

# CONTENTS

<i>Chapter</i>		<i>Pages</i>
<b>18.</b>	<b>Introduction — Shares, Debentures, etc. ....</b>	<b>18.1-18.180</b>
	General introduction .....	18.2
	Joint stock company .....	18.2
	Kinds of companies .....	18.2
	Private company and public company .....	18.2
	Privileges of a private limited company .....	18.3
	Floatation of companies .....	18.3
	Certificate of incorporation .....	18.4
	Prospectus .....	18.4
	Minimum subscription .....	18.6
	Certificate of commencement of business .....	18.6
	Return as to allotment .....	18.7
	Effect of irregular allotment .....	18.7
	Classes of shares .....	18.7
	Preference shares .....	18.7
	Kinds of preference shares .....	18.8
	Equity shares .....	18.8
	Share capital .....	18.9
	Management of companies .....	18.9
	General .....	18.9
	Powers of shareholders .....	18.9
	The board of directors .....	18.10
	Managing director .....	18.11
	Manager .....	18.11
	Meetings of shareholders .....	18.11
	Statutory meeting .....	18.11
	Annual general meeting .....	18.12
	Extraordinary general meeting .....	18.12
	Quorum .....	18.13
	Voting .....	18.13
	Resolutions .....	18.13
	Copies to be filed with the registrar .....	18.13
	Minutes books .....	18.13
	Accounts .....	18.14
	Statutory books .....	18.14
	Books of account .....	18.14
	Statistical books .....	18.15
	Issue of shares .....	18.15
	Stockinvests .....	18.16
	Use of application moneys .....	18.16
	Allotment of shares .....	18.17
	Calls .....	18.18
	Pro-rata allotment .....	18.23
	Calls in advance .....	18.27
	Calls in arrear .....	18.27
	Issue of shares at a premium .....	18.32
	Issue of shares at a discount .....	18.37
	Sweat equity shares .....	18.40
	Employees' stock option .....	18.40

Forfeiture and reissue of shares .....	18.41
Surrender of shares .....	18.41
Issue of shares for consideration other than cash .....	18.57
Issue of bonous shares .....	18.61
SEBI guidelines regarding bonus shares .....	18.61
Rights issue .....	18.63
Debentures .....	18.64
Distinction between debentures and shares .....	18.64
Classes of debentures .....	18.64
Issue of debentures .....	18.65
Debenture redemption reserve .....	18.70
Issue of debentures as a collateral security .....	18.73
Writing off discount, etc. on issue of debentures .....	18.75
Underwriting .....	18.76
Sub-underwriters .....	18.77
Brokerage .....	18.77
Marked applications .....	18.78
Underwriting commision .....	18.78
Calculation of liability of underwriters ..	18.78
Firm underwriting .....	18.81
Preparation of statutory report .....	18.83
Buy-back of shares .....	18.87
Redemption of preference shares .....	18.90
Redemption of debentures .....	18.111
Convertible debentures .....	18.127
Sinking fund for redemption of debentures .....	18.137
Purchase of business .....	18.151
<b>19. Final Accounts .....</b>	<b>19.1-19.124</b>
General .....	19.1
Requirements of law regarding the preparation of profit and loss account .....	19.2
General principles—same as for other concerns .....	19.7
Materiality ..	19.8
Prior period items .....	19.8
Extraordinary items .....	19.9
Changes in accounting policies .....	19.9
AS-5 (Prevised): Net profit or loss for the period, prior period items And changes in accounting policies .....	19.10
AS-4 (revised) contingencies and events occurring after the balance sheet date .....	19.14
Debentures .....	19.18
Ascertaining profit for managerial remuneration .....	19.19
Remuneration to directors .....	19.21
Remuneration to the manager .....	19.22
Overall managerial remuneration .....	19.22
Schedule xiii-Appointment .....	19.22
Schedule xiii-Remuneration .....	19.23
Schedule xiv-Rates of depreciation .....	19.25
Calculation of commission .....	19.31
Appropriation items .....	19.35
Profits prior to incorporation .....	19.50
Divisible profits .....	19.56
Transfer to reserve .....	19.58
Depreciation .....	19.61

