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Corporate Accounting

Types of Business entity

Single / Sole Proprietor Business entity

This is a business run by one individual for their own benefit. It is the simplest form of business organization. Proprietorships have no existence apart from the owners. The liabilities associated with the business are the personal liabilities of the owner, and the business terminates upon the proprietor's death. The proprietor undertakes the risks of the business to the extent of their assets, whether used in the business or personally owned

Partnership

In general partnership is an agreement, expressed or implied, between two or more persons who join together to carry on a business venture for profit. Each partner contributes money, property, labor, or skill; each shares in the profits and losses of the business; and each has unlimited personal liability for the debts of the business.

HUF

An HUF is recognized as a separate assessable entity under the Act. Its income may be assessed if following two conditions are satisfied:Hindu Undivided Family ('HUF') is treated as a 'person' under section 2(31) of the Income-tax Act, 1961 (herein after referred to as 'the Act'). HUF is a separate entity for the purpose of assessment under the Act.

Under Hindu Law, an HUF is a family which consists of all persons lineally descended from a common ancestor and includes their wives and unmarried daughters. An HUF cannot be created under a contract, it is created automatically in a Hindu Family.

There should be a coparcener ship. In this connection, it is worthwhile to mention that once a joint family income is assessed as that of HUF, it continues to be assessed as such in subsequent assessment years till partition is claimed by coparceners.

There should be a joint family property which consists of ancestral property, property acquired with the aid of ancestral property and property transferred by its members.

Corporate Accounting

Under corporate accounting we are going to study about accounting standards, procedures, methods to be followed to bring all the corporate financial activities into Accounting books.

Before starting corporate accounting, we should know about company.

According to companies Act 1956

“a company is a company formed and registered under Companies Act 1956, or an existing Company formed and registered under any of the defined laws (Act or Acts relating to companies before the Indian Companies Act, 1866, the Indian Companies Act,1913 or any law governing companies in the State of Jammu and Kashmir before the Commencement of Central Laws Act, 1968 and Portuguese Commercial Code)”

Corporate is an artificial invisible, intangible but legal entity in the eyes of Law and eligible to perform all the legal activities performed by Human under law

According to Lord Justice Hanay, "A company is artificial person created by law with a perpetual succession and a Common Seal."

Company means in common language "A company is an association of persons who contribute money or money's worth to the common stock and employ it for some common purpose".

Section 2(*20*) of the Companies Act, 2013 defines a company to mean a company incorporated under this Act or under any previous company law

Characteristics of company

Artificial Legal Entity-

Company is being created under the law, it is treated as artificial legal person

Separate legal entity and perpetual entity

Its legal entity / existence is different from the members of the company who formed it. Once it gets registered under company's act, life of the company will not have disturbed because of members coming in or moving including promoter of the company leaving company. Life of the company/ existence of the company will not have any impact due to the member's status like alive/ death/insolvent of member.

Limited liability

Divorce between ownership and management

Voluntary association of persons

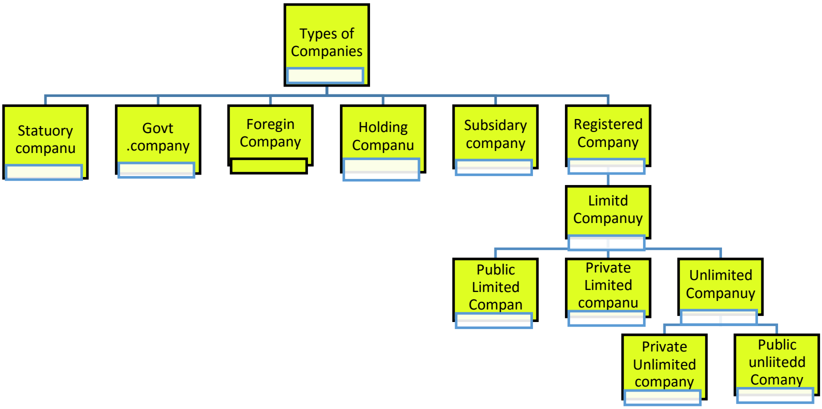
All the members of the company associated to gether to perform legal goals and the same got defined under Scope of memorandum of Association.

Transfer of Shares

Common Seal

As we discussed company is an artificial person which cannot sign in its own, company provided with common seal to be affixed on all the documents where it needs to signed and the same has to be authorized by competent person appointed to do so. To complete legal formalities common seal defined for each company.

