in their old profit sharing ratio.

RECONSTITUTION OF PARTNERSHIP- ADMISSION OF A PARTNER

State the two main rights acquired by a new partner.

(a) Right to share the assets of the firm

(b) Right to share the future profits of the firm

Give two circumstances in which sacrificing ratio may be applied.

(a) When there is change in profit sharing ratio.

(b) When a new partner is admitted.

Why do you determine new profit sharing ratio even for old partners when a new partner is admitted

When a new partner is admitted, he acquires his share in profits from the old partners. This reduces the old partners' shares in profits hence, profit sharing ratio for old partners have to be calculated.

Enumerate the Adjustments required on admission of a partner.

1. Adjustment in Profit Sharing Ratio.
2. Adjustment of Goodwill
3. Adjustment of Profit/ Loss arising from the Revaluation of Assets and Liabilities.
4. Adjustment of Accumulated Profits, Reserves and Losses
5. Adjustment of Capitals (if agreed)

How is the amount of hidden Goodwill calculated ?

When the value of the goodwill of the firm is not specifically given, the value of goodwill has to be interred on the basis of the net worth of the firm as follows:

A.	Net worth (including goodwill) on the basis of capital brought in by incoming partner (Incoming partner's capital x Reciprocal of share of incoming partner)	Rs. xx
B.	Less: Net worth (excluding goodwill) of the reconstituted firm (i.e. after taking into consideration the capital brought in by incoming partner)	xx
C.	Value of Goodwill (A-B)	xx

Note: Net worth = Sundry Assets – Outsiders' Liabilities
or = Capitals of partners + Net Accumulated Profits & Reserves (if any)

Why is it necessary to revalue Assets & Liabilities at the time of admission of a partner ?

- At the time of admission of a partner, the assets and liabilities are revalued so that the profit or loss arising on account of such revaluation upto the date of admission of new partner may not be affected by such profit or loss.

Why is it necessary to distribute Accumulated Reserves, Profits & Losses at the time of admission of a partner ?

- At the time of admission of a partner, any reserves, accumulated profits/losses upto the date of admission of a partner are transferred to old partners' Capital Accounts (if capitals are fluctuating) or Current Accounts (if capitals are fixed) in their old profit sharing ratio since the reserves, accumulated profits / losses upto the date of admission of a new partner belong to the old partners and not to the new partner.

RECONSTITUTION OF PARTNERSHIP- RETIREMENT/ DEATH OF A PARTNER

Give the two circumstances in which gaining ratio may be applied.

(a) When there is change in profit sharing ratio.

(b) When a partner retires/dies.

Give any two points of differences between Sacrificing Ratio and Gaining Ratio

Basis of Distinction	Sacrificing Ratio	Gaining Ratio
1. Meaning	It is the ratio in which the old partners have agreed to sacrifice their shares in profit in favour of new partner.	It is the ratio in which the continuing partners acquire the outgoing (retired of deceased) partner's share.
2. Purpose	It is calculated to determine the amount of compensation to be paid by the incoming partner to the sacrificing partners.	It is calculated to determine the amount of compensation to be paid by each of the continuing partners to the outgoing partner.
3. How to calculate	It is calculated by taking out the difference between old shares and new shares	It is calculated by taking out the difference between new shares and old shares
4. When to calculate	It is calculated at the time of admission of ---- partner and change in profit sharing ratio.	It is calculated at the time of retirement or death of a partner and change in profit sharing ratio.

Why is it necessary to revalue Assets & Liabilities at the time of retirement of a partner ?

- At the time of retirement of a, partner, the assets and liabilities are revalued so that the profit/ loss arising on account of such revaluation up to the date of retirement/death of a partner may be ascertained and adjusted in all partner' capital accounts in their old profit sharing ratio.

Why is it necessary to distribute Accumulated Reserves, Profits & Losses at the time of retirement of a partner ?

- At the time of retirement of a partner, any reserve, accumulated profits or losses up to the date of retirement/ death of a partner are transferred to the Capital Accounts in case of fluctuating capitals (or Current Accounts in case of fixed capitals) of all the partners (including outgoing partner0 in their old profit sharing ratio so that the due share of an outgoing partner in the reserves, accumulated profits/ losses gets adjusted in his Capital Account (or Current Account)

Give two basis for Determination of Profits from the date of last Balance Sheet to the date of death/ retirement

1. On Time Basis
2. On Sales Basis

Can an outgoing Partner or Legal Representative of a Deceased Partner share in the subsequent profits?