Unpaid dividend account .....	19.62
Capital profits .....	19.63
Dividends .....	19.63
Corporate dividend tax .....	19.65
Appropriation of profits .....	19.65
Interest out of capital .....	19.70
Bonus shares .....	19.71
Form of balance sheet .....	19.74
Vertical form of balance sheet .....	19.82
Directors' report .....	19.98
Auditors' report .....	19.99
Filing of the profit & loss account and balance sheet .....	19.100
<b>20. Valuation of Goodwill and Shares; Reorganisation and Reconstruction of Share Capital .....</b>	<b>20.1–20.106</b>
Valuation of goodwill .....	20.1
Need .....	20.2
Components of goodwill .....	20.2
General factors affecting value of goodwill .....	20.3
Profitability .....	20.3
Yield expected by investors .....	20.8
Capital employed .....	20.9
Methods for evaluating goodwill .....	20.10
Super profits method .....	20.11
Annuity method .....	20.16
Capitalisation method .....	20.19
Valuation of shares .....	20.21
Need .....	20.21
Methods .....	20.22
Net assets method or intrinsic value .....	20.22
Yield basis or market value .....	20.23
Value based on earnings of company .....	20.27
Alteration of share capital .....	20.45
Conversion into stock .....	20.45
Increase or decrease of capital .....	20.46
Reserve liability .....	20.46
Reduction of capital .....	20.47
Variation of shareholders' rights .....	20.48
Schemes of reconstruction .....	20.82
Legal position as regards external reconstruction .....	20.85
<b>21. Amalgamation and External Reconstruction .....</b>	<b>21.1–21.146</b>
Meaning of amalgamation .....	21.1
Types of amalgamation .....	21.1
Distinction between merger and purchase .....	21.2
Methods of accounting for amalgamation .....	21.2
Disclosures .....	21.4
Consideration .....	21.7
Accounting entries .....	21.10
External reconstruction .....	21.56
Distribution between external reconstruction and amalgamation .....	21.56
Dissenting shareholders .....	21.65
Inter-company owings .....	21.74

(x)

Unrealised profit on stock .....	21.83
Inter-company holdings .....	21.96
Amalgamation scheme .....	21.113
Accounting standard (AS)-14: Accounting for amalgamations .....	21.119
<b>22. Holding Companies .....</b>	<b>22.1–22.120</b>
General .....	22.1
Definitions .....	22.1
Advantages of holding companies .....	22.2
Disadvantages of holding companies .....	22.2
Legal definition and requirements .....	22.2
Accounts .....	22.4
AS-21: Consolidated financial statements .....	22.7
Consolidation of balance sheets and profit and loss accounts .....	22.12
Treatment of dividend .....	22.12
Debiting the subsidiary with profits etc. ....	22.14
Preparation of consolidated balance sheet .....	22.15
Cost of control and capital reserve .....	22.15
Minority interest .....	22.17
Capital profits and revenue profits .....	22.22
Controlling interest acquired during the course of the year .....	22.26
treatment relating to preference shares of the subsidiary .....	22.29
Unrealised profits .....	22.31
Mutual owings .....	22.33
Dividend out of preacquisition profits .....	22.36
Dividend out of post acquisition profits .....	22.37
Error relating to dividend from subsidiary company .....	22.37
Interim dividend .....	22.39
Proposed dividend .....	22.41
Change in value of fixed assets .....	22.47
Successive purchases of shares .....	22.66
Bonus shares .....	22.54
Consolidation of profit and loss accounts .....	22.73
Inter-company holdings .....	22.93
Foreign subsidiaries .....	22.95
Associated companies .....	22.99
<b>23. Cash and Funds Flow Statements, Cash Budget and Working Capital ....</b>	<b>23.1–23.88</b>
Cash flow statement .....	23.1
Introduction .....	23.1
Definition .....	23.2
Classification of activities .....	23.2
Non-cash transactions .....	23.5
The direct method .....	23.9
The indirect method .....	23.13
Advantages .....	23.30
Limitations .....	23.30
Distinction between cash flow statement and income statement .....	23.30
AS-3 (revised): Cash flow statements .....	23.31
Funds flow statement .....	23.43
Rules for drawing funds flow statement .....	23.44
Advantages .....	23.46
Limitations .....	23.46
Distinction between fund flow statement and cash flow statement .....	23.46

	Distinction between funds flow statement and income statement .....	23.46
	Distinction between statement showing changes in working capital and funds .....	
	Flow statement .....	23.47
	Cash budget .....	23.66
	Working capital .....	23.68
	Concept of working capital .....	23.68
	Factors determining working capital requirements .....	23.70
	Estimating working capital requirements .....	23.72
<b>24.</b>	<b>Accounting Ratios .....</b>	<b>24.1–24.78</b>
	Importance of accounting ratios .....	24.1
	Limitations .....	24.2
	Various accounting ratios .....	24.3
	Profitability ratios .....	24.5
	AS-20: Earnings per share .....	24.9
	Turnover, performance or activity ratios .....	24.23
	Ratios to judge financial position and policies .....	24.26
	Predictability of insolvency on the basis of ratios .....	24.65
<b>25.</b>	<b>Insurance Companies .....</b>	<b>25.1–25.48</b>
	General .....	25.1
	Various types of insurance .....	25.1
	Various terms .....	25.2
	Regulation of Insurance Business .....	25.3
	Final Accounts .....	25.3
	A. Life Insurance Business .....	25.3
	B. General Insurance Business .....	25.25
	Reserve for Unexpired Risks .....	25.25
<b>26.</b>	<b>Bank .....</b>	<b>26.1–26.88</b>
	Legal provisions .....	26.1
	Forms of business .....	26.1
	Non-banking assets .....	26.2
	Management .....	26.3
	Minimum capital and reserves .....	26.3
	Floating charge .....	26.4
	Restrictions on dividends .....	26.4
	Statutory reserve .....	26.4
	Cash reserves and statutory liquidity reserve .....	26.4
	Restrictions on loans and advances .....	26.5
	Subsidiary companies .....	26.5
	Control .....	26.5
	Accounts and books .....	26.5
	Demand drafts and telegraphic transfers .....	26.6
	Travellers cheques and letters of credit .....	26.6
	Acceptances, endorsements and other obligations .....	26.6
	Bills for collection .....	26.7
	Bills purchased and discounted .....	26.7
	Rebate on bills discounted .....	26.7
	Books required .....	26.10
	Accounting year .....	26.11
	Final accounts .....	25.11
	Form of balance sheet .....	26.13