Types of companies



Statutory company

Companies are formed / created/ registered by special act passed by State legislative or parliament. Ex LIC , Reserve Bank of India

Charter Company

Those companies which are incorporated under the special charter by the king of sovereign, such as East India Company

Government company

As per section 617 of companies Act 1956, Government company means any Company in which Government holds not less than 51% of paid up share capital. Government may be State Government or Central Government and jointly both state and central government holds more than 51% of paid up share capital. In addition, subsidiary company of Government company also termed as government though there is not government stake.

Private Company

A Company can be defined as private company if it restricts by its articles of associate to

- Restricts right to transfer its shares
- limits number of its members to max 200
- Prohibits invitation to public to subscribe any shares or debentures of the company
- Acceptance of deposits from the members of the company

Foreign Company

Name itself defines the company formed/ registered outside India

Holding company

According to section 4(4) of company's act company is deemed to be holding company if any one or more company as its subsidiary company. To become holding company the company should hold more than 51% of paid up share capital of another company.

Subsidiary company

According to sec 4(1) of the companies act 1956, Company shall be deemed to the company subsidiary of another company if

1. Other company controls composition of directors of company
2. If any company holds more than 51% of paid up share capital of company
3. Company becomes subsidiary company of the holding company and its holding company

Difference between private and public limited company

Private Limited	Public Limited
Minimum number of members 2	Minimum number of members 7
Maximum number of members 200	There is no restriction on maximum number of members
Restricted to issue of prospectus	Company will issue public invitation / prospectus
Transfer of shares/ debentures restricted	No restriction on ownership transfer of shares and debentures
Private limited company can start Business after receiving certificate of incorporation and allot shares in its own.	Public limited company after receiving Certificate of commencement of Business
Minimum 2 number of Directors	Minimum 3 number of Directors
Quorum for meeting is 2	Quorum for meeting is 5
No restriction on managerial remuneration	Public company cannot be beyond 11% of profit of the financial year

Corporate accounting starts for the company from the issue of share capital. Issue of share capital may in the following ways

- Initial Public Issue - includes shares issue at bidding rate
- Rights issue
- Bonus issue
- Split of shares (may not attract accounting entries)
- Qualified Institutional issue / offer named as QIP
- Conversion of Debentures
- Conversion of preference share to Ordinary Equity shares

Total capital of the company divided into units of small value is called shares. Total value of shares should not cross Authorized share capital. Issued share capital means the share capital/ shares offered to public/ QIP/ government/ shareholders under bonus or rights, the same owned by Members of the company. Shares can be either ordinary equity share or Preferential shares.

Further preference shares can be further classified into

- cumulative preferential shares
- non-cumulative preference shares,
- participating preference shares,
- non participating preference shares
- Redeemable preference share
- Non-Redeemable preference share
- Convertible preference share
- Non convertible preference share
- Guaranteed preference shares

Initial public issue

Initial public issue can be referred as “COMPANY OFFERS SHARES TO PUBLIC FOR CONSIDERATION OF MONEY”

Company may issue shares at PAR, at Premium, or at discount. Now a days companies started issuing shares at bidding price band like Equity share of 10 each issued for price 780 to790. Under this method company can leverage to get fund at better bidding price. While doing allotment higher bidder will have probability getting allotted with shares

Authorized share capital

Total capital defined under memorandum of association under capital clause. Maximum amount of capital company can raise capital/ fund by issuing shares. This includes of total number convertible equity shares issued against debenture and convertible preferential shares

Issued capital

Part of Authorized share capital issued to the Public by way of Public issue/ rights issue/ bonus issue/ Employee stock option, and equity shares issued against convertible debenture and equity shares issued against convertible preferential shares. As a whole the total share capital issued to Public

Subscribed capital

Share capital subscribed by the Public on IPO/FPO/RIGHTS ISSUE

Paid up Share capital

Part of the issued capital called and paid by the members / shareholders

Reserve Capital

This is portion of issued share capital, uncalled share capital. Uncalled share capital, by special resolution any portion of the uncalled share capital cannot be called up except in the event of winding up of the company. Creation of reserve capital adds financial strength to the company

Employee Stock option scheme

This is type of shares offered to directors by virtue of designation to the employees, management officers as free of cost / as benefit to the employees. In some case employee/ directors will be given with right to apply for the shares at defined price may be premium, par or at discount may be at discounted price as comparing to market price

Sweat equity shares

According to section 54 of the Companies Act 2013, allows a company to issue type of equity shares called seat equity shares ie the equity shares issued for discount / or for consideration other than cash for providing know-hw or making available rights in the nature of intellectual property rights or value additions or whatever name is called.