The amount due to the retiring partner is settled in the manner prescribed in the partnership deed. The amount due is either paid off immediately or is paid in installments with or without interest as per agreement. In the absence of an agreement in this regard, the outgoing partner at his option is entitled to receive either interest @ 6% p.a. till the amount is paid off or a share of the profit which has been earned by using the amount due to him (Section 37)

ACCOUNTING FOR SHARE CAPITAL

Define Share and Share Capital. Give two kinds of shares.

Meaning of Share

Share is a fractional part of the capital and forms the basis of ownership in a company. The persons who contribute money through shares are called Shareholder A share is not a sum of money but is an interest measured by a sum of money. Share is a bundle of rights and obligations contained in the contract (i.e., Articles of Association).

The amount of authorized capital, together with the number of shares in which it is divided, is stated in the Memorandum of Association but the classes of shares in which the company's capital is to be divided, along with their respective rights and obligations, are determined by the Articles of Association of the company.

Under the existing provisions of Sec. 86 of the Companies Act, now only two kinds of shares may be issued, viz, Preference shares and Equity shares.

- *Meaning of Share Capital.*

Share Capital means the capital raised by the issue of shares. The amounts invested by the shareholders towards the face value of shares are collectively known as '

Share Capital' which is quite distinct from the capital put in by individual share holders.

The share capital is divided under the following three heads:

(a) Authorised Capital (b) Issued Capital (c) Subscribed Capital

Give any three points of differences between Authorised Capital and Issued Capital.

Basis of Distinction	**Authorised Capital**	**Issued Capital**
1. Meaning	It refers to that amount which is stated in the Memorandum of Association as the share capital of the company	It refers to the nominal value of that part of authorised capital which has been (i) subscribed for by the signatories to the Memorandum of Association and (ii) allotted for cash or consideration other than cash.
2. Determination	Its amount is determined after considering present and future requirements	Its amount is determined after considering the present requirements.
3. Disclosure in Memorandum of	Its amount is required to be disclosed in Memorandum of	Its amount is not required to be disclosed in the
4. Basis of Stamp Duty	It is the basis for the payment of Stamp Duty	It is not the basis for the payment of Stamp Duty.
5. Basis of Company registration fees	It is the basis for the payment of Company registration fee.	It is not the basis for the payment of company registration fees.
6. Whether change in its amount treated as Alteration of Memorandum	Any change in the amount of authorised capital is treated an alternation of Memorandum of Association	Any change in the amount of issued capital is not treated as an alteration of Memorandum of Association
7. Whether one can exceed other	It can exceed issued capital.	It cannot exceed authorised capital.

Give any three points of differences between Reserve Capital and Capital Reserve

Basis of Distinction	**Reserve Capital**	**Capital Reserve**
1. Meaning	It refers to those portion of uncalled share capital which shall not be capable of being called up except in the event and for the purpose of the any being would up ----	It refers to those amounts which are not regarded as free for distribution by way of divided through profit and Loss Account
2. Creation- Optional Mandatory	It is not mandatory to create Reserve Capital.	It is mandatory to create Capital Reserve in case of profit on forfeited shares.
3. Treatment in B/S	It is not disclosed in the	It is required to be disclosed as

	company's Balance Sheet.	the 1st item under the head Reserves and Surplus on the liabilities side of the Balance Sheet.
4. Time when it can be used	It can be used only at the time of winding up	It can be used during the life of the company
5. Realized vs. Unrealized	It refers to the amount which has neither been called up nor been received	It (excluding) items like revaluation profit) refers to that amount which has already been realized.
6. Can be used to write off capital losses ?	It cannot be used to write off capital losses.	It can be used to write off capital losses.
7. Can be used to declare share bonus ?	It cannot be used to declare a share bonus.	It (excluding items like revaluation profit) can be used to declare a share bonus.

