III B. COM (V SEMESTER) – UNDER CBCS

PART III – MAJOR CORE -13

CORPORATE ACCOUNTING I

Class: III B.Com **Subject Code: SMCO51**

Unit II: Final Accounts of Companies - As per Schedule II of Companies Act 2013 – Excluding Managerial Remuneration.

Final Accounts of Companies - Introduction

Revised Schedule VI of Companies Act 1956 provides for general instructions for preparation of Balance sheet and Statement of profit and loss. Companies Act2013 Schedule III provides general instructions for preparation of Balance sheet and Statement of profit and loss of a Company. The Companies Act 2013 replaced the existing schedule VI by revised schedule III wherein several changes in the presentation and disclosures requirements have been made. The most important change is that the financial statements will be presented in the vertical format.

1. Section 129 of companies Act 2013, provides for preparation of financial statements.
2. 2(40) to include balance sheet, profit and loss account/income and expenditure account, cash flow statement, statement of change in equity and any explanatory note annexed to the above.
3. New section 129 corresponds to existing section 210. It provides that the financial statements shall give a true and fair view of the state of affairs of the company and shall comply with the accounting standards notified under new section 133.
4. It is also provided that the financial statements shall be prepared in the form provided in new schedule III of Companies Acct, 2013
5. The new form of Balance sheet has been given in PART – I of the Schedule III and new form of Profit Loss account has been given in PART – II of the schedule III.
6. Further, in the new Schedule III detailed instructions have been given for preparation of consolidated financial statements as consolidation of accounts of subsidiary companies is now made mandatory in section 129.

7. It may be noted that for the first time a provision has been made in the new section 129(3) that if a company has one or more subsidiaries it will have to prepare a consolidated financial statement of the company and of all the subsidiaries in the form provided in the new schedule III of Companies Act,2013. The Schedule III to the Companies Act, 2013 (2013Act) became applicable to all companies for the preparation of financial statements for financial years **beginning on or from 1 April 2014.**

Important points to be noted while preparing final accounts:

1. Under revised schedule final accounts are prepared under vertical format.
2. Grouping of all item is necessary under each group.
3. Final dividend, interim dividend and proposed dividend should be deducted from reserve and surplus and should be separately shown under short term provision if not paid.
4. Final dividend appearing in trial balance denotes or assumes to be a dividend of previous year.
5. Interim dividend paid appearing in trial balance denotes current year dividends.
6. If dividend appears in adjustments, denotes current year proposed dividends.
7. Corporate dividend tax is to be created for current year interim dividend and proposed dividend @ 17% on dividend amount. (ie. The finance Act, 1997 introduced, with effect from June 1997, tax at 10% of the dividends on companies declaring, distributing or paying dividends (whether interim or otherwise). The rate of dividend tax for the assessment year 2013-2014 is 15% of the dividends plus 10% surcharge and education cess 3% thereon. Total corporate dividend tax including surcharge and education cess may be taken as 17% approximately.) This dividend tax is to be deducted from reserve and surplus and should be shown under the heading other current liabilities.
8. It is necessary to verify the rate of dividend declared by the company should not exceed 10% of paid up capital. If it exceeds 10% of paid up capital, the company has to create reserve according to the rate of exceeding. As per Sec. Ĺ205(2A) the following are the rate applicable to transfer to reserve

Proposed dividend	Percentage of transfer to reserve
10% or less of paid up capital	Nil
10% to 12.5%	2.5%
12.5% to 15%	5%
15% to 20%	7.5%
Above 20%	10%

Components of final accounts of a joint stock company?

As per schedule III of companies Act 2013 The major components of joint stock companies are balance sheet and statement of profit loss account. They are discussed as below

1) **Balance sheet**

Balance sheet consists of major components namely

Equity and liabilities and Assets

Equity and liabilities include shareholders fund reserve and surplus, Non current liabilities and current liabilities. All adjustments relating to profit are adjusted under reserve and surplus.

Assets include non-current assets and current assets. Non current Assets include tangible and intangible assets. Current assets include current investments inventories, trade receivable, cash and cash equivalents. The above two components are prepared under vertical format. Each and every times should be explained with a detailed notes to account.

PART I – FORM OF BALANCE SHEET

Name of the Company :

Balance sheet as at :

		(Rs. in - -)	
Particulars	**Note No.**	**Figures as at 2012 (CY)**	**Figures as at 2011 (PY)**
A. EQUITY AND LIABILITIES			
1.Shareholder's funds			
(a) Share capital	**1**	**XXX**	**XXX**
(b) Reserves and surplus	**2**	**XXX**	**XXX**
(c) Money received against share warrants	**3**	**XXX**	**XXX**
2. Non-Current Liabilities			
(a) Long-term borrowings	**4**	**XXX**	**XXX**
(b) Deferred tax liabilities (net)	**5**	**XXX**	**XXX**
(c) Other long-term liabilities	**6**	**XXX**	**XXX**
(d) Long-term provisions	**7**	**XXX**	**XXX**
3. Current Liabilities			
(a) Short-term borrowings	**8**	**XXX**	**XXX**
(b) Trade payable	**9**	**XXX**	**XXX**
(c) Other current liabilities	**10**	**XXX**	**XXX**
(d) Short-term provisions	**11**	**XXX**	**XXX**
TOTAL		**XXX**	**XXX**