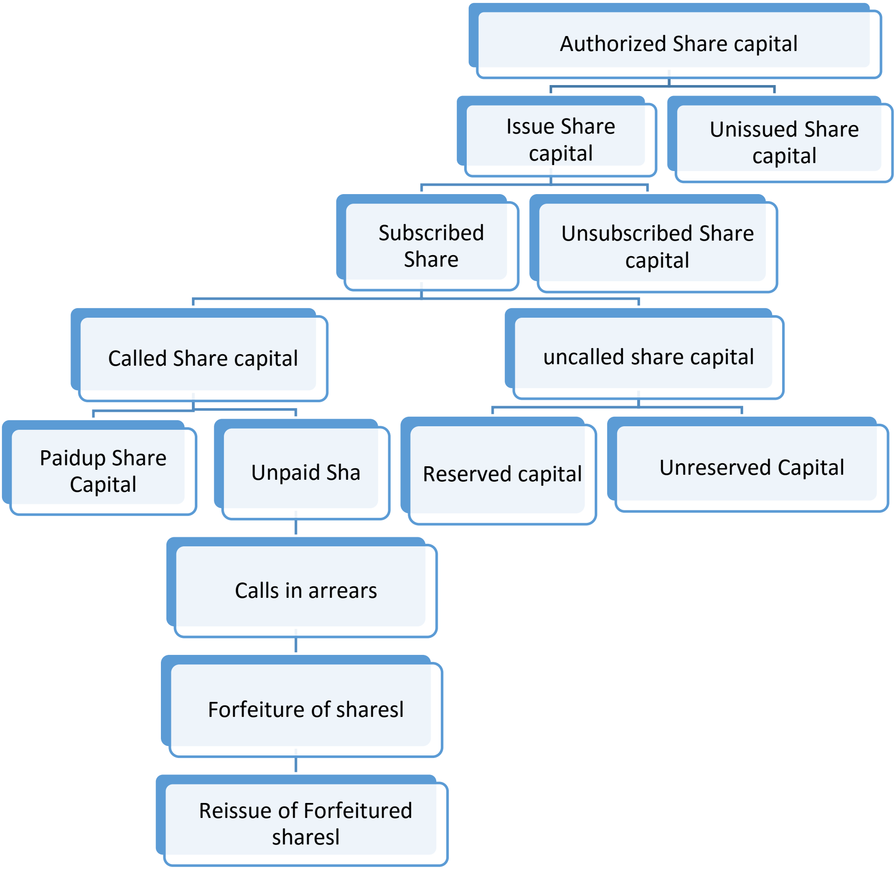
- Special resolution should be passed by the company in the general meeting to issue sweat shares
- Resolution should specify the number of shares issued, current market price, consideration
- Class of employee/ directors to whom it is offered.
- After 1 year from the date of commence of business

Underwriters

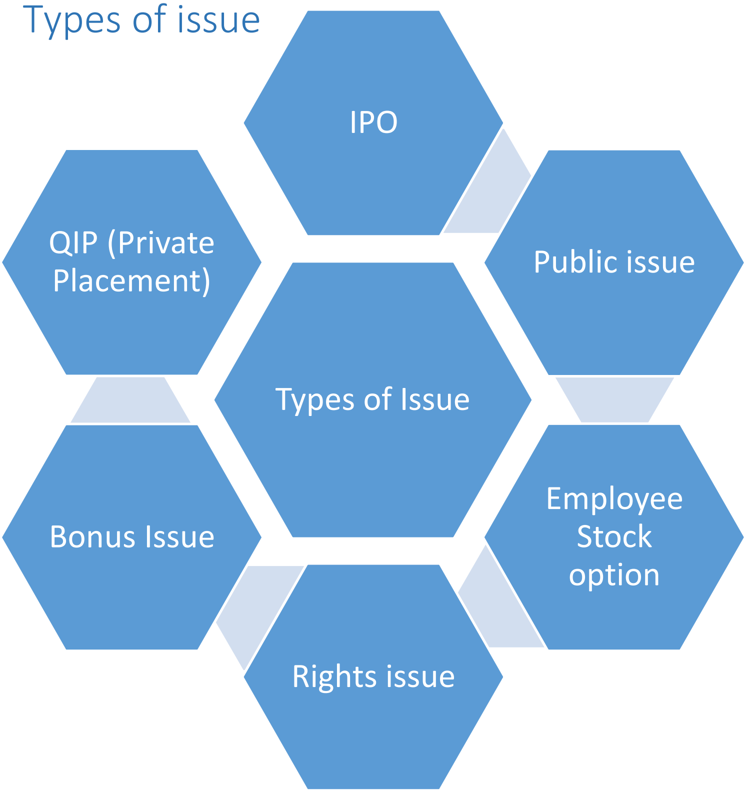
Underwrite means legal entity undertakes to make sure get 100% subscribed of IPO, the agreement between company and legal entity assures to get subscribed 100%, for a consideration underwriting commission.