Form of profit and loss account .....	26.17
Guidelines of RBI .....	26.19
Notes on accounts and disclosure of accounting policies .....	26.28
Capital adequacy norms .....	26.30
Income from non-performing assets .....	26.35
Classification of advances .....	26.37
Specimen of final accounts .....	26.40 ..
<b>27. Accounts of Electricity Companies .....</b>	<b>27.1 – 27.42</b>
Legal provisions .....	27.1
Depreciation .....	27.1
Reasonable return .....	27.2
Clear profit .....	27.2
Disposal of surplus .....	27.3
Tariffs and dividends control reserve .....	27.6
Contingencies reserve .....	27.6
Development reserve .....	27.6
General reserve .....	27.6
Final accounts .....	27.7
• Double account system .....	27.32
Replacement of an asset .....	27.36
<b>28. Liquidation .....</b>	<b>28.1 – 28.36</b>
Meaning of liquidation or winding up .....	28.1
Winding up by Court .....	28.1
Voluntary winding up .....	28.2
Members' voluntary winding up .....	28.2
Creditors' voluntary winding up .....	28.2
Consequences of winding up, generally .....	28.3
Preferential payments .....	28.3
Overriding preferential payments .....	28.4
Liquidator .....	28.5
Power and duties of liquidator .....	28.5
Preparation of statement of affairs .....	28.6
Deficiency/surplus account .....	28.9
Liquidator's final statement of account .....	28.13
Receiver for debentureholders .....	28.22
"B" list of contributories .....	28.28
<b>29. Mechanised Accounting .....</b>	<b>29.1 – 29.30</b>
Development of mechanised accounting .....	29.1
Reasons for installation .....	29.1
How accounting machines work .....	29.2
Work that is suitable for mechanisation .....	29.2
Reorganisation of the Accounts Department .....	29.4
Types of machines .....	29.5
Ledger posting machines .....	29.5
Punched card machines .....	29.8
Checks for accuracy .....	29.10
Various accounting operations .....	29.11
Computer .....	29.13

<b>30.</b>	<b>Criticism of Financial Statements .....</b>	<b>30.1 – 30.18</b>
	Criticism .....	30.1
	Forms in which accounts are drawn up .....	30.1
	Reliability of information .....	30.5
	Critical appreciation .....	30.7
	Presentation .....	30.7
	Single column or vertical statements .....	30.7
	Method of preparing such statements .....	30.7
	Common measurement statements .....	30.16
<b>31.</b>	<b>Inflation accounting .....</b>	<b>31.1 – 31.42</b>
	Need .....	31.1
	Objections .....	31.3
	Current Purchasing Power method .....	31.5
	Current Cost Accounting .....	31.12
	Evaluation of CCA .....	31.25
	SSAP 16 .....	31.27
	Bills Purchased and Discounted .....	26.7
<b>32.</b>	<b>Accounting for Human Resources of An Organisation and Social Responsibility .....</b>	<b>32.1 – 32.8</b>
	Introduction .....	32.1
	Cost and replacement cost methods .....	32.1
	Value approaches .....	32.2
	A suggested approach .....	32.4
	The two sides of the account .....	32.5
	Value added statement .....	32.8

30	Criticism of Financial Statements ..... 30.1 - 30.18
	Criticism ..... 30.1
	Factors in which accounts are drawn up ..... 30.1
	Reliability of information ..... 30.2
	Critical appreciation ..... 30.7
	Presentation ..... 30.7
	Single column or vertical statements ..... 30.7
	Method of preparing such statements ..... 30.7
	Common measurement statements ..... 30.16
31	Inflation accounting ..... 31.1 - 31.42
	Need ..... 31.1
	Objections ..... 31.3
	Current Purchasing Power method ..... 31.2
	Current Cost Accounting ..... 31.12
	Evaluation of CCA ..... 31.22
	SSAP id ..... 31.27
	Bills Purchased and Discounted ..... 31.7
32	Accounting for Human Resources of An Organisation and Social Responsibility ..... 32.1 - 32.8
	Introduction ..... 32.1
	Cost and replacement cost methods ..... 32.1
	Value approaches ..... 32.2
	A suggested approach ..... 32.4
	The two sides of the account ..... 32.5
	Value added statement ..... 32.8