Give any three points of differences between Authorised (or Nominal) Capital and Paid up Capital

Basis of Distinction	**Authorised Capital (or Nominal Capital)**	**Paid up Capital**
1. Meaning	It refers to that amount which is stated in the Memorandum of Association as the share capital of the company.	It refers to the paid up value of the called up capital.
2. Determination	Its amount is determined after considering present and future requirements	Its amount is determined after considering the present requirements
3. Disclosure in Memorandum of Association	Its amount is required to be disclosed in Memorandum of Association.	Its amount is not required to be disclosed in the Memorandum of Association.
4. Basis of Stamp Duty	It is the basis for the payment of Stamp duty	It is not the basis for the payment of Stamp Duty
5. Basis of company registration fees	It is the basis for the payment of Company registration fee	It is not the basis for the payment of company registration fees.
6. Whether change in its amount treated as Alteration of Memorandum	Any change in the amount of authorised capital is treated as an alternation of Memorandum of Association	Any change in the amount of issued capital is not treated as an alteration of Memorandum of Association
7. Whether and can exceed other	It can exceed paid up capital.	It cannot exceed authorised capital.

Give any three points of differences between An Equity Share and A Preference Share

-------- Distinction	An Equity Share	A preference share
1. Preferential right as to the payment of dividend	Payment of equity dividend is made after the payment of preference dividend.	Payment of preference dividend is made before the payment of equity dividend
2. Preferential right as to the repayment of capital	Repayment of Equity share capital is made after the repayment of preference share capital.	Repayment of preference share capital is made before the repayment of equity share capital
3. Fluctuations in the rate of dividend	The rate of equity dividend may vary from year to year depending upon the decision of directors and members.	The rate of preference dividend is fixed
4. Arrears of dividend	In case of an equity share, arrears of dividend cannot accumulate in any case.	In case of a preference share arrears of dividend may accumulate.
5. Convertibility	It cannot be convertible.	It may be convertible
6. Voting Rights	Equity shareholders generally enjoy voting rights.	Preference shareholders do not have any voting rights except at their class meeting.
7. Redeem ability	It is not redeemable during the life time of the company unless the company decided to buyback the shares.	It is redeemable during the life time of the company.

Give any three points of differences between over-subscription and under subscription.

Basis of Distinction	Over subscription of shares	Under subscription of shares
1. No. of shares applied as compared to No. of shares offered.	In case of over subscription, number of shares applied for is more than the number of shares offered by the company	In case of under subscription number of shares applied for is less than the number of shares offered by the company
2. Acceptance of all application	All applications are not accepted in full	All applications are accepted in full.
3. Problem of minimum subscription when shares are issued for the first time.	This problem does not arise at all.	If the minimum subscription has not been subscribed all application money may be required to be returned
4. Return of money if minimum subscription has been received	The company returns the money to the applicants whose applications have either been rejected or have been accepted partially.	The question of returning the money does not arise at all.

State the meaning of Minimum Subscription

The minimum subscription refers to the amount which, in the opinion of directors, must be raised by issue of shares in order to provide for the following:

(i) the purchase price of any property purchased or to be purchased which is to be met out of the proceeds of the issue of shares;

(ii) any preliminary expenses payable by the company and any commission payable in connection with the issue of shares

(iii) the repayment of any money borrowed by the company in respect of any of the above two mattes;

(iv) working capital; and

(v) any other expenditure stating the nature and purposes thereof and the estimated amount in each case.

Sate the purposes for which Securities Premium can be used

- According to Sec. 78 of the Companies Act 1956, the securities premium may be applied only for the following purposes:
  1. To issue fully paid bonus shares to the members.
  2. To write off preliminary expenses of the company.
  3. To write off the expenses of or the commission paid or discount allowed on any issue of shares or debentures of the company.
  4. To provide for the premium payable on the redemption of any redeemable preference shares or of any debentures of the company.

State conditions for the Issue of Shares at discount

According to Sec. 79 of the Companies Act 1956, a company may issue the shares at a discount only if the following conditions are fulfilled:

1. The share must belong to a class already issued:
2. The issue must be authorised by an ordinary resolution of the company
3. The sanction of the Company Law Tribunal must be obtained
4. The resolution must specify the maximum rate of discount at which the shares are to be issued. no resolution shall be sanctioned by the Company Law Board if the maximum rate of discount specified in the resolution exceeds 10% unless it is of opinion that a higher percentage of discount may be allowed in the special circumstances of the case;
5. At least one year must have elapsed since the date on which the company was entitled to commence business
6. The issue must be made within two months from the date of receiving the sanction of the Company Law Board or within such extended time as the Company Law Board may allow.