From the below diag. we can understand Capital structure of Company. All the activities will attract accounting entries

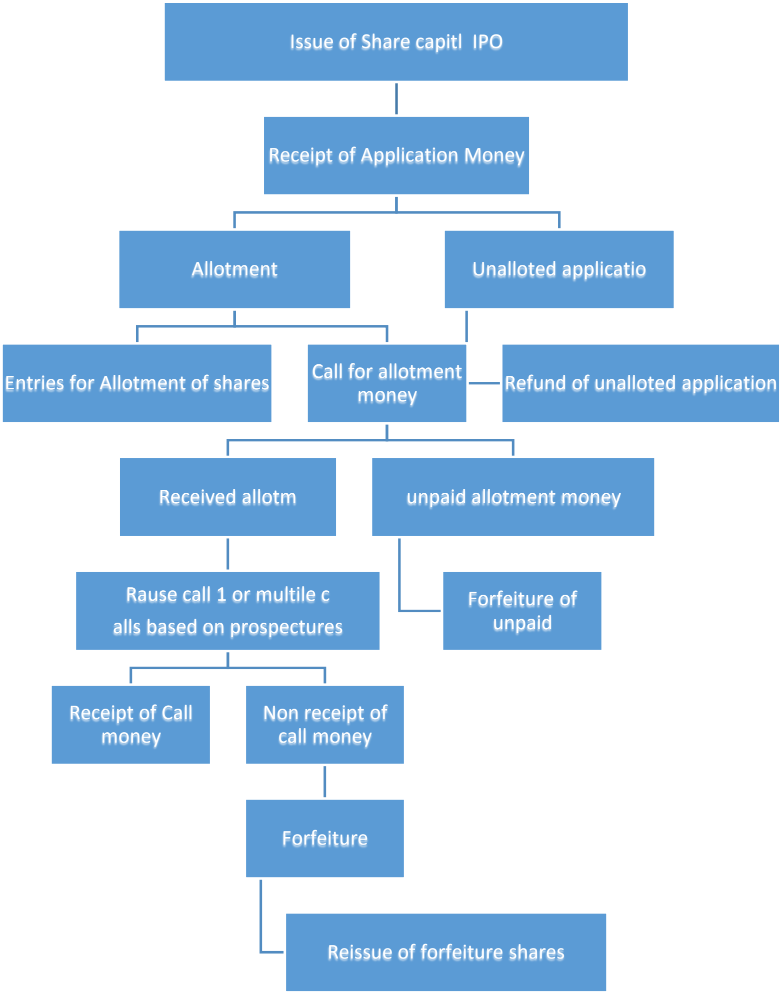
Capital Structure



Types of issue



Journal entries on Public issue



Issue of shares at PAR

If company issues initial public issue/ follow on public issue at face of value of shares is called issue of shares at par.

Company A has authorized capital of 1,00,000 shares at 10 each. In the above case if Company go for IPO/ FPO at a price of 10 is issue of shares at part

Company A issues share at Rs12 per share then the issue is called as issue of shares at premium and Price collected on and above the PAR price is called premium price.

If the same company issues share at a price of 8, then it is called shares issued at discount, the difference between PAR value and issue value ie Rs2 will be considered as discount

If the same company issues share of 10 each at a price band of 110-140, this will be called in different name, though the share issue is in premium (140-10) 130 will be called as premium. Price band is fixed with the necessary approval from ROC, SEBI. This will enable the company to generate more premium amount by offering shares in price band. Here the members who bided for more price will have more chance of getting allocated with share. Excess amount more than face value received will be considered as premium.

Rights issue

All the member / All the existing shareholders alone will be offered to buy company shares mostly on premium/ at par/ discount against their holdings. Ex each existing shareholder will get rights to apply for 5 shares against his holdings each 10shares. If his holding 50 then he will get rights issue for 25 shares

To issue shares to shareholders on rights issue

- Hold a Board Meeting to approve the offer of right issue including “the letter of offer”.
- Send an invitation to existing shareholders regarding applying for the right issues at least 3 days before the opening of the issue. The shareholders will have to send his acceptance or renunciation of his rights within the specified time mentioned in the letter of offer which in no case be more than 30 days.
- Hold Board Meeting to make decisions regarding various aspects of allotment of shares.
- File MGT 14 within 30 days of passing of a resolution in case of a public limited company.
- Allot the shares and file PAS- 3 (Return of allotment) within 30 days of allotment of shares.
- Inform depositories (either CDSL or NSDL) about allotment of shares in the case of listed companies if the shares are held in De-materialized forms.
- Issue Share Certificates and record the allotment in the register of shares.
-

Bonus issue

Bonus issue means shares will have offered by the company to the company shareholders at the predefined approved ratio against their holdings at free of cost.