Particulars	**Note No.**	**Figures as at 2012 (CY)**	**Figures as at 2011 (PY)**
B. ASSETS			
1. Non- Current Assets			

(a)	Fixed Assets			
i.	Tangible Assets	**12**	**XXX**	**XXX**
ii.	Intangible Assets	**13**	**XXX**	**XXX**
iii.	Capital work in Progress	**14**	**XXX**	**XXX**
iv.	Intangible Assets under Development	**15**	**XXX**	**XXX**
(b)	Noncurrent Investments	**16**	**XXX**	**XXX**
(c)	Deferred Tax Assets (Net)	**17**	**XXX**	**XXX**
(d)	Long- term loans and advances	**18**	**XXX**	**XXX**
(e)	Other non current assets	**19**	**XXX**	**XXX**
2.	**Current Assets**			
(a)	Current investments	**20**	**XXX**	**XXX**
(b)	Inventories	**21**	**XXX**	**XXX**
(c)	Trade receivables	**22**	**XXX**	**XXX**
(d)	Cash and Cash Equivalents	**23**	**XXX**	**XXX**
(e)	Short-term loans and advances	**24**	**XXX**	**XXX**
(f)	Other current assets	**25**	**XXX**	**XXX**
	TOTAL		**XXX**	**XXX**

Statement of profit and loss a/c

Statement of profit and loss account is prepared to know the profit earned by the company. It has two parts, namely income and expenditure. Income includes revenue from operations, other incomes such as interest received discount earned etc. Expenditure includes cost of goods sold, employee benefit expenses, finance cost, depreciation and amortization expenses and other expenses. This may be expressed by way of figures.

PART – II FORM OF STATEMENT OF PROFIT & LOSS

Name of the company;

Profit Loss Statement for the year ended:

Particulars	**Note No.**	**Figures as at 2012 (CY)**	**Figures as at 2011 (PY)**
I Income			
1.Revenue from operation (net)	**1**	**XXX**	**XXX**
2.Other Income	**2**	**XXX**	**XXX**
Total Revenue (1+2) **(A)**		**XXX**	**XXX**
II Expenses			
(a) Cost of materials consumed	**3**	**XXX**	**XXX**
(b) Purchase of stock-in-trade			
(c) Change in inventories of finished goods, Work-in-progress and stock-in-trade			
(d) Employee benefits expenses	**4**	**XXX**	**XXX**
(e) Finance costs	**5**	**XXX**	**XXX**
(f) Depreciation and amortization expenses	**6**	**XXX**	**XXX**
(g) Other expenses	**7**	**XXX**	**XXX**
Total Expenses **(B)**		**XXX**	**XXX**
III Profit / (Loss) before exceptional and extraordinary items and tax **(A-B)**		**XXX**	**XXX**
Less: Extraordinary Items		**XXX**	**XXX**
Tax		**XXX**	**XXX**
IV Profit / (Loss) from continuing operations		**XXX**	**XXX**

Explanation of note numbers:

Balance sheet

1. Share capital
   (a) Authorized
   (b) Issued shares
   (c) Subscribed and fully paid up
2. Reserves and surplus

   Capital Reserve, Redemption reserve, Securities Premium Debenture Redemption Reserve, Revaluation Reserve, Other Reserve, Surplus i.e. Balance in Statement of Profit and Loss (After Appropriations)
3. Money received against sharewarrants
4. Long term borrowings

   Debenture, Term Loans, Deposits, Other Loans and Advances
5. Deferred tax liabilities, when accounting income exceeds taxable income
6. Other long term liabilities

   Premium payable on redemption
7. Long term provisions

   Provisions for Employee Benefits

   Other

   Current liabilities
8. Short term borrowings

   Loan repayable on demand from bank from other parties

   Loans and advances from related parties

   Deposits

   Other loans and advances

   Secured and unsecured borrowing
9. Trade payable

   Creditors

   Bills Payable / Notes Payable
10. Other current liabilities

    Bank Overdraft

    Outstanding Interest on Loans / Debentures

    Outstanding Expenses

Unpaid Dividend

Income received in advance

11. Short term provision

Provision For Taxation

Proposed Dividend

Provision for employee benefits, Any other Provision

ASSETS

12.Tangible fixed assets

Land and building

Plant and machinery

Furniture and fixtures

Vehicles

Office equipments

13. Intangible fixed assets

Goodwill

Brands or trademarks

Computer software

Copyrights and patents

Licence and franchise

14. Capital work in progress

Fixed tangible assets under construction

15. Intangible assets under development

Patents, Intellectual rights under development

16. Non-current investments

Shares, debentures, bonds of other companies

Investment in preference shares

Mutual fund investments

Government bonds (long term)

17. Deferred tax assets

When taxable income exceeds accounting income

18. Long term loans and advances

Capital advance

Security deposits Other loans and advances- secured unsecured, doubtful

19. Other non current assets

Long term trade receivables

20. Current investments

Investment in equity instruments

Investment in preference shares

Investment in government or trust securities

21. Inventories

Closing stock of

Raw material

Work in progress

Finished goods

Stock in trade [in respect of goods acquired for trading]

Stores and spares

Loose tools [net value]

Goods in transmit

22.Trade receivables

Debtors less: reserve for doubtful debts [as per adjustment]

23.Cash and cash equivalents

cash in hand, cash at bank, cheques, drafts on hand

24.Short term loans and advances

Bills receivables, prepaid expenses

25.Other current assets

Stock of stationery

Outstanding interest on investment

Any other current asset

PROFIT & LOSS ACCOUNT

I Income

1. **Revenue from operations**

   Sales less: sales returns and excise duty, sale of service, other operating revenues

2. **Other Incomes**

   Interest received, discounted received, Commission received, rent received, transfer fees received, dividend received

II Expenses

3. Cost of materials consumed/ Cost of Goods Sold
   Opening Stock of Raw Material
   Add: Purchase less returns
   Add: Carriage inward, freight, octroi, custom duty, etc.
   Less: Closing stock of raw material
4. Employee benefit expenses
   Salaries (Add Outstanding and less advance)
   Wages (Add Outstanding and less advance)
   Bonus/ Labour Welfare Expenses
   Managers' Salary/Commission
5. Finance Cost
   Interest on bank loan
   Interest on debentures
   Interest on bank over draft
6. Depreciation and amortization expenses
   Depreciation on Plant, Machinery, Loose Tools, Furniture, Computer Software, Goodwill, Patent, Preliminary Expenses written off,
7. Other Expenses
   Consumption of stores and spare parts
   Consumption of Loose Tools
   Power and Fuel and water
   Rent

Repairs and Maintenance

Insurance

Rates and Taxes

Communication Expenses

Traveling and Conveyance

Printing and Stationery

Freight and Forwarding (Carriage Outward)

Sales Commission

Sales Discount

Business Promotion, Advertisement

Donations and Contributions

Legal and Professional Payment to Auditors

Bad Debts

Amortization of Share Issue Expenses and Discount on Shares

Loss on Fixed Assets Sold/ Scrapped/ Written off

Impairment of Fixed and Intangible Assets

Net Loss on Sale of Investment

Provision for Doubtful trade and other receivables

Miscellaneous Expenses

MD Remuneration

2. Some Examples of Intangible Assets

Intangible assets are the long-term resources of an entity, but have no physical existence. They derive their value from intellectual or legal rights, and from the value they add to the other assets Intangible assets are generally classified into two broad categories: (1) Limited-life intangible assets, such as patents, copyrights, and goodwill, and (2) Unlimited-life intangible assets, such as trademarks In contrast to tangible assets, intangible assets cannot be destroyed by fire, hurricane(cyclone), or other accidents or disasters(calamity) and can help build back destroyed tangible assets. The following are the example of intangible assets. They are

1) Goodwill 2) Brands/ trade marks 3) computer software 4) Mastheads (standard, headlines) and publishing titles 5) Mining right 6) Copy rights, and patents and other Intellectual

property rights, service and operating rights. 7) Recipes (technique) formulae, modes, designs and Prototypes (pattern) and 8) Licenses and franchise

3. What is corporate dividend tax? Give its accounting treatments

A dividend is a return given by a company to its shareholders out of profits made by it during a particular year. They are usually given in proportion to the number of shares Owned. In India, a company which has declared, distributed tax 15 %. Dividend distribution tax is the tax levied by the India Government on companies according to the dividend paid to a company's investors.

Accounting treatment:

Corporate dividend tax is to be created for current year interim dividend and proposed dividend @ 17% on dividend amount. (ie. The finances Act, 1997 introduced, with effect from June 1997 introduced, with effect from June 1997, tax at 10% of the dividends on companies d declaring, Distributing or paying dividends (whether interim or otherwise). The rate of dividend tax for the assessment year 2013 – 2014 is 15% of the dividends plus 10% surcharge and education cess 3 % thereon. Total corporate dividend tax including surcharge and education may be taken as 17% approximately.) This dividend tax is to be deducted from reserve and surplus and should be shown under the heading order current liabilities.

4. State under what headings the following item will appear in that balance sheet of a company. I) Unpaid calls ii) Share premium account iii) Capital reserve IV) Interest accrued on investment.

- Unpaid calls – under the heading share capital
- Share premium a/c – under the heading Reserve and surplus
- Capital reserve- under the heading Reserve and surplus
- Interest accrued on investment- under the heading Other current Assets

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