State the conditions for the issue of sweat shares.

-Meaning – Sweat equity shares means equity shares issued by the company to employees or directors at a discount or for consideration other than cash for providing know-how or making available right in the nature of intellectual property rights or value additions, by whatever name called.

Give any two differences between Calls-in-arrears and Calls-in-advance

Basis of Distinction	**Calls-in-arrears**	**Calls-in-act Vance**
1. Meaning	It refers to the amount called up by the company which has not yet been paid by the shareholders till the last day fixed for payment thereof	It refers to the amount paid by the shareholders in excess of the amount due from them.
2. Is Authority under Articles required?	There is no question of any authority under Articles	A company may accept calls-in-advance only if Articles authorised to do so.
3. Interest changed or allowed	Interest is charged on calls-in arrears.	Interest is allowed on calls-in-advance.
4. Maximum Rate of Interest	The maximum rate of interest as per Table A is 5 % p.a.	The maximum rate of interest as per Table A is 6% p.a.
5. Disclosure in Balance Sheet	The amount of calls-in-arrears is shown by way of deduction from the called-up capital in the Balance Sheet.	The amount of calls-in-advance is shown as a separate item under the head Share Capital (but is not added to the amount of paid up capital) or Current Liabilities.

What is meant by a Prorate allotment ? When does the need for a prorate allotment arise ?

- *Meaning of Prorate Allotment*

Prorata Allotment means making allotment of shares to the applicants in the ratio of total number of shares offered to the total number of shares applied.

For example – Total no. of shares offered = 2,000
Total no. of shares applied = 2,400
No. of shares applied by Mr X = 48
No. of shares to be allotted to Mr x = 2,000/2,400 x 48 = 40

The need for a prorate allotment arise in case of over subscription of shares (i.e. when the total number of shares applied exceeds the total number of shares offered)

How would you treat the balance in the Forfeited Shares Account if

(a) All the forfeited shares have been reissued
(b) **Some of the forfeited shares have been reissued ?**

- Treatment of Balance left on the Forfeited Shares Account – The treatment of balance left on the Forfeited Shares Account is summarised as follows:

(a) If all the forfeited shares have been re-issued.	The credit balance left on the Forfeited Shares Account is transferred to Capital Reserve Account by passing the following entry: Forfeited Shares A/c Dr. To Capital Reserve A/c
(b) If some of the forfeited shares have been re-issued	The profit on re-issue of shares is transferred to Capital Reserve Account and the balance on the Forfeited Shares Account relating to shares not yet re-issued is carried forward and is shown by way of addition to paid up Capital in the Balance Sheet.

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Can the forfeited shares be re-issued at a discount ? What may be the maximum amount of discount on re-issue

The forfeited shares can be re-issued at a discount.

The maximum amount of discount which may be allowed on re-issue is explained as follows:

Case	**Maximum Permissible Discount on Re-issue**
(a) When the shares were originally issued at par or at a premium	The amount credited to Forfeited share account
(b) When the shares were originally plus issued at a discount	The amount credited to forfeited Share Account the amount of original discount.

Explain Private Placement of shares.

- According to Section 81 (1A) private placement of shares implies issue and allotment of shares to a selected group of persons. In other words, an issue, which is not a public issue but offered to a select group of persons, is called 'Private Placement of Shares.' All SEBI Guidelines concerning preferential issue are applicable to private placement of shares as well

Why ' Securities Premium Account' is not debited at the time of forfeiture of shares which were originally issued at a premium and premium has already been received ?

- Securities Premium once received cannot be utilized for purposes other than those mentioned u/s 78.

Explain Right Shares/ Pre-emptive right. When such right is available ?

- Sec. 81 gives pre-emptive right to existing equity shareholders in case of further issue of shares. Pre-emptive rights mean that further shares must be offered to the existing shareholders in proportion as nearly as the circumstances admit to the capital paid up on those shares at that date. Such shares are called ' Rights Shares.'