Company will not look for any consideration for issue of bonus shares by the same time the company has to follow the following procedure to issue bonus shares

Receipt of Application Money Journal entry

Bank A/c
    To Share application A/c
(receipt of application money)

Allotment of Shares

Share Application A/c
    To Share Capital A/c
(transfer application to share capital)

Raise allotment

Share Allotment A/c
    To Share capital A/c
(share allotment)

Receipt of allotment money

Bank A/c
    To Share Allotment A/c
(Receipt of allotment money)

Raise call money

Share Call A/c
    To Share Capital A/c
(raise call money)

Receipt of call money

Bank A/c
    To Share call A/c
(receipt of call money)

Calls in arrear

Calls in Arrear A/c

To Share Call A/c

(if any calls in arrear)

If the shares issued at premium

Bank A/c

To Share application

(received application money)

Share application A/c

To Share capital A/c

To Securitas premium A/c

(allotment of premium shares issued)

Prohibition on issue of shares at discount.

Company is restructured to issue shares on discount under section 53 of the companies act 2013, if any shares issued by company at discount shall be void, and company may have to pay penalty of 1 Lac to 5 Lacs and may accompany by imprisonment. By the same time company is empowered to issue shares at discount under section 54 ie company can issues shares at discounted price sweat shares.

- ✓ Issue is authorized by special resolution under general meeting
- ✓ Resolution should specify

- Number of shares offered
- Consideration if any
- Current market price
- Class / classes of employee / directors to whom it is offered
- After 1 year from the date of commencement Business
- Sweat equity will be ranked with ordinary equity shares

Surrender of shares

After allotment, if any member voluntarily surrenders his shares with the company is called surrender. This will hold the same accounting treatment like forfeiture

Lien on shares

Lien is the rights over the others property till claim attached to the property is settled. Lien on shares is an equitable charge on the shares to secure the debts which may be recoverable from the shareholder of the company. In simple company holds complete freedom to enjoy benefit/ amount receivable by dividend / settlement and company has rights to sell the shares on lien at any time.

Forfeiture of shares

When a shareholder fails to pay any allotment money / call money, company is empowered by its articles of associates may forfeit the shares and does not bound to pay any amount received against the forfeited shares. If the calls were unpaid by the shareholder on the date of call raised within due date, even after raising attention to the member by issue of notice by company secretary, Board of directors will pass resolution to forfeit the shares. Once shares forfeited then forfeited shares will become the property of the company and company has rights to reissue the shares. Upon forfeiture holder of shares cases to be member / shareholder of the company.

Share capital A/c (called up share capital)
Securities premum A/c (Share premium if not received)
To share call account A/c (amount not received)
To Share forfeiture A/c (amount received)

Reissue of forfeited shares

Forfeited shares can be reissued by the director of the company for any price, if it reissued at discount, the discount amount cannot exceed the amount received against forfeited shares. Purchaser of forfeiture shares is liable to pay all calls raised against the reissued shares/ purchased on reissue.

After reissue of all forfeited shares, if any balance left credit in forfeiture account should be treated as capital profit and should be transferred to capital reserve account

Reissue journal entry

Bank A/c (amount received on reissue)
Share forfeiture A/c (loss on reissue of shares)
To share capital A/c (Face value of reissue of share capital)
To Securitiespremium A/c (if issued at premium)

To transfer forfeiture account to capital reserve

Share forfeiture A/c
    Capital Reserve A/c

Employee Stock option

Under this scheme right is granted to the employee to purchase shares of the company at predefined price. Employee working in India/ outside india, director of the company / employee of the holding and subsidiary company.

When the option is granted
Deferred employee compensation expenses a/c
    To Employee stock option outstanding A/c

When employee exercise option

Bank A/c
Employee Stock option outstanding A/c
    To Equity share capital A/c
    To Securities Premium A/c

To amortizing the expenses

Employee compensation expenses A/c
    To Deferred employee compensation expenses a/c

Debenture

Any legal entity may raise fund to meet their financial commitment by different methods and ways. Even Government raises fund by way of issue different types of bonds with defined interest. While Government able to raise funds by way of Bonds,   Company may need fund for expansion or other business needs without increasing issued sharecapital e