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ADVANCED ACCOUNTING 5th SEMESTER MATERIAL

Q1. What are the Indian accounting standards?

Meaning of Accounting Standards:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions, for the preparation of uniform and consistent financial statements and also for other disclosures affecting the different users of accounting information. Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.
ICAI's Compendium of Accounting Standards as on 1 July 2019
List of ICAI's Mandatory Accounting Standards (AS 1~29)
List of Mandatory Accounting Standards of ICAI (as on 1 July 2017 and onwards), is as under:

1. AS 1 Disclosure of Accounting Policies: This Standard deals with the disclosure of significant accounting policies which are followed in preparing and presenting financial statements.
2. AS 2 Valuation of Inventories: This Standard deals with the determination of value at which inventories are carried in the financial statements, including the ascertainment of cost of inventories and any write-down thereof to net realizable value.
3. AS 3 Cash Flow Statements: This Standard deals with the provision of information about the historical changes in cash and cash equivalents of an enterprise by means of a Cash Flow Statement which classifies cash flows during the period from operating, investing and financing activities.
4. AS 4 Contingencies and Events Occurring after Balance Sheet Date: This Standard deals with the treatment of contingencies and events occurring after the balance sheet date.
5. AS 5 Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies: This Standard should be applied by an enterprise in presenting profit or loss from ordinary activities, extraordinary items and prior period items in the Statement of Profit and Loss, in accounting for changes in accounting estimates, and in disclosure of changes in accounting policies.

6. AS 7 Construction Contracts: This Standard prescribes the accounting for construction contracts in the financial statements of contractors.
7. AS 9 Revenue Recognition: This Standard deals with the bases for recognition of revenue in the Statement of Profit and Loss of an enterprise. The Standard is concerned with the recognition of revenue arising in the course of the ordinary activities of the enterprise from: a) Sale of goods; b) Rendering of services; and c) Interest, royalties and dividends.
8. AS 10 Property, Plant and Equipment: The objective of this Standard is to prescribe the accounting treatment for property, plant and equipment (PPE).
9. AS 11 The Effects of Changes in Foreign Exchange Rates: AS 11 lays down principles of accounting for foreign currency transactions and foreign operations, i.e., which exchange rate to use and how to recognize in the financial statements the financial effect of changes in exchange rates.
10. AS 12 Government Grants: This Standard deals with accounting for government grants. Government grants are sometimes called by other names such as subsidies, cash incentives, duty drawbacks, etc.
11. AS 13 Accounting for Investments: This Standard deals with accounting for investments in the financial statements of enterprises and related disclosure requirements.
12. AS 14 Accounting for Amalgamations: This Standard deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves.
13. AS 15 Employee Benefits: The objective of this Standard is to prescribe the accounting treatment and disclosure for employee benefits in the books of employer except employee share-based payments. It does not deal with accounting and reporting by employee benefit plans.
14. AS 16 Borrowing Costs: This Standard should be applied in accounting for borrowing costs. This Standard does not deal with the actual or imputed cost of owners' equity, including preference share capital not classified as a liability.
15. AS 17 Segment Reporting: The objective of this Standard is to establish principles for reporting financial information, about the different types of segments/ products and services an enterprise produces and the different geographical areas in which it operates.
16. AS 18 Related Party Disclosures: This Standard should be applied in reporting related party relationships and transactions between a reporting enterprise and its related parties. The requirements of this Standard apply to the financial statements of each reporting enterprise and also to consolidated financial statements presented by a holding company.
17. AS 19 Leases: The objective of this Standard is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures in relation to finance leases and operating leases.
18. AS 20 Earnings Per Share: AS 20 prescribes principles for the determination and presentation of earnings per share which will improve comparison of performance among

different enterprises for the same period and among different accounting periods for the same enterprise.

19. AS 21 Consolidated Financial Statements: The objective of this Standard is to lay down principles and procedures for preparation and presentation of consolidated financial statements. These statements are intended to present financial information about a parent and its subsidiary (ies) as a single economic entity to show the economic resources controlled by the group, obligations of the group and results the group achieves with its resources.

20. AS 22 Accounting for Taxes on Income: The objective of this Standard is to prescribe accounting treatment of taxes on income since the taxable income may be significantly different from the accounting income due to many reasons, posing problems in matching of taxes against revenue for a period.

21. AS 23 Accounting for Investments in Associates: This Standard should be applied in accounting for investments in associates in the preparation and presentation of consolidated Financial Statements (CFS) by an investor.

22. AS 24 Discontinuing Operations: The objective of AS 24 is to establish principles for reporting information about discontinuing operations, thereby enhancing the ability of users of financial statements to make projections of an enterprise's cash flows, earnings generating capacity, and financial position by segregating information about discontinuing operations from information about continuing operations. AS 24 applies to all discontinuing operations of an enterprise.

23. AS 25 Interim Financial Reporting: This Standard applies if an entity is required or elects to publish an interim financial report. The objective of AS 25 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.

24. AS 26 Intangible Assets: AS 26 prescribes the accounting treatment for intangible assets (i.e. identifiable non-monetary asset, without physical substance, held for use in the production or supply of goods or services, for rental to others, or for administrative purposes).

25. AS 27 Financial Reporting of Interests in Joint Ventures: The objective of AS 27 is to set out principles and procedures for accounting for interests in joint ventures and reporting of joint venture assets, liabilities, income and expenses in the financial statements of ventures and investors.

26. AS 28 Impairment of Assets: The objective of AS 28 is to prescribe the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amount. The asset is described as impaired if its carrying amount exceeds the amount to be recovered through use or sale of the asset and AS 28 requires the enterprise to recognize an impairment loss in such cases. It should be noted that AS 28 deals with impairment of all assets unless specifically excluded from the scope of the Standard.

27. AS 29 Provisions, Contingent Liabilities and Contingent Assets: The objective of AS 29 is to ensure that appropriate recognition criteria and measurement bases are applied to provisions and contingent liabilities and that sufficient information is disclosed in the notes to the financial statements to enable users to understand their nature, timing and amount. The objective of this Standard is also to lay down appropriate accounting for contingent assets.

Q2. What are the objectives and features of accounting standards?

The objective of Accounting Standards is to standardize the diverse accounting policies and practices with a view to eliminate to the extent possible the non-comparability of financial statements and the reliability to the financial statements.
The Institute of Chartered Accountants of India, recognizing the need to harmonize the diverse accounting policies and practices, constituted at Accounting Standard Board (ASB) on 21st April 1977.

Objectives of Accounting Standards

In earlier days, accounting was just used for recording business transactions of financial nature. Its main emphasis now lies on providing accounting information in the process of decision making.

For the following purposes, accounting standards are needed:

(i) For bringing uniformity in accounting methods:
Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS-6(Revised) states the methods for depreciation accounting.

(ii) For improving the reliability of the financial statements:
Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statements. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.

They also help the potential users of the information contained in the financial statements by disclosure norms which make it easy even for a layman to interpret the data. Accounting standards provide a concrete theory base to the process of accounting. They provide uniformity in accounting which makes the financial statements of different business units, for different years comparable and again facilitate decision making.

(iii) Simplify the accounting information:

Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash in terms of ‘operating activities’, ‘investing activities’ and ‘financing activities’.

(iv) Prevents frauds and manipulations:
Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

(v) Helps auditors:
Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc. become the basis for auditing the books of accounts.

Salient Features of Accounting standards

The following is the text of the Accounting Standard (AS) 1 issued by the Accounting Standards Board, the Institute of Chartered Accountants of India on 'Disclosure of Accounting Policies'. TheStandard deals with the disclosure of significant accounting policies followed in preparing and presenting financial statements. In the initial years, this accounting standard will be recommendatory in character. During this period, this standard is recommended for use by companies listed on a recognized stock exchange and other large commercial, industrial and business enterprises in the public and private sectors

IMPORTANCE OF ACCOUNTING STANDARDS

Running a business is not just about earning profits, depositing money in the bank, paying employees, and luring more clients and customers. It is about knowing if the business is thriving or if the owner is just investing on something that is not going to earn at all.

Businesses have to have accounting standards to ensure that everything goes smoothly and that cash flow is running perfectly. These accounting measures for businesses also have to adhere to the accounting standards set by regulating bodies like the FASB and the IASB. This is because there are policies and other documents that are imperative to every accounting act. In many cases, businesses hire the services of auditors and bookkeepers in order to make sure that all record keeping practices are kept. Doing so will provide access to investor capital, facilitate reasonable assessment of performance, and prevent costs brought about by legal action.

Q3.Define goodwill? Explain the methods of valuation of goodwill

Methods of Goodwill Valuation

Goodwill is the value of the reputation of a firm built over time with respect to the expected future profits over and above the normal profits. Goodwill is an intangible real asset which cannot be seen or felt but exists in reality and can be bought and sold. In partnership, goodwill valuation is very important. Thus, we will here discuss the various methods of Goodwill Valuation.

Goodwill Valuation

A well-established firm earns a good name in the market, builds trust with the customers and also has more business connections as compared to a newly set up business. Thus, the monetary value of this advantage that a buyer is ready to pay is termed as Goodwill. The buyer who pays for Goodwill expects that he will be able to earn super profits as compared to the profits earned by the other firms. Thus, goodwill exists only in the case of firms making super profits and not in the case of firms earning normal profits or losses.

Goodwill is recorded in the books only when some consideration in money or money's worth is paid for it. Thus, in the context of a partnership firm, the need for valuation of goodwillarises at the time of:

Methods of Valuation of Goodwill

1. Years' Purchase of Average Profit Method:

Under this method, average profit of the last few years is multiplied by one or more number of years in order to ascertain the value of goodwill of the firm. How many years' profit should be taken for calculating average and the said average should be multiplied by how many number of years — both depend on the opinions of the parties concerned. The average profit which is multiplied by the number of years for ascertaining the value of goodwill is known as Years Purchase. It is also called Purchase of Past Profit Method or Average Profit Basis Method.

Profit Basis Method:

$$\text{Avrage Profit } \frac{\text{Total Profits for all the years}}{\text{Number of Years}}$$

Value of Goodwill = Average Profit x Years' Purchase

i] Simple Average: Under this method, the goodwill is valued at the agreed number of years' of purchase of the average profits of the past years. Goodwill = Average Profit x No. of years' of purchase

ii] Weighted Average: Under this method, the goodwill is valued at an agreed number of years' of purchase of the weighted average profits of the past years. We use the weighted average when there exists an increasing or decreasing trend in the profits giving the highest weight to the current year's profit.

- Goodwill = Weighted Average Profit x No. of years' of purchase
- Weighted Average Profit = Sum of Profits multiplied by weights/ Sum of weights

2. Years' Purchase of Weighted Average Method:

This method is the modified version of Years' Purchase of Average Profit Method. Under this method, each and every year's profit should be multiplied by the respective number of weights, e.g. 1, 2, 3 etc., in order to find out the value of product which is again to be divided by the total number of weights for ascertaining the weighted average profit. Therefore, the weighted average profit is multiplied by the years' purchase in order to ascertain the value of goodwill. This method is particularly applicable where the trend of profit is rising.

$$\text{Weighted Average Profit } \frac{\text{Total Profits for all the years}}{\text{Number of years}}$$

Value of Goodwill = Weighted Average Profit x Years Purchas

3. Super Profits Method:

Super-profit represents the difference between the average profit earned by the business and the normal profit (on the basis of normal rate of return for representative firms in the industry) i.e., the firm's anticipated excess earnings. As such, if there is no anticipated excess earning over normal earnings, there will be no goodwill.

This method for calculating goodwill depends on:

(i) Normal rate of return of the representative firms;

(ii) Value of capital employed/Average capital employed; and

(iii) Estimated future profit, i.e. the average profit of the last few years.

Super-Profit = Average Profit (Adjusted) – Normal Profit

Value of Goodwill = Super-Profit x Years' Purchase

The students should remember that the number of years' purchase of goodwill differs from firm to firm and industry to industry. One or two years' purchase should be taken into consideration if the retiring partner of a business was the main source of success. It should also be remembered that three to five years' purchase is usually taken. Of course, a large number of years' purchase may be considered if the super-profit itself is found to be large. If there is a declining trend in super-profit, one or two years' purchase may be considered.

The following steps should carefully be followed for calculating the value of Goodwill under Super- Profit Method:

(a) Ascertain the amount of Capital Employed/Average Capital Employed;

(b) Ascertain the amount of Normal Profit (i.e. Percentage of Normal Rate of Return on Capital/Average Capital Employed);

(c) Ascertain the Actual Maintainable Profit;

(d) Ascertain the difference between Actual Maintainable Profit minus Normal Profit. If Actual Maintainable Profit is more than the Normal Profit, the excess is called Super-Profit and, in the opposite case, this is no Super-Profit;

(e) Value of Goodwill = Super-Profit x Year's Purchase.

(i) The Number of Years Purchase Method: Under this method, the goodwill is valued at the agreed number of years' of purchase of the super profits of the firm.

- Goodwill = Super Profit x No. of years' of purchase
- # Super Profit = Actual or Average profit – Normal Profit
- # Normal Profit = Capital Employed x (Normal Rate of Return**/**100)

(ii) Annuity Method: This method considers the time value of money. Here, we consider the discounted value of the super profit.

- Goodwill = Super Profit x Discounting Factor

4. Capitalization Method:

(i) Capitalization of Average Profits: Under this method, the value of goodwill is calculated by deducting the actual capital employed from the capitalized value of the average profits on the basis of the normal rate of return.

- Goodwill = Normal Capital – Actual Capital Employed
- # Normal Capital or Capitalized Average profits = Average Profits x (100/Normal Rate of Return)
- # Actual Capital Employed = Total Assets (excluding goodwill) – Outside Liabilities

(ii) Capitalization of Super Profits: Under this method, Goodwill is calculated by capitalizing the super profits directly.

- Goodwill = Super Profits x (100/ Normal Rate of Return)

5. Annuity Method:

Under this method, Super-profit (excess of actual profit over normal profit) is being considered as the value of annuity over a certain number of years and, for this purpose, compound interest is calculated at a certain respective percentage. The present value of the said annuity will be the value of goodwill.
Value of Goodwill

6. Capitalization of Super-Profit Method*:*

Under the method, we are to consider super-profit in place of ordinary profit against the normal rate of return.

The same is calculated as:

Value of Goodwill = Super-Profit/Normal Rates of Returns x 100

$$Value\ of\ Goodwill = \frac{Super - profit}{Normal\ Rates\ of\ Returns} \times 100$$

7. Sliding Scale Valuation Method:

Under this method, the distribution of profit which is related to super-profit may vary from year to year. In other words, in order to find out the value of goodwill, sliding scale valuation may be considered relating to super-pr8fits of an enterprise.

Q4. What is share? Explain the methods of valuation of shares

A unit of ownership that represents an equal proportion of a company's capital. It entitles its holder (the shareholder) to an equal claim on the company's profits and an equal obligation for the company's debts and losses.

Two major types of shares are (1) ordinary shares (common stock), which entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's annual general meetings and other official meetings, and (2) preference shares (preferred stock) which entitle the shareholder to a fixed periodic income (interest) but generally do not give him or her voting rights.

Methods of Valuation of Shares (5 Methods)

Let us make in-depth study of the five methods of valuation of shares, i.e., (1) Asset Backing Method, (2) Yield-Basis Method, (3) Fair Value Method, (4) Return on Capital Employed Method, and (5) Price-Earnings Ratio Method.

A. Asset-Backing Method or Net assets Method:

Since the valuation is made on the basis of the assets of the company, it is known as Asset-Basis or Asset- Backing Method. At the same time, the shares are valued on the basis of real internal value of the assets of the company and that is why the method is also termed Intrinsic Value Method or Real Value Basis Method.

However, this following step should carefully be followed while calculating Net Assets or the Funds Available for Equity Shareholders:

(a) Ascertain the total market value of fixed assets and current assets;

(b) Compute the value of goodwill (as per the required method);

(c) Ascertain the total market value of non-trading assets (like investment) which are to be added;

(d) All fictitious assets (viz, Preliminary Expenses, Discount on issue of Shares/Debentures, Debit-Balance of P&L A/c etc.) must be excluded;

(e) Deduct the total amount of Current Liabilities, Amount of Debentures with arrear interest," if any, Preference Share Capital with arrear dividend, if any.

(f) The balance left is called the Net Assets or Funds Available for Equity Shareholders.

The following chart will make the above principle clear:

Alternatively:

Net Assets = Share Capital + Reserves and Surplus Revaluation – Loss on Revaluation

B. Yield-Basis Method:

Yield is the effective rate of return on investments which is invested by the investors. It is always expressed in terms of percentage. Since the valuation of shares is made on the basis of Yield, it is called Yield-Basis Method. For example, an investor purchases one share of Rs. 100 (face value and paid-up value) at Rs. 150 from a Stock Exchange on which he receives a return (dividend) @ 20%.

Yield may be calculated as:

$$\text{Yield} = \frac{\text{Normal Profit}}{\text{Capital Employed}} \times 100$$

Note: ***Practically, yield may also be termed as: Expected Yield, Normal Rate of Return/Earning, Rate of Fair Return, Rate of General Expectations, Estimated Rate for Capitalisation, etc.***

Under Yield-Basis method, valuation of shares is made on;

(i) Profit Basis;

(ii) Dividend Basis.

(i) Profit Basis:

Under this method, at first, profit should be ascertained on the basis of past average profit; thereafter, capitalized value of profit is to be determined on the basis of normal rate of return, and, the same (capitalized value of profit) is divided by the number of shares in order to find out the value of each share.

The following procedure may be adopted:

$$\text{Capitalised Value of Profit} = \frac{\text{Profit}^1}{\text{Normal rate of Return}} \times 100$$

$$\text{Value of each equity share} = \frac{\text{Capitalised Value of Profit}}{\text{Number of Shares}}$$

$$\text{Or, Value of each equity share} = \frac{\text{Profit}}{\text{Normal rate of Return} \times \text{Number of Equity Shares}} \times 100$$

(ii) Dividend Basis:

Valuation of shares may be made either (a) on the basis of total amount of dividend, or (b) on the basis of percentage or rate of dividend:

(a) On the basis of total amount of Dividend:

$$\text{Capitalised Value of Profit} = \frac{\text{Divisible Profit, i.e. Total amount of Dividend}}{\text{Normal Rate of Return, i.e. Yield}} \times 100$$

$$\therefore \text{Value of each Equity Share} = \frac{\text{Capitalised Value of Profit}}{\text{Number of Equity Shares}}$$

$$\text{Or, Value of each Equity Share} = \frac{\text{Divisible Profit} \times 100}{\text{Normal Rate of Return} \times \text{No. of Equity Shares}}$$

(b) On the basis of percentage or Rate of Dividend:

$$\text{Value of each Equity Share} = \frac{\text{Rate of Dividend}}{\text{Normal Rate of Return}} \times \text{Paid-up Value of each Equity Share}$$

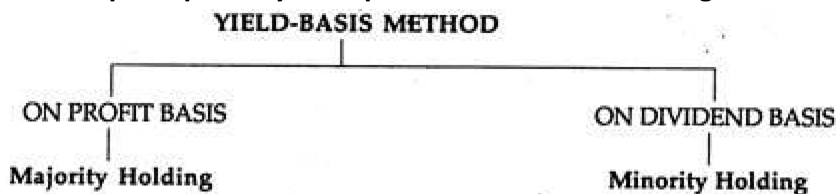
When the Rate of Dividend is not given

$$\text{Rate of Dividend} = \frac{\text{Profit}}{\text{Equity Share Capital (Paid-up)}} \times 100$$

Whether Profit Basis or Dividend Basis method is followed for ascertaining the value of shares depends on the shares that are held by the respective shareholders. In other words, the shareholders holding minimum number of shares (i.e., minority holding) may determine the value of his shares on dividend basis since he has to satisfy himself having the rate of dividend which is recommended by the Board of Directors, i.e., he has no such power to control the affairs of the company.

On the contrary, the shareholders holding maximum number of shares (i.e., majority holding) has got more controlling rights over the affairs of the company including the recommendation for the rate of divided among others. Under the circumstances, valuation of shares should be made on profit basis. In short, Profit Basis should be followed in the case of Majority Holding, and Dividend Basis should be followed in the case of Minority Holding.

The same principle may be represented in the following form:



C.Fair Value Method:

There are some accountants who do not prefer to use Intrinsic Value or Yield Value for ascertaining the correct value of shares. They, however, prescribe the Fair Value Method which

is the mean of Intrinsic Value Method end Yield Value Method. The same provides a better indication about the value of shares than the earlier two methods.

$$\therefore \text{Fair Value} = \frac{\text{Intrinsic Value} + \text{Yield Value}}{2}$$

D. Return on Capital Employed Method:

Under this method, valuation of share is made on the basis of rate of a return (after tax) on capital employed. Rates of return are taken on the basis of predetermined/expected rates of return which an investor may expect on the investments. After ascertaining this expected earnings, we are to determine the capital sum for such a return.

Thus, we are to follow the following procedure one by one:

(a) Ascertain the expected (maintainable) profit (after adjustments, if any);

(b) Ascertain the normal rate of return on capital employed for a similar business;

(c) At last, on the basis of expected rate of return, capitalize the (maintainable) profit.

E. Price-Earnings Ratio Method:

We know that it is the ratio which relates the market price of the share to earning per equity share.

It is calculated as:

$$\text{Price-Earning Ratio (PE Ratio)} = \frac{\text{Market Price of a Share (MPS)}}{\text{Earning Per Share (EPS)}}$$

Using PE Ratio, we can ascertain the value of share and value of the business with the help of the following :

$$\text{Value per share} = \text{EPS (Earning per share)} \times \frac{P}{E} \text{ Ratio}$$

$$\text{Valuation of business} = \text{(Total) Earnings} \times \frac{P}{E} \text{ Ratio}$$

5Q.Briefly explain about the issue of bonus shares

A bonus share is a free share of stock given to current shareholders in a company, based upon the number of shares that the shareholder already owns. While the issue of bonus shares increases the total number of shares issued and owned, it does not increase the value of the company. Although the total number of issued shares increases, the ratio of number of shares held by each shareholder remains constant. An issue of bonus shares is referred to as a bonus issue. Depending upon the constitutional documents of the company, only certain classes of shares may be entitled to bonus issues, or may be entitled to bonus issues in preference to other classes.

A bonus issue (or scrip issue) is a stock split in which a company issues new shares without charge in order to bring its issued capital in line with its employed capital (the increased capital available to the company after profits). This usually happens after a company has made profits, thus increasing its employed capital. Therefore, a bonus issue can be seen as an alternative to dividends. No new funds are raised with a bonus issue.

Unlike a rights issue , a bonus issue does not risk diluting your investment. Although the earnings per share of the stock will drop in proportion to the new issue, this is compensated by the fact that you will own more shares. Therefore the value of your investment should remain the same although the price will adjust accordingly. The whole idea behind the issue of Bonus shares is to bring the Nominal Share Capital into line with the true excess of assets over liabilities.
If you hold 100 shares of a company and a 2:1 bonus offer is declared, you get 200 shares free. That means your total holding of shares in that company will now be 300 instead of 100 at no cost to you.

Bonus shares are issued by cashing in on the free reserves of the company. The assets of a company also consist of cash reserves. A company builds up its reserves by retaining part of its profit over the years (the part that is not paid out as dividend). After a while, these free reserves increase, and the company wanting to issue bonus shares converts part of the reserves into capital.

What is the biggest benefit in issuing bonus shares is that its adds to the total number of shares in the market. Say a company had 10 million shares. Now, with a bonus issue of 2:1, there will be 20 million shares issues. So now, there will be 30 million shares. This is referred to as a dilution in equity.

Now the earnings of the company will have to be divided by that many more shares. Since the profits remain the same but the number of shares has increased, the EPS (Earnings per Share = Net Profit/ Number of Shares) will decline. Theoretically, the stock price should also decrease proportionately to the number of new shares. But, in reality, it may not happen.

A bonus issue is a signal that the company is in a position to service its larger equity. What it means is that the management would not have given these shares if it was not confident of being able to increase its profits and distribute dividends on all these shares in the future.
A bonus issue is taken as a sign of the good health of the company.

When a bonus issue is announced, the company also announces a record date for the issue. The record date is the date on which the bonus takes effect, and shareholders on that date are entitled to the bonus. After the announcement of the bonus but before the record date, the shares are referred to as cum-bonus. After the record date, when the bonus has been given effect, the shares become ex-bonus.

Issue of bonus shares

Bonus shares are issued by converting the reserves of the company into share capital. It is nothing but capitalization of the reserves of the company. There are some conditions which need to be satisfied before issuing Bonus shares:
1) Bonus shares can be issued by a company only if the Articles of Association of the company authorizes a bonus issue. Where there is no provision in this regard in the articles, they must be amended by passing special resolution act at the general meeting of the company.
2) It must be sanctioned by shareholders in general meeting on recommendations of BOD of company.
3) Guidelines issue by SEBI must be complied with. Care must be taken that issue of bonus shares does not lead to total share capital in excess of the authorized share capital. Otherwise, the

authorized capital must be increased by amending the capital clause of the Memorandum of association. If the company has availed of any loan from the financial institutions, prior permission is to be obtained from the institutions for issue of bonus shares. If the company is listed on the stock exchange, the stock exchange must be informed of the decision of the board to issue bonus shares immediately after the board meeting. Where the bonus shares are to be issued to the non-resident members, prior consent of the Reserve Bank should be obtained.

Only fully paid up bonus share can be issued. Partly paid up bonus shares cannot be issued since the shareholders become liable to pay the uncalled amount on those shares.

It is important to note here that Issue of bonus shares does not entail release of company's assets. When bonus shares are issued/credited as fully paid up out of capitalized accumulated profits, there is distribution of capitalized accumulated profits but such distribution does not entail release of assets of the company.

Issue of Bonus Shares by Public Sector Undertakings

It has come to the notice of the Government that a number of Central Government Public Sector Undertakings are carrying substantial reserves in their balance sheets against a relatively small paid up capital base. The question of the need for these enterprises to capitalize a portion of their reserves by issuing Bonus Shares to the existing shareholders has been under consideration of the Government. The issue of Bonus Shares helps in bringing about at proper balance between paid up capital and accumulated reserves, elicit good public response to equity issues of the public enterprises and helps in improving the market image of the company. Therefore, the Government has decided that the public enterprises, which are carrying substantial reserves in comparison to their paid up capital sold issue Bonus Shares to capitalize the reserves for which the certain norms/conditions and criteria may be followed and fulfilled. There are some SEBI guidelines for Bonus issue which are contained in Chapter XV of SEBI (Disclosure and Investor Protection) Guidelines, 2000 which should be followed in deciding the correct proportion of reserves to be capitalized by issuing Bonus Shares.

Private sector banks, whether listed or unlisted, can also issue bonus and rights shares without prior approval from the Reserve Bank of India. Liberalising the norms for issue and pricing of shares by private sector banks, the RBI said that the bonus issue would be delinked from the rights issue. However, central bank approval will be required for Initial Public Offerings (IPOs) and preferential shares. These measures are seen as part of the RBI's attempt to confine itself to banking sector regulation and leave the capital market entirely to the SEBI. Under the guidelines, private sector banks have also been given the freedom to price their subsequent issues once their shares are listed on the stock exchanges. The issue price should be based on merchant bankers' recommendation, the RBI has said. It means though RBI approval is not required but pricing should be as per SEBI guidelines. The RBI, however, clarified that banks will have to meet SEBI's requirements on issue of bonus shares. As per current regulations, private sector banks whose shares are not listed on the stock exchange are required to obtain prior approval of the RBI for issue of all types of shares such as public, preferential, rights or special allotment to employees and bonus. Banks whose shares are listed on the stock exchanges need not seek prior approval of the RBI for issue of shares except bonus shares, which was to be linked with rights or public issues by all private sector banks.

Q6. What are the guidelines for the SEBI of issue of bonus shares?

Bonus issue and SEBI guidelines

The SEBI has issued guidelines for Bonus issue which are contained in Chapter XV of SEBI (Disclosure& Investor Protection) Guidelines, 2000. A company issuing Bonus Shares should ensure that the issue is in conformity with the guidelines for bonus issue laid down by SEBI (Disclosure & Investor Protection) Guidelines, 2000. It is a detailed guideline which talks about that the bonus issue has to be made out of free reserves; the reserves by revaluation should not be capitalized. Bonus issue should not be made in lieu of dividend. There should be no default in respect to fixed deposits. Bonus issue should be made within 6 month from date of approval. This is not exhaustive but a lot of things are more in the guidelines regarding this.

SEBI GUIDELINES on the issue of bonus shares
There are no guidelines for issuing bonus shares by the private companies or unlisted public companies has been issued by the SEBI (Disclosure and investor protection) Guidelines, 2000. However, the listed public companies for issuing bonus shares to the shareholders must comply with the guidelines issued by the SEBI (disclosure and Investor Protection) Guidelines, 2000.

The requirements of the guidelines of SEBI are given below:
a) Right of FCD/PCD holders: No company shall pending the conversion of FCDs/PCDs issue any shares by way of bonus unless similar benefit is extended to the holders of FCDs/PCDs, through reservation of shares in proportion to such convertible part of FCDs/PCDs. The shares so reserved may be issued at the time of conversion of such debentures on the same terms on which the rights or bonus issues were made.

b) Out of free reserves: the bonus issue shall be made out of free reserves built out of genuine profits or share premium collected in cash only.
c) Revaluation of fixed assets: reserves created by revaluation of fixed assets should not be capitalised. If assets are subsequently sold and the profits are realized, such profits could be utilised for capitalization.

d) Bonus issue not to be in lieu of dividend: The declaration of bonus issue, in lieu of dividend, should not be permitted.

e) Fully paid shares: Bonus issue shall not be made, unless the partly paid shares, if any, existing are made fully paid up.

f) No default in respect of deposit/debentures: the company should not have defaulted in payment of any interest or principal in respect its fixed deposits and interest on debentures or redemption of debentures.

g) Statutory dues of the employees: the company should not be defaulted in payment of its statutory dues to the employees such as contribution to PF, gratuity, bonus, minimum wages, workmen’s compensation, retrenchment, payment to contract labour etc.

h) Implementation of proposal: The bonus issue shall be implemented within a period of 15 days after the date of approval of the BoD; it does not require the shareholders' approval for capitalization of profits or reserves for making bonus issue as per the AoA of the company.
However, if the company is required to get the shareholders' approval as per AoA of the company for capitalization of profits or reserves, the bonus issue shall be implemented within 2 months from the date of the meeting of the BoD.

i) Provision in the AoA: the AoA of the company should provide the provision for the capitalization profits, i.e. it must authorize the bonus issue, if not, and steps should be taken to alter the AoA suitably.

j) Authorised capital: consequent upon bonus issue if the subscribed or paid up capital of the company exceed the authorised capital, then a resolution shall be passed by the company at its GM for increasing its authorised capital to that extent.

k) Certificate: A certificate duly signed by the issuer company and countersigned by the statutory auditor or the company secretary in practice to the effect that the provisions of the guidelines has been complied with shall be forwarded to the SEBI.

Q7. What is meaning of internal and external reconstruction? Difference between internal and external reconstruction.

Definition of Internal Reconstruction

A recourse undertook by the enterprise, in which substantial changes are made in the company's capital structure, without resorting to the liquidation of the existing company, is called internal reconstruction. In finer terms, it is the inner rearrangement of the company's financial structure, in which the company undergoing reconstruction continues to exist.

Definition of External Reconstruction

External Reconstruction is a process in which the company's financial affairs are wound up, and a new company is formed to take over the assets and liabilities of the existing company, after the reorganization of the financial position. It requires the approval of shareholders, creditors and National Company Law Tribunal (NCLT).
In external reconstruction, the undertaking is being continued by the company but is in substance transferred to a company which is not an external one, but another entity that comprises of almost same shareholders, to be carried on by the transferee company. The accounting treatment of external reconstruction is same as the amalgamation in the nature of the purchase

BASIS FOR COMPARISON	INTERNAL RECONSTRUCTION	EXTERNAL RECONSTRUCTION

BASIS FOR COMPARISON	INTERNAL RECONSTRUCTION	EXTERNAL RECONSTRUCTION
Meaning	Internal reconstruction refers to the method of corporate restructuring wherein existing company is not liquidated to form a new one.	External reconstruction is one in which the company undergoing reconstruction is liquidated to take over the business of existing company.
New company	No new company is formed.	New company is formed.
Use of specific terms in Balance Sheet	Balance Sheet of the company contains "And Reduced".	No specific terms are used in the Balance sheet.
Capital reduction	Capital is reduced and the external liability holders waive their claims.	No reduction in the capital
Approval of court	Approval of court is must.	No approval of court is required.
Transfer of Assets and Liabilities	No such transfer takes place.	Assets and liabilities of existing company are transferred to the new company.

Q8.Enumerate the steps or procedure for internal re-construction of a company?

The following steps are taken into consideration for drafting a scheme, in brief:
1. Losses to be written off are to be determined by adding accumulated losses, fictitious assets, overvaluation of assets, under-provision of liabilities, preliminary expenses etc. The total amount of losses to be written off is thus determined and is reduced from the profit on revaluation of assets etc.
Alternatively, to find out the amount to be written off is to add the present value of assets and deduct there from the amount of contingent liabilities. The resulting figure is the value of net

assets; and the amount of paid up capital and reserves, if any, deducted from the value of net assets will show the amount to be written off.
2. To write off the losses, it is necessary to ascertain the parties who will have to bear the loss.
SECURED CREDITORS will not normally sacrifice anything unless the value of securities is inadequate. They are treated as ordinary creditors to the extent they are not covered and they may have to accept some sacrifices in connection with that portion along with ordinary creditors.
DEBENTUREHOLDERS may be fully secured as above and hence their case should also be considered on the above line. When Debenture has a floating charge on assets so that assets remaining after payment of secured debts and preferential creditors are applicable, the holders of such debentures may accept reduction in the rate of interest if better security is offered.
UNSECURED CREDITORS will not agree to sacrifice anything unless the Company is insolvent, that is, assets are not sufficient to pay off outside liabilities. They may consider the prospect of higher income as compared with the immediate benefit to be derived from liquidation.

When the Company has a bright future and if the creditors are given some share in the Equity capital, they may agree to sacrifice to some extent. PREFERENTIAL SHAREHOLDERS are preferential both regarding dividend and repayment of capital in liquidation. When they cannot be paid in full in liquidation, they will be normally agreeable to sacrifice some capital claim for early prospect of dividend.

EQUITY SHAREHOLDERS have to bear substantial portion of the loss. If the Company is reorganised by Capital Reduction as an alternative to liquidation, the equity shareholders must be interested to keep their control over the company. When equity shares are issued to other parties against their sacrifice, the control of the existing equity shareholders may be lost. Under this situation, existing equity shareholders are to come forward with fresh investment in equity capital to keep their control intact.
3. Arrangements is to be made for liquid resources for purchasing machinery, etc. urgently required, for meeting immediate commitments and for working capital by means of further call, fresh issue of shares, sale of investments, arrangement of overdraft and the like.

Internal Reconstruction

Internal reconstruction refers to the internal re-organization of the financial structure of a company. It is also termed as re-organization which permits the existing company to be continued. Generally, share capital is reduced to write off the past accumulated losses of the company. The accounting procedure of internal reconstruction is distinct from that of amalgamation, absorption and external reconstruction.

Q9.What is meant by holding company? Distinguish between holding company and subsidiary company

A holding company is a parent corporation, limited liability company, or limited partnership that owns enough voting stock in another company, that it can control that company's policies and oversee its management decisions.
Although a holding company owns the assets of other companies, it merely maintains oversight capacities and therefore does not actively participate in running a business's day-to-day operations.
A holding company exists for the sole purpose of controlling other companies, whether they be other corporations, limited partnerships or limited liability companies. Holding companies may also own property, such as real estate, patents, trademarks, stocks, and other assets.

Businesses that are 100% owned by a holding company are referred to as "wholly owned subsidiaries." Although a holding company can hire and fire managers of companies it owns, those managers are ultimately responsible for their own operations. It is thus crucial for owners to keep a sharp eye on its businesses to make sure they are running optimally.

Holding Company & Subsidiary Company

Holding company is an organization that has the power to control the affairs of another company by virtue of holding more than 50% of its equity. There are companies that owned a small proportion of stock of another company but gradually acquired more shares of that company and finally became a holding company while the company that they hold in this manner is referred to as subsidiary company. When a company acquires more than 50% of the capital of another company, it becomes its holding company and has the power to manage its operations or to form an altogether new company out of the subsidiary company if it so desires. There is no hard and fast rule to have more than 50% of the equity in a company to exercise control, and there have been instances when a company became the holding company when it had barely 10% of the equity of another company. This happens when the equity of a company is distributed in many hands and no one possesses more than 10% of the equity.

The relationship between a holding company and its subsidiary company is that of a parent and child relationship. There is a special case where all the equity of a company is held by another company. In such instances, the subsidiary company becomes wholly owned

subsidiary of the holding company. There are also instances when a subsidiary company becomes a holding company by acquiring majority equity in another company which in turn goes on to hold another company and so on. This then becomes a pyramid like structure where the top most company is a holding company of all the companies below. SEC does not allow more than two levels in public utility companies.

Then there are purely holding companies that do not engage in any business operations but exist only to hold majority equity in subsidiary companies. But if the parent company also engages in separate business activities it is called as a mixed holding company. Forming a new company from the scratch is a very tedious and costly affair and in comparison becoming a holding company is easier and less costly. In contrast to a merger or acquisition, a holding company requires only controlling stake in another company to reap all the rewards. In the amount that one can hold two companies, one can make a single company of that magnitude. This is why there are many companies that are performing the role of a holding company only.

Other benefit to the holding company accrues in the form of assets that are shown in its financial statement. The shares of the subsidiary company become assets for the holding company that it can use to acquire controlling stake in another company. In a clever accounting ploy, the assets of holding company and a subsidiary company are kept separate to avoid any claim of the shareholders. In reality however, the holding company and its subsidiary companies are considered as one economic entity.

Q10. What are the features of holding company? Its advantages and disadvantages of holding company?

Main features or characteristics of the Indian holding companies:

The main purpose of an Indian holding company is to perform investments in other companies, which are referred to as operating companies. As a general rule, a holding company may perform the following activities:

- **Borrowing;**
- **lending;**
- **deciding on the investment policies of its operating companies.**

It is important to know that in India, just like in other jurisdictions, a holding company is not entitled to complete commercial activities. This type of company is usually incorporated by

businessmen due to its tax reduction schemes and asset protection regulations and our agents in India can provide further advice on the main advantages available for the holding company.

Register a holding company in India:

Businessmen who want to know how to form a company in India under this structure should first choose a legal entity. As a general rule, two types of companies are preferred in this case:

• Corporation;

• Limited liability company.

Amongst the registration requirements, the investors have to file an application with the local authorities, in which they will offer information on the new company, such as:

• the company's trading name;

• the name of the company's representatives;

• the company's statutory documents.

Another requirement for company formation in India in this sense is to open a corporate bank account for the newly founded business, as the holding company must have a separate account than the ones of the operating companies it controls.

Other compulsory steps are prescribed by the local law and foreign businessmen may contact our team of specialists in company registration in India for a complete presentation.

The following are theMerits or Advantages of holding companies:

1. Ease of formation

It is quite easy to form a holding company. The promoters can buy the shares in the open market. The consent of the shareholders of the subsidiary company is not required.

2. Large capital

The financial resources of the holding and subsidiary companies can be pooled together. The company can undertake large scale projects to increase its profitability.

3. Avoidance of competition

Competition between holding and subsidiary companies can be avoided if they are in the same line of business.

4. Economies of large scale operations

The buying and selling of the holding company and the subsidiaries can be centralized. It can enjoy the advantage of quantity discount and better credit terms because of bulk purchases. It can also get better terms from buyers in case of sales.

5. Secrecy maintained

Secrecy can be maintained as the authority and decision making are centralized. It can protect itself from adverse publicity.

6. Risks avoided

In case the subsidiaries undertake risky business and fail, the loss does not affect the holding company. It can sell its stakes in the subsidiary company.

The following are theDemerits or Disadvantages of holding companies:

1. over capitalization

Since capital of holding company and its subsidiaries may be pooled together it may result in over capitalization. Shareholders would get not get a fair return on their invested capital.

2. Misuse of power

The financial liability of the members of a holding company is insignificant in comparison to their financial power. It may lead to irresponsibility and misuse of power.

3. Exploitation of subsidiaries

The holding company may exploit the subsidiary companies. The subsidiaries may be compelled to buy goods from the holding at high prices. They might be forced to sell their produce to the holding company as very low prices.

4. Manipulation

Information about subsidiaries may be used for personal gains. For example information of the financial performance of subsidiary companies may be misused to indulge in speculative activities.

5. Concentration of economic power

There is concentration of economic power in the hands of those who manage the holding company. Such concentration of economic power is harmful to the general economic welfare.

6. Secret monopoly

It may lead to the creation of secret monopolies. These secret monopolies may try to eliminate competitors and prevent entry of new firms. They may exploit consumers by charging unreasonable prices.

SHORT Answer QUESTIONS

Indian accounting standards

Indian Accounting standards are converged standards for IFRS. These are the documents & policies that provide principles for recognition, measurement, treatment, presentation & disclosure of accounting transactions in the Indian Accounting standards financial statements. For example: Indian Accounting standards 16 on Property, Plant and Equipment (PPE) will provide principles on the criteria on the basis of which PPE is recognized, what all cost will form part of PPE, how to treat those cost and how to present PPE in the financial statement and relevant disclosures. Indian Accounting standards are prepared keeping IFRS in mind, in actual these are IFRS in their converged form. There are 41 Indian Accounting Standards notified till now.

Goodwill

Goodwill is an intangible asset associated with the purchase of one company by another. Specifically, goodwill is recorded in a situation in which the purchase price is higher than the sum of the fair value of all identifiable tangible and intangible assets purchased in the acquisition and the liabilities assumed in the process. The value of a company's brand name, solid customer base, good customer relations, good employee relations, and any patents or proprietary technology represent some examples of goodwill.

Super profit method

Super profit is the excess of average **profits** over normal **profits**. Under this method, goodwill is calculated on the basis of **super profits**. Normal rate of return on the capital employed is compared with the actual average **profits** to find out the **super profits**.

Net assets method

This is also known as Balance Sheet Method or Intrinsic Method or Break-up Value Method or Valuation of Equity basis or Asset Backing Method. Here the emphasis is on the safety of investment as the investors always need safety for their investments. Under this method, net assets of the company are divided by the number of shares to arrive at the net asset value of each share.

Yield Method:

Under the Net Asset Method, the weight age is given on the safety of the investment. One, who invests money on shares, always needs safety. Even if the return is low, safety is always looked upon. At the same time under the yield method, the emphasis goes to the yield that an investor expects from his investment. The yield, here we mean, is the possible return that an investor gets out of his holdings—dividend, bonus shares, right issue. If the return is more, the price of the share is also more. Under this method the valuation of shares is obtained by

comparing the expected rate of return with normal rate of return. For instance, if paid up value of a share is
Rs. 10 and expected rate of return is 9% while normal rate of return is 6%, then the value of shares will be Rs. 15.

Profit and Loss Account

The profit and loss account serves the purpose of showing how much a company has available, in terms of surplus funds, at the end of a specific accounting period. These accounts do not necessarily provide a specific answer as to how funds will be spent. However, they do provide an idea of what money is available for distribution among partners or for the purpose of being held in a reserve account until the decision has been made regarding how to spend the surplus. If no surplus exists, the statement indicates the losses for the accounting period.

Contingent Liability

A contingent liability is a *potential* liability that may or may not become an actual liability. Whether the contingent liability becomes an actual liability depends on a future event occurring or not occurring.

In accounting, some contingent liabilities and their related contingent losses are:

- **Recorded with a journal entry**
- **Are limited to a disclosure in the notes to the financial statements**
- **Not recorded or disclosed**

Examples of Contingent Liability

A company's supplier is unable to obtain a bank loan. The company agrees to guarantee that the supplier's bank loan will be repaid. As a result of the company's guarantee, the bank makes the loan to the supplier. The company has a contingent liability. If the supplier makes the loan payments needed to pay off the loan, the company will have no liability. If the supplier fails to repay the bank, the company will have an actual liability.

Preliminary expenses

The expenses incurred when a company is formed and before the start of any business operations are termed as preliminary expenses, they are a good example of fictitious assets which are written off every year from the profits earned by the business.

Some examples of such expenses incurred before business incorporation are; Legal cost, Professional fees, Stamp duty, Printing fees, etc.

Also known as pre-operative expenses, they are shown on the asset side of the balance sheet and are preferably amortized within the same year (depending on local la

They should not be confused with pre-commencement costs; they incurred immediately before the commencement of business, however, the business incorporation is already done. Such expenses are directly charged to the current period's income statement. Example – Employee recruitment expenses, etc.

Interim Dividend

An interim dividend is a dividend payment made before a company's annual general meeting (AGM) and the release of final financial statements. This declared dividend usually accompanies the company's interim financial statements. The interim dividend is issued more frequently in the United Kingdom where dividends are often paid semi-annually. The interim dividend is typically the smaller of the two payments made to shareholders.

Proposed dividend

Proposed dividend is another important source of financing temporary working capital like the provision for taxation. It also provides funds for financing the time gap between dividend proposed and the dividend distributed to the shareholders.

Profit and Loss Account

The account, through which annual net profit or loss of a business is ascertained, is called profit and loss account. Gross profit or loss of a business is ascertained through trading account and net profit is determined by deducting all indirect expenses (business operating expenses) from the gross profit through profit and loss account. Thus profit and loss account starts with the result provided by trading account.

Profit prior to incorporation

Profit prior to incorporation is that profit which a company gets between the period of date of buying and date of incorporation. Suppose, A company buys XYZ company on1st Jan.2010 and it has to incorporate at1st April2010. Then profit between1st Jan.2010 and1st April2010 will be profit prior to incorporation. This profit cannot be used for paying dividend to shareholders. Because current shareholder's capital is not involved for this profit, so this will be capitalized profit and it will be transferred to capital reserve account. If company gets loss prior to incorporation, it will be transferred to goodwill account.

External reconstruction

The term 'External Reconstruction' means the winding up of an existing company and registering itself into a new one after a rearrangement of its financial position. Thus, there are two aspects of 'External Reconstruction', one, winding up ofan existing company and the other, rearrangement of the company's financial position. Such arrangement shall be approved by

its shareholders and creditors and shall be sanctioned by the National Company Law Tribunal (NCLT). Such a step usually involves the writing off of a debit balance on Profit and Loss Account, elimination of all fictitious assets if any from the Balance Sheet, and the consequent readjustment of share capital.

Internal reconstruction

Internal Reconstruction: Internal reconstruction means a recourse undertaken to make necessary changes in the capital structure of a company without liquidating the existing company. In internal reconstruction neither the existing company is liquidated, nor is a new company incorporated. It is a scheme in which efforts are made to bail out the company from losses and put it in profitable position. Internal reconstruction of a company is done through the reorganization of its share capital. It is a scheme of reorganization in which all interested parties in the capital structure volunteer to sacrifice. They are the company's shareholders, debenture holders, creditors etc. Under internal reconstruction, the accumulated trading losses and fictitious assets are written off against the sacrifice made by these interest holders in the form of reduction of paid up value of their interest.

Corporate Dividend Tax

The company deducts tax on amount paid as dividend. This is called dividend distribution tax. The dividends received from Indian companies by an investor were fully exempt due to this reason. Since tax has already been paid on dividend by the company, taxing it in the hands of investors would amount to double taxation.
But now, the dividend received by an investor in a year in excess of Rs 10 lakhs is chargeable at 10%.

Bonus Share

Bonus shares are additional shares given to the current shareholders without any additional cost, based upon the number of shares that a shareholder owns. These are company's accumulated earnings which are not given out in the form of dividends, but are converted into free shares.

Holding Company

A holding company is a company that doesn't conduct any operations, ventures, or other active tasks for itself. Instead, it exists for the purpose of owning assets. In other words, the company does not engage in the buying and selling of any products and services. Instead, it was formed so that it gains control over one or more companies.

Capital Employed

Capital employed, also known as funds employed, is the total amount of capital used for the acquisition of profits by a firm or project. It is the value of all the assets employed in a business or business unit, and can be calculated by adding fixed assets to working capital; or

by subtracting current liabilities from total assets. By employing capital, you thus make an investment.

The Formula for Capital Employed Is
Capital employed=Total assets−Current liabilities
=Equity+Noncurrent liabilities

Valuation of Share

Valuation of shares is the process of knowing the value of companys shares. Share valuation is done based on quantitative techniques and share value will vary depending on the market demand and supply. The share price of the listed companies which are traded publicly can be known easily. But w.r.t private companies whose shares are not publicly traded, valuation of shares is really important and challenging.

Interest on investment

An investment interest expense is any amount of interest that is paid on loan proceeds used to purchase investments or securities. Investment interest expenses include margin interest used to leverage securities in a brokerage account and interest on a loan used to buy property held for investment.

Provision for income tax

A provision for income taxes is the estimated amount that a business or individual taxpayer expects to pay in income taxes for the current year. The amount of this provision is derived by adjusting the reported net income of a business with a variety of permanent differences and temporary differences.

Minority interest

Minority interest represents a percentage of ownership in a company by less than 50% of the outstanding shares with a voting right. Hence, minority shareholders have a little say in a company's decision-making, and they cannot exert control over the company through voting. Usually, non-controlling interest ranges between 20 and 30%, or even less of the voting shares.
Although most of the companies are managed by majority shareholders, there are cases in which minority shareholders have full control with 40% because a large number of shareholders hold the remaining 60% of the outstanding shares with very small percentages. Finally, minority shareholders of one company are usually majority shareholders in another company.

Consolidated balance sheet

a statement that shows the financial position of a parent company and its subsidiary companies at a specified date by listing the asset balances and the claims on such assets. Businesses are often operated as a group of companies and the consolidated balance sheet shows the combined results of the group.

Profit & loss appropriation account

Profit and loss appropriation accounts are necessary for businesses, especially partnerships, because they help account for the expenditures and income that are included in profit and loss statements. These accounts should not be confused with the typical profit and loss account, but rather seen as an extension of it. Whereas the former is more general in nature, the profit and loss appropriation account is far more specific.

Capital reserve

Capital Reserve is the reserve created by a company to support its future capital expenditure. The profits earned from the sale of fixed assets or a business operation which generates revenue goes under capital reserve. Capital reserve is not available for distribution as dividends to the shareholders. This item comes under Liabilities side of the balance sheet under the head 'Reserves & Surplus'.

Final dividend

A final dividend refers to the dividend declared by a company's board of directors after the company has issued its full-year financial statements for its fiscal year. The final dividend is typically larger than any interim dividends that may have been issued during the fiscal year; this is because the board of directors is not sure of the entire amount of cash that is available for distribution to shareholders until the final results are available for the full year, and so it tends to be conservative in the size of any interim dividends that are issued

Revenue profit

Revenue profit is the difference between revenue incomes and revenue expenses. It is earned in the ordinary course of the business. It results from the sale of goods and services at a price more than their cost price. Revenue profit is he outcome of regular transactions of the business. It is shown as gross profit and net profit in trading and profit and loss accounts. It is available for the distribution to shareholders as dividend or for creating reserve and fund for various purposes. It shows the efficiency of the business. In fact, earning revenue profit is the main objective of every business.