Explain Preferential Allotment. Give two guidelines in this regard.

- A preferential allotment is one that is made at a pre-determined price to the pre-identified people who wish to take a strategic stake in the company such as promoters, venture capitalists, financial institutions, buyers of companies' products or its suppliers..

ISSUE OF DEBENTURES

- Meaning of Debenture

Debenture is a written instrument acknowledging a debt and containing provisions as regards the repayment of principal and the payment of interest at a fixed rate. According to Sec. 2 (12) of the Companies Act, 1956, debenture includes debentures, stock, bonds and any other securities of a company whether constituting a charge on the assets of the company or not. Debenture represents a debt.

Types of Debentures

1. From the point of view of Security	1. Unsecured Debentures 2. Fully Secured Debentures 3. Partly Secured Debentures
2. From the point of view of Tenure	1. Redeemable Debentures 2. Irredeemable Debentures
3. From the point view of Mode on Redeemption	1. Convertible Debentures (i) Fully Convertible Debentures (FCD) (ii) Partly Convertible Debenture (PCD) 2. Non- convertible Debentures
4. From the point of view of Coupon Rate	1. Debentures carrying Fixed Rate of Interest 2. Debentures carrying Floating Rate of interest
5. From the point of view of Registration	1. Registered Debentures 2. Bearer.

What is meant by a ' Convertible Debenture' ? Give two types of such debentures.

- *Meaning of Convertible Debentures 9CD)*

Convertible Debentures are those debentures which are convertible into equity shares or other securities either at the option of debenture holders or at the option of the company as the case may be. Convertible debentures are of two types.

(i) *Fully Convertible Debenture (FCD*) – These are the debentures where the full amount is convertible into shares or other securities at agreed terms and conditions. Where the conversion is to be made at or after 18 months from the date of allotment but before 36 months, the conversion is optional on the part of debenture holders as per SEBI Guidelines.

(ii*) Partly Convertible Debenture (PCD*) – These are the debentures where only a portion of the amount of debenture is convertible into shares or other securities at a specified time and remaining part of debenture is redeemable on agreed terms. The portion of debenture which is fully convertible into shares is termed as FCD (i.e., Fully Convertible Debenture) portion and the remaining portion which is not convertible into shares is termed as NCD (i.e., Non- convertible Debenture

Give any three points of difference between A Share and A Debenture.

Basis of Distinction	A Share	A Debenture
1. Capital Vs. Loan	Share is a part of owned capital.	Debenture constitutes a loan
2. Reward for investment	Reward is the payment of dividend.	Reward is the payment of interest
3. Fluctuations in the rate of Interest and dividend	The rate of dividend may vary from year to year depending upon the profit decisions of dirggters and members.	The rate of interest is fixed.
4. Charge vs. Appropriation	Payment of dividend is an appropriation out of profit and this cannot be made if there is not profit.	Payment of interest is charge against profits and is to be made even it there is no profit.
5. Priority as to payment	Payment of dividend gets no priority over the payment of interest.	Payment of interest gets priority over the payment of dividend.
6. Priority as to repayment of principal during winding u./	Payment of share capital is made after the repayment of debentures.	Payment of debentures is made before the payment of share capital.
7. Secured by charge	hares are not secured by any charge.	Non-convertible Debentures redeemable on or after 18 months are secured by a charge.
8. Restriction on issue discount	Sec. 79 imposes certain restrictions on issue of shares at discount.	No restriction is imposed on the issue of debentures at discount.
9. Voting rights	Shareholders generally enjoy voting rights.	Debenture- holders do not have any voting rights (except at their class-meetings).
10. Convertibility	Equity shares can never be convertible	Debentures can be convertible.
11. Trust Deed	Share Trust Deed is not required to be executed	Debenture Trust Deed is required to be executed.

Explain the meaning of debentures issued as collateral security.

- Meaning – The issue of debentures as a collateral security means the issue of debentures as an additional security against the loan in addition to any other security that may be offered.

Such liability may arise only when the tender invokes his right vested in the collateral Security. The following Journal entry will be passed to record the conversion of collateral securities into actual debenture liability: