AKASH AGARWAL CLASSES

EDUCATION IS POWER

CMA INTER (G2 PAPER-10)

CORPORATE ACCOUNTING

MAIN BOOK

HIGHLIGHTS OF THIS BOOK:

- EXHAUSTIVE COVERAGE OF MODULE
- COMPLETE COVERAGE OF NEW SYLLABUS
- SIMPLE AND CONCISE LANGUAGE
- LOGICAL ARRANGEMENT OF TOPICS
- DIAGRAMMATIC PRESENTATION WHERE NEEDED

APPLICABLE FOR JUNE 25 AND ONWARDS EXAMINATION

AS PER NEW SYLLABUS 2022

PROF. HARSH AGARWAL

AKASH AGARWAL CLASSES

CORPORATE ACCOUNTING

INDEX

CH –1

ISSUE OF EQUITY SHARES

i. Definition

a. As per Sec 2(20) of the Companies Act 2013 a Company means "**Company formed and registered under this Act** or an existing company registered under any of the **former Companies Act**".

b. Joint stock company refers to

i. A company is an **artificial person,**

ii. **created by law**

ii. having **separate legal entity,**

iv. **perpetual succession,**

v. **common seal** and

vi. **limited liability**".

ii. Characteristics: The following are the characteristics of a company:

a. Separate legal entity: It is a distinct legal person existing independent of its members.

b. Perpetual succession: The members of the company may keep on changing from time to time but this does not affect the company's continuity.

C. Common seal.

d. Limited liability: liability of the members is limited to the extent of the face value of shares held by them.

e. Transferability: the shares of the company are freely transferable except in case of a private limited company.

f. Own property: A company is legal person is capable of owning, enjoying and disposing of the property in its own name.

g. To sue to be sued by a third party: A company being a separate body can sue and be sued in its own name.

h. Difference between ownership and management:

i. Though a company is a artificial person, yet it acts through human beings who are called directors of the company.

ii. There is a difference between ownership and the management

i. Voluntary association: Company is voluntary association of persons usually for profit.

iii. Statutory Books:

a. Statutory books refer to those books which are mandatory for a limited company to maintain at its registered office under Companies Act 2013.

b. The following are list few of statutory books to be maintained.

i. Register of investments held and their names.

ii. Register of charges.

iii. Register of members.

iv. Register of debenture holders.

v. Annual returns.

vi. Minutes books.

vii. Register of contracts.

vii. Register of directors.

ix. Register of shareholdings of the directors.

x. Register of loans to companies under the same management.

xi. Register of investment in the shares of other companies.

iv. Books of Accounts:

a. Every company is required to keep at its registered office books of accounts in such a way so as to disclose:

i. The sums of money received and expended by the company and the matter in respect of which the receipt and expenditure has taken place.

ii. All sales and purchases of goods of the company.

iii. All assets and liabilities of the company.

v. Sources of Finance -Long Term:

A company will mobilize its long-term requirements of funds from the following sources:

a. Issue of shares:

i. Equity share - Initial public offering, Rights issue, ESOS / ESOP

ii. Preference shares

b. Debentures

c. Loans

d. Ploughing back of profits

Share Capital:

i. Share Capital: The capital in case of Joint Stock Company is known as share capital.

ii. Share: The share capital of a company is divided into the small divisions, which are of equal size, the smallest division of a share capital is known as share.

iii. Stock: A specified number of shares are combined together into a tradable lot, which is also known as stock.

iv. Type of Share Capital: The share capital of a company may be classified into the following types.

a. Nominal/Authorized Capital: The amount of capital with which the company intends to be registered is called registered Capital or Authorised Capital. It is the maximum amount which the company is authorized to raise by way of public subscription.

b. Issued Capital: That part of Authorized Capital which is offered to the public for their subscription is known as Issued Capital.

c. Subscribed Capital: That part of issued capital for which applications are from the public is called as subscribed capital.

d. Called up Capital: The amount on the shares which is actually demanded by the company to be paid is known as Called up Capital.

e. Paid up Capital: The part of the called-up capital which is offered and is actually paid by the members is known as Paid up Capital. The sum which is still to be paid is known as Calls in Arrears.

Sec 60: Publication of Capital:

i. Disclosure in all modes of publications:

a. Every official publication (or) any business letter etc. issued by the company should contain a **statement of the authorized share capital** of the company,

b. Disclosure should be made at prominent position and in equally conspicuous characters.

ii. Non-Compliance:

a. **Company** is liable to pay a penalty of Rs. 10,000

b. **Every officer** involved is liable to pay a penalty of Rs. 5,000 for each default.

Application Money:

i. Company will issue prospectus inviting public subscription. Interested investors will submit their share applications along with stipulated application money.

ii. **Application money shall not be less than 5% of the face value** or such other percentage as may be specified by the SEBI.

iii. Application money received should be maintained in separate bank account till the date of allotment.

iv. Refund of Application Money:

a. Minimum subscription amount should be received by the company as stipulated by SEBI.

b. If minimum subscription has not received within 30 days from the date of issue of prospectus, then application money received should be refunded within 15 days from the closure of issue.

Allotment of Securities:

i. Company starts allotment of shares only after receiving minimum subscription amount.

ii. The **amount payable on application** on every security shall **not be less than 5% of the nominal amount** of the security or such other percentage or amount, as may be specified by the SEBI.

iii. Company will call for payment of certain % of issue price upon allotment.

iv. After allotment of shares it shall file with the Registrar a return of allotment in the prescribed manner.

v. In case of any default, the company and its officer who is in default shall be liable to a penalty, for each default, of

a. ₹ 1,000 for each day during which such default continues or

b. ₹ 1,00,000 Whichever is less.

Calls on Shares:

i. Issue price of equity shares as reduced by application and allotment money will be called upon specified number of calls.

ii. Number of calls and call money amount generally specified in the prospects else directors can decide call date and amount by passing a resolution and by sending a notice to shareholders. Notices sent should be entered into "Share call book".

Accounting for issue of Shares:

Date	Particulars	LF	Debit	Credit
	On receipt of share application money: Bank A/c Dr To Share Application Money A/c		 xxx 	 xxx
	On allotment:			

	For transferring share application money to share capital Share Application Money A/c Dr To Share Capital A/c To Bank A/c - Application money refunded To Share allotment A/C - excess adjusted		xxx	xxx xxx xxx
	For share allotment money due: Share Allotment A/c Dr To Share Capital A/c To Securities Premium A/c		xxx	xxx xxx
	On receipt of allotment money: Bank A/c Dr Calls in Arrears A/c Dr To Share allotment A/c To Calls in Advance A/c		xxx xxx	xxx xxx
	Call Money due: Share Call A/c Dr To Share Capital A/c		xxx	xxx
	On receipt of call money: Bank A/c Dr Calls in Arrears A/c Dr Calls in Advance A/c Dr To Share Call A/c		xxx xxx xxx	xxx

Sec 52:1ssue of Shares at Premium:

i. Meaning: If issue price of shares is greater than its face value, it is known as issue of shares at Premium.

ii. Power vests from AOA: The power to issue shares at premium need not be given in the articles of association.

iii. Treatment: Premium so received shall be credited to a separate account known as Securities Premium Account.

iv. Utilization of Premium: Securities premium can be utilized only for the following purposes.

a. For the **issue of fully paid bonus shares** to the members of the company;

b. For **writing off preliminary expenses** of the company;

c. For **writing off commission paid or discount allowed** on any issue of shares or debentures of the company.

d. For providing **premium on the buyback of equity shares or redemption** of any redeemable preference shares / debentures of the company.

Sec 53: Issue of Shares at discount:

i. Meaning: If issue of a security is lower than its face value, it is known as issue at discount.

ii. Restrictions: Issue of shares at discount is not permitted except for circumstances provided U/sec 54.

iii. Non-Compliance: Where the company contravenes the provisions of this section,

a. **Company** shall be punishable with fine which shall not be less than ₹ 1,00,000 but which may extend to ₹ 5,00,000 and

b. **Every officer** who is in default shall be punishable with imprisonment for a term which may extend to 6 months or with fine which shall not be less than 1,00,000 but which may extend to 5,00,000 or with both.

Types of Subscriptions:

Equal subscription	Over subscription	Under subscription
Number of shares subscribed no of shares offered. E.g. Number of shares offered by company 1,00,000 No of share application received = 1,00,000 Number of shares issued by company= Number of shares offered No of shares that can be allotted = 1,00,000	Number of shares subscribed> number of shares offered. E.g. Number of shares offered by company = 1,00,000 Number of share application received = 1,20,000 No of shares that can be allotted = 1,00,000	Number of shares subscribed< Number is shares offered. E.g. Number of shares offered by company= 1,00,000 Number of share application received = 80,000 No of shares that can be allotted = 80,000

Pro-rata allotment:

i. Meaning: Pro-rata allotment refers to allotment of shares to the share applicants in proportion to number of shares applied.

ii Situation: Pro-rata allotment may be adopted by the issuing company in case of over-subscription of issue.

iii E.g

a. Number of shares offered to the public by X ltd is 1,00,000 and

b. The number of shares applied and received by the company is 1,50,000

c. It the company is making pro-rata allotment in the ratio of 1:1.5, which mean company is issuing one share for every 1.5 share applications.

Adjustment of Excess Application Money:

i. Meaning: Excess application money refers to application money received on share application phase is higher than total amount receivable on share applications

ii. Treatment: The excess applying money can be used in the following ways:

a. Refund to share applicants on technical grounds.

b. Refund to share applicants at the intention of the company.

c. Adjust against future calls in account of pro-rate allotment.

forfeiture of Shares:

i. Meaning: Forfeiture refers to an activity of taking back the shares by the company from the defaulted shareholders with respect to payment of instalments due.

ii. Right of company: If the shareholder fails to pay any amounts due on shares within the due date or such extended time lines the company may forfeit such shares after giving due notice.

iii. Resolution: a board resolution is required to initiate forfeiture of shares.

iv. Property of company: The forfeited shares are the property of the company and it may be sold on such terms as decided by the board of directors.

v. Effect of forfeiture:

a. In the event of forfeiture, the original shareholders cease to be member and his name should be removed from the members register.

b. Company is not under legal obligation to refund any part of amount received against such shares to original shareholder.

c. Amount received on forfeited shares represent unrealized profit and hence it should be transferred to a specific account known as "Share Forfeited A/c".

d. Till the date of re-issue Share forfeited A/c shall be disclosed in Liabilities side of balance sheet.

Re-issue of Forfeited Shares:

i. Reissue: Forfeited shares may be **reissued by the company directors for any amount.**

ii. Re-issue Discount: If such shares are issued at a **discount** then the amount of **discount should not exceed the actual amount received on forfeited shares.**

iii. The purchaser of re-issued shares is liable for payment of all future calls duly made by the company.

iii. Treatment

a. Any loss arising out of re-issue of forfeited shares should be debited to Share forfeited A/¢ to the extent of balance available.

b. Excess loss if any should be debited to "Discount on Issue of Shares A/c"

c. Atter providing re-issue loss, any balance left over in share forfeited account is a realized profit, hence it should be transferred to Capital Reserve A/c.

d. **Any surplus** amount of the forfeited shares after adjusting for discount on re-issue should be transferred to "**CAPITAL. RESERVE Account**".

e. If part of the forfeited shares is reissued, then profit shall have to be calculated proportionately as shown below:

Particulars	Amount
Profit on reissue of forfeited shares $\frac{total\ foreted\ protit}{total\ toreited\ shares} \times$ No of shares reissued)	xxx
Less: Further Discount on reissue	(xxx)
Amount to be transferred to Capital reserve	xxx

Accounting Treatment:

For forfeiture of Shares:

Share Capital A/c Dr. (No. of shares forfeited x Called up value per share)

Securities Premium A/c Dr. (if issued at a premium and premium not received)

To Calls-in-Arrear A/c (Amount not received on forfeited shares)

To Shares Forfeited A/c (Amount received towards face value of forfeited shares)

For reissue of forfeited shares

Bank A/c Dr. (No. of Shares Reissued x Reissue Price/Share)

Shares Forfeited A/c Dr. (No. of shares Reissued x discount on reissue)

To Share Capital A/c (No. of shares Reissued x Paid up value per share)

To Securities Premium A/c (No of shares x Premium PSH - if issued @ premium)

For transferring profit on reissue of forfeited shares:

Shares Forfeited A/c Dr xxx

(Profit on Forfeiture Discount on reissue of such forfeited share)

To Capital Reserve A/c xxx

Issue of Shares for consideration other than Cash:

Issue of Shares to Promoters:

i. Meaning: Promoters are the individuals, firms and companies who promoted the company, who are authorized to form the company. Promoters are the persons who are actively involved in the promotional activities of a company.

ii. As a consideration:

a. The company may issue its shares to the promoters for his valuable services and efforts put in the promotional activities.

b. The shares issued by the company to the promoters are in the form of consideration other than cash.

ii. Treatment: Accounting entry for issue of shares to promoters.

Goodwill A/c Dr xxx

To Share Capital a/c xxx

Issue of Shares for purchase of assets:

i. Circumstance:

a. Company may acquire assets of some other company or acquire another company and discharge consideration by way of issue of its shares or securities.

b. Issue of shares for purchase of assets from others form part of issue of sharers consideration other than cash.

ii. Treatment: The following entries shall be recorded in the books of the company

Sundry Assets A/c Dr xxx

To Vendor A/c xxx

(Being Assets are purchased)

Vendor A/c Dr xxx

To Equity Share Capital A/c xxx

To Securities Premium A/c xxx

(Being consideration is discharged by issue of shares at premium)

iii. No of shares to be

issued for discharge of consideration = $\frac{\textit{Total Purchase consideration}}{\textit{Issue price per share}}$

Rights Shares:

i. Meaning: Shares Offered by the company at price which is lower than the prevailing market price per share to the existing shareholders of the company in proportion to number of shares held in such company.

ii. Conditions: Right issue is subject to the following conditions:

a. The offer shall be made by notice specifying the number of shares offered and limiting a time not being less than 15 days and not exceeding 30 days from the date of the offer within which the offer, if not accepted, shall be deemed to have been declined;

b. unless the articles of the company otherwise provide, the offer shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to him or any of them in favour of any other person;

c After the expiry of the 30 days or offer declined by shareholder, the Board of Directors may dispose of them in such manner which is not dis-advantageous to the shareholders and the company.

iii. Theoretical Ex - Issue price per share = $\frac{= N1xMV\ 1)+(N2\ x\ MV2)}{N1+N2}$

Where, Ni = No of original equity shares outstanding.

M Vi = Pre-right issue price per share

N2 = No of right shares issued

MV2 = Rights issue price per share

iv. Value of right = Market Price per share - Theoretical Market Price.

Bonus Issue:

i. Bonus Shares: A bonus share is a free share issued without any consideration to an existing shareholder in the ratio of number of shares held by that shareholder by converting its profits or reserves.

ii. Effects: Issue of Bonus share will have the following effects:

a. Decreases the Reserve & Surplus;

b. Increases the issued capital but does not bring any change in cash flow and net worth.

iii. Sources: A company may issue fully paid-up bonus shares to its members out of

a. Its Free Reserves which are available for distribution as dividend (Free reserves excludes Revaluation reserve, unrealized gains, notional gains, reserve created on change in carrying amount of asset or liability)

b. Its Securities Premium Account; or

c. It's Capital Redemption Reserve Account.

iv. Conditions: The following conditions must be satisfied by the company for making bonus issue of shares:

a. Articles: Issue of bonus shares should be authorised by its articles.

b. Board Resolution: A resolution is required to be passed by the Board of Directors recommending its decision to issue bonus shares

c. General Body Resolution:

i. A resolution is required to be passed by the members in the general meeting to approve the Board's resolution recommending the issue of bonus shares.

ii. Members' resolution must have an intention to capitalize the profits or reserves, and must mention the amount of profits or reserves to be capitalized.

d. No default for debts: The Company has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.

e. No default in statutory dues: The Company has not defaulted in respect of payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus.

f. Conversion of partly paid shares: The partly-paid shares, if any, outstanding on the date of allotment are made fully paid-up.

g. Not in lieu of dividend: The bonus shares shall not be issued in lieu of dividend.

v. SEBI guidelines: A listed company proposing to issue bonus shares shall comply with the following requirements:

a. Provision in Articles:

The articles of association of the company must contain a provision for capitalization of reserves.

If there is no such provision in the articles the company must pass a resolution at its general meeting making provision in the articles of association for capitalization.

b. No Delault: The company has not detaulted in payment of interestor principal in respect of fixed deposits and interest on existing debentures or principal on redemption.

c. No Default in Statutory Dues: The company has not defaulted in payment of statutory dues of the employees such as contribution to provident fund, gratuity etc.

d. Conversion of partly paid shares: The partly-paid shares, if any, outstanding on the date of allotment are required to be made fully paid-up.

e. Pending Conversion of FCD/ PCD:

No company shall, pending conversion of FCDs/PCDs, issue any by way of bonus unless similar benefit is extended to the holders of such FCDs/though reservation of shares in proportion to such convertible part of FCDs or PCDs.

The shares so reserved may be issued at the time of conversion(s) of such debentures on the same terms on which the bonus issues were made

f. out of Free reserves:

The bonus issue shall be made out of free reserves built out of the genuine profits or securities premium collected in cash.

Reserves created by revaluation of fixed assets shall not be capitalized.

g. Bonus should not be in-lieu of Dividend: The declaration of bonus issue, in lieu of dividend, shall not be made.

h. Time limit:

A company which announces its bonus issue after the approval of the Board of directors must implement the proposal within a period of 15 days from the date of such approval, if Shareholders' approval is not required or

2 months if Shareholders' approval is required.

i Cannot be revoked: Once the decision to make a bonus issue is announced, the same cannot be withdrawn.

Accounting Entries for Bonus Issue:

Date	Particulars	LF	Debit	Credit
	Conversion of partly paid up shares into fully paid - Making use of bonus:			
	For declaration of Bonus: Capital Reserve A/c (realised in cash only) Dr General reserve A/c Dr Profit& Loss A/c Dr To Bonus to Shareholders A/c		 Xxx Xxx xxx 	 xxx
	For Making the final call due: Share Final Call A/c Dr To Share Capital A/c		 xxx 	 xxx
	On adjustment of final call: Bonus to Shareholder A/c Dr To Share Final Call A/c		 xxx 	 xxx
	On issue of fully paid Bonus Shares:			
	On Declaration of such bonus: Capital Redemption Reserve A/c Dr Securities Premium A/c Dr.		 xxx xxx	

	Capital Reserve A/c (realized in cash only) Dr.		xxx	
	General Reserve A/c Dr		xxx	
	Profit and Loss A/c Dr		xxx	
	To Bonus to Shareholders A/c			xxx
	On issue of fully paid Bonus Shares			
	Bonus to Shareholders A/c Dr		xxx	
	To Share Capital A/c			xxx

Sweat Equity Shares:

i. Meaning: Sweat equity shares refers to equity shares issued at substantially lower price compared to market price to directors or employees who provided know-how, value addition which is in the nature of intellectual property.

ii. Resolution: The issue of Sweat Equity Shares is authorized by a Special Resolution passed by the company in the General meeting.

iii. Details: The resolution specifies

a. the number of shares,

b. current market piece,

c. consideration if any and

d. the class or classes of directors or employees to whom such equity shared are to be issued.

iv. Conditions:

a. **1 Year completion:** Not less than one year has at the date of the issue elapsed since the date on which the company was entitled to commence business.

b. Listed Shares:

i. Issue of sweat equity shares should be in accordance with the regulations made by the Securities and Exchange Board of India in this behalf.

c. Provided that in the case of a company whose equity shares are not listed on any recognized stock exchange, the sweat equity shares are issued in accordance with the guidelines as may be prescribed

v. Pricing of Sweat Equity Shares:

The price of sweat equity shares shall not be less than the higher of the following.

a. The average of the weekly high and low of the closing prices of the related equity shares during last six months preceding the relevant date, or

b. The average of the weekly high and low of the closing prices of the related equity shares during the two weeks preceding the relevant date.

Types of offerings / Issues:

i. Initial Public Offering (IPO): First issue of shares by the company is made through IPO when company first becoming a publicly traded company on a national exchange.

ii. Follow on public offer (FPO)

a. An issuance of stock following a company's initial public offer is called a follow-on public offer.

b. A company opts for the FPO route when it wishes to raise additional capital from the shareholders and new investors

c. An FPO is essentially a stock issue of supplementary share made by a company that is already publicly listed and has gone through the IPO Process.

EMPLOYEE STOCK OPTION PLAN

i. ESOP:

a. Meaning: It refers to the

i. Option given to the Directors, officers or employees of a company or of its holding company or subsidiary company or companies,

ii. Which gives them right to purchase or subscribe for the shares of the company

iii. at a future date

iv. at a pre-determined price.

b. Features: The following are the features of ESOP:

i. It is an innovative tool for employee compensation.

ii. It is an employee stock-based benefit scheme

iii. It provides employees a right to acquire company's stock at a predetermined price.

iv. It is exercised on a future date

v. It ensures employee participation in profits.

c. Important Terms:

i. Grant Date: It is the date when the enterprise and the employee agrees to the terms of share based payment plan after obtaining the requisite approvals.

ii. Vesting conditions: These are the conditions which the employee must satisfy to become eligible to receive shares or options under a share based payment plan. Vesting conditions can be broadly classifiable into the following three types.

iii. Service Conditions: it requires an employee to complete a specified period of service

iv. Performance conditions: it requires the employee to meet specified performance targets and performance conditions may or may not relate to market conditions.

v. Market conditions: on Exercise date, the company should meet the specified market position say profit/ Market price per share etc.

vi. Vesting Period: It is the period starting from the Grant date and ending with the date on which all vesting conditions are expected to be satisfied.

vii. Exercise Price: It refers to price to be paid by the employee tor exercising the option.

viii. Exercise Period: It refers to the period within which the employees has to exercise the options granted to them after the exercise period the options will lapse.

ix. Intrinsic Value: it refers to the amount by which the value of underlying asset exceeds the exercise price of the options. If exercise price exceeds the value of the share, then the intrinsic value of the option is Zero.

ii. Accounting Treatment for Equity Settled Plans:

i. If there are **no vesting conditions**, then stock options vest immediately, then the accounting treatment will be as follows:

Employee Compensation Expense A/c Dr xxx

To ESOP Outstanding A/c xxx

ii. If there are **certain vesting conditions** like service conditions.

At each reporting date falling within the vesting period, the enterprise should recognise expense in respect of that reporting period by recording the following JE

Employee Compensation Expense A/c Dr xxx

To ESOP Outstanding A/c xxx

iii. The entity should calculate the latest estimate of Fair Value / Intrinsic Value of shares expected to vest as a whole.

iv. Value of option expense to be recognise =

(Total fair value of option scheme/ No of years expected to vest) x No of years completed-cumulative option expense already recognised at the end of the last year.

v. On the exercise date, record the amount received from employees:

Bank A/c Dr xxx

To ESOP outstanding A/c xxx

vi. For Issue of Shares to employees under ESOP:

ESOP Outstanding A/c Dr xxx

To Equity Share Capital A/c xxx

To Securities Premium A/c xxx

EMPLOYEE STOCK PURCHASE PLAN (ESPP):

i. Under this plan, the employees are given an option to subscribe to the shares of the employer in a public issue.

ii. The exercise price under this scheme is set at a specified rate of discount on the issue price or market on the date of exercise.

iii. ESPP with the option futures is treated as ESOP.

iv. The fair value is recognised over the vesting period in the same way as explained in ESOP

v. Fair Value per share = Market Value per share - Issue price Per share.

STOCK APPRECIATION RIGHTS (SAR):

i. SAR entitles the employees to claim cash payments to the extent of excess of market price of underlying shares exercise date over the exercise price.

ii. SAR'S are not exercised if market price of underlying share on exercise date is less than exercise price.

iii. SAR is therefore, a call option held by the employees.

iv. The employer recognises the value of call option as an expense over the vesting period.

v. The liability for SAR is recognised as a provision and value per option is reassessed at each reporting date.

PROBLEMS

Problem no-1

XY Ltd. made an issue of 10,00,000 equity shares of ₹ 10 each, payable fully on application. Subscriptions were received for 12,00,000 shares. Application money in respect of 2,00,000 shares was refunded and shares were duly allotted to the rest. Pass journal entries to give effect to these transactions.

Problem no- 2

SK Ltd. made an issue of 10,00,000 equity shares of ₹10 each, payable @ ₹2 on application, ₹4 on Allotment and ₹4 on first and final call. Subscriptions were received for 12,00,000 shares. Application money in respect of 2,00,000 shares was refunded and shares were duly allotted to the rest. All the amounts were duly received. Pass journal entries to give effect to these transactions.

Problem no- 3

PQ& Co. Ltd. issued 5,00,00,000 Equity shares of ₹10 each at a premium of ₹4 per share payable on application. The shares were all subscribed and all money due was received. Give the Journal entries to record the above transactions.

Problem no- 4

AB & Co. Ltd. issued 5,00,00,000 Equity shares of ₹10 each at a premium of ₹4 per share payable ₹1 per share on application, ₹6 per share on allotment (including premium), ₹3 on first call and the balance on final call. The shares were all subscribed and all money due was received. Give the Journal entries to record the above transactions.

Problem no- 5

DE & Co. Ltd. issued 5,00,00,000 Equity shares of ₹10 each at a premium of ₹4 per share payable ₹1 per share on application, ₹6 per share on allotment (including premium), ₹3 on first call and the balance on final call. The shares were all subscribed and all money due was received except the first call money on 1,00,000 shares and the Final call money on 1,50,000 shares. Give the Journal entries to record the above transactions.

Problem no- 6

EF & Co. Ltd. issued 5,000 Equity shares of ₹10 each at par, payable ₹2 per share on application, ₹4 per share on allotment, ₹4 on first call and final call. The shares were all subscribed and all money due was received. One shareholder holding 200 shares paid the call money along with the allotment money. The amount was subsequently adjusted. Give the Journal entries to record the above transactions.

Problem no- 7

P Ltd issued 2,000 shares of ₹ 100 each at a premium of 10% payable as follows:
On application ₹ 20 (1st April 2021). On allotment ₹ 40 (including premium) (1st June 2021). On First Call ₹30 (1st July 2021). On Second & Final call ₹ 20 (1st Aug 2021).
Applications were received for 1,800 shares and the directors made allotment in full. One shareholder to whom 40 shares were allotted paid the entire balance on his share holdings with allotment money and another share holder did not pay allotment and 1st call money on his 60 shares but which he paid with final call. Interest should be received @ 5% p.a. on calls-in-arrears and interest should be paid @ 6% p.a. on calls in Advance (as per Articles of the company).
Required: Calculated the amount of interest paid and received on calls-in-advance and calls in arrears respectively on 1st Aug. 2021.

Problem no- 8

C limited Company was registered with a capital of ₹ 5,00,000 in share of ₹ 100 each and issued 2,000 such shares at a premium of ₹ 20 per share, payable as ₹ 20 per share on application, ₹ 50 per share on allotment (including premium) and ₹ 20 per share on first call made three months later. All the money payable on application, and allotment were duly received but when the first call was made, one shareholder paid the entire balance on his holding of 30 shares, and another shareholder holding 100 shares failed to pay the first call money.

Required: Give Journal entries to record the above transactions.

Problem no- 9

Asmita Industries Ltd. has an authorized capital ₹2,00,000 divided into shares of ₹100 each. Of these, 600 shares were issued as fully paid for payment of machinery purchased from Z Ltd. 800 shares were subscribed for by the public and during the first year ₹50 per share was called up payable ₹20 on application, ₹10 on allotment, ₹10 on the first call and ₹10 on second call.

The amounts received in respect of these shares were as follows:-

On 600 Shares	Full amount called up
On 125 Shares	₹ 40 Per Share
On 50 Shares	₹ 30 Per Share
On 25 Shares	₹ 20 Per Share

The directors forfeited the 75 shares, on which less than ₹ 40 per share had been paid.

Required: Give Journal Entries recording the above transactions (including cash transactions) and show how Share Capital would appear in the Balance-Sheet of the Company, in accordance with Part 1 of Schedule III to the Companies Act.

Problem no- 10

MG Ltd is a company with an authorized capital of ₹10 lacs in equity shares of ₹10 each, of which 600000 shares had been issued and fully paid on 30th June, 2020. The company proposed to make a further issue of 100000 of these ₹ 10 shares at a price of ₹14 each the arrangements for payment being:

₹ 2 per share payable on application, to be received by 1st July 2020.

Allotment to be made on 10th July and a further ₹5 per shares (including the premium) to be payable.

The final call for the balance to be made, and the money received by 31st January 2021.

Applications were received for 355000 shares and were dealt with as follows:

Applicants for 5000 shares received allotment in full.

Applicants for 30000 shares received an allotment of one share for every 2 applied for, no money was returned to the applicant, the surplus on application being used to reduce the amount due on allotment.

Applicants for 320000 shares received an allotment of one share for every four applied for, the money due on allotment was retained by the company, the excess being returned to the applicant.

The money due on final call was received on the due date.

You are required to record these transactions in the journal of JK Limited.

Problem no- 11

Following is the extract of the Balance Sheet of XY Ltd. as at 31st March, 2021:

	₹
Authorized Capital	
15,000 12% Preference shares of ₹ 10 each	1,50,000
1,50,000 Equity shares of ₹ 10 each	15,00,000
	16,50,000
Issued and Subscribed Capital	
12,000 12% Preference Shares of ₹10 each fully paid	1,20,000

1,35,000 Equity shares of ₹ 10 each, ₹ 8 paid up	10,80,000
Reserves and Surplus:	
Capital Redemption Reserve	30,000
General Reserve	1,80,000
Capital Reserve	1,12,500
Securities Premium	37,500
Profit and Loss Account	2,70,000
Secured Loans:	
12% Partly Convertible Debentures @ ₹ 100 each	7,50,000

On 1st April, 2021 the Company has made final call @ 2 each on 1,35,000 equity shares. The call money was received by 20th April, 2021. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held. Securities premium of ₹ 37,500 includes a premium of ₹ 7,500 for shares issued to vendors pursuant to a scheme of amalgamation. Capital reserves include ₹60,0000, being profit on sales of plant and machinery. 20% of 12% Debentures are convertible into equity shares of ₹ 10 each fully paid on 1st June 2021.

Required: Show necessary entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue but before conversion of debentures. Are the convertible debenture holders entitled to bonus shares?

Problem no- 12

Anand Limited forfeited 720 equity shares of R100 each, which were issued at a discount of 5% for non-payment of allotment money of {40 per share. First and final call on this shares @ ₹ 20 per share was not made. 500 out of as forfeited shares were re-issued at 90 per share as fully paid. Pass necessary journal entries in the books of the company.

Problem no- 13

Bata Ltd. invited applications for issuing 10,00,000 Equity Shares of ₹ 10 each at a premium of ₹ 2 per share. The amount was payable as follows:

On Application -5 (including Premium)
One Allotment -4
On First and Final call 3
Applications for 15,00,000 shares were, received. Applications for 3,00,000 shares were rejected and pro rata allotment was made to remaining applicants. Excess application

money was utilized towards sum due on allotment. Mr. Giri who has applied for 24,000 shares failed to pay the allotment and call money. His shares were forfeited.
Out of the forfeited shares, 10,000 shares were reissued for 8 per share fully paid up. Pass necessary Journal entries in the books of Moti Ltd.

Problem no- 14

The following balances were shown in the Balance Sheet of Mayuri Limited as at 31 March 2022:

Particulars	Amount (₹)
2,00,000 12% Preference shares of 10 each fully paid	20,00,000
15,00,000 Equity shares of 10 each fully paid	1,50,00,000
5,00,000 Equity shares of 10 each, 37 paid up	35,00,000
General Reserve	18,50,000
Securities Premium	40,00,000
Profit and Loss Account	72,00,000
10% Debentures of ₹ 100 each	45,00,000

On 1st April, 2022 the company has made final call @ 3 per share on partly paid up equity shares. The call money was received by 20th April, 2022. Thereafter the company decided to capitalize its reserves by way of bonus at the rate of two shares for every five equity shares held. You are required to show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet immediately after bonus issue assuming that the Company has passed necessary resolution at its general body meeting for increasing the share capital (Notes/Schedules are not required).

Problem no- 15

Following is the extract of the Balance Sheet of Bajaj Ltd. As at 31st March, 2022:

Particulars	Amount (₹)
Authorised Share Capital:	
50,000 12% Preference Shares of 10 each.	5,00,000
4,00,000 Equity Shared of 10 each	40,00,000
	45,00,000
Issued & Subscribed Capital:	
24,000 12 % Preference Shares of T10 each fully paid	2,40,000
2,70,000 Equity Shares of {10 each, 8 paid up	21,60,000
Reserves & Surplus:	
General Reserve	3,60,000
Securities Premium	1,00,000
Profit & Loss Account	6,00,000

On 1t April, 2022, the Company has made final call @ 2 each on 2.70,000 Equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of

bonus at the rate of one share for every four shares held. Show necessary journal entries in the books of the company and prepare the extract of the Balance Sheet as on 30th April, 2017 after bonus issue.

Problem no- 16

Following is the balance sheet of AB Ltd. as at 31.03.2022:

Liabilities	Amount (₹)	Liabilities	Amount (₹)
1 Lakh Equity Shares of 10 each fully paid	10,00,000	PPE	12,80,000
12% Redeemable Preference Shares of ₹ 100 each	5,00,000	Current Assets	10,20,000
Securities Premium	1,00,000	Bank	3,30,000
Profit & Loss A/c	5,50,000		
Current Liabilities	4,80,000		
	26,30,000		26,30,000

On 01/04/2022, the company issued further 30,000 equity shares @ 10 per share at premium of 5 per share. The amount payable was ₹ 6 on application, ₹ 7 on allotment including premium and the balance on first and final call. Application were received for 45,000 shares.

Application money of 5,000 shares were refunded. Pro-rata allotment was made. The excess application money was adjusted towards allotment. Mr. P holding 3,000 shares failed to pay the allotment money and his shares were forfeited after final call and thereafter, out of Shares 2,000 shares were these re-issued at a discount of ₹ 3 per share.Preference shares were redeemed at a premium of 10%. Considering the above transactions, show journal entries and the balance sheet in the books of AB ltd.

Problem no- 17

Kavya Limited granted 25,000 employees stock options (face value 10) on 1" April, 2020 at *100, when the market price was t425. The options were to be exercised between 16th October, 2020 and 15th March, 2022. The employees exercised their options for 22,500 shares only. The remaining options lapsed. The company loses its books on 31st March every year. Pass Journal entries.

Problem no- 18

X Ltd. granted option for 16,000 equity shares on 01.10.16 at 80 when the market price Was ₹ 170. the vesting period is 4 years. 8,000 unvested options lapsed on 01.12.2018. 6,000 options are exercised on 30.09.21 and 2,000 vested options lapsed at the end of the exercise period. Pass journal entries to record the above transactions.

Problem no- 19

Megha Ltd issued 2,000 shares on 1st April, 2021 under ESPP at ₹ 5 when the market price was 15 (face value being ₹ 1) Pass necessary journal entries to record the above transactions.

Problem no- 20

ABC ltd. issued 25,000 shares of Rs 10 each at a premium of Rs 2 per share payable as follows:
On application Rs 2
On allotment Rs 5 (including premium) On first call Rs 4
On final call Rs 1
Public applied for 32,000 shares and allotment was made to applicants for 30,000shares on pro rata basis. Remaining applications were rejected.
Money dues on various calls were received except Mr kunal to whom 2400 shares were allotted failed to pay allotment and first call money. Subsequently his shares were forfeited. Thereafter final call was made and Mr X to whom 1200 shares were allotted failed to pay final calls money. His shares were also forfeited. These shares were re-issued at Rs 8 as fully paid up. Make entries.

Problem no- 21

Pranay Ltd. issued 2,00,000 equity shares of Rs. 10 each at a premium of Re. 1 per share (to be adjusted on allotment payable as follows (i) Rs.2 on application; (ii) Rs. 3 on allotment and (iii) Rs. 4 on first call. Subscription list was closed on 1 January 2004 by which date applications for 4,50,000 shares had been received. Allotment was made as under:

List A: Applicants for 50,000 shares were allotted in full.
List B: Applicants for 1,00,000 shares were allotted 50,000 shares on pro-rata basis
List c: Applicants for 3,0,000 shares were allotted 1,00,000 shares on pro-rata basis. Excess application money was adjusted towards allotment and calls authorised by articles of association.
All the shareholders paid the amounts due on allotment and call except Aashima who was allotted 4,000 shares under List B and Swati who was allotted 2,000 shares under List C. These shares were duly forfeited. Of these, 5,000 shares (including 4.000 shares of Aashima) were reissued @ Rs. 7 per share. Journalize the transactions including the cash and show the balance sheet with relevant information only.'

ESOP

Problem no- 22

ABC Ltd., a listed company, granted 2,000 options on 01.04.2019 at an exercise price of `50 per share. The market price at that time was of `100 per option (face value of each share being `10). The maximum exercise period and the vesting period are 1 year and 2 years respectively. On 01.04.2020, 600 unvested options were lapsed while 1,200 options were exercised on 30.06.2021. The remaining options were lapsed at the end of the exercise period. Show the journal entries to record the above transactions.

Problem no- 23

K Ltd. granted option for 16,000 equity shares on 01.10.16 at `80 when the market price was `170. the vesting period is 4 ½ years. 8,000 unvested options lapsed on 01.12.2021. 6,000 options are exercised on 30.09.21 and 2,000 vested options lapsed at the end of the exercise period. Pass journal entries to record the above transactions.

Problem no- 24

Y Ltd issued 2,000 shares on 1st April, 2021 under ESPP at `50 when the market price was `150 (face value being `10). Pass necessary journal entries to record the above transactions.

Problem no- 24

On 1st April 2022 a company offered 20,000 options when market price was ₹ 60 (face value 20) and options were exercisable on 31st march 2025. 2000 3000 6000 options were withdrawn on 30th June 2022, 31July 2023, 31st Oct 2024. Market price of the share on 31st march 2025 is Rs 90. Prepare necessary accounts.

Problem no- 25

ABC Ltd., a listed company, granted 2,000 options on 01.04.2023 at an exercise price of ₹ 50 per share. The market price at that time was of ₹ 100 per option (face value of each share being ₹ 10). The maximum exercise period and the vesting period are 1 year and 2 years respectively. On 01.04.2024, 600 unvested options were lapsed while 1,200 options were exercised on 30.06.2025. The remaining options were lapsed at the end of the exercise period. Show the journal entries to record the above transactions.

Problem no- 26

A Company has its share capital divided into shares of Rs. 10 each. On 1st April, 2023, it granted 20,000 employees' stock options at R40, when the market price was R130. The options were to be exercised between 1stJanuary 2024 to 15th March, 2024. The employees exercised their options for 18,000 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Pass Journal entries with regard to employees' stock options.

Problem no- 27

A company has its share capital divided into shares of Rs 10 each. On 1t April 2023, it granted 10,000 employees' stock options at 40, when the market price was 130. The options were to be exercised between 15th March 2024 and 31t March 2024. The employees exercised their options for 9,500 shares only. The remaining options lapsed. The company closes its books on 31st March every year. Show journal entries.

Problem no- 28

Y Ltd issued 2,000 shares on 1st April, 2024 under ESPP at 50 when the market price was ₹ 150 (face value being ₹ 10). Pass necessary journal entries to record the above transactions.

Problem no- 29

D Ltd. offers the employees shares at a discount in recognition of their past services. In total 60,000 shares of ₹ 10 each were accepted (and paid) by the employees at weighted average price of ₹ 40 when weighted average market price of the shares on the purchase date was ₹ 60. Pass journal entries.

MCQ

1) Bonus paid at the end along with the policy amount to the policy holders is called

A Production Bonus

B. Reversionary bonus

C Gratuitous bonus

D. Maturity bonus

2) A company may purchase its own shares out of

A. free reserves

B. all of these

C. securities premium account

D. proceeds of the issue of any shares or other specified securities

3) Profit on forfeiture and re-issue of equity shares is credited to

A. Dividend Equalization Reserve

B. General Reserve

C. Capital Reserve

D. Securities Premium

4) Which of the following reserves cannot be used for the purpose of issuing bonus shares?

A. Revaluation Reserve

B. Dividend Equalization Reserve

C. Capital Redemption Reserve

D. General Reserve

5) Profit on forfeiture and re-issue of equity shares is credited to

A. Dividend Equalization Reserve

B. General Reserve

C. Capital Reserve

D. Securities Premium

6) Which of the following is/are the source/s of bonus issue of shares?

A. Free Reserves

B. Securities Premium Account

C. Capital Redemption Reserve Account.

D. All of the above

7) When a shareholder fails to pay calls, the company. if empowered by its articles. May ....

A. Surrender the shares.

B. Forfeit the shares.

C. Reissue the shares.

D. All of the above.

8) For which of the following Share Premium Account may be applied?

A. issue of fully paid bonus shares to the members of the company.

B. Writing off preliminary expenses of the company.

C. writing off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company.

D. All of the above.

9) Which of the following is not a source of Bonus issue of Shares?

A. Free Reserves

B. Securities Premium Account

C. Capital Redemption Reserve Account

D. Asset Revaluation Reserves

10) When shares are allotted, they will be credited to which account?

A. Share Capital Account

B. Share Allotment Account

C. Share Application Account

D. Share First and Final Call Account

11) Which of the following reserves cannot be used for the purpose of issuing bonus shares?

A. Revaluation Reserve

B. Dividend Equalization Reserve

C. Capital Redemption Reserve

D. General Reserve

12) Which of the following is correct?

A. Debenture carries a fixed rate of dividend.

B. A company limited by shares may issue irredeemable preference shares.

C. Unmarked applications are those applications that bear the stamp of the underwriter.

D. Except as provided in Section 54, a company shall not issue shares at a discount.

13) Profit on forfeiture and re-issue of equity shares is credited to

A. Dividend Equalization Reserve

B. General Reserve

C. Capital Reserve

D. Securities Premium

14) Bonus paid at the end along with the policy amount to the policy holders is called

A. Production bonus

B. Reversionary bonus

C. Gratuitous bonus

D. Maturity bonus

15) As per Section 52 of Companies Act 2013, Securities Premium A/c cannot be used

A. to issue fully paid up bonus shares

B. to pay interim dividend

C. to write off the discount on issue of debentures

D. to write off the premium on redemption of preference shares

16) At present, a company can issue preference shares which are

A. irredeemable

B. redeemable after the expiry of 20 years from the date of issue

C. redeemable before the expiry of 20 years from the date of issue

D. redeemable after the expiry of 25 years from the date of issue

ANSWERS

1. b	2. b	3. c	4. a	5. c	6. d	7. b	8. d	9. d	10. a
11. a	12. d	13. c	14. b	15. b	16. c				

FILL IN THE BLANKS

1) Can the balance of Securities Premium Account be utilized for making existing partly paid-up equity shares into fully paid-up?

2) The maximum amount beyond which a company is not allowed to raise funds by Issue of Share is known as ………………

3) Can the balance of Securities Premium Account be utilized for making existing partly paid-up

equity shares into fully paid-up?

Answers:

1. No	2. Nominal Capital	3. No

TRUE OR FALSE

1) In case of Forfeiture of Shares, a shareholder is not able to pay the further calls and returns his shares to the company for cancellation voluntarily.

2) Issue of fully paid up bonus shares increases the total shareholders fund.

Answer

1. False	2. False

CH –2

BUY BACK OF EQUITY SHARES

Sec 67: Restrictions on buy back of own shares:

i. Restrictions

a. **Direct buyback:** No limited company limited having share capital shall have power to buy its own shares **unless in the case of reduction of share capital.**

b. **Indirect buyback:** A public company is not permitted to give any loan or guarantee or security or any financial assistance for the purpose of purchase of its shares /shares of its holding company by any person.

ii. Penalty: if a company or officer of company violates the above provisions is subject to a penalty:

a. For Company: Minimum 1,00,000 to maximum ₹ 25,00,0000

b. Every officer:

i. Imprisonment up to 3 years and

ii. fine Minimum of ₹ 1,00,000 to maximum of ₹ 25,00,000.

iii. Exceptions: The above mentioned restrictions are not applicable in the following exceptional cases.

a. Sanction of loans by a banking company in its ordinary course of business.

b. Loans sanctioned by company to its employees other than managerial persons not exceeding 6 months' Salary of such employees.

Sec 68: Power of a company to Purchase its own share

i. Sources: A company may purchase its own shares out of

a. Free reserves

b. Securities premium account; or

c. Proceeds of the issue of any shares or other specified securities:

ii. Resolutions: A company can buy back its equity shares if

a. **AOA:** The buyback is authorized by its articles

b. **Board Resolution:** If the proposed buyback is not exceeding 10% of total paid up cap1tal and free reserves of the company Board resolution authorizing buyback is required.

c. **Special Resolution at GM**

i. If the proposed buyback is exceeding 10% but not exceeding 25% of paid up capital and free reserves of the company,

ii A **special resolution** has been passed at a general meeting of the company authorizing the proposed buyback is required.

iii Debt equity ratio: Post buyback Debt Equity ratio should not be more than 2

iv. Only fully paid up shares:

a. Only fully paid shares can be bought back by the company.

b. In case of buy back of partly paid up shares, first they should be converted into fully paid up and then only can be buy back by the company.

v. Listed shares: In case of listed shares, then buy back should be made in accordance with the SEBI guidelines.

vi. Completion of 1 year: Minimum a period of one year should elapsed from date the completion of last buyback.

vii. Explanatory Statement:

a. an explanatory statement should be accompanied to the notice of the meeting where special resolution for proposed buyback is authorized. The explanatory statement should consist of the following:

i. A full and complete disclosure of all material facts

ii. The necessity for the buyback

fi. The class of shares or securities intended to be purchased under the buy back

iv. The amount to be invested under the buy back and

v. The time limit for completion of buy back.

viii. Time limit for buyback: Each buyback should be completed within a period of 1 year from the date of passing of special resolution / Resolution passed by board as the case may be.

ix. Modes of Buy back: It can be made from the following parties:

a. From the existing shareholders on proportionate basis

b. From the open market

c. By purchasing the securities issued to employees under ESOP / sweat equity shares.

x. Solvency Declaration:

a. A declaration of solvency should be filed by the company with ROC and SEBI.

b. It should be signed by at least two directors, one of whom shall be the managing director.

c. In case of non-listed company, no need of filling such solvency declaration with SEBI.

xi. Destruction of securities:

a. Company shall extinguish and physically destroy the shares and other specified securities so bought back **within 7 days** from the last date of completion of buyback.

b. Company shall not make a further issue of same kind of shares/ securities within a period of 6 months except issue of bonus shares or issues of shares to discharge existing obligations such as conversion of share warrants.

xii. Register: Company shall maintain a register of the shares or securities so bought, the consideration paid for the shares so bought back, the date of cancellation of shares and such other particulars as may be prescribed.

xiii. Filling with registrar in 30 days: A company shall file with the Registrar and the SEBI a return specifying such particulars relating to the buy- back within 30 days of such completion.

xiv. Penalty for violation:

a. Company: Minimum Penalty ₹ 1,00,000- Maximum Penalty 3,00,000

b. Officer in default:

i. Imprisonment up to -3 years or

ii. Fine minimum 1,00,000 Maximum 3,00,000 or

ii. both

Sec 69-Transfer to CRR:

a. If company purchases its own shares out of free reserves,

b. a sum equal to the Face value of the bought back

c. shall be transferred to the capital redemption reserve account and

d. details of such transfer should be disclosed in the balance sheet.

<u>Sec 68: Determination of Quantum for Buy back:</u>

Maximum Permissible buyback is least of the following three:

i. Share outstanding test: 25% of shares outstanding is eligible for buy back with the approval of shareholders.

ii. Resource test:

a. Calculate the shareholders fund = Shares capital+ Free Reserves and surplus.

b. Free reserves include securities premium, general reserve, revenue reserves, profit and loss account credit balance exclude revaluation reserve any other specific reserves.

c. Maximum resources that can be used for buyback 25% of shareholders fund.

d. Determine the buyback price per share.

e. Maximum no of shares to be bought back = 25% of shareholders fund/ buy back price per share.

iii. Debt equity ratio test:

a. Post buyback situation the debt equity ratio should be not more than 2:1.

b. Calculate the borrowed funds after buyback and based on it calculate the maximum equity that can be retained.

C. Excess equity should be bought back by the company.

d. No of shares that be buy back = Excess equity/ buy back price per share.

<u>Advantages of Buy-back:</u>

The following are the advantages of the buyback:

i. Use of idle funds: A company can employ the fund to reduce the capital base, if financially feasible investment opportunity is not available.

ii. Increase in share value: Free reserves can be utilized to buy back the capital instead of declaring as dividend, to enhance the value per share.

iii. To Cut Hostile takeover: Buy back may be used as a weapon to frustrate any hostile takeover of the company by undesirable persons.

iv. Reduce dividend payments: Surplus cash may be utilized by the company for buy back and avoid the payment of dividend.

SEBI Guidelines

SEBI issued the following guidelines with regard to buy- back of shares or other specified securities by companies.

i. Modes of Buy-Back: Buy-back is permissible

a. From the existing security holders on a proportionate basis through the tender offer:

b. From the open market through Book-building process or stock exchange.

c. From odd lots, that is to say, where the lot of securities of a public company whose shares are listed on a recognized stock exchange is smaller than such marketable lot as may be specified by the stock exchange.

d. By purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

ii. Public announcement:

a. Where a company proposes to buy-back its own shares.

b. It shall after passing the special resolution or resolution of its Board of Directors make a public announcement in **at least one English National Daily one Hindi National** Daily and **Regional Language** Daily with wide circulation at the place where the registered office of the company is located.

iii. Specified Date: Public announcement shall specify 'specified date for the purposes of determining the names of the shareholders to whom the letter of offer shall be sent.

iv. Prohibited persons: A company cannot buy-back its shares from any person

a. Through negotiated deals whether on or off the stock exchange; or

b. Through spot transactions; or

c. Through any private arrangements.

v. Resolution copy to be filled with SEBI:

a. Price at which shares shall be bought back has to be determined by shareholders through a special resolution.

b. A copy of their resolution has to be filed with the SEBI as well as the stock exchanges where the shares of the company are listed, **within 7 days from the date of passing** the resolution.

vi. Buy Back through Stock Exchange:

a. Companies buying back through stock exchanges should **disclose purchases daily**.

b. Buy-back offer shall remain **open for not less than 15 days and not more than 30 days.**

c. The **verification of shares bought back** has to be completed **within 15 days** of the **closure** of the offer and payments made within 7 days.

d. The onus of complying with the SEBI guidelines is on the merchant banker who has to file a 'due diligence certificate' with the SEBI.

vii. Escrow Account:

a. **Escrow account** means an account in which money is held until a specified duty is performed, i.e., till the consideration for buy-back of shares is paid to the shareholders.

b. **Mode:** This account consists of cash deposited with a scheduled commercial bank, or bank guarantee in favor of the merchant banker, or deposit of acceptable securities with appropriate margin, with the merchant banker, or combination of these.

c. **Regulation 10(1)**, a company shall, as and by way of security for performance of its obligations on or before the opening of the offer of re-purchase, deposit in an escrow account such sum as specified below:

i. If the consideration payable **does not exceed Rs 100 crores**, 25% of the consideration;

ii. If the consideration payable **exceeds Rs 100 crores**, 25% up to Rs 100 crores, and 10% thereafter.

Journal Entries for the buy-back of equity Shares

No	Particulars	LF	Debit	Credit
1.	**For Sale of investments at profit to facilitate buy back:** Bank A/c Dr To Investment A/c To Profit on Sale of Investment A/c		 xxx	 xxx xxx
2.	**For Sale of Investments at loss to facilitate buyback:** Bank A/c Dr Loss on Sale of investments A/c Dr To Investment A/c		 xxx xxx	 xxx
3.	**Issue of preference shares at premium to facilitate buyback:** Bank A/c Dr To Preference Share Capital A/c To Securities Premium A/c		 xxx	 xxx xxx
4.	**For providing premium on buyback:** Securities Premium A/c Dr General Reserve A/c Dr To Premium on Buyback A/c		 xxx xxx	
5.	**For amount due to equity shareholders on buyback:** Equity Share Capital A/c Dr Premium on Buyback Dr		 xxx	

	To Equity Shareholders A/c		xxx	xxx
6.	**On buy back of equity shares:** Equity Shareholders A/c Dr To Bank A/c		xxx	xxx
7.	**For transfer from free reserves to CRR A/c:** Free Reserves A/c Dr To Capital Redemption Reserve A/c		xxx	xxx

PROBLEMS

Problem No 01:

The following was the Balance Sheet of Wonder World Ltd. as at 31.03.2022:

Liabilities	Amount (₹)	Assets	Amount (₹)
1 lakh Equity Shares of ₹ 10 each fully paid	10.00	Plant & Machinery	13.50
Securities Premium	3.50	Furniture	2.40
General Reserves	3.10	Investments	1.80
Profit & Loss Account	1.10	Stock	7.20
14% Debentures	7.50	Sundry debtors	2.30
Sundry creditors	5.00	Bank	3.00
	30.20		30.20

On 01.04.2022, the company decided to buy-back 20% of its equity shares at a premium of 10 per share. For this purpose, the company sold its entire investments for 2.30 lakhs and issued 1500, 12% Preference shares of R100 each at par. The amount payable was 60 On 01.04.2022, the company decided to buy-back 20% of its equity shares at a premium of on application and 40 on allotment. The issue was fully subscribed. Thereafter the company issued bonus shares of ₹ 10 at the rate of one bonus share for every five equity shares held by the equity shareholders.

Show Journal entries and Balance Sheet after the above transactions were completed.

Problem No 02:

X Co. Ltd. decided to buyback 10,000 equity shares of ₹ 10 each. It sold investments (Face value) 70,000 for 95.000. It bought 10,000 equity shares in the open market for 90,000 out of free reserves. The Shares bought back were cancelled. The expenses of buyback were 1,000. Pass necessary journal entries in the books of X Co. Ltd. to record the above Transactions.

Problem No 03:

Ashok Ltd. furnishes you with the following balance sheet as at 31st March, 2022:

Sources of Funds		Amount (Crores)
Share Capital:		
Authorized		100
Issued:		
Preference Shares of ₹ 100 each fully paid	75	
Equity Shares of R10 each fully paid	25	100
Reserves & Surplus:		
Capital Reserve	15	
Securities Premium	25	
Revenue Reserves	260	300

Total		400
Applications of Funds		
PPE: Cost	100	
Less: Provision for Depreciation	(100)	Nil
Investments at Cost (Market Value ₹400 Cr.)		100
Current Assets	340	
Less: Current Liabilities	(40)	300
Total		400

The company redeemed preference shares on 1st April, 2022. It also bought back 50 Lakh equity shares of ₹ 10 each at 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are required to:

(1) Pass Journal entries to record the above;

(2) Prepare Balance Sheet as at 01.04.2022.

Problem No 04:

The following was the summarized financial position of Chanakya Ltd as on 31^{st} mar 2022:

Equity &Liabilities	(₹) Lakhs	Assets	(₹) Lakhs
Share Capital:		PPE	15,000
Equity Shares of R10 each fully paid up	7000	investments	3,000
10% Redeemable Pref. Shares	3000	Cash at Bank	1,450
Reserves & Surplus:		Other Current Assets	7,550
Capital Redemption Reserve	1,100		
Securities Premium	700		
General Reserve	5800		
Profit & Loss Account	500		
Secured Loans:			
9% Debentures	4000		
Current Liabilities:			
Trade Payables	3.800		
Sundry Provisions	1,100		
	27,000		27,000

On the 1st April, 2022 the Company redeemed all its Preference Shares at Premium of 10% and bought back 10% of its Equity Shares at 11 per Shares. In order to make funds available, the Company sold all the investments for 3,200 lakhs and raised a Bank Term Loan for the balance.

You are required to prepare the Balance Sheet of the Company after the redemption/buy back of shares. Assume that the securities premium account was utilized to the maximum possible extent

Problem No 05:

Vikash Ltd. resolved by a special resolution to buy-back its 5,00,000 equity shares of ₹ 10 each (paid up value ₹ 8) at a premium of 15 per share. At the time of buy-back the following balances appeared in its books:

Securities Premium Account 60,00,000

General Reserve Account 50,00,000

Profit and Loss Account (Cr.) - ₹ 45,00,000

The company utilized the whole of the securities premium for buy-back purpose. You are required to pass the necessary journal entries in the books of the company.

Problem No 06:

On 31st March, 2022 following was the balance sheet of Ispat Ltd

Liabilities	Amount	Assets	Amount
Equity share capital	2400	Machinery	3600
(fully paid-up shares of R10 each)		Furniture	452
Securities Premium	350	Investment	148
General Reserve	930	Stock	1,200
Profit and Loss Account	340	Debtors	520
12% Debentures	1,500	Cash at bank	740
Sundry Creditors	750		
Sundry Provisions	390		
	6,660		6,660

On 1st April, 2022. The company announced the buy-back of 25% of its equity shares @ 15 per share. For this purpose, it sold all of its investments for F150 lakhs and issued 2,00,000 14% preference shares of ₹ 100 each at par the entire amount being payable with application. The issue was fully subscribed.

The company achieved the target of the buy-back. Later, the company issued one fully paid up equity share of ₹ 10 by way of bonus share for every four equity shares held by the equity shareholders.

Show journal entries for all the transactions including cash transactions and prepare the B/S as per Schedule III, of Companies Act, 2013.

Problem No 07:

The following was the Balance Sheet of Fortune Ltd. as on 31st March 2022:

Liabilities	Amount
Issued and paid-up-capital:	
6,00,000 equity shares of ₹ 10 each	60,00,000
General Reserve	2.00.000
Securities Premium	10,000

10% Debentures	28,00,000
Sundry Creditors	31.20,000
	1,21,30,000
Assets:	
Land & Building	12,60,000
Plant& Machinery	47,00,000
Furniture and fittings	7,00,0000
Investments	7,40,000
Stock	24,00,000
Sundry Debtors	11,80,000
Cash & Bank	11,50,000
	1,21,30,000

On 1st April, 2022, the Shareholders of the Company have approved the scheme of buy-back of equity shares as under:

i. 15% of the equity shares would be bought-back at ₹ 11 per share.

ii. Balance in the General Reserve and Securities Premium Account may be fully utilized.

iii. Issue 12% redeemable preference shares of R10 each as per the requirements.

Pass necessary journal entries to record the above transactions.

Problem No 08:

The Following balances were shown in the Balance Sheet of Anukula Ltd. as at 31" March 2022:

Particulars	Amount
8,00,000 Equity Shares of R10 each fully paid up	80,00,000
50,000, 8% Preference Shares of 100 each ₹ 80 paid up	40,00,000
Capital Reserve	35,00,000
General Reserve	80,00,000
Securities Premium	70,00,000
Profit& Loss Account	52,00,000
12% Debentures	10,00,000
Non-Current Investment at cost	65,00,000
Cash and Bank	92,00,000

Additional Information:

i. The company passed a resolution to buy-back 20% of its equity capital @ R35 per share. For this purpose, it sold its investments of R30 lakhs for ₹ 28 lakhs.

ii. The company redeemed the preference shares at a premium of 25%.

iii. Included in its investments were Investments in own debentures' costing ₹ 10 lakhs (face value ₹ 11.50 lakhs). These debentures were cancelled.

You are required to pass necessary journal entries in the books of the company for above.

Problem No 09:

R Ltd. wants to buy back 1,00,000 equity shares of ₹ 10 each at a price of ₹ 20 each on 01.04.2022. The Buyback is allowed in its articles of association and the company has obtained necessary approval from the shareholders. The company has sufficient bank. balance to make the payment for buy back of shares.

The following information is available as on 31.03.2022:

Particulars	Amount
Equity Share Capital (₹ 10 each fully paid)	50,00,000
General Reserve	60,00,000
Dividend Equalization Reserve	10,00,000
Balance of profit & Loss (Cr.)	5,00,000
10% Debentures (₹ 100 each)	75,00,000
Bank Loan	40,00,000
Current Liabilities	66,00,000

Verify whether the buyback plan of the company meets the conditions specified by the Companies Act, 2013 as regards to the maximum amount of Buy back. Also Pass necessary journal entries in the books of the company to give effect of the process, if the plan is found to be in place.

Problem No 10:

X Co. Ltd. buys back its own 2,00,000 equity shares of ` 10 each at par. The company has sufficient profits otherwise available for dividend besides general reserve. No fresh issue of shares is made for this purpose. The shares are fully paid up.

Journalize the transactions.

Problem No 11:

(Where shares are partly paid up)

The BCG Co. Ltd. resolved by a special resolution to buy-back 2,00,000 of its equity shares of the face value of `10 each on which `8 has been paid up. The general reserve balance of the company stood at `50,00,000 and no fresh issue of shares was made.

Journalize the transactions.

Problem No 12:

(Where shares are bought-back at a premium)

The share capital of Beta Co. Ltd consists of 1,00,000 equity shares of `10 each, and 25,000 preference shares of `100 each, fully called up. Its securities premium account shows a balance of `40,000 and general reserve of `7,00,000. The company decides to buy-back 20,000 equity shares of `12 each.

Pass the necessary journal entries.

Problem No 13:

(Where shares are bought-back at a discount)

The PTC Co. Ltd. has a share capital of `15,00,000, comprising 1,00,000 equity shares of `10 each and 50,000 8% preference shares of `10 each, both of which fully called up and paid up. The company has sufficient general reserve to its credit to enable it to comply with the legal formalities connected with buy-back of shares. It decides to buy-back 20% of its equity share capital at `9 per share. Record the transactions in the books of the company.

Problem No 14:

(Fresh issue of shares for purposes of buy-back)

Alpha Co. Ltd. has a paid up equity share capital of `20,00,000 in 2,00,000 shares of `10 each. It resolved to buy-back 50,000 equity shares at `15 per share. For this purpose. it issued 20,000 12% preference shares of `10 each, at par, payable along with application. The company has to its credit `2,50,000 in securities premium account and `10,00,000 in the general reserve account. The company utilized the general reserve. Pass the necessary journal entries.

MCQ

1) Which of the following is not a condition of buy back of securities?
A. Both fully and partly paid-up securities can be bought back.
B. Buy-back must be authorized by the Articles of Association.
C. Buy-back must be authorized by passing a special resolution in general meeting.
D. Buy-back should be completed within 1 year from the date of passing of special resolution

2) Which of the following is/are the advantage/s of buy-back?
A. Free reserves which are utilized for buy-back instead of dividend enhance the value of the company's shares and improve earnings per share
B. Surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax
c. Buy-back may be used as a weapon to frustrate any hostile take-over of the company by undesirable person
D. All of the above

3) Which of the following is not a condition of buy-back of securities?
A. Both fully and partly paid-up securities can be bought back.
B. Buy-back must be authorized by the Articles of Association.
c. Buy-back must be authorized by passing a special resolution in general meeting.
D. Buy-back should be completed within 1 year from the date of passing of special resolution.

Answers

1. a	2. d	3. a

FILL IN THE BLANKS

1) Every buyback of shares must be completed within a period of .... from the date of Passing special resolution

Answer:

1. Within time limit as fixed in General Meeting

TRUE OR FALSE

1) Any surplus cash may be utilized by the company for buy-back and avoid the payment of dividend tax.

2) Buy-back of shares can also be made out of the proceeds of the earlier issues of the same kind of shares.

Answer:

1. True	2. False

CH –3

ISSUE AND REDEMPTION OF PREFERENCE SHARES.

Introduction:

i. Meaning: Preference shares will be issued by the company with the following two preferential rights compared to equity shareholders.
a Payment dividend.
b. Re-payment of capital in the event of liquidation of the company.

ii. Redeemable PSH:
a. Any preference shares which can be redeemed after expiry of the stipulated period is known as redeemable preference shares.
b. Preference shares which can be redeemed by the company in accordance with the terms of issue are known as redeemable preference shares.

iii. Irredeemable PSH:
a. Any preference shares which cannot be redeemed during the life of the company is known as irredeemable preference shares.
b. No company can issue these kinds of shares under present Companies Act.

Issue of Preference Shares:
i. A company limited by shares can issue preference shares with a maximum redemption period 20 **years.**
ii. Issue of preference shares must be authorized by its articles of association.
iii. A company may issue preference shares for a period exceeding 20 years but not exceeding 30 Years only for funding.
a. for infrastructure projects,
b. subject to annual redemption of 10% commencing from 21 year. at the option of preference shareholders.

Redemption of Preference shares:

i. 100% redemption in a FY: A company can redeem 100% of existing preference share capital during a financial year.

ii. Sources of redemption:

a. Free reserves / Divisible Profits.

b. Proceeds from fresh issue of shares.

c. Redemption Premium- can be provided from securities premium account to the extent available, balance if any can be provided from free reserves.

iii. conditions:

a. Fully Paid Shares: Company can redeem only fully paid up preference shares.

b. Partly Paid Shares:

i. first convert into fully paid up by making final call.

ii. After receipt of final call, initiate redemption procedure.

c. Transfer to CRR:

i. Amount equals to face value of preference shares redeemed out of free reserves should be transferred to capital redemption reserve.

ii Balance in CRR can be utilized only for the purpose of making fully paid up bonus shares.

iii. The following profits are **not available for transfer to Capital Redemption Reserve.**

Securities Premium Account
Forfeited Shares Account
Profit prior to incorporation
Capital Reserve
Development Rebate reserve

<u>Journal Entries for the Issue and Redemption of Preference Shares:</u>

No	Particulars	L.F	Debit	Credit
1.	For Sale investments at profit to facilitate redemption:			
	Bank A/c Dr			
	To X Investment A/c		XXX	
	To Profit on Sale of investment A/c			XXX
				XXX
2.	For Sale of Investments at loss to facilitate redemption:			
	Bank A/c Dr		XXX	
	Loss on Sale of investments A/c Dr		XXX	
	To Investment A/c			XXX
3.	Issue of equity shares at premium to facilitate buyback:			
	Bank A/c Dr		XXX	
	To Equity Share Capital A/c			XXX

	To Securities Premium A/c			xxx
4.	For providing premium on Redemption: Securities Premium A/c Dr General Reserve A/c Dr To Premium on Redemption A/c		xxx xxx	xxx
5.	For amount due to preference shareholders on redemption: Preference Share Capital A/c Dr. Premium on Redemption A/c Dr. To Preference Shareholders A/c		xxx xxx	xxx
6.	On Redemption of Preference shares: Preference Shareholders A/c Dr To Bank A/c		xxx	xxx
7.	For transfer from free reserves to CRR A/c: Free Reserves A/c Dr To Capital Redemption Reserve A/c		xxx	xxx

PROBLEMS:

Problem No 01:

The balance Sheet of Komal Ltd as on 31March ...was as under:

Liabilities	Amount	Assets	Amount
Share Capital		Sundry assets	8,50,000
2,000,7.5% Preference Shares of		Cash/bank	1,50,000
Rs.100 each fully Paid	2,00,000		
40,000 Equity shares of Rs. 10 each	Rs. 10 each		
	6,00,000		
Profit and loss Account	1,20,000		
General Reserve	1,00,000		
Current Liabilities	1,80,000		
	10,00,000		10,00,000

The preference shares are redeemable on 1st April at a premium of 8%. The redemption was carried out on the due date, assuming that the company raised necessary bank loan. Show the necessary journal entries in the books of the company.

Problem No 02:

The Balance Sheet of producers Ltd as on 31st March, 2022 is as follows:

Liabilities	Amount	Assets	Amount
Share Capital		Noncurrent assets:	
Issued & Full paid		Land & Building	1,00,000
500 Redeemable pref shares of Rs. 100 each	50,000	Plant	30,000
9,000 equity shares of Rs.10 each	90,000	Furniture	2,000
Reserves & Surplus:		Current Assets:	
Securities premium	10,000	Stock 30,000 Debtors 15,000 Investments 28,000 Bank 20,000	93,000
General Reserve	20,000		
Profit and loss A\c	25,000		
Current Liabilities	30,000		
	2,25,000		2,25,000

The Company decided to redeem its preference shares at premium of 5% on 30th April, 2022. A fresh issue of 1,000 equity shares of Rs. 10 each was made at Rs. 12 per share, payable in full on 30th April, 2022. These were fully subscribed and all moneys were duly collected. All the investments were sold realizing Rs. 27,000. The Directors wish that only the minimum reduction should be made in the revenue reserve.

You are required to give the journal entries, including those relating to cash to record the above transactions and draw up the balance sheet as it would appear after redemption of preference shares.

Problem No 03:

The balance sheet of Vikas Ltd. As at 31 March is as follows:

Liabilities	Amount	Assets	Amount
Share capital:			
Issued and fully paid:		Land and Building	20,00,000
50,000,9% Preference Shares of Rs. 20 each fully paid	10,00,000	Plant	5,00,000
90,000 Equity shares of Rs. 20 each fully paid	18,00,000	Fixtures and Fitting	1,00,000
Reserves and Surplus:		Motor Van	40,000
Securities Premium Account	2,00,000		
General Reserve	4,00,000	Stock	6,60,000
Profit and Loss Account	5,00,000	Debtors	2,40,000
Current Liabilities	6,00,000	Investments	6,00,000
		Bank	3,60,000
	45,00,000		45,00,000

The company exercises its option to redeem all the preference shares at a premium of 5% on 1 April. To finance the redemption all the investments were sold realizing Rs. 5,60,000. A fresh issue of 10,000 ordinary shares of Rs. 20 was made at Rs. 24 per share payable in full on 1 April. These were duly subscribed for and the full amount was received on that date. The directors wish that only minimum reduction be made in the revenue reserves. You are required to draft journal entries, including those relating to cash, to record the above transactions and to set out the balance sheet of the company as it would then appear.

Problem No 04:

The following is the Balance sheet of Anita Limited as on June 30, 2021:

Liabilities	Amount	Assets	Amount
Shares capital:		Fixed Assets	80,000
3,000 6% redeemable preference shares of Rs. 10 each full paid	30,000	Investment	21,000
Rs. 10 each full paid	60,000	Current Assets:	
	90,000	Stock in trade	44,000

Securities premium Account	29,000	Sundry Debtors	16,000
General reserve	40,000	cash as Bank	22,000
Profit & loss A/c balance	14,500		
Sundry Creditors	9,500		
	1,83,000		1,83,000

The company exercised its option to redeem, on July 1, 2021 the whole of the preference Share Capital at a premium of 10 percent. To assist in financing the redemption, all the investments were sold, Realizing Rs 25,000. On September1, 2021, the company made a bonus issue of three equity Shares fully paid for every ten equity Shares held on that date. The appropriate resolution having been passed, the above transactions were duly completed. You are required to show the Journal entries to record the transactions in the books of the company and the balance sheet as it would appear after the completion of the transactions.

Problem No 05:

The financial position of x Ltd. At 31ST Dec., 2021 was as follows:

Liabilities	Amount	Assets	Amount
Authorized, issued and Subscribed capital:		Assets	8,40,000
40,000, 5% redeemable preference shares of Rs. 10 each, fully paid	4,00,000	Cash and Bank	3,00,000
20,000 equity shares of Rs. 10 each, fully paid	2,00,000		
Securities premium A/c	50,000		
Profit and loss account	2,80,000		
Sundry Liabilities	2,10,000		
	11,40,000		11,40,000

As per the term of issue of the preference shares these were redeemable at a premium of 5 per cent on 1st February, 2022 and it was decided to arrange this as far as possible out of the company's resources subject to leaving a balance of Rs 50,000 in the credit of the Profit and Loss Account. It was also decided to raise the balance amount by Issue of 17,000 equity shares of Rs. 10 each at a premium of Rs. 2.50 per share.

You are required to prepare the necessary Ledger Account giving effect to the above arrangements in the company's books. Journal Entries are not required.

Problem No 06:

the Balance Sheet of Quality Profit Ltd. As at 31 March 2022 is as follows:

Liabilities	Amount	Assets	Amount
Equity Shares of Rs. 100 each 2,00,000			
Less: Calls in arrears @ Rs.20 each 20,000	1,80,000	Fixed Assets:	2,90,000
12% Preference Shares of Rs. 100 each	1,00,000	Investments (Face value Rs. 1,00,000)	80,000
Securities Premium	5,000	Stock	50,000
General Reserve	50,000	Debtors	40,000
Profit and Loss Account	40,000		
Current Liabilities	85,000		
	4,60,000		4,60,000

As per agreement with the preference shareholders, the directors decided to redeem the shares on 1 April 2022 at a premium of 10%. It was also decided to utilize profits to the minimum extent possible. For the purpose of redemption, the Board decided to sell certain investments whose face value on 31 March 2022 was Rs. 50,000 and to issue fresh equity shares at a premium of 20% to finance the redemption. The investments were sold at a loss of 5%. After redemption, the board decided to issue one bonus share of Rs. 100 each for every five shares held. Holders of 100 preference shares were not traceable. Assuming that all formalities relating to redemption and issue of bonus shares were complied with. You are requested to show necessary journal entries in the books of Quality Products Ltd. and also to prepare summarized balance sheet of the company

Problem No 07:

The ledger accounts of A.B Ltd show the following balances:

14% Preference Share capital 3,00,000

General Reserve 80,000

Securities premium 20,000

Profit and loss Account 38,600

Investment Allowance reserve 50,000

The company redeems preference shares at a premium of 10% by issue of equity shares of Rs 10 each at a premium of 20%. Fresh issue of shares is made in lots of 100 Shares for such amount as is necessary after utilizing the available sources to the maximum extent.

Calculate (i) number of fresh shares issued. (ii) Amount transferred to Capital Redemption Reserve (iii) journal entry for transfer.

Problem No 08:

The balance sheet of y Ltd as on 31-12-2021

Liabilities		
Equity share capital of Rs 10 each	2,00,000	
Calls in arrear	10,000	1,90,000
14% preference shares of Rs 100		1,00,000
Security premium		10,000
Investment allowance reserve		40,000
Development rebate reserve		20,000
Workmen compensation fund		10,000
Dividend equalization reserve		12,000
Profit and loss account		38,000
Unsecured loan		80,000
		5,00,000
Assets		
Non-current assets		4,00,000
Current assets(including bank 10,000)		1,00,000
		5,00,000

The board of directors decided to redeem the preference shares on 1st January 2022 on the following conditions.

i. issue 4000 equity shares and Rs 50,000, 10% debentures.

ii. redeem preference shares at a premium of 10%.

iii. raise necessary bank loan to provide funds for redemption and to have Rs 15,000 as balance.

iv. admit claim of Rs 4000 for the workmen compensation.

v. utilize Rs 10,000 out of development rebate reserve for the purpose

Problem No 09:

What entries can Be made for the following redemptions made by the company:

(a) In 2002 Shweta Ltd. redeemed Rs. 1,00,000 preference shares by converting them into equity shares issued at 25% premium.

(b) In 2003 Shweta Ltd. redeemed Rs. 95,000 preference shares by converting them into equity shares issued at 5% discount.

(c) In 2004 Shweta Ltd. redeemed 10,000 preference shares of Rs. 10 each at a premium of Rs. 1.25 per share by converting them into equity shares of Rs. 10 each issued at 10% discount.

Problem No 10:

The balance sheet of Redemption Ltd. as at 31 March 2003 is as follows:

Liabilities	Amount	Assets	Amount
10,000 Equity Share of Rs. 10 each fully paid	1,00,000	Fixed Assets	2,62,000
11% Preference Shares of Rs. 100 each 1,00,000 Less : Calls-in-arrear @ Rs. 20 per share 6,000	94,000	Debtors	90,000
10% Preference 94,000 Shares of Rs. 10 each fully paid	1,00,000	Stock	30,000
General Reserve	40,000	Investments	30,000
Profit and Loss Account	20,000	Bank	4,000
Securities Premium Account	5,000		
Capital Reserve	30,000		
Creditors	27,000		
	4,16,000		4,16,000

11% preference shares were due for payment on 1 April 2003 at a premium of 10%. The company sent the reminders for the final call on the remaining 300-11% preference shares and could collect money from shareholders holding 200 shares @ Rs. 20 per share and forfeited the defaulting 100 shares. The company sold all investments at 90% of the cost of such investments. The company issued adequate number of new equity shares at par, to the extent available profits were insufficient to back-up the redemption. Draft journal entries and prepare the balance sheet of the company after redemption

Problem No 11:

Toli Limited has 9% Redeemable Preference Share Capital of ₹ 15,00,000 consisting of ₹ 10 shares fully paid up. The company wants to redeem these shares at 20% premium. The ledger accounts show the following balances:

Particulars	Amount ₹
General Reserve	3,50,000
Securities Premium	1,00,000
Capital Reserve	6,50,000
Profit &Loss A/c (Cr.)	6,00,000

The directors desire to make a minimum fresh issue of equity shares of ₹ 10 each at 25% premium for redemption of the preference shares. You are required to ascertain the requisite amount of equity shares of new issue necessarily to be made by the directors of the company and pass the necessary journal entries to record new issue of equity shares and redemption of preference shares.

Problem No 12:

The following is the Balance Sheet of Silver Ltd. as at 31.03.2022

Liabilities	Amount ₹
10% Redeemable Preference Shares of ₹ 10 each fully paid up	2,500
Equity Share of ₹ 10 each fully paid up	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit and Loss A/c.	300
9% Debentures	5,000
Sundry Creditors	2,300
Sundry Provisions	1,000
Total	26,900
Assets	₹ in lakhs
Fixed Assets	14,000
Investments	3,000
Cash at Bank	1,650
Other Current Assets	8,250
Total	26,900

On 1st April, 2022, the company redeemed all of its preference shares at a premium of 10% and bought back 25% of its equity shares @ 20 per share. In order to make cash available, the company sold all the investments for ₹ 3,150 lakhs and raised a bank loan amounting to 2,000 lakhs on the security of the company's plant.

Pass the Journal Entries for all the above transactions, including cash transactions and prepare the company's Balance Sheet immediately thereafter. The amount of securities premium has been utilized to the maximum extent allowed by law.

Problem No 13:

X Ltd. decides to redeem 650, 15% preference shares of ₹ 100 each at 10% premium. It has General Reserve of ₹ 45,500 and securities premium of ₹ 1,000. The new equity shares of ₹ 10 each are to be issued at 25% premium for the purpose of redemption of preference shares.

Calculate the minimum number of equity shares to be issued by X Ltd

Problem No 14:

Mogari Limited has 10% Redeemable Preference share capital of R 30,00,000 consisting of 10 shares fully paid up. The company wants to redeem these shares at 25% premium. The ledger accounts show the following balances:

Securities premium ₹ 1,00,000;

General Reserve ₹ 13,00,000 and

Profit & Loss Account (Cr.) ₹ 7,00,000

In order to facilitate the redemption of preference shares, the company decided the following:

i. 1,20,000 Equity shares of 10 each were issued at 50% premium.
ii. 10,000, 12% Debenture of ₹ 100 each were issued at par.
iii. Investments of book value 5,00,000 were sold at 5,60,000
Pass the necessary journal entries to record above transactions and redemption of preference shares.

Problem No 15:

X Ltd. decides to redeem 650 nos. 10% Redeemable Preference shares of ₹ 100 each. It is decided to issue 100 nos. 12% preference shares ofR100 each at and 2000 nos. equity shares of ₹ 10 each for that purpose. Pass Journal entry to Capital Redemption Reserve Account.

Problem No 16:

APC Ltd. has 12% redeemable preference share capital of ₹ 1,00,000 consisting shares of ₹ 100 each fully called and paid-up. The company wants to redeem them at 10% premium: The ledger accounts show the following balances:

Securities Premium A/c: ₹ 4,000

Profit & Loss A/c: ₹ 20,000.

The company wants to make a minimum fresh issue of equity shares of ₹ 10 each at 5% premium for redemption of the preference shares.

You are required to:

i. Ascertain the amount of fresh issue to be made by the company:

ii. Pass necessary journal entries regarding redemption of the preference shares and fresh issue.

Problem No 17:

T Ltd. furnishes you with the following Balance Sheet as at 31st March, 2021: (₹ in Lakhs)

Equity shares of ₹ 10 each fully paid	400	
12% redeemable preference shares of ₹ 100 each fully paid	200	
Reserves and surplus:		
- Capital reserve	15	

- Share Premium	25	
- Revenue reserves	260	300
Funds Employed in:		900
Fixed assets less depreciation		560
Current assets		
	540	
Less: Current liabilities	200	340
		900

The company redeemed preference shares on 1st April 2021 at a premium of 10%. You are required to pass journal entries to record the above.

Problem No 18:

Find out in each case what amount shall be transferred to capital redemption reserve account:

Redeemable preference shares redeemed	Fresh issue of share capital
a. ₹ 10,00,000 at par	₹ 10,00,000 at par
b. ₹ 10,00,000 at 5% premium	₹ 800,000 at par
c. ₹ 10,00,000 at par	₹ 800,000 at 10% premium
d. ₹ 10,00,000 at 5% premium	₹ 800,000 at 10% premium

Problem No 19:

The balance sheet of G Ltd as on 31.12.2018

Liabilities:	(₹)
Equity shares of ₹10 each	2,00,000
Less: Calls in arrear @ ₹ 2	10,000
14% Preference Shares of ₹100	1,00,000
Securities Premium	10,000
Investment Allowance Reserve	40,000

Development Rebate Reserve	20,000
Workmen Compensation Fund	10,000
Dividend Equalization Reserve	12,000
Profit and Loss Account	38,000
Unsecured Loans	80,000
	5,00,000
Assets	
Non Current Assets	4,00,000
Current Assets (including Bank balance ₹10,000)	1,00,000
	5,00,000

The board of directors decided to redeem the preference shares on 1st January 2019 on the following conditions. Issue 4000 equity shares and ₹ 50,000 10% debentures. Redeem preference shares at a premium of 10%. Raise necessary bank loan to provide funds for redemption and to have ₹15,000 as balance. Admit claim of ₹ 40,00 for workmen compensation. Utilize ₹10,000 out of development rebate reserve for the purpose. Necessary journal entries assuming that holders of 100 reference shares could not be traced by the company.

MCQ

1) Partly paid-up preference shares can be redeemed

A. After obtaining the permission from Company Law Board

B. After passing a special resolution

C. After the permission from the Board of Directors

D. After making them fully paid up

2) At present, a company can issue preference shares which are

A. irredeemable.

B. Redeemable after the expiry of 20 years from the date of issue.

C. redeemable before the expiry of 20 years from the date of issue

D. redeemable after the expiry of 25 years from the date of issue

3) Premium on redemption of redeemable preference shares can be paid out of

A. Capital Redemption Reserve Account

B. Existing Shares Premium Account

C. Proceed of fresh issue of shares

D. All of the above

4) On redemption of Debentures, the amount lying in Debenture Redemption Reserve which is no longer necessary to be retained, should be transferred to

A. Revaluation Reserve

B. Securities Premium Reserve

C. Capital Reserve

D. General Reserve

5) Premium on redemption of redeemable preference shares can be paid out of?

A. Capital Redemption Reserve account

B. Existing shares premium account

C. Proceed of fresh issue of shares

D. All of the above

Answers:

1. b	2. c	3. b	4. d	5. b

CH –4

ISSUE AND REDEMPTION OF DEBENTURES

Meaning:

Debenture is an instrument issued under common seal of the company.
as an acknowledgement of a debt taken from debenture holders.
Providing for.
Repayment of the principal sum at a stipulated date and
Payment of interest at a fixed rate until the principal sum is repaid.

Objectives /Purposes of debentures issue:

Companies can opt for debenture to finance the following projects.
i. Setting up of new projects.
ii. Expansion or diversification of existing projects.
iii. Normal capital expenditure for modernization.
iv. To augment long term resources of the company for working capital requirements
v. Merger/amalgamation of companies in pursuance of schemes approved by banks, financial institutions and or any legal authority.

Types of Debentures

Debentures may be classified into the following types.

i. Redeemable Debentures Vs Irredeemable Debentures:

a. Debentures which are redeemed after a specified period of time are called as redeemable debentures.
b. When the issuing company does not fix any date by which they should redeemed and the holders cannot demand the payment from the company so long as it is a going concern are known as Irredeenmable debentures.

ii. first Debentures Vs Second Debentures

a. Those debentures which are repaid before other debentures are paid out, are called as first debentures.
b. Those debentures, which are paid after the payment to the first debentures are called as Second Debentures.

iii. Convertible vs Non-Convertible Debentures:

a. Debentures which can be convertible into equity shares at a specified point of time in future is known as convertible debentures.

b. Debentures which are not having the option to convert them into equity shares of the company in future is called as Non-convertible debentures.

iv. Naked Vs Mortgage Debentures:

a. Debentures which are not secured by any tangible property is called as Naked Debentures.
b. Debentures, which are secured either on particular asset or on general assets of the company is called as Mortgage debentures.

Issue of Debentures -Sec 71

i. Special Resolution at General Meeting:
a. A company may issue debentures with an option to convert such debentures into shares at the time of redemption.
b. Special resolution at general meeting should be passed for issue of convertible debentures.

ii. Debenture Redemption Reserve:
a. The company shall create a debenture redemption reserve account out of free reserve.
b. Balance in DRR should be utilized only for the purpose of redemption of debentures.

iii. Debentures Trustees:
a. Company shall appointment one or more debenture trustees before issuing prospectus for subscription to debentures and
b. Not later than 60 days after the allotment of the debentures, execute a debenture trust deed to protect the interest of the debenture holders
c. Debenture trustees work for protection of best interest of debenture holders and address their grievances.
d. If debenture trustee is of the opinion that company assets are likely to be insufficient to repay debentures, then he may file a petition with tribunal.
e. Tribunal after hearing all interested parties may order the company to redeem debentures along with the interest.
iv. Issue of Secured Debentures: A company must satisfy the following conditions for making issue of secured debentures.
a. Maximum Maturity Period
i. Maximum maturity period **shall not exceed 10 years.**
ii. Maximum Maturity period shall not exceed 30 years for the following classes of companies.
Companies engaged in setting up of **infrastructure projects.**
Infrastructure Finance Companies.
Infrastructure Debt Fund Non-Banking Financial companies.

b. Creation of Charge:

i. Issue of debentures shall be secured by the creation of a charge on the assets of the company in favor of debenture trustee.

ii. The assets value should be sufficient to cover principle along with repayment interest.

iii. Charge may be created on

Any **specific movable property** of the company (not being the nature in of pledge); or

Any **specific immovable property** wherever situated, or interest therein.

SEBI Regulations on Issue of Debentures

i. Credit rating:

a. For issue of debenture it is mandatory to obtain Credit rating from credit rating agencies.

b. If a company has obtained more than one rating, all such disclosed.

c. If the issue exceeds Rs 200 crores, credit rating must be obtained from two agencies.

ii. Put and call options:

a. If Fully Convertible Debentures are to be converted **before 18 months**, considered as they are **quasi-equity.**

b. If conversion is **after 18 months but before 36 months,** it is treated as **deferred equity**. In this case the conversion will be debenture holders.

c. In the case of conversion **beyond 36 months**, it must be made **optional with both put and call** options.

iii. Security for debentures:

a. If secured debentures are issued, a company must obtain certificate from the bankers that the assets are free from encumbrances **(no objection certificate)** from the bank/financial institution for creating a second charge or pari passu charge as per terms of offer of debentures.

b. Normally security must be created **within 6 months.**

c. If security is not created, **within 12 months, a penal interest at 2%** is payable to debenture holders.

d. If the security is not created, **within 18 months, a meeting of the debenture holders must be called** with 21 days' notice to explain the reasons for delay in creating the security and the expected date by which security will be created.

e. **Trustees** to debentures will **supervise the creation of security.**

f. If security is not created, the debentures will be unsecured. As stated earlier in such a situation, the debentures will be treated as fixed deposits which makes it incumbent to satisfy the requirements of Sec. 73 & 74.

iv. Debenture trustees:

a. If the **maturity** of debentures is **more than 18 months,** the company has to appoint debenture trustees to safeguard the interests of the debenture holders.

b. The trustees should have requisite **powers for protecting the interests of the debenture holders** including their rights to nominate a director on the board in consultation with institutional debenture holders.

c. debenture trustees must also **ensure the compliance** of the following:

i. **Lead financial institutions** should monitor the progress in respect of debentures raised for project finance/modernization/ expansion/ diversification/normal capital expenditure.

ii. The lead bank must monitor debentures raised for working capital funds.

iii. Obtain a certificate from the company's auditors during the implementation period of the projects and in the case of debentures for working capital at the end of each accounting year.

iv. Debenture issued by companies belonging to the groups for financing replenishing of funds or acquiring shares in other companies should not be permitted.

v. The trustees must **supervise the implementation of the conditions regarding creation of security** for the debentures and debenture redemption reserve.

Journal Entries for the Issue Debentures

No	Particulars	LF	Debit	Credit
1	**Issue at par and redeemable at par:** Bank A/c Dr To Debentures A/c		 xxx 	 xxx
2	**Issue at discount and redeemable at par:** Bank A/c Dr Discount on issue of debentures A/c Dr To Debentures A/c		 xxx xxx 	 xxx
3	**Issue at premium and redeemable at par:** Bank A/c Dr To Debentures A/c To Securities Premium A/c		 xxx 	 xxx xxx
4	**Issue at par and redeemable at premium:** Bank A/c Dr Loss on issue of debentures A/c Dr To Debentures A/c To Premium on redemption of debentures A/c		 xxx xxx 	 xxx xxx
5	**Issue at discount and redemption at premium:** Bank A/c Dr Discount on issue of debentures A/c Dr Loss on issue of debentures A/c Dr To Debentures A/c To Premium on redemption on debentures		 xxx xxx xxx 	 xxx xxx
6	**Issue of debentures at premium and redemption at premium:** Bank A/c Dr Loss on Issue of debentures A/c Dr To Debentures A/c To Security Premium A/c		 xxx xxx 	 xxx xxx

	To Premium on redemption of debentures A/c			xxx

Issue of Debentures for Consideration other than Cash:

i. If debentures are issued for as a consideration for assets acquired from another, it is known as issue of debentures for consideration other than cash.

ii. It value of debentures issued is greater than value of assets acquired, the difference should be recognized as goodwill.

iii. If value of debentures issued is lower than the value of assets acquired, then such surplus should be treated as capital reserve.

iv. No of debentures to be issued = $\frac{purchase\ consideration\ to\ be\ discharge}{Issue\ price\ per\ debentures}$

Debentures issued as Collateral Security:

i. Meaning: If debentures are issued as secondary security in addition to primary security to the loan taken from financial institutions it is known as issue of debentures as collateral security.

ii. Realization: Secondary security is realized only when the prime security fails to pay the amount of loan outstanding

iii. Methods of Accounting: it can be dealt under the following two types.

a. Disclosure Method:

i. As per this method no separate JE is required to be booked.

ii. A special disclosure should be made in the liabilities side of the balance sheet in respect of which loan these are offered as collateral security.

b. Suspense A/c Method: a separate JE is recorded in the books of issuing company:

Debenture suspense A/c Dr xxx **(showed in Assets side of B/s)**

To Debentures A/c xxx **(showed in liabilities side of B/s)**

Loss on issue of Debentures:

i. Discount on issue: If issue price of debentures is less than its face value it is known as issue at discount. Discount on issue of debentures is loss for the issuing company.

ii. Redemption at premium: if redemption value of a debenture is greater than its face value, it is known as redemption at premium. Premium on redemption of debentures is loss for issuing company.

iii. Write off of Loss on issue and redemption of debentures: Discount on issue and premium on redemption should be written off over the maturity period of the debentures in a systematic and appropriate basis.

a. If debentures are redeemed after maturity period- Total loss should be written off in equal instalments over its maturity period.

b. If debentures are redeemed by equal annual drawings - then loss should be amortized to Profit and Loss Account in proportion to the Nominal Value of debentures outstanding each year.

Sinking Fund or Debentures Redemption Reserve Method:

Under this method amount required for redemption of debentures at the end of maturity period will be estimated.

To facilitate the redemption required amount every year will be transferred from profit and loss account to Debenture Redemption Reserve.

This amount will be invested in readily realizable securities to generate interest income.In subsequent years amount available for investment will be amount transferred plus interest earned on previous investments.In the year of redemption, all available investments will be disposed off and payment made to debenture holders.

Journal Entries for the Issue Debentures

No	Particulars	LF	Debit	Credit
1st year	**Transfer of Profit to Debentures Redemption Reserve:** Profit and Loss A/c Dr To Debentures Redemption Reserve A/c		xxx	xxx
	For Acquiring DRR Investments: DRF Investments/c Dr To Bank A/c		xxx	xxx
2nd year	**For Receipt of Interest on DFR Investments:** Bank A/c Dr To Interest A/c		xxx	xxx
	For transferring Interest to DRR A/c: Interest A/c Dr To DRR A/c		xxx	xxx
	Transfer of Profit to Debentures Redemption Reserve: Profit and Loss A/c Dr To Debentures Redemption Reserve A/e		xxx	xxx
	For Acquiring DRR Investments (Transfer Interest) DRF Investments/c Dr To Bank A/c		xxx	xxx
Last year	**Sale of DRF Investments at Profit:** Bank A/c Dr To DRF Investments A/c To Debentures Redemption Reserve A/c		xxx	xxx xxx
	Sale of DFR Investments at Loss: Bank A/c Dr DRR A/c Dr To DRF Investments A/c		xxx xxx	xxx
	Total Amount Due to Debenture holders:			

	Debentures A/c Dr Premium on redemption of debentures A/c Dr To Debenture holder's A/c		xxx xxx	 xxx
	Redemption of debentures: Debenture holders A/c Dr To Bank A/c		xxx	 xxx
	Transfer of balance in DRR to General Reserve: DRR A/c Dr To General Reserve A/c		xxx	 xxx

Insurance Policy Method:

i An insurance policy for the required amount is to be taken for the redemption of debentures at the end of a fixed period.

ii. Premium is paid regularly in instalments.

iii. The insurance company returns the total accumulated money at the expiry of the period.

iv. Money so received is used for redeeming debentures.

v. This method differs from sinking fund method, only with respect to interest. Under this method insurance company will not pay any periodical interest.

Journal Entries

No	Particulars	LF	Debit	Credit
Every year	**Appropriation of premium of insurance policy:** Profit and loss Appropriation A/c Dr To Debenture Redemption Fund A/c		 xxx	 xxx
	Payment of insurance premium: Debenture Redemption Policy A/c Dr To Bank A/c		 xxx	 xxx
Realization	Bank A/c (amount of policy taken) Dr To Debenture Redemption Policy A/c To Debenture Redemption Fund A/c		xxx	 xxx xxx
Transfer	Debenture Redemption Fund A/c Dr To Debenture Redemption Reserve A/c		xxx	 xxx

Payment in Lumpsum:

i. The payment of entire debt is made in one lot on expiry of a specified period or before expiry of specified period.

ii. Redemption can be carried out after passing the necessary resolution at the meeting of debenture-holders.

Payment in Instalments /Annual Drawings:

i. The payment of specified portion of debt is made in instalments at specified dates.

ii. Redemption by Annual drawings can be carried out using any one of the following:

a. The redemption may be certain amount of each debenture with a schedule so that redemption may be completed over a time frame.

b. Select certain number of debentures every year and redeem them fully.

iii. Redemption entries should be recorded separately for each instalment redemption.

Purchase in the open market:

i. When a company purchases its own debentures in the open market for the purposes of cancellation, such an act constitutes redemption by purchase in the open market.

ii. It is certainly advantageous to buy when debentures are selling in the market at a discount price.

iii. Cancellation of debentures may be done immediately or later and in some cases these debentures may also be reissued.

iv. This method of redemption is known as 'purchase and cancellation of own debentures.

Journal Entries

Particulars	L.F	Debit	Credit
For Purchase of own Debenture: Own Debentures Dr To Bank A/c		 xxx 	 xxx
For Cancellation of own debentures: Debentures A/c Dr To Own Debentures A/c		 xxx 	 xxx
Profit on cancellation: Own Debentures A/c Dr To Sinking Fund A/c		 xxx 	 xxx
Loss on cancellation: Sinking Fund A/ c Dr To Own Debentures A/c		 xxx 	 xxx
Reissue (or sale) of own debentures: Bank A/c Dr To Own Debentures A/c		 xxx 	 xxx
Profit on re-issue: Own Debentures A/c Dr To Profit and Loss A/c		 xxx 	 xxx
Interest on own debentures: Profit and Loss A/c Dr To Sinking Fund A/c		 xxx 	 xxx

Conversion:

i. The conversion of debentures means the debentures are converted into preference shares or equity shares.

ii. A company cannot issue FCDs having a conversion period of more than 36 months, unless the conversion is made optional with a put and call option.

iii. If conversion takes place 18 months after the date of allotment but before 36 months, any conversion in part or whole of the debenture is optional in the hands of the debenture holder.

iv. If he does not exercise the option it will effectively become an NCD. FCDs with conversion period less than 12 months are treated as quasi-equity and are treated at par with equity.

v. In the case of PCDs it comprises two parts, namely the convertible portion and the nonconvertible portion. It is only the convertible portion that would be converted into shares.

Rollover:

i. Rollover means the issue of new debentures in the place of old ones.
ii. Rollover must be with the written consent of the debenture holder. If he does not given written consent, his claim must be settled in cash.
iii. Whenever the debenture liability is rolled over company must obtain fresh credit rating. Fresh trust must be executed at the time of rollover. Also fresh security must be created in respect of rolled over debentures.
iv. Subject to the conditions listed rollover can be done without change in the' interest rate if the non-convertible portion of PCDs/ NCDs of a listed company exceeds Rs. 50 lakhs.

Sources of Redemption:

The following are the sources of redemption of redeemable debentures of a company.
Out of capital
Out of profits
Conversion or rollover

Redemption out of Capital:

i. As per SEBI guidelines, when debentures are issued for a period redeemable beyond 18 months and profits are available to the company has to set up "DRR"
ii. If debentures are redeemable for a period less than 18 months and profits are not available, then such debentures can be redeemed out of the capital of such company.
iii. If debentures are redeemed out of capital, entries will be recorded only for redemption of debentures and no requirement to transfer profit to Debenture redemption reserve account.

Redemption out of profits:

When debentures are redeemed by the company out of profits, then the amount of profits used for redemption should be transferred to a specific reserve which is known as Debentures Redemption Reserve Account.

Redemption by Conversion:

When debentures are redeemed by conversion:
i. Old debentures should be cancelled and new debentures or preference share or equity shares should be credited.
ii. Redemption of preference shares may be at par or at premium.
iii. Preference or equity shares may be issued by company either at par or at premium.

Shares Vs Debentures

The following are certain basic differences between shares and debentures.

Basis	Shares	Debentures
Meaning	An instrument to acknowledge the ownership of the company.	An instrument to acknowledge the creditors of the company.
Legal Status	A shareholder is the owner and a member of the company	A debenture holder is not a member but a creditor.
Return/ Consideration	A shareholder may receive dividend only when a company makes a profit	A debenture holder has a right to interest even if the company does not make profit
Rate of return	Dividend rate can vary depending on the profit position	Debentures Carries a Fixed Rate of Interest.
Accounting treatment	Dividend is given out of appropriable profit and not chargeable to Profit and Loss account	Debenture Interest is chargeable to profit and loss account
Redemption	There is no concept of redemption of shares. However, a company can buy back its shares subject to restrictions.	Debentures are normally redeemable although a company can issue perpetual debentures.
Voting rights.	A shareholder has voting rights.	A debenture holder cannot have voting rights exercisable in General Meeting. However, they carry voting rights exercisable in class (Debenture holders) meetings.
Status at the time of winding up	At the time of winding up shareholders have the least priority regarding the return of amount due to them	At the time of winding up debenture holders have a priority over the shareholders regarding the return of amount due to them.

PROBLEMS:

Problem No 01:

XYZ Ltd. purchased assets worth Rs. 4,50,000 and took over liabilities of Rs. 35,000 of M&C. and Co. for a purchase consideration of Rs. 4,00,000. The purchase price was paid by issue of Rs. 100, 12% debentures at a premium of 10%

The debentures of XYZLtd. are quoted in the market at Rs. 140 at the relevant time. You are required to give journal entries

to record the above transactions in the books of the purchasing company

Problem No 02:

P Ltd. issued 50,000, 8% Debentures of ₹ 100 each at a premium of ₹ 20 payable as follows:

₹ 30 on application; ₹ 40 on allotment (including premium); and ₹ 50 on first and final call. Applications were received for all the debentures along with the application money and allotment was made Call money was also received on due date. Pass necessary journal entries to record the issue of debentures. What will be the entries if the entire amount is received on application?

Problem No 03:

Journalize the following transactions. Narration is not required:

Issue of 12% 1,00,000 debentures of ₹ 100 each

1. at par and redeemable at par.
2. at 10% discount and redeemable at par.
3. at 10% premium and redeemable at par.
4. at 10% premium and redeemable at a premium of 5%.
5. at par and redeemable at a premium of 5%.
6. at 10% discount and redeemable at a premium of 5%.

Problem No 04:

Z Ltd. took over the assets of ₹6,00,000 and liabilities of ₹80,000 of C Ltd. for an agreed purchase consideration of ₹5,40,000 to be satisfied by the issue of 10% Debentures of ₹1,000 each.

Required: Show the necessary journal entries in the books of Z Ltd, assuming that—

Case (a) Such Debentures are issued at par;

Case (b) Such Debentures are issued at 20% premium; and

Case (c) Such Debentures are issued at 10% discount;

Problem No 05:

Aman Ltd. issued 12%Debentures at 94% for Rs. 1,00,000 on 1 July 2003 repayable by five equal annual installments of Rs. 20,000 each. The company closes its accounts on 31 March every year. Indicate the amount of discount to the written off every accounting year assuming that the company decides to write off the debenture discount during the life of the debentures.

Problem No 06:

Indira Ltd. issued 10,000 debentures of Rs. 100 each at a discount of 6%. The expenses on issue amounted to Rs. 35,000: The debentures have to be redeemed at the rate of Rs. 1,00,000 each year commencing with the end of the fifth year. How much discount and expenses should be written off each year

Problem No 07:

X Ltd. had issued `15,00,000, 10% Debentures which are due to be redeemed out of profits on Nov. 1, 2020 at a premium of 5%. The company had a Debenture Redemption Reserve of `6,21,000. It was decided to invest the required amount in Debenture Redemption Investment on 15.4.2020. Pass necessary journal entries for recording the transactions relating to redemption of debentures

Problem No 08:

A company issued 100,000 15% debentures of ` 100 each at par redeemable at a premium of 15%. After 8 years the company served notice of redemption and redeemed all debentures as per the terms of issue. You are required to make entries at the time of issue and at the time of redemption

Problem No 09:

K Ltd. issued `6,00,000,13% Debentures of `100 each on April 1, 2017 at a premium of 6% redeemable at a premium of 10% on March 31, 2021. The debentures were redeemed on due date. Assume that the required minimum investment was made by the company in 10% Government Securities on the last due date meant for the purpose of this redemption. Pass journal entries to record the issue and redemption of debentures. (Ignore transactions relating to interest on debentures and writing-off loss on issue of debentures).

Problem No 10:

X Ltd., a pharmaceutical company, has 20,000, 9% Debentures of `100 each outstanding. These are due for redemption in lots as follows: On March 31, 2019 – 4,000 debentures; On March 31, 2020 – 6,000 debentures; On March 31, 2021 – Balance debentures. You are required to ascertain the amount of balance that is required to be maintained in DRR A/c for each redemption. Also state the balance required to be transferred from DRR to General Reserve after each redemption.

Problem No 11:

B Ltd. issued notice of its intention to redeem its outstanding `12,00,000, 8% Debentures at 102% and offered the holders the following options to apply for the redemption moneys: (i) 6% Cumulative Preference shares of `20 each at `22.50 per share; and (ii) 10% Debentures of `100 each at `96. The holders of `4,80,000 debentures accepted proposal (i), and `7,20,000 debenture-holders accepted proposal (ii). Pass necessary journal entries to record the above-mentioned transactions

Problem No 12:

A company purchased its own 12% Debentures in the open market for `25,00,000 (cum-interest). The interest amount included in the purchase price is `75,000. The face value of the debentures purchased is `26,00,000. The company immediately cancelled the debentures so purchased. Pass journal entries to record the purchase and immediate cancellation (ignoring transactions relating to Debenture Redemption Reserve and Debenture Redemption Investment)

Problem No 13:

Draft journal entries in respect of the following since March 1, 2021: In 2014 XY Ltd had issued 5,000, 7.5% Debentures of `100 each. On 1st March, 2018, the company purchased 500 of its own 7.5% Debentures at ` 47,500 cum-interest. The debentures were held as investment until 30th June, 2021 when it was decided to cancel them. Interest is payable half yearly on 30th June and 31st December and the books are closed on 30th June each year. Assume absence of sinking fund.

Problem No 14:

ABC Limited issued 8% 2,000 Debentures of Rs. 100 each at 5% discount on 1 January 1998 payable at a premium of 10% after 5 years. A sinking fund is created for this purpose and the money is invested in 5%Government loan. Investments are to be made in multiples of rupees ten only. Rupee 1 invested p.a. @ 5% over 5 years amounts to Rs. 5.5256 Investments realised Rs. 1,75,000; the balance at bank on 31 December 2002 was Rs. 54,320. Give journal entries and show ledger accounts assuming that accounting period ends on 31st December. Interest is payable every year..

Problem No 15:

Prakash Enterprises Ltd. issued Rs. 10,00,000, 10% Debentures on January 1,2001. These were to be redeemed on 31 December 2003. For this purpose, the company established a Sinking Fund. Investments were expected to earn 5% interest per annum. Sinking Fund Tables show that 0.317208 invested annually at 5% amount to Re. 1 in three years. On 31 December 2003,the bank balance was Rs. 4,20,000 before receipt of interest on sinking fund investments. On that date the investments were sold for Rs. 6,56,000. Interest is payable annually. Calculate the interest to the nearest of a rupee and investments are made in multiples of Rs. 100. Ignore tax on debenture interest Show the 10% Debentures Account, Sinking Fund Account, Sinking Fund Investments Account and Bank Account in the books of the company. Also give complete journal entries

Problem No 16:

On 31 March 2000, the following balances were extracted from the books of P. Ltd : 12% Mortgage Debentures 50,00,000 Debenture Redemption Fund ; 50,00,300 Debenture Redemption Fund Investments 42,00,000 On 1 April 2000, all the investments were sold for Rs. 41,16,000 and debentures were redeemed at par. The company had sufficient bank balance. You are required to prepare: (i) 12% First Mortgage Debentures Account; (ii) Debenture Redemption Fund Account; and (iii) Debenture Redemption Fund Investments Account

Problem No 17:

Tata Ltd. gave notice of its intention to redeem its outstanding Rs. 4,00,000, 6% debenture stock at Rs. 102 per cent, and offered the holders the following options to apply the redemption money to subscribe for : (a) 5% cum-pref. shares of 20 each at Rs. 22.50 per share; (b) 5% debenture stock at 96 per cent; (c) to have their holdings redeemed for cash. Holders of Rs. 1,71,000 stock accepted the proposal (a). Holders of Rs. 1,44,000 stock accepted the proposal (b). The remaining stockholders accepted the proposal (c). Pass the journal entries to record the above transactions.

Problem No 18:

Shilpa limited has an authorised capital of Rs. 10,00,000 in shares of Rs. 10 each of which 60,000 shares have been issued and are fully paid. A summary of its balance sheet on 31 March 2004 is as follows:

Liabilities	Rs.	*Assets*	Rs.
Share Capital	6,00,000	Fixed Assets (net)	11,00,000
Debenture Redemption Fund	4,80,000	Debenture Redemption	
Profit and Loss Account	1,90,000	Fund Investments (cost)	4,80,000
9% Debentures redeemable		(market value Rs. 4,08,000)	
at 102%	5,00,000	Current Assets	3,00,000
Current Liabilities	1,10,000		
	18,80,000		18,80,000

Interest on debenture had been paid up to 31 March 2004. On 1 April 2004, the directors gave notice to redeem the 9% debentures on 1 July 2004, giving the holders the option to be repaid either wholly in cash or by issue of four shares of Rs. 10 each (fully paid) for every Rs. 100 debentures. Sixty per cent of the holders exercised the option to take shares, and the cash for the remainder was obtained by realizing a sufficient amount of investments at their market value on 31 March 2004. Draft journal entries to record these transactions and any consequential transfers which you consider necessary.

Problem No 19:

Leena Ltd. purchases from the market its own 400,12% debentures of Rs. 100 each at Rs. 90 on 31 December, 2002. Calculate the price paid exclusively for the debentures if the quotations are (i) cum-interest, and

(ii) ex-interest. Debenture interest is paid on 31 March and 30 September each year. Also journalise in both the cases assuming that these debentures are not yet cancelled.

Problem No 20:

Reliance Limited had, 1,000, 9% debentures of Rs. 100 each as on 1 April 2003. As per the term of the issue, the company had the option to purchase debenture in the open market for immediate cancellation: 30 June 2003 200 Debenture at Rs. 97 cum-interest 1 January 2004 500 Debentures at Rs. 102 cum-interest 1 March 2004 150 Debentures at Rs. 98-1/2 ex-interest Debenture interest was payable half-yearly-30

September and 31 March- and income tax was deductible @ 10% at source. Show the journal entries in the books of the company. The company closes its books of the company. The company closes its books on 31

Problem No 21:

On 1 October 2002, Aishwarya Ltd. issued 2,000, 12% Debentures of Rs. 100 each payable after 5 years. The interest is payable on 30 September and 31 March every year. The company is also allowed to purchase its own debentures which may be cancelled or kept or re-issued at the company's option. The company made the following purchases by cheques in the open market: On 31 August 2003: 200 Debentures at Rs. 98 ex-interest On 31 December 2004: 100 Debentures at Rs. 97 cum-interest. The debentures which were purchased on 31 August 2003 were cancelled on 31 March 2005. All payments were made on the due dates. Give the journal entries to record the above transactions (including receipts and payments).

Problem No 22:

The following balances were extracted from the books of Black Ltd. on April 1/2003:

	Rs.
12% Debentures	10,00,000
Debenture Redemption Fund	8,50,000
Debenture Redemption Fund Investment represented by:	
13% Debentures in Black Ltd.(Face Value Rs. 4,00,000)	3,90,000
Own Debentures (Face Value Rs. 4,50,000)	4,30,000

As 31 March, 2004 was the date of redemption of 12% Debentures, the company started buying its own debentures and made the
following purchases from the open market:

May 1, 2003 - 400 Debentures at Rs, 99 cum-interest.

September 1, 2003 - 500 Debentures at Rs. 98 ex-interest.

Interest on debentures was payable half yearly (in the case of both the companies) on 30 September and 31 March. The face value of a debenture was Rs. 100. On 31 March 2004 White Ltd. sold 13% Debentures in Black Ltd. for Rs. 95 each ex-interest and redeemed its 12% Debentures by payment and by cancellation. Transfer profit on cancellation of Own Debentures to Capital Reserve and appropriate for the year from Profit and Loss Account to Sinking Fund Account, to the extent of amount actually required for redemption. Show entries in the following ledger accounts of White Ltd. during 2003-04.(a) 12% Debentures Account

(b) Debenture Redemption Fund Account, (c) DRF investment account

CH –5

UNDERWRITING OF SHARES & DEBENTURES

Meaning:

Underwriting is a binding contract between issuing company and risk-taking pool known as underwriter. This agreement contains a clause, if any of the issued shares are not subscribed by the public, then such shares will be subscribed by the underwriters.

Necessity of underwriting:

i. Minimum Subscription:

If the company is not able get 90% of issue is subscribed by the public, it required to return the money to the share applicants.

ii. Risk Avoidance strategy:

When a company goes for Initial Public Offering, uncertainty exists whether minimum subscription will be received or not and hence to make the issue successful and to avoid risk of under-subscription, the companies will opt for underwriting contracts.

iii. Conditional Underwriting:

As per underwriting contract, if the whole or a certain portion of the shares or debentures of the company are not subscribed by the public, the underwriters apply or persuade others to apply for those shares or debentures.

iv. Reward for underwriters:

a. The underwriters are risk-takers and entitled to get commission at prescribed rates.

b. Depending upon the risk assessment of the issue, the underwriters decide on their amount of commission.

v. Factors to be assessed: Before entering into an agreement with the company, the underwriters assess the following:

a. Worth of the public issue;

b. Market response to the issue; and

c. Their own ability to get the issue fully subscribed.

vi. Netting: Owing to under-subscription, if the issue devalues upon them, the underwriters pay up the required amount and deduct their commission from that.

Sub-Underwriters:

i. Aim: Witha view to minimize risk of under-subscription, the principal underwriters may enter into subsidiary agreements with sub-underwriters.

ii. Rate of Commission: As per agreement, the company pays commission at a prescribed rate to the principal underwriters, who in turn, disburse commission to the sub-underwriters.

iii. Over-riding commission: Sometimes an additional commission is paid to the principal underwriters to encourage sub-underwriting. This is known as over-riding commission. The payment of an over-riding commission enables the company to deal. With one or two underwriters instead of a number of them.

Sec-40: Underwriting Commission:

A company may pay commission in the form of cash / fully paid up shares / debentures/ combination of these to any person in connection with subscription or procurement of Subscription to its securities, if the following conditions are satisfied.

i. The payment of the commission shall be authorized by companies AOA;

ii. The commission may be paid out of proceeds of the issue or the profit of the company or both;

iii. The rate of commission paid or agreed to be paid shall not exceed:

a. In case of **Shares - 5% of issue price** (or) Rate authorized by Articles, whichever is less,

b. In case of **Debentures - 2.5% of issue price** (or) Rate authorized by Articles, whichever is less,

iv. The prospectus of the company shall disclose:

a. The name of the underwriters;

b. The rate and amount of commission payable to the underwriters; and

c. The number of securities which is to be underwritten or subscribed by the underwriter absolutely or conditionally.

v. There shall not be paid commission to any underwriter on securities which are not offered to the public for subscription.

vi. A copy of the contract for the payment of commission is delivered to the Registrar at the time of delivery of the prospectus for registration.

Types of underwriting agreements:

Underwriting agreements can be broadly classifiable into the following two types:

i. Conditional Underwriting: Under this, the underwriter agrees to take up agreed proportion of shares which are not taken up by the public. If shares are fully subscribed by the public, the underwriter does not take up any share.

ii. Firm Underwriting: Under this, the underwriter agrees to take up a specified number of shares irrespective of the number of shares subscribed by the public. Unless it has otherwise agreed, the Underwriters' liability is determined without considering the number of shares taken up 'firm' by him.

Marked & Unmarked Applications

i. Marked Applications:

a. **'Marked'** applications refers to those applications which bear the stamp of an underwriter.

b. If the issue is not fully subscribed, 'marked' applications shall be applied in reduction of underwriter's liability.

ii. Unmarked Applications:

a. Unmarked' applications are those applications which bear no stamp or an underwriter.

b. These applications are received by the company directly from the public.

Full and Partial Underwriting:

i. Full Underwriting: When the whole issue is underwritten by the underwriter it is called **full underwriting.**

ii. Partial Underwriting:

a. When a part of the whole issue is underwritten by the underwriter(s) it is called **partial underwriting.**

b. In this case the company is treated as having underwritten the balance of shares.

Journal Entries

Date	Particulars	LF	Debit	Credit
	Commission Due:			
	Underwriting Commission A/c Dr		xxx	
	To Underwriter A/c			xxx
	Payment of underwriting Commission:			
	Underwriter A/c Dr		xxx	
	To Bank A/c			xxx
	To Equity Share Capital A/c			xxx
	To Debentures A/c			xxx

PROBLEMS:

Problem No 01:

Export Ltd. incorporated on 1st January, 2023 issued a prospectus inviting applications for 5,00,000 equity shares of Rs. 10 each at a premium of 10 per cent. The whole issue was fully underwritten by Kapoor, Bhora, Dalal and
Mehta as follows:

Kapoor 2,00,000 shares

Bhora 1,50,000 shares

Dalal l,00,000 shares

Mehta 50,000 shares

Applications were received for 4,50,000 shares of which marked applications were as follows:

Kapoor 2,20,000 shares

Bhora 90,000 shares

Dalal 1,10,000 shares

Mehta 10,000 shares

It is agreed that underwriters be paid commission at 5% on the issue price. You are required—

(a) to find out the liabilities of individual underwriters, and

(b) to give necessary journal entries including for cash transactions.

Problem No 02:

Ram Limited invited applications from public for 1,00,000 equity shares of Rs10 each at a premium of Rs. 5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30% 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law. The company received applications for 70,000 shares from public out of which applications for 19000, 10000, 21000 and 8,000 shares were marked in favour of A, B, C and D respectively. Calculate the liability of each one of the underwriters. Also ascertain the underwriting commission payable to the different underwriters.

Problem No 03:

Aman Ltd. issued 80,000 Equity shares which were underwritten as follows:

Mr. A 48,000 Equity Shares

Messrs B & Co. 20,000 Equity Shares

Messrs C Corp. 12,000 Equity Shares

The above-mentioned underwriters made applications for 'firm' underwriting as follows:

Mr. A 6,400 Equity Shares

Messrs B &Co. 8,000 Equity Shares

Messrs C Corp. 2,400 Equity Shares

The total application excluding firm' underwriting but including marked-applications were

for 40,000 Equity Shares.
The Marked Applications were as follows:
Mr. A 8,000 Equity Shares
Messrs B&Co. 10,000 Equity Shares
Messrs C Corp. 4,000 Equity Shares
The underwriting contracts provide that underwriters be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten. You are required to show the allocation of liability. Workings will be considered as a part of your answer

Problem No 04:

The following underwriting took place for B Ltd. which invited applications for 10,000 shares of Rs. 10 each:
X: 6,000 shares Y: 2,500 shares Z: 1,500 shares
In addition, there were firm underwriting as follows:
X: 800 shares Y: 300 shares Z: 1,000 shares
Total subscription including firm underwriting was 7,100 shares, and the forms included the following marked forms:
X: 1,000 shares Y: 2,000 shares Z: 500 shares
Show the allocation of liability of the underwriters, if –
(i) Firm underwriting is treated as unmarked applications.
(ii) Firm underwriting is treated as marked applications

Problem No 05:

TATA Ltd. came out with an issue of 45,00,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Co; B & Co. and C & Co.
Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity shares were received with marked forms for the underwriters as given below:
A & Co. 7,25,000 shares
B & Co. 8,40,000 shares
C & Co. 13,10,000 shares
Total 28,75.000 shares
The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application. You are required to:

(a) Compute the underwriters liability (number of shares
(b) Compute the amounts payable or due to underwriters ; and
(c) Pass necessary Journal Entries in the books of Tata Ltd.

A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs. 50,00,000, 15%

debentures, with a firm underwriting of Rs. 5,00,000. Marked applications were in respect of debentures worth Rs. 35,00,000.

Compute liability of Mr. B and commission payable to him.

Problem No 06:

A company entered into an underwriting agreement with Mr. B for 60% of the issue of Rs. 50,00,000, 15% debentures, with a firm underwriting of Rs. 5,00,000. Marked applications were in respect of debentures worth Rs. 35,00,000. Compute liability of Mr. B and commission payable to him.

Problem No 07:

Rakesh Limited issues 40,000 shares. Issue is underwritten by A, B and C in the ratio of 5:3:2 respectively. Unmarked applications totaled 2000 whereas marked Applications are as follows:

A — 16,000

B — 5,700

C — 8,300

Calculate the Net liability of each one of the underwriters.

Problem No 08:

Alpha Ltd. issue 25,00,000 equity shares of K 10 each at par. 7,00,000 shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, Q & R in the ratio of 2:3:4 with firm underwriting of 50,000, 60,000 and 70,000 shares each respectively. Total subscription received 13,88,000 shares including marked application and excluding firm underwriting were as

P 3,00,000

Q 3,50,000

R 4,50,000

Unmarked and surplus applications to be distributed in Gross liability ratio. Ascertain the liability of each underwriter

Problem No 09:

L Limited came up with an issue of 20,00,000 Equity Shares of Rs 10 each, at par. 5,00,000 equity shares were issued to the promoters and the balance offered to the public was underwritten by three underwriters P, G and K - equally. Excluding Firm Underwriting of 50,000 Shares each, subscriptions totaled 12,97,000 Shares including Marked Forms, which were as under: P-4,25,000 Shares; G-4,50,000 Shares; and K -3,50,000 Shares. Each of the underwriters had applied for the number of shares covered by Firm Underwriting. The amounts payable on application and allotment were Rs 2.50 and Rs 2 respectively. The agreed commission was 5%.

Pass Summary Journal Entries for (1) Allotment of Shares to the Underwriters; (2) Commission due to each of them (3) Net Cash Paid and/or Received. (Unmarked application is to be credited to the underwriters equally.

Problem No 10 :

C Ltd. offered for the issue of 3,00,000 equity shares of Rs. 10 each. The issue was partially underwritten by M, Nand O as follows: M - 40%; N - 30%; O - 20%. Applications were received for 2,40,000 shares of which marked applications were as follows: M – 1,05,600 shares; N - 78,000 shares; O - 50,000 shares. There was no firm underwriting.

Problem No 11 :

H Ltd. issued 1,50,000 shares which are underwritten as follows: A - 50%; B - 20%; and C - 20%. The underwriters made applications for firm underwriting as under: A - 6,000 shares, B - 3,000 shares, and C - 3,000 shares

The total subscriptions including firm underwriting was 1,45,500 shares and they included the following marked forms: A - 78,000 shares, B - 27,000 shares, and C – 28,500 shares. Compute the liability of each underwriter assuming shares underwritten 'firm' are treated as marked applications.

MCQ

1)Underwriting commission payable on the shares taken up by the promoters is

A. 2.5%

B. 2%

C. 5%

D. Nil

2) Underwriting Agreements are of

A. One type

B. Two types

C. Three types

D. Four types

3) Underwriting Agreements are of

A. One type

B. Two types

C. Three types

D. Four types

4) Underwriting Agreements are of

A. One type

B. Two types

C. Three types

D. Four types

5) Underwriting commission payable on the shares taken up by the promoters is

A. 2.5%6

B. 2%

C. 5%

D. Nil

Answer

1. d	2. b	3. b	4. b	5. d

TRUE OR FALSE

1) In case of an underwriting arrangement, marked applications are those applications that bear the stamp of the issuing company.

2) Marked applications are those applications which bear the stamp of an underwriter.

Answers:

1. False	2. True

CH –6

PRESENTATION OF FINANCIAL STATEMENTS

Introduction:

i. Meaning: Financial statements are **compilation of financial data**, collected and classified in a systematic manner **according to the accounting principles**, to assess the **financial position of an enterprise** as regards to its profitability, operational efficiency long and short term solvency and growth potential.

ii. Information: Financial statements **provide information** about the **financial position, performance** and **cash flows** of an enterprise that is useful to wide range of users in making economic decisions.

iii. Component of financial Statements: Financial statements comprise a number of statements prepared at the end of each financial year to assess the various financial activities and strength of an enterprise.

a. Income Statement & Balance Sheet:
i. As per Sec 129 of companies Act 2013 of Companies Act 2013 and Indian GAAP to be prepared by all the companies
ii. As per Sec 133 all applicable accounting standards should be followed.
iii. Compliance with accounting standards without any deviation is mandatory for the listed companies as per clause 50 of the Listing Agreement.

b. Cash Flow Statement: As per clause 32 of the Listing Agreement Cash Flow Statement should be prepared in accordance with the requirements of AS- 3.

c. Statement of changes in Financial Position.
iv. Uses of Financial Statements:
a. To decide when to buy, hold or sell any equity investment,
b. To assess the accountability of management
c. To assess the ability of the entity to pay and provide other benefits to its employees
d. To assess the security for amounts lent to the entity
e. To determine taxation policies
f. To determine distributable profits and dividends
g. To prepare and use national income statistics

Financial Statements as per Schedule III:

i. As per **Sec. 129** of the company Act, 2013, the Schedule III is applicable from 01.04.2014.

ii. **PART- I** FORM OF BALANCE SHEET

ii. **PART-1I** FORM OF PROFIT AND LOSS ACCOUNT

PART 01: FORM OF BALANCE SHEET

Particulars	Note No	Current year	Last year
1. EQUITY AND LIABILITIES:			
A. Shareholders' Funds: Share Capital b. Reserves & Surplus c. Money Warrants			
B. Share Application money pending allotment:			
c. Non-Current Liabilities: a. Long Term Borrowings b. DTL (Net) c. Other Long-Term Liabilities d. Long Term Provisions			
D. Current Liabilities: a. Short Term Borrowings b. Trade Payables c. Other Current Liabilities d. Short Term Provisions			
Total			
I1. ASSETS			
A. Non-Current Assets: a. Fixed Assets: Tangible Assets Intangible Assets Capital WIP Intangible Assets under Development b. Non-Current Investment C. DTA (Net) d. Long Term Loans & Advances e. Other Non-Current Assets			
B. Current Assets: i. Current Investments ii. Inventories ii. Trade Receivables Cash & Cash Equivalents Short Term Loans & Advances Other Current Assets			
Total			

PART 02: FORM OF PROFIT &LOSS STATEMENT

	Particulars	Note No	CY (₹)	PY (₹)
I	Revenue from operations		xxx	xxx
II	Other Income		xxx	xxx
III	Total Revenue (1 + 1I)		xxx	xxx
IV	Expenses:			
	Cost of Material Consumed		xxx	xxx
	Purchase of Stock-In-Trade		xxx	xxx
	Changes in inventories of finished goods, Work-in-progress & Stock in trade		xxx	xxx
	Employee Benefits Expense		xxx	xxx
	Finance Costs		xxx	xxx
	Depreciation and amortization expenses		xxx	xxx
	Other expenses		xxx	xxx
	Total Expenses		xxx	xxx
V	Profit Before Exceptional and Extra-ordinary items and Tax (II- IV)		xxx	xxx
VI	Exceptional items		xxx	xxx
VII	Profit Before extraordinary items and Tax (V- VI)		xxx	xxx
VIII	Extraordinary Items		xxx	xxx
IX	Profit Before Tax (VII - VII)		xxx	xxx
X	Tax Expense			
	Current Tax		xxx	xxx
	Deferred Tax		xxx	xxx
XI	Profit/(Loss) for the period from continuing operations (IX - X)		xxx	xxx
XII	Profit /(Loss) from Discontinuing Operations		xxx	xxx
XIII	Tax expense of Discontinuing operations		xxx	xxx
XIV	Profit/ Loss from discontinuing operations (after Tax) (XII - XII)		xxx	xxx
XV	Profit/ (Loss) for the period (XI+ XIV)		xxx	xxx
XVI	Earnings Per Share			
	Basic EPS		xxx	xxx
	Diluted EPS		xxx	xxx

Disclosure requirement under Schedule I with respect to Trade Receivables.

Schedule III Disclosure Requirement	Points
1) Aggregate amount of Trade Receivables outstanding for a period exceeding 6 months from the date they are due for payment should be separately stated.	Sch III requires separate disclosure of -Trade Receivables o/s for a period exceeding 6 months from the date they become due for payment, only for the current portion of Trade Receivables
2) **Security-wise Details:** Trade Receivables shall be separately sub-classified as- a. Secured, considered Good b. Unsecured, considered Good c. Doubtful	Where no due date is specifically agreed upon, normal credit period allowed by the Company should be taken into Consideration for computing the due

	date, which may vary depending upon the Nature of Goods or Services sold and the Type of Customers, etc.
3) **Bad/Doubtful:** Allowance for Bad and Doubtful Loans and Advances shall be disclosed under the relevant heads separately	Amounts due under contractual obligations, e.g. dues in respect of Insurance Claims, Sale of Fixed Assets, Contractually Reimbursable Expenses. interest Accrued on Trade Receivables, etc, cannot be included within Trade Receivables, such Receivables should be classified as "Other Current Assets" and each such item should be disclosed nature-wise.
4) **Directors, etc.:** Debts due by Directors or Other Officers of the Company or any of them either severally or jointly with any other person or debts due by Firms or Private Companies respectively in which any Director is a Partner or a Director or a Member should be separately stated.	**Lean Period Activities:** Receivables arising out of sale of materials/ rendering of services during a Company's lean period should be included under "Trade Receivables", if such activity is in the normal course of business. If they are not part of "normal course of business", they are to be classified under "Other Assets".

Schedule III disclosure requirement in respect of cash and cash equivalents.

As per Schedule III of Companies Act 2013, Cash and Cash Equivalents shall be reported under the heading Current Assets.

For the purpose of reporting Cash and Cash Equivalents shall be further classified as-

Balances with Banks

Cheques, Drafts on Hand

Cash on Hand

Other (Specify nature).

other points:

1. Earmarked Balances with Banks (e. g. for Unpaid Dividend) shall be separately stated.
2. Balances with Banks to the extent eld as margin Money or Security against.

the Borrowings, Guarantees, and Other Commitments shall be disclosed separately.

3. Repatriation restrictions, it any, in respect of Cash and Bank Balances shall be separately stated.
4. Bank Deposits with more than 12 months Maturity shall be disclosed separately.

Money Received against share warrants:

i. Issue by listed companies: In case of Listed Companies, share warrants are issued to Promoters& others in terms of the Guidelines for Preferential Issues.

ii. Part of Shareholders fund: Share Warrants are amounts which would ultimately form part of the Shareholder's Funds.

iii. Separate line disclosure: Since Shares are yet to be allotted against the same, these are not reflected as part of Share Capital, but as a separate line - item.

Share application money pending allotment:

i. Shareholders' funds

a. Share Application Money not exceeding the Issued Capital and to the extent not refundable,

b. is to be disclosed as a separate line item after "Share Holders Funds".

ii. Other Current Liabilities:

a. If the **Company's issued Capital is more than the Authorized Capital,** and **approval** of increase in Authorized Capital is **pending.**

b. the amount of Share Application Money received over and above the Authorized Capital should be shown under the head **"Other Current Liabilities".**

iii. Refundable Application Money: 'Share Application Money Pending Allotment' will not include Share Application Money to the extent refundable.

iv. Calls Paid in Advance:

a. These should be shown under "Other Current Liabilities"

b. The amount of interest which may accrue on such advance should also be reflected as a Liability.

PROBLEMS:

Problem No 01:

Prepare the Balance sheet as at 31st March 2022 from the particulars furnished by Vision Ltd as per Schedule III of Companies Act, 2013.

Equity Share Capital	8,00,000
Calls in Arrears	800
Land	1,60,000
Building	2,80,000
Plant and Machinery	4,20,000
Furniture	40,000
General Reserve	1,68,000
Loan from IDBI	1,20,000
Loans (unsecured)	96,800
Provision for taxation	54,400
Sundry Debtors	1,60,000
Advances (Dr)	34,160
Proposed Dividend	48,000
Profit and loss account	80,000
Cash balance	24,000
Cash at bank	1,97,600
Preliminary Expenses	10,640
Sundry Creditors (for goods and Expenses)	1,60,000
Stock: Finished Goods 1,60,000 Raw materials 40,000	2,00,000

Adjustment:

i. 1500 equity shares were issued for consideration other than cash.

ii. Loan of 1,20,000 for IDBI is inclusive of 6,000 for interest accrued but not due. The loan is hypothecated by plant and machinery.

iii. Debtors of 50,000 are due for more than 6 months.

iv. The cost of assets:

a. Building -3,20,000

b. Plant and Machinery - 5,60,000

c. Furniture - 50,000

v. Bank balance includes 2,000 with Trust Bank Ltd which is not a scheduled bank.

vi. Bills receivable for ₹ 2,20,000 maturing on 30th June 2022 have been discounted.

vii. The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

Problem No 02:

Prepare the balance sheet as at 31.3.2022 from the following particulars furnished by M/s P Ltd as per Schedule III of the companies Act, 2013

Particulars	Amount (₹)	Particulars	Amount (₹)
Share Capital	7,50,000	Capital Redemption Reserve	20,000
Calls in Arrear	5,000	Investment in 6% Notes (Tax free)	3,00,000
Land	2,20,000	Profit and loss account	65,000
Building	2,00,000	Cash in Hand	25,000
General Reserve	50,000	Debtor	10,000
Loan from IDBI	1,00,000	Stock	1,00,000
Sundry Creditors	1,50,000	Goodwill	25,000

Problem No 03:

The following items are extracted from the Balance sheet of best Ltd as on 1st April 2021.

i. 9% preference shares of 100 each-₹ 50,00,000

ii. Equity Shares of 10 each (R 8 paid up) - 80,00,000

iii. General Reserve - 26,00,000

iv. Securities Premium -₹ 20,00,000

v. 12% Debentures -₹ 40,00,000

Profit before interest and tax for the year ending on 31.3.2022 was & 44,80,000

The Board of Directors of the company proposed payment of preference share dividend and equity share dividend@ 20%. The Board also declared capital bonus out of general reserve for makn8 Partly paid up shares into fully paid up, Ignore corporate Dividend Tax. Provision to be made for taxation @ 30%.

7.5% of net profit to be transferred to General Reserve.

You are required to show the journal entries to be passed to incorporate the recommendations and adjustments.

Problem No 04:

Elixir Ltd. provides the following Trial Balance as on 31st March, 2022:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 3,00,000 Shares of ₹ 10 each fully paid.		30,00,000
12% Bank Loan		2,00,000
Furniture	2,25,000	
Machinery	7,50,000	
Building	12,50,000	
Non - Current Investment	2,00,000	
Sales		48,00,000
Sales Return	4,00,000	
Interest received on Investment		20,000
Interest on Bank Loan	20,000	

Purchases	33,20,000	
Purchase Return		4,20,000
Opening Stock	2,00,000	
Discount	6,250	
Carriage on Goods Sold	1,39,000	
Rent & Taxes	60,000	
Trade Receivables	12,00,000	
Trade Payables		80,000
Advertisement	1,20,000	
Bad Debt	10,000	
Salaries	4,00,750	
Audit Fees	27,000	
Contribution of P.F.	60,000	
Cash at bank & In Hand	1,32,000	
Total	85,20,000	85,20,000

Additional Information:

i. Closing Stock as on 31st March 2022 was ₹ 2,12,500

ii. Depreciation Rates: Furniture 10%; Machinery 20% & Building 10%.

iii. Outstanding salaries as on 31st March 2022 was ₹ 62,250.

iv. Trade receivables include a sum of ₹ 25,000 due from Mr. B Reddy and trade payables include ₹ 15,000 due to him.

v. Create a provision for doubtful debt @ 5% on trade receivables.

vi. Provide for income tax ₹ 80,000.

Prepare a statement of profit & loss for the year ended on 31st March, 2022 and a Balance Sheet as on that Date.

Problem No 05:

ABC Ltd. provides the following Trial Balance as on 31st March, 2021:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Share Capital 3,50,000 Shares of ₹ 10 each fully paid		35,00,000
10% Debentures		3,00,000
Motor Van	4,00,000	
Machinery	20,00,000	
Land & Building	12,00,000	
12% Long Term Govt. Securities	2,00,000	
Sales		60,00,000
Sales Return	3,00,000	
Interest on Debentures	22,500	
Purchases	36,00,000	
Purchase Return		4,00,000

Opening Stock	3,00,000	
Discount	7,500	
Carriage Outward	1,50,000	
Rent & Rates	50,000	
Income from Govt. Securities		24,000
Trade Receivables	10,00,000	
Trade Payables		2,00,000
Advertisement	1,50,000	
Bad Debt	20,000	
Salaries	6,72,000	
Misc. Expenditure	30,000	
Contribution of P.F. & Gratuity Funds	1,00,000	
Cash at bank & In Hand	2,22,000	
Total	1,04,24,000	1,04,24,000

Additional Information:

i. Closing Stock as on 31st March 2022 was ₹ 3,50,000

ii. Depreciation Rates: Motor Vehicle 10%: Machinery 20% & Land and Building 5%.

iii. Misc. Expenditure includes 20,000 as audit fees.

iv. Interest on debenture is payable quarterly and the last quarter's interest is yet to be paid.

v. Trade receivables include a sum of ₹ 25,000 due from Mr. X who has become insolvent and only 25 paisa in a rupee is expected to be recoverable from him.

vi. Create a provision for doubtful debt @ 2% on trade receivables.

vii. Provide for income tax ₹ 1,50,000.

Prepare a statement of profit & loss for the year ended on 31st March, 2022 and a Balance Sheet as on that Date.

Problem No 06:

ABC Limited has an authorized capital ofS,00.000 divided into 5000 equity shares or 100 each. On 31.03.2022, 2500 shares were fully called up

The following are the balance extracted from the ledger of the company as on 31.03.2022

Particulars	Amount (₹)	Particulars	Amount (₹)
Inventory	50,000	Advertisement	3,800
Sales	4,25,000	Bonus	10,500
Purchases	3,00,000	Accounts Receivable	38,700
Productive Wages	70,000	Accounts Payable	35,200
Discount Allowed	4,200	Plant & Machinery	80,500
Discount Received	3,150	Furniture	17,100

Insurance (Year Up to 30.06.2018)	6,720	Cash at bank	1,30,000
Salaries	18,500	Cash in hand	4,700
Rent	6,000	Reserves	25,000
General Expenses	8,950	Loan from Managing Director	15,700
Profit & Loss A/c. (cr.)	6,220	Bad Debts	3,200
Printing & Stationary	2,400	Calls in Arrears	5,000
		Share Capital	2,50,000

Also, the following information are given:

i. Closing inventory is ₹ 91,500.

ii. Depreciation to be charged on plant and furniture at 159% and 10% respectively (c) Outstanding liabilities--wages at 5,2 00, salaries at 1,200 and rent at 600.

iii. Salesman are entitled to a commission of 1% on sales.

iv. ₹ 4,000 are to be transferred to General reserves.

v. Dividend on paid up share capital is to be provided @ 5%.

You are required to prepare profit & loss statement for the year ended 31.03.2022 & the balance sheet as in that date in accordance with the Companies Act - 2013 in the vertical form along with the Notes on Accounts.

Problem No 07:

The following is the Trial Balance of Omega Ltd. As on 31.03.2022:

Debit	(₹)	Credit	(₹)
Land of Cost	220	Equity Capital (Shares of 10 each)	300
Plant & Machinery of Cost	770	10% Debentures	200
Trade Receivables	96	General Reserves	130
Inventories (31.03.2018)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1,670		1,670

Additional Information:

i. The Authorized Share Capital of the Company is 40,000 shares of 10 each.

ii. The Company on the advice of independent valuer wish to revalue the land ₹ 3,60,000

iii. Declared final dividend @10% (over Interim Dividend of ₹ 18,000).

iv. Suspense account of 4,000 represents cash received for the sale of some of the machinery on 01.04.2021. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being 8,000

v. Depreciation is to be provided on plane and machinery at 10% on cost.

You are required to prepare Omega Limited's Profit and Loss Statement for the year ended 31.03.2022 and the Balance Sheet as on that date in accordance with the Companies Act, 2013 in the Vertical Form along with the Notes on Accounts. Ignore previous years' figures and taxation.

Problem No 08:

The following is the Trial Balance of Pioneer Ltd. As on 31.03.2022:

Particulars	Dr. Balance (₹)	Cr. Balance (₹)
Equity Capital (Face Value of ₹ 100)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Building	3.50,000	
Plant & Machinery	5,25,000	
Furniture & Fittings	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Inventory:		
Finished Goods	2,00,000	
Raw Materials	50,000	
Provision for Taxation		68,000
Trade Receivables	2,00,000	
Advances	42,700	
Dividends Payable		60,000
Profit & Loss A/c		86,700
Cash Balance	30,000	
Cash at Bank	2,47,000	
Loans (unsecured)		1,21,000
Trade Payables (For Goods & Expenses)		2,00,000
Total	18,95,700	18,95,700

Additional Information:

i. 2,000 equity shares were issued for consideration other than cash.

ii. Trade Receivables of 752,000 are due for more than six months.

Assets	The cost of Assets as on 31.03.2022 (₹)	Depreciation Till 31.03.2022 (₹)

Building	4,00,000	50,000
Plant & Machinery	7,00,000	1,75,000
Furniture	62,500	50,000

iii. Ine balance of 1,50,000 in the loan account with state financial corporation is inclusive of ₹ 7,500 for interest accrued but not due. The loan is secured by Hypothecation of the Plant & Machinery.

iv. balance at bank includes 2,000 with perfect bank Ltd., which is not a Scheduled Bank.

v. The company had contract for the erection of machinery at ₹ 1,50,000 which is still incomplete.

You are required to prepare Pioneer Ltd.'s Balance sheet as at 31.03.2022 as per Schedule III in accordance with the Companies Act. 2013 in the Vertical From along with the Notes to account. Ignore Previous Years Figures.

Problem No 09:

The following is the trial balance of Beta Ltd. as on 31.03.2022:

Particulars	Amount (₹)	Particulars	Amount (₹)
Stock in trade on 01.04.21	1,50,000	Purchase return	20,000
Purchases	4,90,000	Sales	6,80,000
Salaries	60,000	Discount received	6,000
Freight, Carriage etc.	1,900	Balance of profit and loss (cr.)	12,000
Furniture	34,000	Share capital (₹ 10)	2,00,000
Contribution to P.F	10,000	Trade Payables	49,000
Rent and Rates	8,000	General reserve	31,000
Stationery	3,800		
Repairs	4,000		
Insurance	6,000		
Misc. Expenses	300		
Staff welfare expenses	5,000		
Plant and machinery	58,000		
Cash at bank	92,400		
Patents	9,600		
Trade receivables	65,000		
	9,98,000		9,98,000

You are required to prepare Statement of Profit and Loss for the year ending 31st March, 2022 and Balance Sheet as at that date after taking into consideration the following information:

i. Closing stock as at 31.03.2022 is ₹ 1,76,000.

ii. Make a provision for income tax @ 40%.

iii. Depreciate plant and machinery @ 15%, furniture @ 10% and patents @ 5%.

iv. Outstanding rent 1,600 and outstanding salaries ₹ 1,800.

v. The directors recommended a dividend @ 15% after transfer to General Reserve ₹4,000.

vi. Dividend Distribution Tax payable at an effective rate of 20.36%.

vii. Trade receivables of 5,000 are due for more than 6 months. Provide ₹ 1020 for doubtful debts.

viii. The authorized capital of the company is ₹ 4,00,000 divided 40,000 equity shares of ₹ 10 each of which 20,000 shares have been issued and fully paid up. 2,000 shares were, however, issued for consideration other than Cash.

Problem No 10:

State the major heads and sub-heads under which the following items will be shown:

a. Share application pending allotment

b. Share application pending allotment became refundable

c. Income tax reserve

d. Income tax provision

e. Income tax payable

f. Dividend payable

g. Unclaimed dividend

h. Proposed dividend

i. Share option outstanding account

j. Finance lease obligations

k. Current maturity of finance lease obligation

l. Debentures/ bonds

m. Current maturity of debentures/bonds

n. Loan repayable on demand.

Problem No 11:

State the major heads and sub-heads under which the following items will be shown:

A. Receivables arising from activities being carried out during lean period, which is not in normal course of business.
B. Capital commitments
C. Contingent liabilities
D. Forfeited share capital
E. Reserve capital
F. Capital reserve
G. Interest accrued on investments
H. Deposits with electricity supply company
I. Mining rights
J. Provision for doubtful debts
K. Long term loan/advances from debtors/customers

L. short term loan/advances from debtors/customers

Problem No 12:

State the major heads and sub-heads under which the following items will be shown:

A. Interest accrued on calls in advance
B. Premium on redemption of debentures
C. Balance of loss(profit and loss account Dr balance)
D. Bank overdraft
E. Work in progress(machinery)
F. Development of software in progress
G. Computer software
H. Capital advances paid for purchase of machinery.
I. Machinery
J. Machinery(fixed assets) held for sale
K. Workmen compensation fund/reserve

Problem No 13:

The following are the balances of Johri Aabhushan Bhandar Co. Ltd. as on31 march, 2022:

Credit	Rs	Debit	Rs.
Share Capital (Rs. 100 Shares)	40,00,000	Premises	30,72,000
12% Debentures	30,00,000	Plant	33,00,000
Profit and Loss Account	4,00,000	Stock	7,50,000
Bills payable	3,70,000	Debtors	8,70,000
Creditors	4,00,000	Goodwill	2,50,000
Sales	41,50,000	Cash and bank	5,44,000
General Reserve	2,50,000	Calls in Arrear	75,000
Bad-Debts Provision on 1.04.2021	35,000	Interim Dividend Paid	3,92,500
		Purchases	18,50,000
		Preliminary Expenses	50,000
		Wages	9,79,800
		General Expenses	68,350
		Salaries	2,02,250
		Bad-debts	21,100
		Debentures Interest paid	1,80,000
	1,26,05,000		**1,26,05,000**

(a) Depreciate plant by 15%

(b) Half year's Debenture Interest due.

(c) Create 5% provision on debtors for doubtful debts

(d) Provide for income tax @ 30%

(e) Stock on 31 March, 2021 was Rs. 9,50,000.

(f) A claim of Rs. 25,000 for workmen compensation is being disputed by the company.

(g) The Board declared a dividend of 12% on paid up capital including interim dividend.

Transfer Rs 10,000 to general reserve

Problem No 14:

The Tata auto parts ltd . was registered with an authorized capital of Rs. 10,00,000 divided into shares of Rs. 10 each of which 40,000 shares had been issued and fully paid. The following is the Trial Balance extracted on 31 March, 2021.

Particular	Debit Rs.	Credit Rs.
Stock (April 1, 2020)	1,86,420	
Purchase and Sales	7,18,210	11,69,900
Returns	12,680	9,850
Manufacturing Wages	1,09,740	–
Sundry Manufacturing Expenses	19,240	–
Carriage Inward	4,910	–
18% Bank Loan (Secured)		50,000
Interest on Bank Loan (Secured)	4,500	–
Office Salaries and Expenses	17,870	–
Auditor's Fees	8,600	–
Director's Remuneration	26,250	–
Preliminary Expenses	6,000	–
Freehold Premises	1,64,210	–
Plant and Machinery	1,28,400	–
Furniture	5,000	–
Loose Tools	12,500	–
Debtors and Creditors	1,05,400	62,220
Cash in hand	19,530	–
Cash at Bank	96,860	–
Advance payment of Tax	84,290	–
Profit and Loss Account on 1 April, 2020	–	38,640
Share Capital	–	4,00,000
	17,30,610	**17,30,610**

You are required to prepare statement of profit and Loss for the year ended 31 March, 2021 and a Balance Sheet as at that date after taking into consideration the following adjustments:

(h) On 31 March 2021, outstanding Manufacturing Wages and outstanding Office Salaries stood at Rs. 1,890 and Rs. 1,200 respectively. On the same date, stock was valued at Rs. 1,24,840 and Loose Tools at Rs. 10,000.

(ii) Provide for interest on bank Loan for 6 months.

(iii) Depreciation on plant and Machinery is to be provided @ 15% while on Office Furniture it is to be 10%

(iv) Make a Provision for Income Tax @ 30%

(v) The directors recommended a maiden (first) dividend @ 15% for the year ending 31 March, 2021 after a transfer of 5% of net profits to general Reserve

(vi)

Problem No 15:

You are required to prepare a Statement of Profit and Loss and Balance Sheet from the following Trial Balance extracted from the books of the Domestic hotels Ltd., on 31st March, 2021

Particular	Dr.	Cr.
Authorised Capital-divided into 5,000 6% Preference Shares		
of 100 each and 10,000 equity Shares of 100 each		15,00,000
Subscribed Capital -		
5,000 6% Preference Shares of 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising	8,360	
Repairs	4,250	
Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300

Transfer fees			700
Freehold Land and Building		8,50,000	
Furniture and Fittings		86,300	
Inventory on hand, 1st April, 2020			
Wines, Cigarettes. Cigars, etc.		12,800	
Foodstuffs		5,260	
Cash in hand		2,200	
Cash with Bankers		76,380	
Preliminary and formation expenses		8,000	
2,000 Debentures of 100 each (6%)			2,00,000
Profit and Loss Account			41,500
Trade payables			42,000
Trade receivables		19,260	
Investments		2,72,300	
Goodwill at cost		5,00,000	
General Reserve			2,00,000
		19,75,000	19,75,000
Wages and Salaries Outstanding	1,280		
Inventory on 31st March, 2021:			
Wines, Cigarettes and Cigars, etc.	22,500		
Foodstuffs	16,400		

Depreciation : Furniture and Fittings @ 5% p.a. : Land and Building @ 2% p.a. The Equity capital on 1st April, 2020 stood at ₹7,20,000, that is 6,000 shares fully paid and 2,000 shares ₹60 paid. The directors made a call of ₹40 per share on 1st October 2020. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ ₹90 per share as fully paid. Remaining unused forfeited amount is included in equity share capital. The Directors declare a dividend of 8% on equity shares on 2nd April 2022, transferring any amount that may be required from General Reserve. Ignore Taxation

Problem No 16:

The following balances extracted from the books of Extreme Ltd., a real estate company, on 31-3-2015

	Dr.	Cr
Sales		13,800
Purchases of materials	6,090	
Share capital fully paid		500
Land purchased in the year as stock	365	
Leasehold premises	210	
Creditors		2,315
Debtors	3,675	

Directors' salaries	195	
Wages	555	
Work in progress on 01.04.2014	1,050	
Sub-contractors' cost	4,470	
Equipment, Fixtures and Fittings at cost on 01.04.2014	1,320	
Stock on 01.04.2014	295	
Profit and Loss Account, Credit Balance on 01.04.2014		640
Secured Loan		560
Bank Overdraft		525
Interest on Loan and Overdraft	110	
Depreciation on Equipment on 01.04.2014	820	
Administration Expenses	735	
Office Salaries	90	
	19,160	19,160

You also obtain the following information:

i. On 31st March, 2015, stock on hand including the land acquired during the year, is valued at ₹7,10,000. Work in progress at that date is valued at ₹7,00,000.

ii. On 1st October, 2014 the company moved to new premises. The premises are on a 12 years lease and the lease premium paid amounted to ₹ 2,10,000. The company used sub-contract labour of ₹ 2,00,000 and materials at cost of ₹ 1,90,000 in the refurbishment of the premises. These are to be considered as part of the cost of leasehold premises.

iii. A review of the debtors reveals specific doubtful debts of ₹ 1,75,000 and the directors wish to provide for these together with
a general provision based on 2% of the balance.

iv. Depreciation on equipment, fixtures and fittings is provided at 15% on the written down value.

v.Extreme Ltd. sued Nice Ltd. for supplying defective materials which has been written off as valueless. The Directors are
confident that Shallow Ltd. will agree for a settlement of ₹2,50,000.

vi. The directors propose a dividend of 25%.

vii. ₹ 1,00,000 is to be provided as audit fee.

viii. The company will provide 10% of the pre-tax profit as bonus to employees in the accounts before charging the bonus.

ix. Income tax to be provided at 50% of the profits. You are required:

a. to prepare the company's financial statements for the year ended 31st March, 2015 as near as possible to proper form of company final accounts; and

b. to prepare a set of Notes to accounts including significant accounting policies.

Notes: Workings should form part of your answer. Previous year figures can be ignored. Figures are to be rounded off to nearest thousands

MCQ

1) As per Schedule Il1 Current Maturities of Long-Term Borrowings should be shown under

A. Current Assets in Balance Sheet

B. Non-current Liability in Balance Sheet

C. Current Liabilities in Balance Sheet

D. Other Expenses in Statement of Profit and Loss

2) In a Balance Sheet prepared under Schedule III of Companies Act, 2013, 'Share application money pending allotment' shall be shown

A. under Shareholder's Fund

B. under Non-current Liabilities

C. under Current Liabilities

D. as a separate line item.

3) In case of purchase of assets under instalment payment system, instalments due after 12 months from the reporting date are shown as

A. Current liability

B. Current assets

C. Non-current liability

D. Non-current assets

4) Installment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading

A. Non-current Assets

B. Non-current Liabilities

C. Current Assets

D. Current Liabilities

5) For the issuer, unpaid matured debentures and interest accrued thereon will be shown under the head

A. Non-current liabilities

B. Non-current assets

C. Current assets

D. Current liabilities

6) Grant received specifically for a fixed asset is disclosed in the financial statement:

(i) By way of deduction from the gross block of asset

(ii)The grant is treated as deferred revenue income and charged off on a systematic basis over the useful life of asset. Which of the following is correct?

A. Both I and II

B. Either I or II

C. Only 1

D. Only1

7) Which of the following is an intangible asset?

A. Trade Marks

B. Franchises

C. Accounts Receivables

D. Secret Profit

8) Inventory is

A. Included in Fixed Assets

B. An investment

C. A part of Current Assets

D. An intangible

9) Provision is created for

A. Unknown Liability

B. Known Liability

C. Creation of secret reserve

D. None

10)If a company has contingent liability it appears in the

A. Balance Sheet

B. Director's Report

C. Notes to accounts

D. Chairman's Report

11)Which of the following is not a financial statement?

A. P& L A/c

B. Balance Sheet

C. Fund Flow Statement

D. Trial Balance

12)Sundry Creditors for Goods or Services, and acceptances should be disclosed as part Of ....

A. Trade payable

B. Trade receivable

C. Non-current investments

D. None of the above

13) .... Cost of Materials Consumed will come in

A. Profit and Loss Account

B. Balance Sheet

C. Both (A) & (B)

D. None of the above

14) 10% Debenture will come under............... of Balance Sheet (Schedule I1)

A. Long term Borrowing

B. Current Liabilities

C. Non-Current Assets

D. Other current Liabilities

15)The term current asset doesn't 't cover

A. Car

B. Debtors

C. Stock

D. Prepaid expenses

16)As per Schedule III Current Maturities of Long-Term Borrowings should be shown under

A. Current Assets in Balance Sheet

B. Non-current Liability in Balance Sheet

C. Current Liabilities in Balance Sheet

D. Other Expenses in Statement of Profit and Loss

17)Installment of principal amount of long-term loan payable within next 12 months is shown under Balance Sheet of a company under the heading

A. Noncurrent Assets

B. Noncurrent Liabilities

C. Current Assets

D. Current Liabilities

18)In a Balance Sheet prepared under Schedule III of Companies Act, 2013. 'Share application money pending allotment' shall be shown

A. under Shareholder's Fund

B. under Non-current Liabilities

C. under Current Liabilities

D. as a separate line item.

ANSWERS

1. c	2. d	3. c	4. d	5. d	6. b	7. a	8. c	9. a	10. c
11. d	12. a	13. a	14. a	15. a	16. c	17. d	18. d		

CH –7
CASH FLOW STATEMENT

Introduction:

i. Cash Flow Statement (CFS) reveals the causes of changes in cash position of business entity between two balance sheet dates.
ii. AS per AS - 03, an enterprise should prepare a CFS and should present it for each period along with the other financial statements.
iii. It deals with historical changes in cash and cash equipment's by means of classifying cash flows of on enterprises.
iv. Cash: refers to cash-in-hand and demand deposits with the banks financial institutions.
v. Cash equivalents refers to short terms highly liquid instruments which are readily convertible into cash and which are subject to insignificant risk of changes in the value.
vi. Cash flows refer to inflows and outflows of cash and cash equivalents.

Reasons for preparation of Cash Flows.
i. Summary of Cash flows: Cash Flow statement is considered be a summarized statement showing sources of Cash Inflows and application of cash outflows of an enterprise during a particular period of time.
ii. Essential tool for Decision Making: It is prepared on the basis of the published data as disclosed by the Financial Statement of two different financial periods. It is an essential tool for managerial decision-making.
iii. Identification of Strength & Weakness: The management of the enterprise gets a picture of movement of cash resources from the Cash Flow Statement and can assess the stronger and weaker area of movement of cash for different activities of the business for drawing up the future planning.
Objective of preparing Cash Flow Statement:
i. To provide information about firm's liquidity, flexibility and ability to generate future cash flow.
ii. To provide information about firm's ability to meet future obligations.
iii. To enhance comparability among firms.
iv. To assess reliability of net profit and quality of earnings
v. To enable the users to assess how assets and liabilities have increased or decreased.
vi. To project future cash flow streams.
vii. To provide information on different types of cash flow.

Types of Cash-flows:
As per AS 3, Cash flows are classified into the following three main categories.

i. Cash flow from Operating Activities: Operating activities are the main revenue producing activities of an enterprise

ii. Cash flow from Investing Activities: It refers to the acquisition and disposal of long term assets and other investments.

iii. Cash flow from Financing Activities: It refers to the changes in the size and a composition of the owner's capital and the borrowing of enterprises.

Methods for Preparation of CES:

CFS can be prepared by using any one of the below mentioned two methods:

Direct method.

Indirect method.

Direct Method:

Particulars	Amount	Amount
Cash Receipts from Customers for Sale of Goods / Rendering of services		
Cash Receipts from Royalties, Fees, Commission and other Revenue	xxx	
Cash Payments to Suppliers for goods and services	xxx	
Cash Payments to and on behalf of employees Cash Receipts and	xxx	
Payments relating to Futures/ forward / Options /Swap contracts	xxx	
when the contracts are held for dealing or trading purposes	xxx	
Cash Generated from Operations before taxes and Extra ordinary item		xxx
Less: Cash payments (Refunds) of Income Taxes unless they can be specially identified with financing and investing activities		xxx
Cash flows before Extraordinary Items		xxx
Add/Less: Cash Receipts / Payments in relation to Extra-ordinary items		xxx
Net Cash flow from Operating Activities		xxx
Cash flow from Investing Activities - Same as Indirect Method		xxx
Cash flow from Financing Activities- Same as Indirect Method		xxx
Net Cash flows from all activities		xxx
Add: Opening cash and cash equivalents		xxx
Closing Cash and cash equivalents		xxx

INDIRECT METHOD

Particulars	Amount	Amount
A. Cashflow from operating Activities		
Net Profit before Taxes as per the profit and loss account	xxx	
Add: Non-Cash expenses debited to P&L	xxx	
Transfer to various reserves debited to P&L	xxx	
All Provisions debited to P&L A/c	xxx	
All Provisions including tax and dividend provision	xxx	
Amortization of intangibles	xxx	
Write off of preliminary expenses and discount	xxx	
Loss on sale of fixed assets or Investments	xxx	
Less:		
	xxx	

Profit on sale of non-current assets or investments	xxx	
Investment income like interest and dividend	xxx	
Withdrawal from Reserves		
	xxx	
Foreign exchange gain		
Cash flow before working capital changes	xxx	
Add: Changes in working capital:		
Increase in current assets except cash and bank	xxx	
Decrease in current assets except cash and bank	xxx	
Increase in current liabilities	xxx	
Decrease in current liabilities	xxx	
Cash flow from operating activities before Tax	xxx	
Less: Amount of Income Tax paid during the period	xxx	
Net Cash flow from Operating Activities (A)		xxx
B. Cash flow from Investing Activities		
Purchase of fixed assets / Investments	xxx	
Sale of fixed assets / Investments	xxx	
Interest and dividend received	xxx	
Net Cash flow from Investing Activities (B)		xxx
C. Cash flow from Financing Activities:		
Increase from issue of share capital or long-term borrowings Decrease	xxx	
in share capital or repayment of long-term loans	xxx	
Payment of dividend	xxx	
Net Cash flow from Financing Activities (C)		xxx
D. Net Cash flow from All Activities (A + B+ C)		xxx
E. Add: Opening Cash and Cash equivalents		xxx
F. Closing Cash and Cash Equivalents (D+ E)		xxx

Ind AS 07: Statement of Cash-flows

i. Objective:

a. Cash flow information of an entity is helpful to users of financial statements to **assess entity's ability** to generate cash and cash equivalents, the **needs of the entity** to utilize those cash-flows and the timing and certainty of their generation.

b. The objective of this standard is to require the provision of **information about the historical changes in** cash and cash equivalents of an entity by means of a statement of cash flows which classifies cash flows during the period from operating, investing and financing activities.

ii. Definitions:

a. Cash- refers to Cash in hand and demand deposits.

b. Cash equivalents: refers to short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

c. Cash-Flows; refers to inflows and outflows of cash and cash equivalents.

d. Operating activities: refers to principal revenue producing activities of the entity and other activities that are not investing or financing activities.

e. Investing activities: refers to the acquisition and disposal of long term assets and other investments not included in cash equivalents.

f. Financing activities: refers to activities that result in changes in the size and composition of the contributed equity and borrowing of the entity.

iii. Cash and Cash equivalents:

a. Cash and cash equivalents are held for the purpose of meeting short term commitments.

b. Equity investments are excluded unless they are in substance cash equivalents.

c. Bank overdraft which is repayable on demand form an integral part of cash and cash equivalents.

d. Bank borrowings and cash credit will be considered as a part of company's financing activities. (Cash credit is on continuous basis).

e. Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of cash management of an entity rather than part of its operating, investing and financing activities.

iv. Presentation of statement of Cash flows: Statement of cash flows shall report cash flows during the period classified by

a. Cash flow from Operating Activities.

b. Cash flow from Investing Activities.

c. Cash flow from Financing Activities.

v. Foreign Currency Cash flows:

a. Cash flows arising from transactions in a foreign currency shall be recorded in an entity's functional currency by applying to the foreign currency amount the exchange rate between the functional currency and the foreign currency **at the date of cash flow.**

b. The cash flows of a foreign subsidiary shall be translated at the exchange rates between the functional currency and the foreign currency at the dates of cash flows.

vi. Investment in subsidiaries, associates and joint ventures:

a. between an investor entity and an associate, a joint venture or a subsidiary only cash flows accounted for using equity or cost method such as dividends and advances are reported in the statement of cash flows.

b. Cash flows arising from obtaining or losing control of subsidiaries or other businesses shall be presented separately and classified as investing activities.

c. An entity shall disclose in aggregate in respect of both obtaining and losing control of subsidiaries or other businesses during the period each of the following:

i. Total consideration paid or received.

ii. The portion of the consideration consisting of cash and cash equivalents.

iii. The amount of cash and cash equivalents in the subsidiaries or other business over which control is obtained or lost.

iv. The amount of assets and liabilities other than cash or cash equivalents in the subsidiaries.

PROBLEMS

Problem No 01:

The following figures have been extracted from the books of M Limited for the year ended on 31.03.2019. You are required to prepare a Cash Flow Statement.

a. Net profit, before adjusting income tax but after considering the following items, was₹ 10 lakhs.

Depreciation on Assets ₹ 2,50,000.

Discount on issue of Debentures written off ₹ 15,000.

Interest on Debentures paid ₹ 1,75,000.

Book value of investment1,50,000 (Sold for ₹ 1,60,000).

Interest received on investments 30,000.

b. Income tax paid during the year 4,80,000.

c. 7,500 10% preference shares of 100 each were redeemed on 31.03.2019 at a premium of 5%. Further the company issued 25,000 equity shares of ₹ 10 each at a premium of 20% on 02.04.2018. Dividend on preference shares were paid at the time of redemption.

d. Dividends paid for the year 2017-18 ₹ 2,50,000 and interim dividend paid 1,50,000 for the year 2018-19.

e. Land was purchased on 02.04.2018 for ₹ 1,20,000 for which the company issued 10,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.

Current assets and liabilities were as follows:

Particulars	31.03.2018	31.03.2019
Stock	6,00,000	6,59,000
Sundry Debtors	1,04,000	1,06,550
Cash in hand	98,150	17,650
Bills Receivable	25,000	20,000
Bills Payable	22,500	20,000
Sundry Creditors	83,000	85,650
Outstanding Expenses	37,500	40,900

Problem No 02:

Following are the summarized balance sheet of Beta Ltd:

Liabilities	31.03.21	31.03.22	Assets	31.03.21	31.03.22
Equity Share	4,00,000	5,00,000	Land & Building	4,00,000	3,80,000
Capital (Rs. 10)			Plant & Machinery	3,00,000	3,38,000
General Reserve	1,00,000	1,20,000	Inventory	2,00,000	1,48,000
Profit & Loss (Cr.)	61,000	61,200	Trade Receivable	1,60,000	1,28,400
Bank Loan	1,40,000	0	Cash in hand	1,000	1,200
Trade Payable	3,00,000	2,70,400	Cash at Bank	0	16,000
Provision for Taxation	60,000	70,000	Goodwill	0	10,000
	10,61,000	10,21,600		10,61,000	10,21,600

Additional Information:

i. Dividend paid during the year ₹ 46,000

ii. Net profit for the year ₹ 1,32,200

iii. Depreciation written-off on building ₹ 20,000 and on machinery ₹ 28,000

iv. Income tax paid during the year ₹ 56,000

v. The following assets of another company were purchased for a consideration of ₹ 1,00,000 and paid in shares Assets were: Inventory ₹ 40,000 and Machinery ₹ 50,000

vi. Further machinery was purchased for 50,000 during the year. There was a sale of Machinery.

You are required to prepare a Cash Flow Statement as per AS 3.

Problem No 03:

On the basis of the following information provided by X Ltd. prepare a Cash Flow Statement for the year ended on 31st March 2022

a) X Ltd. sold all the goods for cash only and purchased the goods in credit only.

b) The company earned a Gross Profit to ₹4,00,000 with a Gross Profit Ratio of 25%.

c) The closing inventory was higher than the opening inventory by ₹ 20,000.

d) The company paid ₹ 4,50,000 as wages and ₹ 90,000 as office expenses during the year.

e) Balance of Suppliers accounts on 31.03.2021 were higher than the balance on31.03.2022 by ₹ 30,000

f) Tax paid by the Company amounts to 80,000 while provision for taxation was ₹ 70,000.

g) The company repaid bank loan of 1,75,000 which included interest of ₹ 15,000.

h) Dividend paid during the year 50,000 (including dividend distribution tax).

i) X Ltd. sold investments of ₹ 6,00,000 at a profit of ₹ 40,000.

j) Depreciation charged on fixed assets ₹ 1,20,000

k) Furniture purchased during the year ₹ 2,00,000.

l) Cash and Cash Equivalents as on 31.03.2021 was ₹ 1,00,000

m) Cash and Cash Equivalents as on 31.03.2022 was ₹ 4,95,000.

Problem No 04:

The following are the summarized Balance Sheets of ABC Limited as on 31 March, 2021 and 2022:

Liabilities	31.03.16	31.03.17	Assets	31.03.16	31.03.17
Share Capital	4,60,000	4,60,000	Land & Building	3,00,000	3,00,000
Profit & Loss Balance	32,000	46,000	Machinery	1,04,000	1,40,000
Reserve	1,20,000	1,20,000	Investments	2,20,000	1,48,000
8% Debentures	1,80,000	1,40,000	Stock	1,64,000	2,12,000
Depreciation Fund	80,000	88,000	Debtors	1,34,000	86,000
Creditors	2,06,000	1,92,000	Cash	1,80,000	1,80,000
Outstanding expenses	26,000	24,000	Prepaid expenses	2,000	4,000

	11,04,000	10,70,000		11,04,000	10,70,000

Additional Information:

i. 10% Dividend was paid during 2021-22.

ii. Old Machinery costing 24,000 (accumulated depreciation 12,000) was sold for ₹ 8,000

iii. 240,000 8% Debenture were redeemed by purchase from open market at ₹ 96 for a debenture of ₹ 100 on 31.03.2017

iv. Investments worth ₹ 72,000 were sold at book value.

v. bad debt written off during the year ₹ 10,000.

prepare a statement of cash flow for the year ended 31.03.2022

Problem No 05:

From the following information provided, prepare a Cash Flow Statement as per AS-3

Balance Sheet of PQR Ltd. As on

	Note No	31.03.22	31.03.21
Equity and Liabilities:			
Shareholders' fund			
Share Capital	1	20,00,000	20,00,000
Reserves and Surplus	2	10,00,000	8,70,000
Share application money pending allotment		Nil	Nil
Non-Current Liability		Nil	Nil
Current Liabilities		6,50,000	8,00,000
Total		36,50,000	36,70,000
Assets			
Non-current Assets			
Fixed Assets (Tangible)		16,50,000	15,00,000
Non-current Investment		7,00,000	8,00,000
Current Assets			
Inventories		7,60,000	7,00,000
Trade Receivables		4,50,000	5,00,000
Cash and Cash Equivalent		6,000	74,000
Short term loan and advances (Prepaid Expenses)		84,000	96,000
		36,50,000	36,70,000

Notes to Accounts:

		31.03.22	31.03.21
1. Share Capital			
Equity Share Capital		20,00,000	15,00,000
Redeemable Preference Share Capital of ₹ 100, ₹ 50 paid		Nil	5,00,000
		20,00,000	20,00,000
2. Reserve and Surplus			
Balance of Profit		3,00,000	4,50,000
General Reserve		2,00,000	4,00,000
capital redemption reserve		5,00,000	Nil

Securities Premium		Nil	20,000
		10,00,000	8,70,000

Additional information:

i. During the year the company got income from investment ₹ 80,000.

ii. Company paid 1,50,000 as equity dividend and 76,000 as preference dividend.

iii. The company redeemed the preference shares at a premium of 5% after making a successful call of 50 per share to make the shares fully paid.

iv. During the year one machine was sold for ₹ 50,000 and the profit on sale of ₹ 6,000 was taken to Profit and Loss A/c. Depreciation for the year on fixed assets was ₹ 1,80,000.

Problem No 6

The following relevant items from the Balance Sheet of LM Limited are provided:

	Balance Sheet figures	
	As at 31.3.2012 (₹)	As at 31.3.2013 (₹)
Goodwill	90,000	75,000
Profit and Loss A/c	4,15,000	6,25,000
General Reserve	3.25.000	3.75,000
Inventories	4,15,000	5.10,000
Debtors	3,45,000	3.22,000
Prepaid Expenses	18,000	15,000
Creditors	2,35,000	2,70,000
Provision for Taxation	1,05,000	1,55,000
Provision for Doubtful Debts	17,250	15,000

Depreciation amounting to ₹ 1,42,000 and Profit on sale of Machinery amounting to ₹ 21,000 appeared in the Profit and Loss A/c for the year ending 31.3.2013. During the year 2012-13 ₹ 1,00,000 was paid as Income Tax. You are required to calculate Net Cash Flow from operating activity for the year ending 31st March,2013.

Problem No 7:

Relevant balance sheet accounts of Arti Limited. as on 31st March, 2013 and 2014 are as Follows:

Particulars	31.03.13	31.03.14
General Reserve	46	49.50
Profit and Loss A/c (Cr.)	41	47.00
Creditors	25	23.50
Bills Payable	4	4.00
Income Tax Payable	10	17.00
Proposed Dividend	15	18.00
Stock	30	27.00
Debtors	22	26.00
Bills Receivable	4	2.50
Prepaid Expenses	1	2.40

Other Information:

a. During the year 2013-14, one old machine costing 6,45,000 (W.D.V.₹ 3,92,000) was sold for ₹ 3,68,000 and some investments are sold at a profit of ₹ 15,000.

b. During the year 2013-14, depreciation charged ₹ 4,50,000, goodwill written off ₹ 25,000 and Income tax paid ₹ 8,75,000.

You are required to calculate the net cash flow from operating activities.

Problem No 8:

From the following information, prepare a Cash Flow Statement:

Balance Sheet As at ...

Particulars	Note	31.03.2015	31.03.2014
I. EQUITY AND LIABILITIES			
(1) Shareholders 'Funds			
(a) Share Capital		12,50,000	10,00,000
(b) Reserves and Surplus	1	4,90,000	4,00,000
(2) Non-Current Liabilities (Long Term Loan)		4,00,000	5,00,000
(3) Current Liabilities			
Trade Payables		4,00,000	5,00,000
Short-term Provisions (Provision for tax)		60,000	50,000
Total		26,00,000	24,50,000
II. ASSETS			
(1) Non-Current Assets			
Tangible Fixed Assets	2	13,00,000	11,50,000
Non-Current Investments		50,000	1,00,000
(2) Current Assets			
Inventories		2,80,000	3,00,000
Trade Receivables		4,20,000	4,00,000
Cash & Cash Equivalents		5,50,000	5,00,000
Total		26,00,000	24,50,000

Note 1: Reserves and Surplus

Particulars	31.03.2015	31.03.2014
Profit and Loss A/c	4,80,000	4,00,000
Capital Reserve	10,000	
	4,90,000	4,00,000

Note 2: tangible Fixed Assets

Particulars	31.03.2015	31.03.2014
Land & Building	3,80,000	4,00,000
Machinery	9,20,000	7,50,000
	13,00,000	11,50,000

Additional Information:

a. Depreciation written off on land and building ₹ 20,000.

b. The company sold some investment at a profit of ₹ 10,000, which was credited to Capital Reserve.

c. Income-tax provided during the year ₹ 55,000.

d. During the year the company purchased a machinery for ₹ 2,25,000. They paid ₹ 1,25,000 in cash and issued 10,000 equity shares off ₹ 10 each at par.

You are required to prepare a Cash Flow Statement for the year ended 31st March, 2015 by using indirect method.

Problem No 9:

The following relevant items of cash flow statement of EZAZ Ltd. Prepared for the year 31 March, 2017:

Particulars	Amount ₹	Amount ₹
Net profit		1,50,00,000
Add: Sale of investment		1,75,00,000
Depreciation of Assets		27,50,000
Issue of preference shares		22,50,000
Loan raised		11,25,000
Decrease in stock		30,00,000
		4,16,25,000
Less:		
Purchase of Fixed Assets	1,62,50,000	
Decrease in Creditors	15,00,000	
Decrease in Debtors	20,00,000	
Exchange gain	20,00,000	
Profit on sale of investments	30,00,000	
Redemption of debentures	14,25,000	
Dividend paid	3,50,000	(2,67,61,250)
Interest paid	2,36,250	1,48,63,750
		30,85,250
Add: Opening Cash and Cash equivalent		
Closing Cash and Cash equivalent		1,79,49,000

you are required to redraft and reconstruct the cash flow statement of EZAZ Ltd, in proper order for the year ended 31st March, 2017 in accordance with AS-3 using indirect method.

Problem No 10:

Following details are provided by Patasha Ltd:

Particulars	31.03.2015	31.03.2014
Liabilities:		
Share Capital	25,00,000	22,00,000
General Reserve	4,00,000	3,50,000
Profit and Loss Account	3,00,000	1,50,000
Debentures	5,00,000	3,00,000
Provision for taxation	2,00,000	1,50,000
Proposed dividend	4,00,000	3,50,000
Trade payables	9,00,000	11,50,000
	52,00,000	46,50,000

Assets:		
Plant and Machinery	15,00,000	11,00,000
Land and Building	10,00,000	8,00,000
Investments (Non-trading)	3,00,000	1,50,000
Trade receivables	9,00,000	10,50,000
Inventories	10,00,000	12,00,000
Cash on hand/Bank	5,00,000	3,50,000
	52,00,000	46,50,000

1. Depreciation @ 15% was charged on the opening value of Plant and Machinery.

2. At the year end, one old machine costing ₹ 1,50,000 (WDV 70,000) was sold for?

1,10,000. Purchase was also made at the year end.

3. 1,20,000 was paid towards Income tax during the year.

4. ₹ 15,000 received as interest on investment during the year.

5. Building under construction was not subject to any depreciation.

You are required to prepare Cash Flow Statement as per AS-3.

Problem No 11:

From the Following Balance Sheet of Sameer Ltd., Prepare CFS for the year ended 31" March, 2022.

		Particulars		31March,2022	31" March,2021
		Equity and Liabilities			
1		Shareholder's Funds;			
	a	Share Capital		10,00,000	8,00,000
	b	Reserve and Surplus	1	3,00,000	2,10,000
2		Non-current liabilities			
		Long Term borrowings	2	2,00,000	
3		Current liabilities			
	a	Trade payables		7,00,000	8,20,000
	b	Other Current liabilities	3		1,00,000
	c	Short term provisions		1,00,000	70,000
		(Provision for tax)			
		Total		23,00,000	20,00,000
		Assets			
1		Non-Current assets;			
	a	Property, Plant and Equipment	4	13,00,000	9,00,000
	b	Non-Current Investment		1,00,000	
2		Current assets			
	a	Inventories		4,00,000	2,00,000
	b	Trade receivables		5,00,000	7,00,000
	c	Cash and Cash Equivalents			2,00,000
		Total		23,00,000	20,00,000

Notes to Account:

No	Particulars	31st March,2022	31st March,2021
1	Reserve and Surplus		

	Revenue Reserve	2,00,000	1,50,000
	Profit and Loss Account	1,00,000	60,000
	Total	3,00,000	2,10,000
2	Long term borrowings		
	10% Debentures	2,00,000	
3	Other Current liabilities		
	Dividend payable		1,00,000
4	Property, Plant and Equipment		
	Plant and Machinery	7,00,000	5,00,000
	Land and building	6,00,000	4,00,000
	Total	13,00,000	9,00,000

i. Depreciation 25% was charged on the opening value of Plant and Machinery.

ii. At the year end, one old machine costing 50,000 (WDV ₹ 20,000) was sold for ₹ 35,000. Purchase was also made at the year end.

iii. ₹ 50,000 was paid towards Income tax during the year.

iv. Construction of the building got completed on 31.03.2022 and hence no depreciation will be charged on the same. Prepare Cash flow Statement.

v. 10% Debentures were issued on 1" April 2021.

Problem No 12:

following are the balance sheets of X Co. Ltd. as on 31" March, 2017 and 2018:

Liabilities	2021	2022	Assets	2021	2022
Pref. Share Capital		2,00,000	Goodwill	20,000	30,000
Eq. Share Capital	4,20,000	5,20,000	Buildings	5,00,000	4,60,000
General Reserve	1,00,000	1,10,000	Machinery	3,00,000	3,38,000
Profit &Loss Account	61,000	71,200	Stock	2,00,000	1,48,000
14% Debentures	2,00,000		Debtors	1,40,400	1,08,000
Creditors	4,40,000	2,68,000	Cash/ Bank	20,600	37, 200
Unclaimed Dividend		2,000	Furniture	1,00,000	1,20,000
Provision for tax	60,000	70,000			
	12,81,000	12,41,200		12,81,000	12,41,200

Information

i) Dividend paid in cash Rs. 50,000 during the year.

ii) Assets acquired for Rs. 1,00,000 payable in equity shares: stock Rs. 50,000, Machine Rs. 40,000

(iii) Machine purchased for cash Rs. 12,000.

(iv) machinery of the book value of Rs. 6,000 was sold for Rs. 6, 500.

v) Provision for tax during the year Rs. 66,000.

vi) Debenture holders accepted preference shares in settlement of their claims.

(vii) Depreciation on buildings Rs. 40,000.

(viii) furniture of the book value of 30,000 sold for 22,00. Loss on sale adjusted from general reserve.

Prepare Cash flow statement.

Problem No 13:

The Balance Sheet of KRK Ltd. as at 31* March,2021 and 2020 are as follows:

		Particular		31st March,2020	31 March,2021
1		Equity and Liabilities			
		Shareholder's Funds:			
	a	Share Capital	1	16,00,000	18,80,000
	b	Reserves and Surplus	2	8,40,000	11,00,000
2		Non-current liabilities			
		Long term borrowings	3	4,00,000	2,80,000
3		Current Liabilities			
	a	Other Current liabilities	4	6,00,000	5,20,000
	b	Short term provision		3,60,000	3,40,000
		(Provision for tax)			
		Total		38,00,000	41,20,000
		Assets			
		Non-current assets			
		Property, plant and Equipment's		22,80,000	26,40,000
		Non-Current Investment		4,00,000	3,20,000
		Current assets			
		Cash and Cash equivalents		10,000	10,000
		Other Current assets		11,10,000	11,50,000
		Total		38,00,000	41,20,000

Notes to accounts:

No	Particulars	31 March,2020	31 March,2021
1	Share Capital		
	Equity Share Capital	12,00,000	16,00,000
	10% Preference Share Capital	4,00,000	2,80,000
	Total	16,00,000	18,80,000
2	Reserve and Surplus		
	General Reserve	6,00,000	7.60,000
	Profit and Loss account	2,40,000	3,40,000
	Total	8,40,000	11,00,000

3	Long term borrowings		
	9% Debentures	4,00,000	2,80,000
	Total	4,00,000	2,80,000
4	Other Current liabilities		
	Dividend payable	1,20,000	
	Current Liabilities	4,80,000	5,20,000
	Total	6,00,000	5,20,000
	Property, plant and Equipment:		
	Property, plant and equipment	32,00,000	38,00,000
	Less: Depreciation	(9,20,000)	(11,60,000)
	Net Carrying Value	22,80,000	26,40,000

Additional Information:

i. The company sold one property, plant and equipment for 1,00,000, the cost of which was 2,00,000 and the depreciation provided on it was R 80,000.

ii. The company also decided to write off another item of property, plant and equipment costing 56,000 on which depreciation amounting to R 40,000 has been provided.

iii. Depreciation on property, plant and equipment provided R3,60,000

iv. Company sold some investment at a profit of R40,000.

V. Debentures and preference share capital redeemed at 5% premium.

vi. Company decided to value inventory at cost, whereas previously the practice was to value inventory at cost less 10%. The inventory according to books on 31.3.2020 was 2,16,000. The inventory on 31.3.2021 was correctly valued at 3,00,000.

Prepare Cash Flow Statement as per revised Accounting Standard 3 by indirect method.

Problem No 14:

From the following Balance Sheets and information, prepare Cash Flow Statement of Ryan Ltd. by Indirect Method for the year ended 31 " March,2022:

		Particulars		31March,2022	31" March,2021
		Equity and Liabilities			
1		Shareholder's Funds:			
	a	Share Capital	1	6,00,000	7,00,000
	b	Reserve and Surplus	2	4,20,000	3,00,000
2		Non-Current liabilities;			
		Long term borrowings	3	2,00,000	
3		Current liabilities			

	a	Trade Payables		1,15,000	1,10,000
	b	Other Current liabilities	4	30,000	80,000
	c	Short term provisions (provisions for tax)		95,000	60,000
		Total		14,60,000	12,50,000
		Assets			
1		Non-Current assets;			
	a	Property, plant and Equipment	5	9,15,000	7,00,000
	b	Non-Current Investments		50,000	80,000
2		Current assets;			
	a	Inventories		95,000	90,000
	b	Trade receivables		2,50,000	2,25,000
	c	Cash and Cash equivalents		50,000	90,000
	d	Other Current assets		1,00,000	65,000
		Total		14,60,000	12,50,000

Notes to accounts:

No	Particulars		31 March,2022	31t March,2021
1.	Share Capital			
	Equity Share Capital		6,00,000	5,00,000
	10% Redeemable Preference Share Capital			2,00,000
	Total		6,00,000	7,00,000
2	Reserves and Surplus			
	Capital redemption reserve		1,00,000	
	Capital reserve		70,000	
	General reserve		1,50,000	2,50,000
	Profit and Loss account		1,00,000	50,000
	Total		4,20,000	3,00,000
3	Long term borrowings			
	9% Debentures		2,00,000	
	Total		2,00,000	
4	Other current liabilities			
	Dividend payable			60,000
	Liabilities for expense		30,000	20,000
	Total		30,000	80,000

5	Property, plant and equipment			
	Plant and Machinery		7,65,000	5,00,000
	Land and Building		1,50,000	2,00,000
	Total		9,15,000	7,00,000

Additional Information:

i. A piece of land has been sold out for ₹ 1,50,000 (Cost -₹ 1,20,000) and the balance land was revalued. Capital Reserve consisted of profit on revaluation of land.

ii. On 1t April, 2021 a plant was sold for ₹ 90,000 (Original Cost -₹ 70,000 and W.D.V. - ₹ 50,000) and Debenture's worth ₹ 1 lakh were issued at par as part consideration for plant of ₹ 4.5 lakhs acquired.

iii. Part of the investments (Cost -₹ 50,000) was sold for ₹ 70,000.

iv. Pre-acquisition dividend received ₹ 5,000 was adjusted against cost of investment.

v. Interim dividend was declared and paid @ 15% during the current year.

vi. Income-tax liability for the current year was estimated at ₹ 1,35,000.

vii. Depreciation @ 15% has been charged on Plant and Machinery but no depreciation has been charged on Building.

Problem No 15:

Rohan Ltd Provides you the following information at the year-end, March 31,2021:

Particulars	₹	₹
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
		1,78,000
Operating Expenses		
(including Depreciation Expenses of ₹ 37,000)		(147000)
		31,000
Other Income/Expenses: Interest Expenses paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	(8,000)
Loss on Sale of plant	(3,000)	
		23,000
Profit before tax		(7,000)
Income Tax		
		16,000
Profit after tax		

Information available:

Particulars	31st March, 2021	31st March,2020

Plant	7,15,000	5,05,000
Less: Accumulated Depreciation	(1,03,000)	(68,000)
	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Inventory	1,44,000	1,10,000
Trade Receivables	47,000	55,000
Cash	46,000	15,000
Prepaid Expenses	1,000	5,000
Share Capital	4,65,000	3,15,000
Reserves and Surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Trade Payables	50,000	43,000
Outstanding Liabilities(expenses)	12,000	9,000
Income Taxes payables	3,000	5,000

Analysis of selected accounts and transactions during 2020-21.

1. Purchased Investment for ₹ 78000.
2. Sold Investments for ₹ 1,02,000. These investments cost ₹ 90,000.
3. Purchased Plant assets for ₹ 1,20,000.
4. Sold plant assets that cost ₹ 10,000 with accumulated depreciation of ₹ 2,000 for ₹5,000.
5. Issued ₹ 1,00,000 of bonds at face value in an exchange for plant assets on 31st March,2021.
6. Repaid ₹ 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of ₹ 10 each.
8. Paid Cash dividends ₹ 8,000.

Prepare cash flow statement as per AS-3 (Revised) using indirect method. Also verify it through direct method.

Problem No 16:

The balances sheets of Sun Ltd. as at 31st March 2021 and 2022 were as:

		Particulars	Notes	2022 (₹)	2021 (₹)
		Equity and Liabilities			
1		**Shareholder's funds**			
	(a)	Share Capital	**1**	60,000	50,000
	(b)	Reserve & Surplus	**2**	5,000	4,000
2		**Current Liabilities**			
	(a)	Trade Payables		4,000	2,500
	(b)	Other Current Liabilities	**3**	---	1,000
	(c)	Short term Provisions (Provisions for tax)		1,500	1,000
		Total		**70,500**	**58,500**

		Assets			
		Non-Current assets			
		Property, Plant &Equipment		39,500	29,000
1		**Current assets**	4		
	(a)	Current investment		2,000	1,000
		Inventories		17,000	14,000
2	(a)	Trade receivables		8,000	6,000
	(b)	Cash & Cash Equivalents		4,000	8,500
				70,500	**58,500**

Notes to Accounts

	Particulars	2022	2021
1	**Share Capital**		
	Equity Shares of ₹ 10 each	**60000**	**50000**
2	**Reserve & Surplus**		
	Profit and Loss Account	**5000**	4000
3	**Other Current Liabilities**		
	Dividend Payable	---	1000
4	**Property, Plant and Equipment (at WDV)**		
	Building	10000	10000
	Fixtures	17000	11000
	Vehicles	12500	8000
	Total	**39500**	**29000**
5	**Cash and Cash Equivalents**		
	Cash and Bank	**4000**	**8500**

The profit and loss statement for the year ended 31st March,2022 disclosed:

Particulars	₹
Profit before tax	4500
Tax expense: Current tax	(1500)
Profit for the year	3000
Declared dividend	(2000)
Retained Profit	1000

Further information is available:

Particulars	Fixtures ₹	Vehicles ₹

Depreciation for the year	1,000	2,500
Disposals:		
Proceeds on disposal of vehicles	---	1,700
Written down Value	---	(1,000)
Profit on disposal		**700**

Prepare a Cash Flow Statement for the year ended 31st March,2022.

Problem No 17:

The Balance Sheet of Banger Ltd., for the year ended 31st March, 2021 and 2022 are as follows:

Liabilities	**31st March 2021 (Rs.)**	**31st March 2022 (Rs.)**	**Assets**	**31st March 2021 (Rs.)**	**31st March 2022 (Rs.)**
Equity share capital	12,00,000	16,00,000	Property, plant &equip	32,00,000	38,00,000
10%Pref. share capital	4,00,000	2,80,000	Less: Depreciation	9,20,000	11,60,000
				22,80,000	26,40,000
Capital Reserve	-	40,000	Investment	4,00,000	3,20,000
General Reserve	6,80,000	8,00,000	Cash	90,000	50,000
Profit and Loss A/c	2,40,000	4,44,000	Other current assets	11,10,000	13,10,000
9% Debentures	4,00,000	2,80,000			
Current liabilities	4,80,000	5,20,000			
Dividend Payable	1,20,000	----			
Provision for Tax	3,60,000	3,40,000			
Unpaid dividend	-	16,000			
	38,80,000	**43,20,000**		**38,80,000**	**43,20,000**

Additional information;

asset for ₹ 1,00,000. the cost of which was ₹ 2,00,000 and the depreciation provided on it was ₹ 80,000.

(i) The company also decided to write off another fixed asset costing ₹ 56,000 on which depreciation amounting to ₹ 40,000 has been provided.

(ii) Depreciation on fixed assets provided ₹ 3,60,000.

(iii) Company sold some investment at a profit of Rs. 40,000 which was credited to capital reserve.

(iv) Debentures and preference share capital redeemed at 5% premium.

(v) Company decided to value stock at cost whereas previously the practice was to value stock at cost less 10%. The stock according to books on 31.3.21 was ₹ 2,16,000. The stock on 31.3.22 was correctly valued at ₹ 3,00,000. Prepare Cash Flow Statement as per revised Accounting Standard by indirect method.

Problem No 18:

From the information contained in Income Statement and Balance Sheet of 'A' Ltd., prepare Cash Flow Statement:

Income statement for the year ended March 31, 2015

Net Sales	(A)	2,52,00,000
Less:		
Cash Cost of Sales		1,98,00,000
Depreciation		6,00,000
Salaries and Wages		24,00,000
Operating Expenses		8,00,000
Provision for Taxation		8,80,000
	(B)	2,44,80,000
Net Operating Profit (A – B)		7,20,000
Non-recurring Income – Profits on sale of equipment		1,20,000
		8,40,000
Retained earnings and profits brought forward		15,18,000
		23,58,000
Dividends declared and paid during the year		7,20,000
Profit and Loss Account balance as on March 31, 2015		16,38,000

Balance Sheet as at: 31.03.2015 (₹ in Cores)

Ref No.	Particulars		Note No.	As at 31.03.15	As at 31.03.14
I		**EQUITY AND LIABILITIES**			
	1	**Shareholders' fund**			
		(a) Share capital		44,40,000	36,00,000
		(b) Reserves and surplus-		16,38,000	15,18,000
	2	**Share application money pending allotment**		NIL	
	3	**Non-current liabilities**		NIL	
	4	**Current Liabilities**			
		(a) Trade payables		23,40,000	24,00,000
		(b) Other current liabilities		4,80,000	2,40,000
		(c) Short-term provisions		1,32,000	1,20,000
		Total		**90,30,000**	**78,78,000**
II		**ASSETS**			
	1	**Non-current assets**			
		(a) Fixed assets			
		(i) Tangible assets		54,00,000	28,80,000
	2	**Current assets**			
		(a) Inventories		9,60,000	26,40,000

		(b) Trade receivables		18,60,000	16,80,000
		(c) Cash and cash equivalents		7,20,000	6,00,000
		(d) Short-term loans and advances		90,000	78,000
		Total		**90,30,000**	**78,78,000**

Note - Relevant items of Assets/ Liabilities are reflected in Balance Sheet and Schedule III. Hence sub-item not having any value for the given illustration is not shown/ represented in Balance Sheet.

Note on Accounts:

1. Tangible Assets	**31.03.15**		**31.03.14**	
Land		9,60,000		4,80,000
Building and Equipment's	57,60,000		36,00,000	
Less: Depreciation	13,20,000	44,40,000	12,00,000	24,00,000
Total		54,00,000		28,80,000

2.Short Term Provisions	**31.03.15**	**31.03.14**
Income Tax Payable	1,32,000	1,20,000
Total	1,32,000	1,20,000

3. Other Current Liabilities	**31.03.15**	**31.03.14**
Outstanding Expenses	4,80,000	2,40,000
Total	4,80,000	2,40,000

4. Short Term Loans and Advances	**31.03.15**	**31.03.14**
Advances	90,000	78,000
Total	90,000	78,000

The original cost of equipment sold during the year 2014-15 was ₹ 7,20,000.

MCQ

1) How should the revaluation of Fixed Assets be treated in a Cash Flow Statement?

A. Under cash flow from financing activities.

B. Do not appear in cash flow statement.

C. Under cash flow from operating activities.

D. Under cash flow from investing activities.

2) While preparing Cash Flow Statement of XY Ltd., a finance company, interest Paid should be shown as

A. Cash Flow from Operating Activities.

B. Cash Flow from Investing Activities.

C. Cash Flow from Financing Activities.

D. Cash and Cash Equivalent.

3) In case of Cash Flow Statement prepared under Direct Method, decrease in current liabilities is

A. added to cash flow from operating activities.

B. deducted to cash flow from operating activities

C. added to cash flow from investing activities.

D. None of the above.

4) Which of the following is not a component of Cash Flow Statement?

A. Cash payments to suppliers for goods and services

B. Charging of Depreciation

C. Cash advances and loans made to third parties

D. Cash repayments of amounts borrowed

5) Which of the following items is not a part of cash flow from operating activities?

A. Collection from customers.

B. Payment of outstanding wages.

C. Payment to suppliers of machinery.

D Advances to foreign suppliers for raw materials.

6) Which of the following items is not a part of cash flow from operating activities?

A. Collection from customers.

B. Payment of outstanding wages.

C. Payment to suppliers of machinery.

D. Advances to foreign suppliers for raw materials.

7) Cash receipts from disposal of fixed assets is a/an

A. Operating Activity.

B. Investing Activity.

C. Financing Activity.

D. None of the above.

8) Which of the following is not a component of Cash Flow Statement?

A. Cash payments to suppliers for goods and services.

B. Charging of Depreciation.

C. Cash advances and loans made to third parties.

D. Cash repayments of amounts borrowed.

9) While preparing Cash Flow Statement of XY Ltd., a finance company, interest received on loans should be shown as

A. Cash Flow from Operating Activities.

B. Cash Flow from Investing Activities.

C. Cash Flow from Financing Activities.

D. Cash and Cash Equivalent.

10) In case of Cash Flow Statement prepared under Direct Method, decrease in current liabilities is

A. added to cash flow from operating activities.

B. deducted to cash flow from operating activities.

C. added to cash flow from investing activities.

D. None of the above.

ANSWERS

1. b	2. c	3. b	4. b	5. c	6. c	7. b	8. b	9. a	10. b

TRUE OR FALSE

1) Cash comprises cash in hand and foreign currency balances.

2) Interest and dividend received form a part of financing cash flow.

3) Machinery purchased by issuing shares is shown under Cash Flow from Investments Activities in Cash Flow Statement.

ANSWERS

1. True	2. False	3. False

CH –8

BANKING COMPANY ACCOUNTS

Introduction:

Banks in India are regulated by banking regulations act 1949.

As per Sec 5 of Banking Regulation Act, Bank means "accepting the deposits tor the purpose of lending'.

A bank is a commercial institution, **licensed to accept the deposits and acts as a safe custodian** of the spendable funds of its customers and lend the money as loans and advances to the public.

Sec 8: Restrictions on Business of Banking Company:

Sec 8 of Banking Regulation Act, 1949, imposes certain restrictions on the business of a banking company. These restrictions are explained as below:

i. Bar on dealing with goods: No banking company shall directly or indirectly deal in the buying, selling or bartering of goods except in connection with the realization of security given to or held by it.

ii. Bar on dealing with others goods: No banking company can engage in any trade or buy, sell or barter goods for others otherwise than in connection with bills of exchange, received for collection on behalf of its customers.

Non-Banking Assets - Sec 09:

i. Restriction: A bank cannot acquire any immovable property in general. However, it can always land against the security of such assets.

ii. Exceptions: The following are the two exceptions to the above-mentioned general rule:

a. For the purpose of using such immovable property tor carrying on its own business operations.

b. In case a borrower fails to repay the loan, the bank may have to take the physical position of such assets.

iii. Time Limit to dispose off: The bank must dispose-off such non-banking assets within 7 years from the date of acquisition or period extended by RBI.

Sec 11: Minimum Paid up Capital & Reserve:

Banking Company	Minimum aggregate value of paid up capital & Reserve
In case of banking Company Incorporated outside India: (a) Having a place(s) of business in the city of Mumbai or Kolkata or both. (b) Not having a place(s) of Business in the city of Mumbai or Kolkata or Both.	₹ 20 Lacs ₹ 15 lacs
In case of a banking company incorporated	

in India: (a) Having place of business in more than one state including places of business in the city of Mumbai or Kolkata or both.	₹ 10 lacs
(b) Having all its places of business in one state and none of which is in the city of Mumbai or Kolkata.	₹ 1 lacs+₹ 10,000 for each of other places of business in the district in which it has its principal place of business + ₹ 25,000 for each place of business elsewhere in the state subject of maximum of ₹ 5 lacs.

Sec 15: Restrictions as to payment of dividend:

i. A banking company shall not pay any dividend on its shares until all its capitalized expenses have been completely written off.

ii. However, a banking company may pay dividends on its shares without writing off:

a. The depreciation in the value of its investments in approved securities where such depreciation has not actually been capitalized or otherwise accounted for as a loss.

b. The depreciation in the value of its investments in shares, debentures or bonds if adequate provision for the same has been made to the satisfaction of its statutory auditor.

c. The bad debts subject to condition that adequate provision has been made to the satisfaction of its statutory auditor.

Sec 17: Statutory Reserve:

i. Mandatory Transfer: As per Sec 17, at least 25% of current year profit prior to distribution of dividend must be transferred to a specific reserve known as "statutory reserve".

ii. Withdrawal Intimation: If any banking company makes any appropriation from the reserve fund or securities premium account, it has to report to the Reserve Bank of India the reasons for such appropriation within 21 days.

ii. Exemption:

a. The central govt. based on the recommendation of reserve bank of India and having regard to adequacy of paid up capital and reserves exempt a bank for a specified period from this obligation.

b. the central govt. should satisfy that the amount in statutory reserve and security premium account is equal to or greater than the paid up capital of such banking organization for passing such exemption order.

Sec 18: Cash Reserve:

i. Every banking company, not being a scheduled bank, has to maintain a cash reserve (CRR) of at least a percentage of the total of its demand and time liabilities in India, as on last Friday of the second preceding fortnight, as specified by R. B. I. from time to time.

ii. Cash reserve can be maintained with itself or by way of a balance in the Current account with the reserve bank or by way of net balance in current accounts or in one or more of the aforesaid ways.

Sec 20: Restrictions on Loans & Advances:

i. A banking company shall not advance any loans or advances on the security of its own shares (or)

ii. Enter into any commitment for granting any loan or advance to or on behalt of

a. Any of its directors.

b. Any firm, in which any of its directors are interested or

c. Any Company in which any of the directors is a director, managing agent, manager, employee or guarantor or in which he holds substantial interest, or

d. Any individual, in respect of whom any of its directors is a partner or guarantor.

Bank's Book Keeping System:

i. Every transaction of the customers is entered in the personal ledger directly from vouchers.

ii. The **objective** of the system is

a. to keep up-to-date detailed ledgers, b. to balance the trial balance every day

c. to keep all control accounts in agreement with the detailed ledgers.

iii. Characteristics of a Bank's Book-Keeping System:

a. Voucher Posting: Entries in the personal ledger are made directly from vouchers.

b. Voucher Summary Sheets:

i. The vouchers entered into different personal ledgers each day are summarized on summary sheets,

ii. totals of which are posted to the control accounts in the general ledger.

c. Daily Trial Balance: The general ledger trial balance is extracted and agreed every day.

d. Continuous Checks:

i. All entries in the detailed personal ledgers and summary sheets are checked by persons other than those who have made the entries.

ii. A considerable force of such check is employed, with the general result that most clerical mistakes are detected before another day begins.

e. Control Accounts: A trial balance of the detailed personal ledgers is prepared periodically, usually every two weeks, agreed with general ledger control accounts.

f. Double Voucher System: Two vouchers are prepared for every transaction not involving cash-one debit voucher and another credit voucher.

Classification of Investments:

i. The investments fort folio of bank normally consists of both the approved securities and other securities such as shares, debentures etc.

ii. Banks's investments are classified into the following types:

a. Held to maturity:

i. It refers to those securities acquired by a bank with a view held them up to its maturity date.

ii. The intention of the banking organization are to get the capital appreciation as well as recurring income.

b. Held for maturity: It refers to those securities acquired by the banking organization with an intention to trade by taking the advantage of short terms price fluctuations or interest rate fluctuations- speculative motive.

c. Available for sale: Securities don't fall into any one of the above two categories should be classified under this category.

Classification of Assets: The assets of banking company can be classified into the following types:

i. Performing assets:

a. An asset which continues to generate income to banking organization as performing assets.

b. Income on performing assets should be recognized on accrual basis. I.e. recognize the revenue when it is earned.

ii. Non-performing assets:

a. An asset which is ceases to generate the revenue to the banking organization for a period of more than 90 days is known as "Non-Performing assets".

b. The principal and / or interest is not paid by the borrower for a period of 90 days it should be classified as non-performing assets.

c. If any advance or a facility granted to a borrower becomes nonperforming assets then the bank has to treat all advances or facilities granted to such borrower as nonperforming assets. The concept of non-performing assets is "borrower wise and not facility wise".

d. Income on non-performing assets should be recognized on cash basis and not an accrual basis as per RBI Guidelines.

Classification of Advances from provisioning point of view

From provisioning point of view advances of a bank can be classified into the following types:

Standard assets:

i. It is the one which does not disclose any problem and which does not carry more than the normal risk attached to the business. Such assets are not a non-performing asset.

ii. Provision Required for doubtful debts is **0.40%**

Substandard assets:

i. In case of term loans where the instalment/ principle interest on overdue fora period of 12 months from the date of classifying it as non-performing assets, it should be treated as substandard assets.

ii. Provision required:

a. Secured Portion including DICGC/ ECGC cover 15%

b. Unsecured Portion - 25%

Doubtful assets

i. It is the one which has semi-finished as non-performing assets for a period exceeding 12 months should be treated as doubtful assets.

ii. On Secured Portion:

Period of outstanding as Doubtful	% of Provision Required
Up to 1 year	25%
More than 1 year and up to 3 years	40%
More than 3 Years	100%
On Unsecured Portion	100%

Loss assets:

i. The assets which are not realizable are known as Loss Assets.

ii. It is the one which has identified by the internal auditors or external auditors or the inspectors of RBI, but the amount has not been written off completely or partially.

iii. The entire amount should be written off or full provision should be made for the amount- 100%

Provision in Respect of Advances covered by the the guarantees of DICGC/ECGC

i. In the case of advances guaranteed by Export Credit Guarantee Corporation (ECGC) or by Deposit Insurance and Credit Guarantee Corporation (DICGC), provision is required to be made **only for the balance in excess of the amount guaranteed by these corporations.**

ii. In case the bank also **holds a security in** respect of an advance guaranteed by ECGC/DICGC, the **realizable value of the security should be deducted** from the outstanding balance before the ECGC/ DICGC guarantee is off-set.

iii. Where there is an **upper limit** to which the ECGC/ DICGC guarantee applies; this fact **should be duly recognized in computing** the amount of provision required.

iv. Statement showing the calculation of Provision:

Particulars	Amount
a) Amount of loan outstanding as on the balance sheet date	xxx
b) Less: Realizable value of security held by the bank on the balance sheet date	xxx
c) Balance (a - b)	xxx
d) Less: ECGC/DICGC cover (Cx % covered under scheme)	xxx
e) Unsecured Portion	xxx

Customer's Acceptance, Endorsement & Other Obligations:

i. Meaning: Liabilities of bank accepted on behalf of its customers and these will appear in Liabilities side of the balance sheet.

ii. Payment: The Primary responsibility to pay these lies with the customers, in case Customers fails to pay, then bank has to pay on behalf of the customers.

iii. Security Collection: The bank takes corresponding indemnities from its customers to avoid any trouble which may arise in future and Bank will also take adequate security from the customers.

iv. Nature of liability: These items will appear under the head Contingent Liabilities.

v. Examples:

a. Bill accepted by the bank on behalf of its customers,

b. Letters of Credit etc.

Interest on Doubtful Debts:

i. Doubtful debts: When a debt is found to be doubtful at the end of the accounting year, Interest has accrued to the banking organization, however its realization is doubtful.

ii. Recognition of Interest: As a prudence policy such interest should be transferred to Interest Suspense Account'. The accounting JE will as follows:

Loan Account Dr

To Interest Suspense A/c

iii. Disclosure: In the Balance Sheet, it should be shown on the liability side.

iv. Treatment on realization: In Next year, if a part of interest is realized and the balance becomes bad, the following entry should be passed.

Interest Suspense Account Dr

To Interest Account- with realized interest portion

To Loan Account - with interest unrealized

v. Recognition of bad debts: If the debtor becomes insolvent the bank should recognize interest on such debt after the date of insolvency.

Rebate on bills discounted:

i. Bill Discounting:

a. Discounting of the bill is nothing but advancing money against the security of bill receivable of a customer.

b. Discount is calculated from the date of discounting to till its maturity date.

ii. Discount:

a. If total amount of discount is earned during the year the entire amount can be recognized as income in the same year.

b. If maturity dates of bills discounted is falling after the date of balance sheet, the discount relatable to those bills from the balance sheet date to its maturity date cannot be recognized as current year income. It is relatable to next accounting period.

c. Discount relatable to next accounting period on bills discounted is known as rebate on bills discounted.

iii. The following are the steps involved in the calculation of Rebate on Bills Discounted at the end of year.

a. identify the Bills discounted with the bank and whose maturity dates are falling after the balance sheet date.

b. Calculate the number of unexpired days i.e. no of days from Balance sheet date till bill maturity date.

c. Calculate the Discount amount relatable to unexpired discount, which is known as Rebate on Bills Discounted.'

Accounting Treatment of Rebate on Bills Discounted is as shown below

Date	Particulars	LF	Debit	Credit
1.	**Bills Discounted by the bank in Current year:** Bills Discounted and Purchased A/c Dr To Customer's A/c To Interest and Discount A/c		xxx	 xxx xxx
2.	**Transfer of opening rebate to discount A/c:** Rebate on Bills Discounted A/c Dr To Interest and Discount A/c		xxx	 xxx
3.	**Transfer of closing rebate provision:** Interest and Discount A/c Dr To Rebate on bills discounted A/c		xxx	 xxx
4.	**Transfer of current year discount earned to P&L A/c** Interest and Discount A/c Dr To Profit and loss A/c		xxx	 xxx

FINAL ACCOUNTS

Section 29 of the Banking Regulation Act, 1939 Provides. Every Banking Company is required to prepare Balance sheet in 'Form A' and Profit and loss account in Form B'.

Format of Balance Sheet (Form A)

Particulars	Schedule	Amount
Liabilities:		
Share capital	1	xxx
Reserve and surplus	2	xxx
Deposits	3	xxx
Borrowings	4	xxx
Current liabilities	5	xxx
Total		xxx
Assets:		
Cash and bank balance with RBI	6	xxx
Balances with other bank and money at call and short notice	7	xxx
Investments	8	xxx
Advances	9	xxx
Fixed assets	10	xxx
Other assets	11	xxx
Total		xxx

Contingent Liabilities	12	xxx

Format of Profit and Loss Account (Form B)

Particulars	Schedule	Amount
Income		
Interest and Discount Earned	13	xxx
Other Income	14	xxx
Total		xxx
1. Expenditure:		
Interest Expensed	15	xxx
Operating Expenses	16	xxx
Provision and Contingencies	WN I	xxx
Total		xxx
III. Net Profit:		
Net Profit for the Year (1-II)		xxx
Profit/Loss brought forward		xxx
Total		xxx
IV. Appropriations:		
Transfer to Statutory Reserve		xxx
Transfer to Other Reserve		xxx
Proposed Dividend		xxx
Balance Carried forward to Balance Sheet (BF)		xxx
Total		xxx

Schedules

Schedule 01: Share Capital:

Particulars	Amount
Called up share capital	xxx
Less: Calls in Arrears	xxx
Add: Forfeited Shares	xxx
Total	xxx

Schedule 02: Reserves and Surplus:

Particulars	Amount
Statutory Reserves	xxx
Capital Reserves	xxx
Securities premium	xxx
Revenue reserves	xxx
Profit and loss Account	xxx
Total	xxx

Schedule 03: Deposits:

Particulars	Amount
Demand deposits	xxx
Savings Bank Deposits	xxx
Term deposits	xxx
Total	xxx

Schedule 04: Borrowings:

Particulars	Amount
Borrowings from reserve bank of India	xxx
Borrowings from other banks	xxx
Borrowings from other institutions and agencies	xxx
Borrowings from outside India	xxx
Total	xxx

Schedule 05: Other liabilities and provisions:

Particulars	Amount
Bills Payable	xxx
Inter- office adjustments	xxx
Interest accrued	xxx
Other provisions	xxx
Total	xxx

Schedule 06: Cash and Balances with RBI:

Particulars	Amount
Cash in hand including foreign currency	xxx
Balances with RBI	xxx
Total	xxx

Schedule 07: Balances with Banks and Money at call and short notice:

Particulars	Amount
Balances with other banks in India	xxx
Money at call and short notices in India	xxx
Balances with other banks outside India	xxx
Money at call and short notices outside India	xxx
Total	xxx

Schedule 08: Investments:

Particulars	Amount
In Government securities	xxx
In other approved securities	xxx
In shares, debentures and bonds	xxx
Investment in subsidiaries and joint ventures	xxx
Total	xxx

Schedule 09: Advances

Particulars	Amount
Bills purchased and discounted	xxx
Cash credits, overdrafts and loans payable on demand	xxx
Term loans	xxx
Total	xxx

Schedule 10: Fixed Assets:

Particulars	Amount
Premises	xxx
Furniture and fixtures	xxx
Other Fixed Assets	xxx
Total	xxx

Schedule 11: Other Assets:

Particulars	Amount
Inter-office adjustments	xxx
Accrued interest	xxx
Advance tax	xxx
Stationary and stamps	xxx
others	xxx
Total	xxx

Schedule 12: Contingent 1liablities:

Particulars	Amount
Claims against the bank not acknowledged as debts	xxx
Liability for partially paid investments	xxx
Liability on account of outstanding forward exchange contracts	xxx
Guarantees given on behalf of customers	xxx
Acceptances, endorsements and other obligations	xxx
Total	xxx

Schedule 13: Interest Earned:

Particulars	Amount
Interest earned on loans and advances	xxx
Discount earned on bills discounted	xxx
Interest on balances with reserve bank of India and with other banks	xxx
Total	xxx

Schedule 14: Other Income:

Particulars	Amount
Commission, Exchange and brokerage	xxx
Profit on Sale of investments	xxx
Profit or loss on revaluation of investments	xxx
Profit or loss on sale of land, buildings and other assets	xxx
Profit or loss on exchange transactions	xxx
Interest and dividend from subsidiaries /joint ventures	xxx
Other income	xxx
Total	xxx

Schedule 15: Interest Expended:

Particulars	Amount
Interest incurred on deposits	xxx
Interest on borrowings from RBI or inter bank borrowings	xxx
Other interest	xxx
Total	xxx

Schedule 16: 0perating expenses:

Particulars	Amount
Compensation payment to employees	xxx
Rent rates and taxes	xxx
Depreciation on bank properties	xxx
Directors fees and expenses	xxx
Auditors fees and expenses	xxx
Layer fees and expenses	xxx
Postage, telegrams, telephone expenses	xxx
Printing and stationary	xxx
Others	xxx
Total	xxx

PROBLEMS

Problem No 01:

Given below are details of interest on advance of a Commercial Bank as on 31:03.202: (in Crore)

Particulars	Interest Earned	Interest Received
Performing Assets:		
Term Loan	120	80
Cash Credit and Overdraft	750	620
Bills Purchased and Discounted	150	150
Non-Performing Assets:		
Term Loan	75	5
Cash Credit and Overdraft	150	12
Bills Purchased and Discounted	100	20

Find out the income to be recognized for the year ended 31t March, 2022.

Problem No 02:

Following balances appeared in the books of a bank, on 31st March,2022	Rs
Rebate on bills discounted (1-4-2021)	16,000
Discount Received	2,30,000
Bill discounted and purchased	15,77,350

Journalise the transactions, assuming that –

(i) The rate of discounting was 18 % P.A. and

(ii) Average due date for bill discounted & purchased is 15 May, 2022.

Problem No 03:

Calculate Rebate on bills discounted as on 31st Dec. 2021 from the following data and show Journal entries.

Date of bill	Amount	Period	Rate of Discount
15-10-2021	25,000	5 months	8%
10-11-2021	15,000	4 months	7%
25-11-2021	20,000	4 months	7%
20-12-202 1	30,000	3 months	9%

Problem No 04:

On 1.4.2021, acceptance, Endorsement, etc. not yet satisfied amounted to Rs.14,50,000. During the year under question, Acceptances, endorsements, Guarantees etc., amounted to Rs.44,00,000. Bank honoured acceptances to the extent of Rs.25,00,000 and client paid off Rs.10,00,000 against the guaranteed liability. Client failed to pay Rs. 1,00,000 which the Bank had to pay. Prepare the "Acceptances, Endorsements and other obligations A/c" as it would appear in the General Ledger.

Problem No 05:

From the following details prepare "Acceptance, Endorsements and other Obligation A/c" as would appear in general ledger. On 1.4.1998 Acceptances not yet satisfied stood at Rs.22,30,000. Out of which Rs.20 lacs were subsequently paid off by clients and bank had to honour the rest. A scrutiny of the Acceptance register revealed the following:

Client	Acceptances/ Guarantees	Remark
A	10,00,000	Bank honoured on 10-6-1998
B	12,00,000	Party paid off on 30-9-1998
C	5,00,000	Party failed to pay and bank had to honour on 30.11.1998
D	8,00,000	Not satisfied upto 31-3-1999
E	5,00,000	Not satisfied upto 31.3.1999
F	2,70,000	Not satisfied upto 31.3.1999

Problem No 06:

Advances have been classified as under:

Cash-Credit and Overdraft		Term Loans	Bills Purchased
Standard Assets	1,000	975	225
Sub-Standard Asset	125	100	25
Doubtful-up to one year	100	20	—
One to three years	120	50	—
More than three years	50	80	—
Loss Assets	30	50	—
	1,425	**1,275**	**250**

No Provision has been made so far against these assets. Sub-standard assets are secured upto 35% and doubtful assets are secured to the extent of 60% of the dues. Make the required provisions

Problem No 07:

From the following information find out the amount of provisions required to be made in the Profit &Loss Account of a commercial bank for the year ended 31st March, 2000:

(i) Packing credit outstanding from Food Processors Rs. 60 Lakhs against which the bank holds securities worth Rs.15 Lakhs. 40% of the above advance is covered by ECGC. The above advance has remained doubtful for more than 3 years.

(ii) Other advances:

Assets:	**Rs. (in Lakhs)**
Standard	3,000
Sub-standard	2,200
Doubtful:	

For one year	900
For two years	600
For three years	400
For more than 3 years	300
Loss assets	600

Problem No 08:

Mukesh Bank Ltd. gives you the following information for the year 2011-2012.

(i) Export credit given Rs.50 Lakhs ECGC Cover 40%

Securities held Rs. 10 Lakhs(realizable value Rs. 12 Lakhs)

Period for which the advance has remained doubtful = More than 2 years.

You are asked to compute the provision required on the above advances.

Problem No 09:

Particular	Rs ('000)
Interest and discount	3,437
Income from investments	1,15
Interest on balance with RBI	1,80
Commission, exchange and brokerage	8,20
Profit on sale of investments	1,10
Interest on deposits	12,25
Interest to RBI	1,61
Payment to and provision for employees	10,44
Rent, taxes and lighting	2,10
Printing and stationary	1,80
Advertisement and publicity	95
Depreciation	92
Director's fees	2,20
Auditor's fees	1,20
Law charges	2,30
Postage, telegrams and telephones	70
Insurance	56
Repairs and maintenance	48

Other informations:

i. **interest and discount mentioned above is after adjustments for the following: ('000)**

provision for tax for the year Rs 220

provision during the year for doubtful debts Rs 102

loss on sale of investments Rs 12

rebate on bill discounted Rs 58

ii. 25% of profits is transferred to statutory reserve and 5% of profits transferred to revenue reserve.

iii.profit brought forward from last year Rs 16,000

<u>Problem No 10:</u>

Following figures are extracted from the books of X Bank Ltd. for the year ending on 31st March, 2004.

Particular	**Rs.**
Interest and Discount received	20,30,000
Interest paid on deposits	12,02,000
Issued and subscribed capital	5,00,000
Reserve under section 17	3,50,000
Commission, exchange and brokerage	90,000
Rent received	30,000
Profit on sale of investments	95,000
Salaries and allowances	1,05,000
Director fees and allowances	12,000
Rent and taxed paid	54,000
Stationery and printing	12,000
Postage and telegram	25,000
Other expenses	12,000
Audit fees	4,000
Depreciation on bank properties	12,500

Other information:

i. A customer, to whom a sum of Rs. 2, 50,000 has been advanced, has become insolvent and it is expected that 40% can be recovered from his estate. Interest due at 15% on his debt has not been provided in the books.

ii. Provision for bad and doubtful debts on other debts necessary Rs. 50,000.

iii. Rebate on bills discounted as on 01.01.2003, Rs. 7,500.

iv. Provide Rs. 3, 00,000 for income tax.

v. The directors desire to declare 50,000 dividend

Prepare the profit and loss account in accordance with the law. Make necessary assumptions.

<u>Problem No 11:</u>

Given below are details of interest on advances of Commercial Bank of Commerce as on 31.3.2022.

Assets	**Interest Earned (Rs. in lakhs)**	**Interest Received (Rs. in lakhs)**

Performing Assets:		
Term Loan	240	160
Cash Credit and Overdraft	1500	1,240
Bills purchased and discounted	300	300
Non- Performing Assets:		
Term Loan	150	10
Cash Credit and Overdraft	300	24
Bills purchased and discounted	200	40

Find out the income to be recognized for the year ended 31.3.2022

MCQ

1) In case of a Banking Company General Ledger does not contain

A. Control Accounts of all personal ledger

B. Assets Accounts

C. Contra Accounts

D. Revenue Accounts provision on unsecured portion of

2) A banking company is required to maintain.

doubtful advances

A. 25%

B. 40%

C. 50%

D. 100%

3) A Banking Company needs to transfer a minimum of................. its profit to reserve fund.

A. 10%

B 15%

C. 20%

D. 25%

4) General Ledger of a Banking Company does not contain

A. Control Accounts of all personal ledgers

B. Assets Accounts

C. Contra Accounts

D. Balance Sheet

5) Rate of provisioning by a Bank for Advances doubtful for more than 1 year but less than 3 years is

A. 25%

B. 40%

C. 60%

D. 100%

6) Rate of provisioning by a Bank for Advances doubtful for more than 1 year but less than 3 years is

A. 25%

B. 40%

C. 60%

D. 100%%

7) General Ledger of a Banking Company does not contain.

A. Control Accounts of all personal ledgers

B. Assets_ Accounts

C. Contra Accounts

D. Balance Sheet

8) A Banking Company needs to transfer a minimum of.................. its profit to reserve fund.

A. 10%

B. 15%

C 20%

D. 25%

9) A banking company is required to maintain--- provision on unsecured portion of doubtful advances

A. 25%

B. 40%

C. 50%

D. 100%

10) In case of a Banking Company General Ledger does not contain

A. Control Accounts of all personal ledger

B. Assets Accounts

C. Contra Accounts

D. Revenue Accounts

Answers

1. d	2. d	3. d	4. d	5. b	6. b	7. d	8. d	9. d	10. d

CH –9

INSURANCE COMPANY ACCOUNTS

Introduction:

IRDA after consultation with insurance advisory committee issued IRDA Regulations 2002.

An insurer carrying on general insurance business shall apply with the requirements given in Schedule XIII on insurance company engaged in life should comply with the format given in Schedule A.

Types of Policies:

i. Risks of fire are covered by fire policies.

ii. Marine risks of goods, vessels and freights of goods are covered by marine insurance policies.

iii. Loss of theft are covered by Burglary Insurance.

Basic Concepts

Claims:

It refers to the amount payable by an insurance company to the insured party when the policy becomes due.

Claims= Claims intimated + Survey fees + Medical expenses less claims received on re-insurance.

Premium:

It refers to the consideration received by the insurance company to undertake the risk of loss.

It is always net of premium paid on the re-insurance. Final accounts of an insurance company.

Reinsurance

i. It means insurance affected by one insurance company in order to cover itself against a risk with another insurance company.

ii. E.g.: A building is insured with insurance Co. A for 50 crores insurance Co. A. in order to reduce its risk can get the building insured with insurance Co. The contract b/w company A & Company B is known as Re-insurance.

iii. If Co. B wants to reduce its risk it can get the same building insured with Co. C which is known as "Retrocession".

iv. Re-insurance can be for the part of the amount tor the sum of the risk. The re- insurance company will pay commission on premium received.

valuation Balance Sheet

i. According to section 28 of Life Insurance Corporation Act 1956, 95% of profit of the Life Insurance Business must be distributed to policy holders by way of bonus and remaining 5% has to be utilized tor such purpose as may be specified by the governments.

ii. The surplus made by a Life Insurance business is ascertained by preparing a statement known as Valuation of Balance Sheet.

iii. The Proforma of a valuation B/S is explained as shown below.

Valuation balance sheet

Particulars	Amount	Particulars	Amount
To Net Liability as per actuary's valuation	xxx	By Life assurance fund as per Balance Sheet	xxx
To Surplus (Net Profit)	xxx	By Deficiency (Net Loss)	xxx
	xxx		xxx

Surrender Value of a Life Insurance Policy.

In the case of life insurance policy, the policy normally has value only when it matures. But to facilitate the promotion of business, insurance companies assign value to the policy on the basis of the premiums paid. Insurance companies will be prepared to pay such value on the surrender of the policy by a needy policy holder desiring to realize the policy. Therefore, the value is referred to as 'surrender value'. Surrender value is usually nil until at least two annual premiums are paid. Amount paid as surrender value is an expenditure and is similar to claims paid.

Unexpired Risk Reserve:

a. Marine business:

a. The balance in the unexpired risk reserve should be equal to 100% of net premium received in current year.

b. Any short fall should be transferred during the current year.

b. Fire insurance Business:

a. The balance in unexpired risk reserve = 50% of net premium received in the current year.

b. In case of any deficiency it should be transferred during the current year.

FINANCIAL STATEMENTS-LIFE INSURANCE BUSINESS

BALANCE SHEET

Particulars	Schedule no.	Current year	Previous year
Liabilities			

Share capital		xxx	xxx
Reserves and surplus		xxx	xxx
Borrowings		xxx	xxx
Policy liabilities		xxx	xxx
investment reserves		xxx	xxx
Funds for future appropriations		xxx	xxx
Total		xxx	xxx
Assets:			
Investments		xxx	xxx
Assets held to cover linked liabilities		xxx	xxx
Loans		xxx	xxx
Fixed assets		xxx	xxx
Cash and Bank balance		xxx	xxx
Advances and other assets		xxx	xxx
Current liabilities		xxx	xxx
Provisions		xxx	xxx
Misc. expenditure		xxx	xxx
Total		xxx	xxx

REVENUE A/C

Particulars	Schedule no.	Current year	Previous year
Income:			
Net premium		xxx	xxx
Income from investments		xxx	xxx
Other income		xxx	xxx
Total		xxx	xxx
Expenditure:			
Commission		xxx	xxx
Operating expenses		xxx	xxx
Provision for doubtful debts		xxx	xxx
Bad debts written off		xxx	xxx
Provision for tax		xxx	xxx
Any other provisions		xxx	xxx
Total		xxx	xxx
Claims:			
Claims paid		xxx	xxx
Interim bonus paid		xxx	xxx
Change in valuation of liability		xxx	xxx
Total		xxx	xxx

Appropriations:			
Transfer to shareholders A/c		xxx	xxx
Transfer to other reserves		xxx	xxx
Balance		xxx	xxx
Total		xxx	xxx

FINANCIAL STATEMENT GENERAL INSURANCE COMPANY

REVENUE A/C

Particulars	Schedule no.	Current year	Previous year
Income:			
Premium		xxx	xxx
P/l on sale of investments		xxx	xxx
Others		xxx	xxx
Interest, Dividend & rent		xxx	xxx
Total		xxx	xxx
Expenditure:			
Claims incurred (net)		xxx	xxx
Commission		xxx	xxx
Operating expenses		xxx	xxx
Total		xxx	xxx
Net profit:			
Operating profit (A-B)		xxx	xxx
Transfer to share holder A/c		xxx	xxx
Transfer to other reserve		xxx	xxx
Balance		xxx	xxx
Total		xxx	xxx

BALANCE SHEET

Particulars	Schedule no.	Current year	Previous year
Liabilities:			
Share capital		xxx	xxx
Reserve and surplus		xxx	xxx
Borrowings		xxx	xxx

Current liabilities		xxx	xxx
Provisions		xxx	xxx
Total		xxx	xxx
Assets:			
Investments		xxx	xxx
Loans		xxx	xxx
Fixed assets		xxx	xxx
Cash and bank balance		xxx	xxx
Advances and other assets		xxx	xxx
Misc. expenditure		xxx	xxx
Total		xxx	xxx

Schedules

Schedule 01: Premium

Particulars	Amount
a) Premium from direct business	xxx
b) Add: Premium on re-insurance accepted	xxx
c)Less: Premium on re-insurance ceded	xxx
d) Adjust for change in reserve for unexpired risk	xxx
Total premium (Net)	xxx

Schedule 02: Claims paid

Particulars	Amount	Amount
a) Claims paid on direct business	xxx	
b) Less: Claims paid on re-insurance business ceded	xxx	
c)Add: Claims paid on re-insurance		xxx
D) Add: Claims outstanding at the end of the current year		xxx
e) Less: Claims outstanding at the beginning of current year		xxx
Net claims		xxx

schedule 03: Commission

Particulars	Amount
a) Commission paid on direct business	xxx
b) Add: Commission paid on re-insurance accepted	xxx
c)Less: Commission received on re-insurance ceded	xxx
d) Net Commission for revenue A/c	xxx

Schedule 04: Operating Expenses

Particulars	Amount
Employee remunerations and welfare expenses	xxx

Travel, conveyance and vehicle running expenses	xxx
Training expenses	xxx
Rent, Rate and Taxes	xxx
Repairs	xxx
Printing and Stationary	xxx
Commission	xxx
Legal charges	xxx
Advertisements	xxx
Auditor charges	xxx
Interest on bank borrowings	xxx
Depreciations	xxx
Others	xxx

PROBLEMS

Problem No 01:

The Revenue Account of a Life Insurance Company shows the Life Assurance Fund on 31.03.2022 at ₹ 75,00,000 before considering the following items:

a. Claims covered Under Re-insurance ₹ 3,15,000

b. Income Tax on the above ₹ 35,000

c. Bonus in reduction of Premium ₹ 4,25,000

d. Dividend from Investment ₹ 3,20,000

Claims intimated but not yet admitted ₹ 8,15,0000

Outstanding Premium ₹ 25,000

Compute the Life Insurance Fund on 31.03.2022 after considering the above omission

Problem No 02:

The Revenue Account of a life insurance company shows the life assurance fund on 31% March, 2022 at ₹ 60,20,000 before considering the following items:

i. Claims covered under re-insurance ₹ 1,20,000.

ii. Bonus utilized in reduction of life insurance premium 45,000.

iii. Interest accrued on securities ₹ 82,600.

iv. Outstanding premium ₹ 60,000.

v. Claims intimated but not admitted ₹ 3,00,000.

What is the life assurance fund after considering the above omission?

Problem No 03:

The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was 50 lakhs on 31.03.2022. Its actuarial valuation on 31.03.2022 disclosed a net liability of ₹ 42.50 lakhs. An interim bonus of ₹ 80,000 was paid to the policy holders during previous two years. It is now proposing to carry forward 1,50,000 and to divide the balance between policy holders and the shareholders. Show the

a) Valuation Balance Sheet;

b) Net profit for the two-year period; and

c) Distribution of profits.

Problem No 04:

BISLA Life Insurance Company furnishes you the following information:

Life Insurance fund on 31.03.2022 1,40,00,000 Net Liability on 31.03.2022 as per Actuarial Valuation 1,20,00,000. Interim Bonus paid to Policy holders during Inter-valuation Period 2,50,000 You are required to prepare:

a) Valuation Balance Sheet
b) Statement of Net Profit for the Valuation Period.

Problem No 05:

Prepare revenue account and profit and loss account for life insurance company with following information's:

Premium income Rs 2,00,000

Interest, dividend, rent(policy holder) 40,000 Interest dividend, rent (shareholders) 35,000 Operating expense Rs 70,000

Commission Rs 28,000

Benefit paid Rs 80,000

Opening balance of valuer's liability Rs 26,000 Closing balance of valuer's liability Rs 29,000

Problem No 06:

The life insurance fund of Suresh life insurance company Ltd was Rs 34,00,000 on 31st March 2022. Its actuarial valuation on 31st March 2022 disclosed net liability of Rs 28,80,000. An interim bonus of Rs 40,000 was paid to the policyholders during the previous two years. It is now proposed to carry forward Rs 1,10,000 and to divide the balance between the policyholders and shareholders. Show the valuation balance sheet,(b) the net profit for the two year period, and (c) distribution of profits

Problem No 07:

From the following, you are required to calculate the loss on account of claim to be shown in the revenue account for the year ending 31st December. 2002:

Intimated in	Admitted in	paid in	Rs.
2001	2001	2002	15,000
2002	2002	2003	10,000

2000	2001	2001	5,000
2000	2001	2002	12,000
2002	2003	2003	8,000
2002	2002	2002	1,02,000

Claims on account of Re-insurance ceded was Rs. 25,000

Problem No 08:

Foregin insurance Co. Ltd. furnishes you with the following information: On 31.12.2021 it had reserve for unexpired risks to the tune of 40 crores. It comprised 15 crores in respect of marine insurance business; 20 crores in respect of fire insurance business and 5 crores in respect of miscellaneous insurance business. It is the practice of Indian insurance Co. Ltd. to create reserves at 100% of net premium income in respect of marine insurance policies and at 50% of net premium income in respect of fire and miscellaneous income policies.

Rs. In crores

	Marine	fire	miscellaneous
Premia collected from:			
(a) Insured in respect of policies issued	18	43	12
(b) Other insurance companies in respect Of risks undertaken	7	5	4
Premium paid/ payable to other insurance Companies on business ceded	6.7	4.3	7

Foregin insurance Co. Ltd. asks you to Pass journal entries relating to "Unexpired risks reserve" and Show in columnar form "Unexpired risks reserve" a/c for 2022

Problem No 09:

The revenue account of a life insurance company shows the life assurance fund on 31st march, 2022 at Rs. 62,21,310 before taking into account the following items:

i Claims recovered under re-insurance Rs. 12,000.

ii Bonus utilized in reduction of life insurance premium Rs. 4,500 iii Interest accrued on securities Rs. 8,260

iv Outstanding premium Rs. 5,410

v Claims intimated but not admitted Rs. 26,500

What is the life assurance fund after taking into account the above omissions?

Problem No 10:

The life assurance fund of an insurance company on 31.3.2015 showed a balance of Rs. 87,76,500. It was later found that the following were not taken into account:

(i) Dividend from investments Rs. 4,80,000

(ii) Income tax on above 48,000

(iii) Claims recovered under re-insurance4,23,000

(iv) Claims indicated but not accepted by company 7,62,000

Ascertain correct balance of the fund

Problem No 11:

Prepare the fire Insurance Revenue Account of Agni Fire Insurance Ltd. as per IRDA regulations for the year ended 31st March 2022 from the following details:

Particulars	(₹)
Claims Paid	6,00,000
Legal expenses regarding claim	10,000
Premiums received	12,50,000
Re-insurance Premiums paid	50,000
Commission	3,00,000
Expenses of Management	2,00,000
Provision against unexpired risk on 1t April, 2021	5,75,000
Claims unpaid on 1st April, 2021	50,000
Claims unpaid on 31st March, 2022	80,000

Provide for Unexpired Risk @ 50% 1less reinsurance.

MCQ

1) Losses of theft are covered by ………………… insurance policies.

A. Burglary

B. Fire

C. Marine

D. None of the above

2) In Case of Life Insurance Business, Bonus may be of

A. One type

B. Two types

C. Three types

D. None of the above

3) Which of the following is not a mandatory financial statement of a General Insurance Company as per IRDA regulations?

A. Revenue Account

B. Profit and Loss Account

C. Balance Sheet

D. Cash Flow Statement

4) Which of the following is a principle of insurance?

A. Principle of indemnity

B. Insurable interest

C. Principle of uberrimae fidei

D. All of the above

5) Which of the following are mandatory financial statements of a General Insurance Company as per IRDA regulations?

A. Balance Sheet

B. Profit and Loss Account

C. All of these

D. Revenue Account

6) Losses of theft are covered by .... insurance policies

A. Burglary

B. Fire

C. Marine

D. None of the above

7) Which of the following is a principle of insurance?

A. Principle of indemnity

B. Insurable interest

C. Principle of uberrimae fidei

D. All of the above

8) In Case of Life Insurance Business, Bonus may be of

A. One type

B. Two types

C. Three types

D. None of the above.

ANSWERS.

1. a	2. c	3. d	4. d	5. c	6. a	7. d	8. c

CH –10

ELECTRICITY COMPANY ACCOUNTS

Features of Electricity Act 2003;

i. Separate identification: The activities like generation, transmission & distribution of power have been separately identified. The Act de-licenses power generation completely.

ii. Renewal sources: 10 % of the power supplied by suppliers & distributors to the consumers has to be generated using renewable and non-conventional sources or energy.

iii. SERC: Setting up state electricity regulatory Commission (SERC) made mandatory.

iv. Private licenses: Provision for private licenses in transmission and entry in distribution through an independent network.

v. Obligation: Metering of all electricity supplied made obligatory.

vi. Strict control of theft: Provision relating to theft of electricity made stricter.

Accounting Aspects

Security Deposit:

i. Deposit: The distribution Licensee may require the consumer to deposit sufficient security against the estimated payment which may become due to him in respect of electricity supplied to the consumer.

ii. Interest Bank Rate: The distribution Licensee shall pay interest equivalent to the Bank Rate or more, as may be specified by the concerned State Commission, on the security and refund such security on the request of the person who gave such security.

iii. Method of calculation: Determination of Security Deposit amount for a consumer = Load x Load Factor of the category in which the consumer falls x (Billing Cycle 45days) x Current Tariff.

iv. Accounting of Security Deposit:

a. On receipt of security deposit:

Bank A/c Dr

To Security Deposit A/c

b. On making provision for interest accrued on security deposit:
Interest Expense A/c Dr
To Interest Accrued on security Deposit A/c

c. On adjustment of interest accrued on security deposit in customer bill:
Interest Accrued on security deposit A/c Dr
To Sales turnover A/c

v. Disclosure in balance sheet:

a. Security deposit - Non-Current liability.
b. interest Accrued on security Deposit - Non-current liability.

Depreciation:

i. Depreciation rates for the assets shall be specified by the Central Electricity Regulatory Commission and these rates shall be used for tariff as well as accounting
ii. Depreciation represents a Cash Flow for Repayment of Loan not by allowing Advance against Depreciation but by prescribing higher rates of depreciation for initial years of loan redemption.
iii. CERC prescribes following two methods of depreciation:
a. The Straight-line Method.
b. Optimized Depreciation Replacement Cost (ODRC) based method.

iv. Regulation 21-Depreciation

a. Historical cost of the asset is subject to depreciation. Depreciation to be provided on all assets other than Land.
b. The Residual Life of the asset shall be considered as 10 years.
c. The Salvage value of the asset shall be considered as 10%. Depreciation shall be allowed up to maximum of 90% of the historical cost of the asset.
d. On repayment of entire loan, the remaining depreciable value shall be spread over the balance useful life of the asset.

Rates of Depreciation- Appendix III

Assets	*SLM Depreciation Rate (Salvage Value 10%)*
1. Land under full ownership	*0.00%*
2. Land under Lease	*3.34%*
3. (a) Building & Civil Engineering Works other than Kutcha Roads	*3.34%*
(b) Temporary Erections such as Wooden Structures	*100.00%*
4. IT equipment's	*15.00%*
5. Self-Propelled Vehicles	*9.50%*
6. Portable Air conditioning Plants	*9.50%*
7. (a) Apparatus other than Motors let on hire	*9.50%*
(b) Motors let on hire	*6.33%*
8. Communication Equipment's	*6.33%*
9. Office Furniture, Furnishing, Equipment's, Fittings & Apparatus	*6.33%*
10. Any other Assets (for example) *(a) Plants & Machinery in generating stations* *(b) Cooling Towers & Circulating Water Systems* *(c) Hydraulic Works Forming part of the Hydro-dams, etc.* *(d) Transformers & Switchgear* *(e) Lighting Arrestor, Batteries, Overhead lines including cable Support.* *(f) Meters* *(g) Static air conditioning plants.* *(h) Street Light Fittings.* *(i) Vehicles other than self-propelled Vehicles*	*5.28%*

Weighted average rate of depreciation:

i. Calculate Depreciation on Individual Assets (Other Than Freehold Land) at the rate as per Appendix III: Cost of the Asset x Prescribed Rate of Depreciation.
ii. Calculate Total depreciation on all assets (other than freehold Land) i.e. aggregate of deprecation calculated on each asset: Depreciation on Asset Depreciation on Asset .
iii. Calculate Total Capital Cost of All assets (other than Freehold Land).
iv. Calculate Weighted Average Rate of Depreciation.

$$\frac{\text{Total depreciation on All Assets (other than Freehold Land)}}{\text{Total capital Cost of All Assets(other than Freehold Land)}} \times 100$$

Advance Against Depreciation-Regulation 21:

Step 01 = Repayment of loan (Not exceeding 10% of loan) - Current year depreciation

Step 02 Cumulative Repayment of Loan - Cumulative Depreciation

Advance against Depreciation = lower of Step 01 or Step 02

Total Depreciation = Current year depreciation + Advance Against Depreciation

Debt-Equity Ratio -Regulation 20:

For generation stations which received investment approval on or after 1.4.2014 the applicable debt - equity ratio is 70:30.

If actual equity exceeds 30%, then such excess shall be treated as notional debt.

If actual equity is less than 30%, then tariff shall be calculated using actual debt and equity.

Interest on Loan-Regulation 21:

Particulars	Amount
a) Opening value of loan (Opening Capital x 70%)	xxx
b) Add: Additional loan during the period (Current Period capital exp x 70%)	xxx
c) Less: Amount of loan repaid during the period	xxx
d) Closing value of loan (a + b- c)	xxx
e) Average amount of loan outstanding (a + d)/2	xxx
f) Average rate of interest on loan	xxx
g) Allowable interest on loan (e x f)	xxx

Return on Equity-Regulation 21:

Particulars	Amount
a) Opening value of equity (Opening Capital x 30%)	xxx
b) Add: Additional equity during the period (Current Period capital exp x 30%)	xxx
c) Closing value of loan (a + b)	xxx
d) Average amount of equity (a c)/2	xxx
e) Average return % on equity as per regulation 21	14%
Allowable return on equity (d x e)	xxx

Treatment of Service Line Cum Development Charges.

Following different accounting and reporting practices are noticed in published Financial Statements of some Electricity Companies:

i. Accounting Practice 1:

a. SLD is accounted for as a liability and

b. subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset.

ii. Accounting Practice 2:

a. SLD is accounted for as Reserve as the amount is not refundable and

b. disclosed under the head Reserves and Surplus

c. without transferring any proportionate amount to Income Statement during the expected life of the Asset.

iii. Accounting Practice 3

a. SLD is accounted for as Capital Reserve as the amount is not refundable and

b. subsequently proportionate amount is transferred to Income Statement during the expected life of the Asset to match against depreciation on total cost of such asset.

iv. Accounting Practice 4:

a. SLD is accounted for as reduction in the cost of Non-Current Asset and

b. depreciation is provided on such reduced cost.

PROBLEMS

Problem No 01:

From the following calculate Weighted Average Rate of Depreciation considering the rates as per Appendix-III

Assets	Closing Balance at Cost
1. Land under full ownership	14,30,000
2. Land under Lease	4,30,000
3. (a) Building & Civil Engineering Works other than Kutcha Roads	33,00,000
(b) Railways Sidings	40,00,000
(c) Temporary Erections such as Wooden Structures	10,00,000
4. IT Equipments	20,00,000
5. Self Propelled Vehicles	30,00,000
6. Portable Air Conditioning Plants	25,00,000
7. (a) Apparatus other than Motors let on hire	15,00,000
(b) Motors let on hire	2,00,000
8. Communication Equipments	5,00,000
9. Office Furniture, Furnishing, Equipments ,Fittings & Apparatus	5,00,000
10. Plants & Machinery in generating stations	2,52,00,000
11. Cooling Towers & Circulating Water Systems	10,00,000
12. Hydraulic Works Forming part of the Hydro-dams, etc.	20,00,000
13. Transformers & Switchgear	2,05,00,000
14. Lighting Arrestor, Batteries, Overhead lines including cable support	10,00,000
15. Meters	20,00,000
16. Static Air Conditioning Plants	1,00,00,000
17. Street Light Fittings	47,85,000
18. Vehicles other than Self Propelled Vehicles	2,15,000

Problem No 02:

Calculate depreciation as per 2009 regulations from the following information of an Electricity generation project

i. Date of commercial operation i.e. 1.9.2010.

ii. The details of actual expenditure incurred up to the date of commercial operation i.e 1.9.2010 and projected expenditure to be incurred from the date of commercial operation up to 31.3.2014 for the assets under Transmission system. The details of apportioned approved cost as on the date of commercial operation and projected expenditure to be incurred for the above mentioned assets is summarized below:

Apportioned approved cost	Actual Cost Incurred as on the date of commercial operation	Proposed Expenditure from the date of commercial operation to 31.3.2011	Proposed Expenditure for 2011-12	Total Expenditure completion cost
4,20,000	4,00,000	1,00,000	20,000	5,20,000

iii.

Average Rate of Depreciation Calculated as per rates Specified in Appendix-III	5.3	5.2	5.2	5.2

Additional capital expenditure of 20,000 lakh has been considered out of 1,00,000 lakh for the year 2010-11 and no further additional capital expenditure has been considered as capital cost has been restricted to apportioned approved cost in the absenc of revised capital expenditure.

Problem No 03:

Calculate depreciation upto 2013-14 as per 2009 regulations from the following information of ABC Power generation Project

Date of commercial operation/Work Completed Date 1-april-1996

Beginning of Current year 1-Apr-2011

Useful life 35 years

		(Figures in ₹ Crores)
1.	Capital Cost at beginning of the year 2011-12 Additional	222.00
2.	Capitalisation during the year: **2012-13**	10.56
	2013-14	29.44
3.	Value of Freehold Land	12.00
4.	Depreciation recovered up to 2009-10 Depreciation	48.60
5.	recovered in 2010-11	5.40

Note: Capital Cost and Accumulated Depreciation at the beginning of the year are as per tariff order FY 2011-12.

Problem No 04:

From the following information Calculate Depreciation and Advance against Depreciation as per Regulation 21 of the General Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004.

- Date of Commercial Operation of COD = 1st April 2010
- Approved opening Capital cost as on 1st April 2010 = 1,50,000
- Weighted Average Rate of Depreciation: 3.5%
- Details of allowed Additional Capital Expenditure. Repayment of Loan and Weighted Average Rate of Interest on Loan is as follows:

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditure (Allowed)	10,000	3,000	2,000	2,000
Repayment of Loan	8,000	10,000 10,000	11,000	
Weighted Average Rate of Interest on Loan	7.4	7.5	7.6	7.5

Problem No 05:

From the following information Calculate Return on Equity as per Regulation 21 of the General Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004:

1. Date of Commercial Operation of COD = 1st April 2010
2. Approved Opening Capital Cost as on 1st April 2010 = ₹ 15,00,000
3. Details of allowed Additional Capital Expenditure is as Follows

	1st year	2nd year	3rd year	4th year
Additional Capital Expenditur (Allowed)	1,00,000	30,000	20,000	10,000

Calculate return on equity.

Problem No 06:

Consider the following information provided by XYZ Power Supply Company Ltd. Security deposit received from a customer on 01.10.2020 for `2,00,000. Interest rate applicable was 8% for 2020-21 and 9% for 2021-22. The accrued interest for the year is adjusted against the bill for the immediate next quarter. Journalize the above transaction for 2020-21 and 2021-22

MCQ

1) In case of an Electricity Company, balance of Security Deposit A/c at the end of the accounting period should be disclosed as

A. A non-current asset in the Balance Sheet

B. A current liability in the Balance Sheet

C. A non-current liability in the Balance Sheet

D. A current asset in the Balance Sheet

2) In relation to an Electricity Company the amount of security deposit = Load x Load factor of the category in which the customer falls x Current tariff x

A. Billing cycle + 45 days

B. Billing cycle + 30 days

C. Billing cycle + 15 days

D. Billing cycle + 20 days

3) In case of an electricity company, depreciation on assets is calculated based on the rates notified by

A. Companies Act 2013

B. State Electricity Commission

C. Central Electricity Regulatory Commission

D income Tax Act 1961

4) For calculation of depreciation, Central Electricity Regulatory Commission has recommended

A. Straight Line Method

B. Optimized Depreciated Replacement Cost Method

C. Written Down Value Method

D. Both (A) and (B)

5) In case of Electricity Company while calculating depreciation for the purpose of tariff as per Regulation 21, the salvage value of the Asset shall be considered as

A. 3%

B. 5%

C. 10%

D. None of the above

6) The Electricity Act, 2003 replaced which of the following three existing legislations?

A. The Indian Electricity Act, 1910

B. The Electricity (Supply) Act, 1948

C. The Electricity Regulatory Commissions Act, 1998

D. All of the abov

7) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown
A. under Current Liability.
B. under Non-current Liability.
C. under Current Asset.
D. under Non-current Asset.

8) Balance of Interest Accrued on Security Deposit A/c of an Electricity company should be shown
A. under Current Liability
B. under Non-current Liability
C. under Current Asset
D. under Non-current Asset

9) The Electricity Act, 2003 replaced which of the following three existing legislations?
A. The Indian Electricity Act, 1910
B. The Electricity (Supply) Act, 1948
C. The Electricity Regulatory Commissions Act, 1998
D. All of the above

10)In case of an electricity company, depreciation on assets is calculated based on the rates notified by
A. Companies Act 2013
B. State Electricity Commission
C. Central Electricity Regulatory Commission
D. Income Tax Act 1961

11) For calculation of depreciation, Central Electricity Regulatory Commission has recommended
A. Straight Line Method
B. Optimized Depreciated Replacement Cost Method
C. Written Down Value Method
D. Both (A) and (B)

12)In case of Electricity Company while calculating depreciation for the purpose of tariff as per Regulation 21, the salvage value of the Asset shall be considered as
A. 3%
B. 5%
C. 10%
D. None of the above

13) In relation to an Electricity Company the amount of security deposit = Load x Load factor of the category in which the customer falls x Current tariff x

A. Billing cycle +45 days

B. Billing cycle+ 30 days

C. Billing cycle + 15 days

D. Billing cycle + 20 days

Answers

1. d	2. a	3. c	4. d	5. c	6. d	7. b	8. b	9. d	10. d
11. d	12. d	13. a							

CH –11

INDIAN ACCOUNTING STANDARDS

CONCEPTUAL. FRAMEWORK TO ACCOUNTING STANDARDS

1) Introduction:

a. Meaning: Conceptual Framework is a basic document that sets objectives and the concepts for general purpose financial reporting.

b. Purpose:

i. It acts as a guideline for the setters of accounting standards.

ii. It guides the accountants in situations where no specific accounting standard is made available.

iii. To assist all parties to understand and interpret the Ind **AS**

c. Issuer: It is issued by The Institute of Chartered Accountants of India.

d. Title: It is known as 'Conceptual Framework for Financial Reporting under Ind AS'.

e. Applicability: It is applicable for accounting periods beginning on or after April 1, 2021.

2) Components: Conceptual Framework for financial reporting under Ind AS consists of the following eight chapters:

Chapter 01: Objective of General Purpose Financial Reporting.
Chapter 02: Qualitative Characteristics of Useful Financial Information.
Chapter 03: Financial Statements and the Reporting Entity.
Chapter 04: The Elements of Financial Statements.
Chapter 05: Recognition and Derecognition.
Chapter 06: Measurement.
Chapter 07: Presentation and Disclosures.
Chapter 08: Concepts of Capital and Capital Maintenance.

3) Chapter 1: Objectives of General purpose Financial Reporting:

a. The objective is to provide information about

i. Financial Position

ii. Financial Performance and

ii. Cash flows

iv. Of an entity to enable a wide range of users in making economic decisions.

b. Types of information: The following information enables users to evaluate, ability of the entity to generate cash, timing of generation of cash and certainty of generation.

i. Info about Financial Position:

Assets- Economic resources controlled by an entity

Liabilities - Financial Structure of an entity

Liquidity and solvency position

Ability of an entity to adopt the changes

ii. Info about Financial Performance:

Capacity to generate cash flows from existing resources.

Judgements about effectiveness with which additional resources might be employed.

ii. Info about Changes in financial position:

To assess investing, operating and financing activities

To assess ability to generate cash and needs to utilize those cash flows.

c. Assumptions: Financial statements prepared by using the following two underlying assumptions

i. Accrual basis

ii. Going Concern.

4) Chapter 2: Qualitative Characteristics of Financial Statements

a. Qualitative Characteristics refers to the attributes that make the information provided in the financial statements useful to the users.

b. The following are qualitative characteristics:

i. Relevance:

Relevance refers to any Financial information which is capable

of making a difference in decision.

Relevance is dependent upon the following factors.

a. Faithful Representation

b. Substance over form

c. Neutrality

d. Prudence

e. Completeness

ii. Comparability:

It refers to comparison of information in financial statements of an entity with another entity's financial statements.

It helps users to identify and understand similarities and differences among these entities.

iii. Verifiability:

It helps assure users that information faithfully represents the economic phenomena it purports to represent.

iv. Timeliness:

It refers to providing information to users exactly when they required such information to exercise their decisions.

v. Understandability

The information provided in the financial statements should be easily understandable by the users. Understandability depends upon classifying, characterizing and presenting information clearly and concisely.

5) Chapter 3-Financial Statements and the Reporting Entity:

a. Meaning of FS: Financial statements provide information about reporting entity as a group

i. Economic resources - Assets

ii. Claims-Liabilities and

ii. Changes in those resources and claims.

b. Objective of FS: The objective of financial statements.

i. To enable users of financial statements in assessing ability of entity's future cash flow generation

ii. To enable users in assessing management's stewardship of the entity's economic resources.

c. Forms of FS: Financial information is provided in

i. Balance Sheet,

ii. Statement of Profit and Loss

i. Other statements and

iv. Notes to Accounts

d. Reporting Period: The period for which financial statements are getting prepared is known as reporting period.

e. Reporting Entity:

i. A reporting entity refers to an entity that is required to prepare financial statements.

A reporting entity can be a

a. Single Entity - Independent financial statements.

b. Comprise more than one entity - Consolidated Financial Statements.

ii. Assumption: Financial Statements are prepared assuming that reporting entity is **going concern.**

6) Chapter 4: Elements of Financial Statements:

a. The following are various element related to measurement of financial position:

i. Assets

ii. Liabilities and

ii. Equity

b. The following are the elements directly related to measurement of financial performance:

i. Income

ii. Expenses.

7) Chapter 5: Recognition and Derecognition Recognition:

a. Recognition refers to the process of incorporating in the balance sheet or profit and loss statement of an item which meets recognition criteria.

b. Asset Recognition: Recognize an asset

i. If it is probable that future economic advantages will flow into the entity

ii. Cost incurred for acquisition or construction of Such asset can be measured reliably.

c. Liability Recognition: Recognize a liability

i. If it is probable that an outflow of resources will result from settlement of present obligation.

ii. Amount at which the settlement will take place shall can be measured reliably.

d. Income Recognition: Income should be recognized in the statement of profit and loss account, if

i. Increase in expected future economic benefits on account of increase in an asset or decrease in a liability has arisen and

ii. Amount of income can be measured reliably.

e. Expense Recognition:

i. Expense should be recognized in the statement of profit and loss account, if Decrease in expected future economic benefits on account of Decrease in an asset or increase in a liability has arisen and

Amount of Expense can be measured reliably.

ii. Expense should be recognized immediately in the profit and loss account, if such expense does not produce any future economic benefits.

f. Derecognition:

i. It refers to removal of all or part of a recognized asset or liability from an entity's balance sheet.
ii. It normally occurs when that item no longer meets the definition of an asset or of a liability.
iii. Such assets and liabilities are called transferred components.

8) Chapter 6: Measurement of Elements of Financial Statements:

a. Measurement: It refers to the process of determining the monetary value at which elements of financial statements are to be recognized or to be carried in the financial statements.

b. Measurement Bases: The following are various measurement bases:

i. Historical Cost

Asset: The amount of consideration paid to acquire an acquisition or construction is known as historical cost.

Liability:

a. Amount of proceeds received in exchange for an obligation or
b. The amount of cash expected to be paid to satisfy the liability in the normal course of business.

ii. Current Cost:

Asset: Cost to be incurred if the same or similar asset was to be acquired with same or similar quality attributes.

Liability: Cash or cash equivalents that would be required to settle the obligation currently.

ii. Realizable Value:

Asset: Cash that could be obtained by selling the asset currently.
Liability: Cash that could be expected to be paid to satisfy liabilities in normal course of business.
Lability: Cash that could be expected to be paid to satisfy liabilities in normal course of business.

iv. Present Value:

Asset: Present discounted value of all future cash flows expected to be generated by use of such asset.

Liability: Present discounted value of all future cash outflows expected to require to settle the liability in the normal course of business.

v. Fair Value:

Asset: The value at which an asset can be exchanged
Liability: The value at which a liability can be exchanged.

9) Chapter 7: Presentation and Disclosure:

a. A reporting entity communicates its information by presenting and disclosing information in its financial statements.

b. When developing presentation and disclosure requirements in Ind AS a balance is needed between:

i. Flexibility: Entities should have flexibility to provide relevant information.

ii. Comparability: Information should be comparable.

10) Chapter 8: Concepts of Capital and Capital Maintenance:

a. Concepts of Capital:

i. Financial concept: It refers to money invested with the net assets or equity of the entity.

ii. Physical Concept: It refers to money invested in the productive capacity of the entity.

b. Capital Maintenance:

i. Financial Capital Maintenance:

Profit is earned only if the monetary value of the net assets at the end of the period exceeds the monetary value of net assets at the beginning of the period.

Such profit should be adjusted for any distributions to owners and contributions from owners during the period.

c. Physical Capital Maintenance

i. Profit is earned only if the physical productive capacity of the entity at he the end of the period exceeds the physical productive capacity at the beginning of the period.

ii. Such profit should be adjusted for any distributions to owners and contributions from owners during the period.

Ind AS 01 Presentation of Financial Statements

1) General purpose financial statements:

a. It refers financial statements which are prepared without considering the specific needs of particular user.

b. These financial statements can be used by anyone because these are general statements.

2) Objective: The objective of this standard, is to provide useful information to various users of financial statements to aid their economic decisions with respect to the following.

a. Financial Position

b. Financial Performance

c. Cash flows

d. Effectiveness of resource utilization by the management

3) Components of Financial Statements: The following form part of complete set of financial statements.

a. Balance Sheet

b. Profit and Los statement

c. Statement of changes in equity

d. Cash flow statement

e. Significant accounting policies and explanatory notes

f. Comparative information of preceding accounting period

g. Additional statements by an entity on voluntary basis like Environmental reports, value added statements and human resources statements etc.

4) General Features: General purpose financial statements should carry the following features to make them more relevant and reliable.

a. Ture and Fair Presentation:

i. Financial statements shall present a true and fair view of the financial position, financial performance and cash flows of an entity.

ii. If financial statements are prepared in compliance with Ind AS, then it should make a clear and unconditional declaration about it.

iii. Any departure from any Ind AS requirement must be disclosed along with the financial effect on the financial statements.

b. Going Concern:

i. Financial statements should be prepared assuming the entity as a going concern i.e. the entity will continue its operations for the next one-year period.

ii. Going Concern refers to the entity neither has any intention nor has any necessity to curtail its business operations in the foreseeable future.

iii. Separate disclosure should be made in the notes to accounts if financial statements are not prepared assuming going concern.

c. Accrual Basis of Accounting:

i. Financial statements of an entity should be prepared in accordance with accrual basis of accounting except the cash flow statement.

ii. Accrual refers to recognize and record the items of income and expense when it is earned or incurred irrespective of the fact that when cash has been received or paid out respectively.

d. Materiality:

i. Each material class of similar items shall be presented separately in the financial statement.

ii. Non-material items require disclosure only when it required by law.

e. Offsetting: Assets and liabilities, Income and expenses should not offset against each other unless it is permitted by Ind AS.

f. Frequency of reporting:

i. Complete set of financial statements shall be presented annually.

ii. When an entity changes its reporting period and presents financial statements for a period longer or shorter than one year, then it shall disclose the following.

Reasons behind it Comparative numbers provided is not fully comparable.

g. Comparative Information: Comparative figures for previous period should be disclosed unless permitted by Ind As.

h. Consistency of Presentation: Entities should retain their presentation and classification of items from one period to the next. Change may be allowed only when

i. The change result in a more appropriate presentation

ii. It is required by an Ind AS.

i. Structure and Content -

Financial statements should be prepared in the format specified.

5) Disclosures

a. In respect of Significant Accounting Policies:

i. The measurement basis used in preparation of financial statements

ii. Other accounting policies used which are relevant to understand the financial statements.

b. In respect of uncertainty: An entity shall disclose information about the assumptions it makes about the future, sources of estimation of uncertainty, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year In respect of those assets and liabilities, the notes shall include details of:

i. Their nature, and

ii. Their carrying amount as at the end of the reporting period.

c. Capital Management Disclosure:

i. An entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.

ii. Accordingly, the entity shall disclose information relating to the qualitative aspects of capital, quantitative aspects of capital, management of both the aspects, externally imposed restrictions on capital and any violation of these restrictions during the year.

d. Other Disclosures:

i. The amount of dividends proposed or declared before the financial statements were approved for issue but not recognized as a distribution to owners during the period, and the related amount per share; and

ii. The amount of any cumulative preference dividends not recognized.

PROBLEMS

Problem No 01:

During 20-21, X ltd. created a provision for warranty claim of Rs. 5 million under Ind AS 37 'provision, contingent liabilities and contingent assets'. Reimbursement as per Ind AS 37 is Rs. 2 million. Should the entity present warranty expenses of Rs. 5 millions as an item of expense and related reimbursement as a separate item of income?

Problem No 02:

Shyam Ltd has a vacant land measuring 10,000 sq.mts. which it had no intention to use in the future. The Board of Directors decided to sell the land to tide over its liquidity problems. The Company made a profit of ₹ 10 Lakhs by selling the said Land. There was a fire in the factory and a part of the unused factory valued at ₹ 8 Lakhs was destroyed. The Loss was set off against the Profit from Sale of Land and a Profit of ₹ 2 Lakh was disclosed as Net Profit from Sale of Assets. Analyse

Problem No 03:

A loss of ₹ 8,00,000 on account of embezzlement of cash was suffered by the Company and it was debited to Salary Account, discuss.

Problem No 04:

A Ltd as part of overall cost cutting measure, announced a Voluntary Retirement Scheme (VRS) to reduce its number of employee. During the first half year, the Company paid a compensation of ₹ 144 Lakhs to those who availed the scheme. The Chief Accountant has reflected this payment as part of regular Salaries & Wages paid by the Company. Is this correct

INVENTORIES (Ind AS 02)

1) Meaning: Inventory in general consists of,
a. Finished goods held for sale in the ordinary course of business.
b. Work-in-progress as a result of production operations.
c. Raw material, spare parts and consumables which are held with an intention
to consume in the process of production of goods / rendering of services.

2) Non-Applicability: This standard is not applicable to the following inventory valuations:
a. Live stock
b. Agricultural and forest produce
c. Ore, natural gas, kerosene, diesel, petrol etc.
d. Work-in-progress in case of construction contract and related service contract.
e. WIP arising in the ordinary course of business of service provider's shares, Debentures and other financial instruments held as stock in trade.

3) Valuation Principle: Inventory should be valued at its **COST or Net Realizable Value (NRV) whichever is lower.**
a. Cost: The cost of inventory consists of the following three elements.
b. Purchase price:
i. It refers to the net amount paid or payable by the buyer to the seller.
ii. Any amount of trade discount, govt. subsidy, and Input tax credit of GST and duty draw back elements should be reduced form the purchase price for calculating net amount paid or payable.

c. Conversion cost:
i. The Cost incurred by the organization for converting the raw material into work-in-progress or finished goods is known as conversion cost.
ii. The following are the major conversion cost, which will be incurred by the organization.
1. Raw material (direct and indirect)
2. Labor (direct and indirect)
3. Expenses (direct and indirect)
4. All direct expenses should be allocated to the specific product and all overhead (indirect expenses should be appropriated using reasonable and appropriate basis).

d. Other cost: Other cost refers to any expenses which are incurred the organization for bringing the items to the current state or condition. Transportations E. g charges, Handling charges etc.

e. Exclusions from Cost of Inventories: The following should be excluded from the cost of inventory

i. Abnormal loss of materials, labor or other production costs.

ii. Storage costs other than required before further production.

iii. Administration overheads.

iv. Selling overheads.

4) Techniques for measurement of Cost:

a. Specific identification Method: If any material which is procured for a specific project and not inter-changeable.

b. If specific identification Method is not applicable:

i. FIFO First in First Out

ii. Weighted Average Cost

5) Net realizable value: It refers to the estimated selling price as reduced by the estimated cost to complete the product as per customer specifications and the estimated selling and distributions expenses.

6) Recognition as an Expense:

a. When inventories are sold, the carrying amount of those inventories shall be recognized as an expense in the period in which the related revenue is recognized.

b. The amount of any write-down of inventories to net realizable value and all losses of inventories shall be recognized as an expense in the period the write down or loss occurs.

c. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which.

7) Disclosures:

a. Accounting policy adopted in valuation of inventories

b. The cost formula used

c. Value of inventory by category i.e. Raw materials and components, work-in- progress, finished goods and stores, spares and loose tools.

d. Carrying amount of inventories carried at fair value less costs to sell.

e. amount of inventories recognized as an expense during the period.

f. Any write-down of inventories recognized as an expense in the period.

PROBLEMS

Problem No 01:

In a production process, normal waste is 5% of input. 5000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is 1,900. The entire quantity of waste is on stock at the year end. State with reference to Accounting standard, the treatment of normal loss and abnormal loss and also find out the amount of abnormal loss, if any and the value of closing inventories.

Problem No 02

Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October, Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

Problem No 03:

The stock was physically verified on 24th March and was valued at ₹ 2,00,000. Goods are normally sold by the trader at a profit of 25% on cost. After stock taking the following transactions have taken place till 31st March. Sales of ₹ 2,21,600 which includes:

a) Sales of ₹ 10,800 at 20% more than the normal selling price.

b) Sales of ₹ 10,800 at 10% less than the normal selling price.

Required: Determine the value of stock to be taken to the Balance Sheet of PCT Ltd. as at 31st March.

Problem No 04:

NATARAJ LTD. deals in manufacture of Products P, Q, R and S respectively. It provides the following information with respect to the Closing Stock of these items for the year ended March 31, 2022.

Category of stock	Historical cost	Net Realizable Value
P	80,000	59,200
Q	1,03,200	1,02,400
R	60,000	71,000
S	90,000	93,200

Calculate the value of inventories to be shown in the Balance Sheet as on March 31, 2022 as per requirements of AS-2,

Problem No 05:

How will you deal with the following as per AS-2? On 31st March, 2022, the closing stock of X Ltd. includes 13000 units costing ₹ 14 per unit. But the current market price as on that date was ₹ 12 per unit.

Problem No 06:

The cost of production of Product X is₹ 450 which includes per unit cost of Material, Labor and overheads of ₹ 250, ₹ 110 and ₹ 90 respectively. At the end of the accounting year on 31.03.2022 the replacement cost of Raw Material is ₹ 210 per unit. There are 500 units of raw material in stock on 31.03.2022.

Calculate as per AS-2 the value of closing stock or Raw Material when:

i. Finished Product is sold at ₹ 420 per unit.

ii. Finished Product sold at ₹ 490 per unit.

Problem No 07:

LUXOR LTD. deals in three products A, B and P which are neither similar nor interchangeable. At the time of closing of its Financial Account for the year ended March 31, 2022, Valuation of Closing Stock of the said products is to be determined. The details of Closing Stock of the three products extracted from the records of the company are as under:

Type of product	Cost of materials	Production expenses incurred	Selling and distribution expenses to be incurred	Estimated selling value
A	1,00,000	20,000	10,000	1,50,000
B	50,000	5,000	5,000	50,000
P	1,20,000	30,000	20,000	1,80,000
	2,70,000	55,000	35,000	3,80,000

Problem No 08:

How do you deal with the following? On 31.3.2023, the closing stock of Gourav Ltd. includes 10,000 units costing @ ₹ 10 i.e., ₹1,00,000. But the current market price as on that date was @ ₹ 9 i.e., ₹ 90,000

Problem No 09:

From the following information presented by P Ltd. ascertain the value of stock to be included in Balance Sheet: Cost Price of certain stock amounted to ₹60,000; being obsolete, it can be used for production purposes after incurring ₹10,000 for modification. The same could be used as a raw material for an existing product, the purchase price for the same amounts to ₹40,000.

Problem No 10:

How will you deal with the following situation? "A company deals in purchase and sale of timber and has included notional interest charges calculated (on the paid-up share capital and free reserves) in the value of stock of timber as at the Balance Sheet date as part of cost of holding the timber"

Problem No 11:

The company deals in three products A, B and C which are neither similar nor interchangeable. At the time of closing of its account for the year 2022-23, the historical cost and net realisable value of the items of closing stock are determined as:

Items	Historical Cost (₹ in lakhs)	Net Realizable Value (₹ in lakhs)
A	40	28
B	32	32
C	16	24

What will be the value of closing inventories?

Problem No 12:

Z Co. Ltd. purchased goods at the cost of ₹ 40 lakhs in October 2022. Till March 2021, 75% of the stocks were sold. The company wants to disclose closing stock at ₹10 lakhs. The expected sales value is ₹11 lakhs and a commission at 10% on sale is payable to the agent. What is the correct closing stock to be disclosed as at 31.3.2023?

Problem No 13:

How would you deal with the following in the annual accounts of a company for the year ended 31.3.2023? "The company has to pay delayed cotton clearing charges over and above the negotiated price for asking delayed delivery of cotton from the supplier's godown. Up to 2021-22, the company has regularly included such charges in the valuation of closing stock. This being in the nature of interest the company has decided to exclude it from closing stock valuation for the year 2021-22. This would result into decrease in profit by ₹7.60 lakhs."

Problem No 14:

Sonar Bhandar deals in old colour TVs. It has 4 TVs the particulars of which are given below: You are asked to compute the value of inventory to be included, in Balance Sheet for the year ended 31st March 2023.

TVs	Onida (₹)	Philips (₹)	EC (₹)	Sony (₹)	Total (₹)
Cost Price	10,000	20,000	35,000	50,000	1,15,000
TVs	**Onida (₹)**	**Philips (₹)**	**EC (₹)**	**Sony (₹)**	**Total (₹)**
Expenses incurred to bring into salable conditions	3,000	2,000	5,000	-	10,000
Net Realizable Value	18,000	30,000	36,000	55,000	1,39,000

Problem No 15:

The following particulars are presented by M Ltd. (deals in clothing) as on 31.3.2023:

Compute the value of stock as per Ind AS 2.

Stock held by M Ltd.:

Cost Price ₹10,550

Net Realisable Value ₹11,500

The details of such stocks were:

Particulars	Cost Price (₹)	Net Realizable Value (₹)
Cotton	5,600	4,960
Woolen	3,450	4,540
Synthetic	1,500	2,000
Total	10,550	11,500

Problem No 16:

The total stock of A Ltd. as on 31.3.2023 was ₹5,00,000 of which stock amounting to ₹31,000 were not ascertained as per Ind AS 2. Compute the value of the said stocks as per Ind AS 2 for inclusion in financial statements as on that date.

Type of Product	Cost of Materials (₹)	Production Expenses incurred (₹)	Selling and Distribution expense to be incurred (₹)	Estimated Selling Price (₹)
P	10,000	2,000	1,000	15,000
S	5,000	---	500	4,500
T	12,000	3,000	2,000	18,000
	27,000	5,000	3,500	37,500

Problem No 17:

X Ltd. presented the following particulars as on 31.3.2023 on the total cost of product:

Particulars	Cost per unit (₹)
Cost of materials (₹12 each)	50
Manufacturing inputs	30
Total Cost	80
Profit	20
Selling Price	100

On 31.3.2023, selling price has gone down suddenly from ₹ 100 to ₹70. Price of raw material has also gone down to ₹8 each. X Ltd. had in its stock 6,000, units of materials which was bought as per the above rate on the same date. Compute the value of stock as on 31.03.2023.

Problem No 18:

State with reference to accounting standards how will you value the inventories in the following cases:

(i) Raw materials were purchased at ₹100 per kg. Prices of raw materials are on the decline. The finished goods in which the raw materials is incorporated is expected to be sold at below cost. 10,000 Kgs. of raw materials is on stock at the year end. Replacement cost is ₹80 per kg.

(ii) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in a wastage of 300 MT. Cost per MT of input is ₹1,000. The entire quantity of waste is on stock at the year-end.

(iii) Per kg of finished goods consisted of:

	₹
Material Cost	100
Direct Labour	20
Direct Variable Production Overhead	10

Fixed production charges for the year on normal capacity of one lakh kg is ₹10 lakhs. 2,000 kg of finished goods are on stock at the year end.

Events after the Reporting Period (Ind AS 10)

1) Meaning: Any events which taken place after the balance sheet date but before the date on which such books of accounts approved by those charged with governance are known as events after the reporting period.

2) Types of Events: These events are broadly classifiable into the following two types:

a. Adjusting Events:

b. Non-Adjusting Events:

3) Objectives:

a. To prescribe When an entity should adjust its financial statements for events after the reporting period.

b. To prescribe Disclosure to be made by an entity.

4) Recognition and Measurement:

a. Adjusting Events:

i. Meaning: It refers to those events which provide further evidence of conditions that existed on the balance sheet date.

ii. Recognition: An entity should adjust (recognize) its financial statements for adjusting events after the end of the reporting period.

iii. Examples:

Settlement of court cases.

Impairment of assets.

Purchase or sale of assets.

Discovery of frauds and errors.

b. Non-Adjusting Events:

i. Meaning: It refers indicative of conditions that arose after the end of the reporting period.

ii. Recognition:

No adjustment to financial statements is required.

In case material non-adjusting events they should be disclosed in notes to accounts.

ii. Examples:

Major business combinations

Discontinuance of an operation

Major restructuring plans

Abnormal changes in asset prices or exchange rates.

Significant commitments or guarantees etc.

5) Dividends:

a. Dividend declared after the reporting period should not be recognized as liability Non-Adjusting Event. It should be disclosed in notes to accounts.

b. The liability to pay dividend shall be recognized when the dividend is appropriately approved and is no longer at the discretion of the entity

i. When dividend is declared and approved by shareholders.

ii. When dividend is declared and it does not require further approval.

6) Distribution of non-cash assets to owners

a. Fair Value recognition: Distribution of non-cash assets as dividend to shareholders should measured at the fair value of assets to be distributed.

b. Choice to owners: If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative,

i. Fair value of non-cash assets to be distributed

ii. Fair value of Cash distribution and

iii. probability of selection of owners

should be considered in determining the liability.

c. Review of liability: The entity should review the dividend liability at the end of each reporting period and at the date of settlement and adjust the carrying amount of the dividend payable.

7) Going Concern:

a. An entity should not prepare financial statements on going concern basis, if the management decides after the reporting period.

i. To liquidate the entity

ii. It has no realistic alternative, but to do so

b. The following disclosures are required to be made the entity as per Ind AS 01.

i. Disclosure of the fact that financial statements are not prepared using going concern assumption.

ii. Disclosure of the fact that Management is aware of material uncertainties relating to entity continuation.

8) Disclosures

a. The date of approval of financial statements, approval authority and the persons having the authority to amend those statements.

b. With respect to non-adjusting events, the following shall be disclosed.

i. Nature of events.

ii. Estimated Financial impact and if not possible to estimate the impact disclosure of such fact.

PROBLEMS:

Problem No 01:

K Ltd. has sold its building for ₹ 50 lakh to B. Ltd, and has also given the possession to B ltd. The book value of the building is ₹ 30 lakh. As on 31st March. 2022. the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment?

Problem No 02:

A Ltd finalized its accounts on 31.03.2022. However, the financial statements were approved by the Board on 20.05.2022. An accident occurred in the premises of X Ltd. on 30.05.2022 and properties worth 500 lakh has been lost. Will it be considered as an event after the reporting period as per the scope of Ind AS 10?

Problem No 03:

A Ltd made a provision for doubtful debts @ 10% of its total debtors for the year ended 31st March 2022. In February 2022, Mr X, a debtor for ₹ 20 lakh suffered heavy loss and subsequently became insolvent in April, 2022. A Ltd is of the opinion that it can provide ₹ 20 lakh as loss in the final accounts for the year ended on 31.03.2022. Comment.

Problem No 04:

C Ltd prepared financial statements for the year ended 31/3/2022 and books are approved by its board of directors on 30/4/2022. 10/4/2022 C Ltd in trading difficulties obtained a valuation of its properties for the purpose of providing additional security to its bankers State Bank of India. The amount estimated by the valuer is materially lower than the carrying amount attributed to the properties at the balance sheet date.

C Ltd. Conducted last impairment review on 31/3/2019 and it is also considering selling certain properties to generate additional cash. How should this be reflected in the financial statements?

Problem No 05:

A Major fire has damaged the assets in factory of A Ltd on 2nd April 2022, two days after the book closure date. The loss is estimated at Rs. 20 Cores out of which 12 Crores will be recoverable from the insurers. How the loss should be treated in the financial statements for the year ended 31/3/2022?

Problem No 06:

Board of directors of BB Ltd approved the financial statements for the year 2021-22 on 31st July 2022. The following events occurred after 31/3/2022 but before 31st July 2022. State how you would deal with these situations.

i. The board of directors at their meeting on lune 23, 2022 has recommended a dividend of 15% to be paid to the shareholders after it is approved at annual general meeting.
ii. A fire occurred in the godown on 5/4/2022 damaging a huge quantity of stock amounts to Rs. 10,00,000
iii. A Major debtor who was declared insolvent on 15th July 2022. The total outstanding amount was Rs. 5,00,000 as on 31/3/2022.

Problem No 07:

The financial year ends on 31st March, 2021. A company can conduct the AGM any time before 30th September, 2021. However, the company needs to publish the results for quarter ended 30th June, 2021 as interim results. The board of the directors (BOD) approves the financial statements on 30th August, 2021. State the date on which financial statements are considered approved for the purpose of Ind AS 10.

Problem No 08:

X Ltd. finalized its accounts on 31.03.2023. However, the financial statements were approved by the Board on 20.05.2023. An accident occurred in the premises of X Ltd. on 30.05.2023 and properties worth ₹50 lakh has been lost. Will it be considered as an event after the reporting period as per the scope of Ind AS 10?

Problem No 09:

A Ltd. closed its accounting year on 31/03/2023 and the accounts for that period were considered and approved by the board of directors on 20th May, 2023. The company was engaged in boring tunnels for metro railway. While doing the boring work on 01/06/2023 it hit an aquifer and as a result 18 building were damaged. It was estimated that there would be extra cost to the tune of ₹15 crores. You are required to state with reasons, how it would be dealt with in the financial statements for the year ended 31.03.2023.

Problem No 10:

While preparing its final accounts for the year ended 31st March, 2023, a company made a provision for doubtful debts @ 5% of its total debtors. In the last week of February 2023, a debtor for ₹20 lakh suffered heavy loss and subsequently became insolvent in April, 2023. Can the company provide the full loss out of the insolvency of the debtor in the final accounts for the year ended on 31.03.2023?

Problem No 11:

B Ltd. supplies parts to a car manufacturer in respect of a particular model of car. On the reporting date, B Ltd. has a high level of inventory of parts due to low order levels. After the reporting date but before the date of approval of the financial statements, the car manufacturer announces that the specific model will no longer be produced. There is no alternative market for the inventory. Should B Ltd. write-down of inventory to net realizable value and adjust the inventory reported on the reporting date?

Problem No 12:

Prior to the approval of the financial statements but subsequent to the balance sheet date, C Ltd. in trading difficulties obtained a valuation of its properties for the purpose of providing additional security to its bankers. C Ltd. is also considering selling certain properties to generate additional cash. The amount estimated by the valuer is materially lower than the carrying amount attributed to the properties at the balance sheet date based on the last impairment review carried out three years ago. How should this be reflected in the financial statements?

Problem No 13:

The exchange differences arising on the translation of the bank overdraft since the balance sheet date exceed the profit for the period under review due to an adverse movement on the foreign exchange rate after year end. How should this be reflected in the financial statements?

Problem No 14:

AIR Aviation Co. Ltd. announced a restructuring programme in 2020 which was implemented in full in 2021. The workforce was adequately downsized and a number of non-profitable routes were suspended. However, in view of the still -difficult market environment, the high cost of aviation fuel and continuing declines in yields, the Board of Directors approved a further package of measures on January 31, 2022 under which the regional aircraft fleet will be reduced by at least 15 aircraft. This action is intended to reduce net annual cost by recurring ₹200 lakh. The actions will be taken over the next 15 months. The company is expecting a break-even in 2023. Should the company prepare its financial statements on a going concern basis?

Problem No 15:

K Ltd has finalized their financial statements for the year ending 31 March, 2023 and approved by their approving authority on 25 th June 2023.

A. A major fire broke out in the night of 31 May, 2023 destroying factory premises. Loss of Property estimated to be 125 lakhs.

B. Consultations with another company started in April, 2023 for acquisition of two manufacturing units which may involve additional investments of 150 lakhs.

C. Foreign exchange loss during the period 1st April, 2023 and 1st June, 2023 has resulted in assets being reduced by 130 lakhs.

You are requested to state how to deal with the above information's in the annual accounts.

Problem No 16:

Mr. Kumar is being sued for using copyright of Mr.Balu. This is denied by Mr Kumar. Kumar showed only a contingent liability in his financial statements as on 31/03/2023.On 25/4/2023, Court award damages of ₹ 18, 750, 00 against Mr. Kumar. The financial statements were approved on 29/06/2023.State whether this is an adjusting event and why?

Problem No 17:

While auditing the financial statements of K Co for the year 2022-2023 on 11/05/2023.The auditors found that there were a fictitious salary of 795,000.State whether this is an adjusting event and why?

Problem No 18:

Raju LTD with a financial year end of 31 st March has an amount of 60,00,000 that is due from a debtor named Sajeev as of 31 st march 2023.The company provided for impairment on 31 st march 2023 of 800,000 against the gross value of 60,00,000 due from Rajeev. On 30 th June 2023, before the financial statements were authorized for issue , Sajeev goes bankrupt and files for protection from its creditors .Is Sajeev 's bankruptcy and filing for protection from its creditors an adjusting or non-adjusting event ?

Problem No 19:

An entity gives warranties at the time of sale to purchasers of its products .On 31 st March 2023 an entity assessed its warranty obligation as 700,000.Immediately before 28 May 2023,annual financialstatements were approved for issue ,the entity discovered a latent defect in one of its line of product (i.e the defect that was not discoverable or customary inspection).As a result of discovery ,the entity reassessed its estimate of its warranty obligation at 31 st March 2023 at 750,000.Comment on the above issue in the light of Ind AS 10.

Problem No 20:

A major fire has damaged the assets in factory of a limited company on 2 nd April two days after the year-end closure of account. The lossis estimated at 140 crores out of which 132 crores will be recoverable from the insurers .Explain briefly how the loss should be treated in the final account for the previous year.

Problem No 21:

Z Ltd Company entered into an agreement to sell its immovable property included in the Balance sheet at 81 lakhs to another company for 130 lakhs .The agreement to sell was concluded on 31/01/2022 and the sale deed was registered on 31/04/2023.How this will be treated in Balances heet as on 31/03/2013.

Problem No 22:

On 1 st June, 2023 an entity's financialstatements for the year ended 31 st March, 2023 were authorized for issue. On 28 th May ,2023 the entity declared a final dividend of 900,000 in respect of profits earned in the year ended 31 st March 2023.Explain the accounting treatment of this particular event in the books of accounts.

Problem No 23:

Board of Directors approved the financial account of year 2022-23 on 31 st July 2023.The following events occurred before the approval of financial accounts by Board of directors. State how you would deal with these situations. The Board of directors at their meeting on June 23, 2023 has recommended a dividend of 15% to be paid to the shareholders after it is approved at the annual general meeting.

Problem No 24:

On 15 June, 2023 an entity's financial statements for the year ended 31 March, 2023 were authorized for issue. On 29 May, 2023 the entity declared a final dividend of 800,000 in respect of profits earned in the year ended 31 March 2023.Explain the accounting treatment of this particular event in the books of accounts.

Problem No 25:

X Ltd carries its inventory at the lower of cost and net realizable value. At 31 st December ,2022 the cost of inventory determined under FIFO method ,as reported in its financial statements for the year then ended ,was 40,000.Due to recession in the market ,the inventory could not be sold during the entire month of January 2023.The company entered into an agreement to sell the entire inventory for 27,000.The financial statements were approved for issue on 15 th feb 2023. State whether this is an adjusting event or non – adjusting event?

EMPLOYEE BENEFITS (Ind AS 19)

1) Employee Benefits

a. It refers to all forms of consideration.

b. given by an enterprise.

c. directly to the employee or their spouses, children or other dependents, to other such as trust, insurance companies.

d. in exchange of service rendered by employee.

2) Scope: Employee benefits excludes Employee share-based payments.

3) Accounting for Short term Employee benefits

a. Expense: Short term employee benefits include wages, salaries etc. should be recognize as an expense in the profit and loss account.

b. Liability: If benefits exceed the amount actually paid -recognize as a liability Outstanding wages or salaries.

c. Asset: If benefits are less than the amount actually paid- recognize as an asset Prepaid expenses.

4) Short Term paid absences:

a. Meaning: An entity may pay employees for absence for various reasons including holidays, sickness and short-term disability, maternity or paternity, jury service and military service.

b. Types: It can be classifiable into the following two types-

i. Accumulating- Unused paid absences can be carried forward for next period and may be eligible for cash payment on leaving or not.

ii. Non-accumulating- Unused absences cannot be carried forward for next period.

c. Recognition: An entity shall recognize the expected cost of short-term employee benefits in the form of paid absences as follows.

i. For Accumulating paid absences when the employees render service

ii. For non-accumulating paid absences when the absences occur

5) Profit Sharing and Bonus Plan

a. With a view to retain the employees for reasonable period of time, the entities may offer profit sharing plans or bonus payments to their employees.

b. Under profit sharing plans employees will get a share in entity's profit only it they remain with the entity for certain number of years. As employee service period increases the liability for the entity will increase.

c. Entity should recognize expected cost on account of profit sharing plans and bonus payment subject to the fulfilment of the following conditions:

i. Entity has a present obligation to make payments as a result of past events and

ii. The possible obligation can be estimated with reliable degree of assurance.

6) Post-employment Benefits:

a. Types: Post-employment benefit plans based on economic substance derived from its terms and conditions can be classifiable into the following two types:

i. Defined contribution plans

ii. Defined benefit plans

b. Defined Contribution Plans:

i. Post-employment benefit plans under which an enterprise pays fixed contribution into separate entity or a fund. The entity will have no further obligation to pay. It includes the following

ii. Multi-employer plans: It pool the assets contributed by various entities that are not under common control.

iii. State plans: State plans are established by legislation to cover all entities or entities of a specific industry and are operated by national or local Government.

iv. Insured benefits:

Under this an employer takes insurance policy from an insurance company for meeting its obligation under post employment benefits.

The employer has no obligation to pay benefits to the employee

The insurer has sole responsibility for paying the post employment benefits.

v. Accounting Treatment: Recognize contribution under defined contribution plans **as an expense.**

c. Defined Benefit Plans:

i. Post-employment benefit plans other than defined contribution are classified as defined benefit plans.

ii. Defined benefit plans are retirement benefits plan like gratuity, pension plan that defines an **amount of benefits to be provided** usually as a function of one or more factors such as age, year of service or compensation / salary.

iii. Accounting:

Determining the deficit or surplus

a. Make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned.

b. Calculate the Present value of the defined benefit obligation and the current service cost.

c. Calculate Fair value of plan assets.

d. Deficit = Present value of defined benefit obligation - fair value of plan assets.

e. Surplus = Fair value of plan assets Present value of defined benefit obligation.

Determine net defined benefit liability

Determining amounts to be recognized in profit or loss

Determining the remeasurements of the net defined benefit liabilities to be recognized in other comprehensive income.

d. Voluntary Retirement scheme payments:

i. Termination benefits do not include retirement benefits to be paid irrespective of the voluntary retirement. i.e. balance PF, Leave encashment and gratuity etc.

ii. Termination benefits which are payable on account of VRS i.e. monetary payment on the basis of years of completed service or for the balance period of service whichever is less and notice pay.

iii. If the termination benefits are expected to be settled wholly before twelve months- the entity shall apply the requirements for short-term employee benefits.

iv. If the termination benefits are not expected to be settled wholly before twelve months - the entity shall apply the requirements for other long term employee benefits.

7) Disclosures:

a) Method of accounting for understanding the significance of such costs to an employer.

b) Statutory compliance.

c) Whether actuarial valuation at the end of the accounting period or earlier.

Disclosure: The deficit of 8,80,000 should be treated as Net Defined Benefit Liability under Non-current Liabilities as Provisions in the Balance Sheet.

PROBLEMS:

Problem No 01:

Balu ltd has 1,000 employees. Each employee is entitled to 10 days sick leave each year. Unused s1ck leave is carried forward for one year. An employee avails the carried forward leave only if the current year's entitlement falls short of the leave he or she requires. On December 31,2021, the average unused sick leave is 2 days per employee. Ine management, based on experience, estimates that in the year 2022, only 10% of the employees will use one day from their carried forward leave and the rest of the employees will not require more than 10 days of leave. Average payment per employee per day 15 ₹ 1000

How will you treat this?

Problem No 02:

Mr. Anuridh is an employee of X Ltd. His annual salary is 15,00,000. The company follows a 300 working days policy. As per the policy of the company, Mr. X is entitled to a leave of 20 days for 2020-21, He, however, utilizes 12 days leave. The unutilized leaves are not allowed to be carried forward but are settled by way of payment to the employee. Compute the total employee benefit expenses of X Ltd. in respect of Mr. Anuridh?

Problem No 03:

On 1/4/2022 Das Ltd announced a profit-sharing plan to its 1,000 employees with a right to share to the extent of 5% profits for the year 2022-23, if all employees works with the Company till 31/3/2022. Das Ltd estimates that 200 employees may leave during 2021-22 and therefore they are not entitled for profit sharing. Advise the company

Problem No 04:

The information provided by B Ltd for the year ended 31/3/2022 and request you determine the liability and expense to be recognized as per Ind AS 19.

No of employees (Same as Last year)	150
Employees' turnover rate	6%
Bonus paid to each employee last year	₹ 1,00,000
Increase in bonus rate due to inflation as per regular practice of B Ltd	10 %

Problem No 05:

ZERO Bank has followed the policies for retirement benefits as under:

i. Contribution to pension fund is made based on actuarial valuation at the year end. In respect of employees who have opted for pension scheme.

ii. Contribution to the gratuity fund is made based on actuarial valuation at the year end.

iii. Leave encashment is accounted for on "PAY-AS-YOU-GO" method.

Comment whether the policy is in accordance with AS-15.

Problem No 06:

The following data apply to a company's defined benefit pension plan for the year:

Particulars	Amount (₹)
Fair market value of plan assets (beginning of year)	4,00,000
Fair market value of plan assets (end of year)	5,70,000
Employer Contribution	1,40,000
Benefit Paid	1,00,000

Calculate the actual return on plan assets

Problem No 07:

As on 1st April, 2021 the fair value of plan assets was ₹ 1,00,000 in respect of a pension plan of X Ltd. On 30th September, 2021 the plan paid out benefits of ₹ 20,000 an received inward contributions of ₹ 50,000. On 31st March, 2022 the fair value of plan assets was ₹ 1,50,000 and present value of the defined benefit obligation was ₹ 1,48,000. Actuarial losses on the obligations for the year 2021-22 were ₹ 1,000. On 1st April 2021 the company made the following estimates, based on its market studies, understanding and prevailing prices:

Particulars	%
Interest and dividend income, after tax payable by the fund	9.5%
Realized and unrealized gains on plan assets (after tax)	2%
Fund administrative costs	(1.25%)
Expected rate of return	10.25%

You are required to find the expected and actual returns on plan assets for the year 2021-22

Problem No 08:

Consider the following information provided by Yammy Ltd for the year ended 31/3 /2022.

PV of defined contribution obligations 150 lakh.
fair value of plan assets ₹ 141.20 lakh
How will you treat the above for presentation in the Balance Sheet?

Problem No 09:

Zebra Ltd Provided the following information relating to Defined contribution Plan for the year ended 31/3/2022.
PV of defined contribution obligations ₹ 15 lakh.
Fair value of plan assets ₹ 15.22 lakh
Asset ceiling ₹ 0.19 lakh
How will you treat the above for presentation in the Balance Sheet?

Problem No 10:

Mr. X is an employee of ABC Ltd. His annual salary is `15 lakh. The company follows a 300 working days policy. As per the policy of the company, Mr. X is entitled to a leave of 10 days for 2022-23. He, however, utilises 8 days leave. The unutilised leaves are not allowed to be carried forward but are settled by way of payment to the employee. Compute the total employee benefit expenses of ABC Ltd. in respect of Mr. X

Problem No 11:

A profit-sharing plan requires an entity to pay a specified proportion of its net profitfor the year to employees who serve throughout the year. If no employee leaves during the year, the total profit-sharing payments for the year will be 5% of net profit. The entity estimates that some of the staff may leave during the year and therefore not entitled for profit sharing this will reduce the payment of profit-sharing plan from 5% to 4% of net profit.Advise the company.

Problem No 12:

Consider the following information: No. of employees (same as the previous year) = 150 Employees' turnover rate = 6% Bonus paid to each employee last year = `1,00,000 Increase in bonus rate due to inflation = 7% (as per company's regular practice) Determine the liability and expense to be recognised

Problem No 13:

The following information applies to a company's defined benefit pension plan for the year: FMV of plan assets (beginning of the year) `2,00,000 FMV of plan assets (end of the year) `2,85,000 Employer's contribution ` 70,000 Benefit paid ` 50,000 Calculate the actual return on plan assets.

Problem No 14:

Consider the following information provided by Y Ltd: PV of defined contribution obligations `15 lakh. Fair value of plan assets `14.12 lakh How will you treat the above for presentation in the Balance Sheet?

Problem No 15:

Consider the following information provided by Z Ltd: PV of defined contribution obligations `15 lakh. Fair value of plan assets `15.22 lakh Asset ceiling `0.19 lakh How will you treat the above for presentation in the Balance Sheet?

Earnings Per Share (Ind AS 33)

1) objective: The objective is to prescribe

a. principles for the determination and presentation of earnings per share

b. To improve performance comparisons

i. between different entities in the same reporting period and

ii. between different reporting periods for the same entity

2) Scope:

a. It is applicable to companies which issued ordinary shares, for whom Indian Accounting Standards applicable.

b. An entity presents both consolidated financial statements (Ind AS 110) and separate financial statements (Ind AS 27), in the both the sets of financial statements should disclose EPS calculated as per this standard.

3) Types of EPS:

a. An entity is required to disclose on the face of the profit and loss statements the following two types of EPS.

i. Basic EPS.

ii. Diluted EPS.

4) Basic Earnings Per Share

a. It is a financial ratio which provides the information regarding earnings available to each equity share.

b. Basic EPS = $\frac{\textit{Net Profit attributable to equity shareholders}}{\textit{Weighted Average Number of Equity shares outstanding during the period}}$

c. Net Profit attributable to ESH = PAT - Preference dividend.

d. Weighted average number of shares should be calculated by considering different face value or different paid up values or time as a base.

5) Diluted earnings per share:

Diluted earnings per share is calculated when there are potential equity shares in the capital structure of the enterprise.

b. Potential equity shares are those financial instruments which entitles its holders the right to acquire equity shares. For E.g.: convertible debentures, convertible preference shares, options and share warrants etc.

c. Diluted earnings per share =

$$\frac{Net\ Profit\ attributable\ to\ Equity\ Shareholders + Potentional\ savings\ on\ conversion\ of\ potential\ EsH}{Weighted\ Average\ Number\ of\ equity\ shares\ outstanding}$$

d. If conversation into shares reduces the earnings per shares then those should be considered as dilutive potential equity shares, else they should be considered as non-dilutive potential equity shares.

e. If the number of equity shares or potential equity shares outstanding is increased then the previous period earnings per shares should be re-stated assuming that such increase took place at the beginning of the previous period in case of bonus issue, shares split, consolidation etc.

6) Rights issue:

a. Right issue is made at a price which is lower than its fair value, therefore right issue includes a bonus element.

b. Number of shares which are used for calculating the EPS should be adjusted for right factor for capturing such bonus component.

c. Right factor = $\frac{fair\ value\ per\ share\ befotr\ rights\ issue}{Theoretical\ Ex-right\ issue\ price\ per\ share}$

d. Theoretical ex-right fair value per share = $\frac{lx\ MV1) + (N2\ x\ MV2)}{N1 + N2}$

Where N1 = Number of shares outstanding before rights issue
MV1 Market Value per share before rights issue
N2 Number of rights share issued
MV2 = Issue price per right share.

e. Value of right = Fair value per share before rights issue - Theoretical exright issue price per shares.

7) Options and Warrants:

a. Entity should assume exercise of such options and warrants.

b. Calculate the amount received from option on exercise.

c. Calculate the number of shares to be issued at fair value for receiving such amount.

d. Bonus Shares = No of shares issued under option - No of shares issuable at fair value for received the consideration.

8) Restatement: If number of shares outstanding is increased as a result of bonus issue, share split, consolidation of shares, then basic and diluted EPS of previous reporting period should be adjusted.

9) Disclosure requirements:

a. The amount of used as a numerator for calculating basic and diluted earnings per share and its reconciliation with the net profit or loss for the period.

b. Nominal value of shares along with earnings per share.

c. Basic earing per share computed on the basis of earnings excluding extra ordinary items.

d. Diluted earnings per share calculated on the basis of earnings excluding extraordinary items.

PROBLEMS

Problem No 01:

The following information has been provided by Anu Ltd.

Paid up capital: 1,00,000 ordinary shares of ₹ 1.00 = ₹ 1,00,000

20,000, 10% Preference shares of ₹ 1.00 = ₹ 20,000

Gross Profit for the year ended on 31.03.2022 = ₹ 3,50,000

Other operating expenses ₹ 1,00,000

Tax rate 30%

Determine profit or loss attributable to ordinary equity holders.

Problem No 02:

ABC Ltd. had reported a net profit of ₹ 60,00,000 for the year ended 31st March, 2022 on which date the company is having 20,00,000 equity shares of ₹ 10 each outstanding. The average fair value of one equity share during the year 2021-22 is ₹ 25.

The details of exercisable option are given below:

Weighted average number of shares under stock option scheme during the year 2021-22 = 4,00,000.

Exercise price for shares under stock option during the year ended 31 March, 2022 = 20.

Calculate.

i. Basic EPS and

ii. Diluted EPS.

Problem No 03:

Calculate the diluted earnings per share from the following information:

Net Profit for the Current year (after Tax)	₹ 86,50,000
No. of Equity Share Outstanding	25,00,000
No. of 10% convertible debentures of ₹ 100 each. Each debenture is convertible into 10 equity shares.	1,00,000
Interest expenses for the current year	₹ 5,00,000
Tax relating to interest expenses	30%

Problem No 04:

From the following information relating to Yellow Ltd. Calculate Earnings per share.

Particulars	Amount (₹ in Lakhs)
Profit before Voluntary retirement payments but after depreciation	75.00
Depreciation	10.00
VRS Payments	10.00
Provision for taxation	32.10
Fringe benefit tax	5.00
Paid up share capital (Shares of ₹ 10 each fully paid)	93.00

Problem No 05:

The following information is provided by D Ltd for the year ended 31/3/2022.

Particulars	Amount (₹ in Lakhs)
Net profit for the year	200
Number of equity shares outstanding	40
Basic Earnings per share	5.00
Number of 11% Convertible debentures of 100 each = 50,000	
Each debenture is convertible into 8 equity shares	
Interest expense for the current year	5.5
Tax saving relating to interest expense (30%)	1.65

You are required to calculate Diluted Earning per share.

Problem No 06:

The following information is provided by A Ltd for the year ended 31/3/2022. You are required to compute basic earnings per share.

Date	Particulars	No of Shares
1st April 2021	Balance at the beginning of the year	1,500
1st Aug 2021	Issue of shares for cash	600
31st Mar 2022	Buy back of shares	500

Net profit for the year ended 31st March 2022 was ₹ 2,75,000.

Problem No 07:

The following information is available for R Ltd for the accounting year 2020-21 and 2021-22

Net Profit for 2020-21 = ₹ 25,00,000

Net Profit for 2021-22 = ₹ 40,00,000

No of shares outstanding prior to rights issue 12,00,000 shares.

Right issue: One new share for each three outstanding i.e. 4,00,000 shares.

Right issue price ₹ 22

Last date for exercise rights 30/6/2021.

Fair rate of one equity shares immediately prior to exercise of rights on 30/6/2021 28.

You are required to compute the basic earnings per share for the year 2020-21 and 2021- 22.

Problem No 08:

Net profit available for equity shares = ₹5,00,000. Equity share capital = 1,00,000 shares of ₹10 each.

12% preference share capital of ₹10 each = ₹8,00,000.
Each preference share is convertible into 2 equity shares of ₹10 each. Calculate Basic EPS and diluted EPS

Problem No 09:

Net profit available for equity shares = ₹5,00,000. Equity share capital = 1,00,000 shares of ₹10 each.
16% Debentures of ₹100 each = ₹10,00,000.
Each 16% debenture is convertible into 2 equity shares of ₹10 each. Tax rate = 30%
Calculate Basic EPS and diluted EPS

Problem No 10:

The following information has been provided by A Ltd. Paid up capital: 100000 ordinary shares of ` 1.00 = ` 1,00,000 20000, 10% Preference shares of ` 1.00 = `20,000 Gross Profit for the year ended on 31.03.2023 = `3,50,000 Other operating expenses = `1,00,000 Tax rate 30%

Problem No 11:

D Ltd. had outstanding ordinary shares of 10,00,000on 01.04.2022. Profit for the year is `20,00,000. D Ltd. had 12% 20,000 convertible debentures outstanding of `100 each to be converted into 10 ordinary shares. Tax rate is 30%. Calculate (i) Basic EPS (ii) Diluted EPS

Problem No 12:

Consider the following information given by F Ltd. Net Profit for the year ended on 31.03.2023 = ` 86,50,000 Paid-up capital: 25,00,000 ordinary shares of `10 each 100000, 10% Debentures of `100 each were issued on 31.09.2022. Tax rate 30% Conversion rate: 10 ordinary shares for each debenture. Calculate Diluted EPS

Problem No 13:

E Ltd. had 10,00,000 ordinary shares outstanding on 01.04.2022. Profit for 2022-23 was `24,00,000. Average fair value per share during 2022-23 was ` 20. E Ltd. has given share option to its employees of 2,00,000 shares at option price of `15. Calculate basic EPS and diluted EPS.

Problem No 14:

X Ltd. has 320 written put options outstanding on 320 of its ordinary shares, with an exercise price of ` 10 per option. The put obligation is therefore `3,200.The average market price of the entity's ordinary shares is `8 for the period. The company expects to issue 400 ordinary shares at ` 8 per share to raise the proceeds necessary to satisfy the put option. How will you treat the above?

Problem No 15:

Y Ltd. supplied the following information: Net Profit for 2021-22 = `10,00,000 Net Profit for 2022-23 = `15,00,00 No. of shares prior to right issue = 5,00,000 Terms of right issue: 1 new share for every 4 shares held; right issue price = `20 Fair value of 1 ordinary share immediately prior to exercise of right = `25 Calculate basic EPS.

Problem No 16:

C Ltd. had 10,00,000 ordinary shares outstanding as on 01.04.2022. On 01.01.2023 it issued 2 ordinary shores bonus for each shore outstanding on 31.12.2022, Profit for the year 2021-22 was `9,00,000. Profit for 2022-23 was `30,00,000. Calculate Basic EPS the year 2022-23 and adjusted EPS for the year 2021-22

Problem No 17:

PKL Limited had an after tax profit of 40,00,000 for the year.80,000 of this was earned from the once off sale of machinery. In the period it paid dividends to the ordinary shareholders ` 100,000 and 600,000 to preference shareholders. It had 100,000 ordinary shares in issue for the entire period. Calculate the basic earnings per share for PKL Ltd in the period

Problem No 18:

PKL Ltd reported net earnings of 7000,000 for the financial year ending 2022-2023.The company had 350,000 shares of ` 10 par value common stock and 100,000 shares of ` 80 par value convertible preference shares outstanding in the year. The dividend rate on the preference shares was ` 5 per share. Each share of the convertible preference shares can be converted into two shares of Akash Ltd class A Common shares. In the year no convertible preference shares were converted .What were Akash LTD's Basic EPS?

Problem No 19:

On 01/01/2018BHN Corp. has 3800 ordinary shares outstanding. On 31/05/2019 it issued 600 ordinary shares for cash (without Bonus claim). On 01/11/2019 it bought back 300 ordinary shares .Calculate weighted average number of shares as on 31/12/2019.

Problem No 20:

H L td has 2000 million ` 20 shares in issue .It also has 3 million ` 200 convertible bonds. The bonds have an interest rate of 8%.The tax rate is 25%.Each bond will be convertible into 10 shares. Earnings for the period were ` 7000 million .Calculate (a) basic EPS, and (b) diluted EPS

Provisions, Contingent Liabilities and Contingent Assets (Ind AS 37)

1) Objective: is to prescribe accounting treatment for Provisions, contingent liabilities, contingent assets and provision for restructuring cost.

2) Scope: This standard should be applied in accounting for provisions, contingent liabilities and contingent assets except for those covered under Ind AS 115, Ind AS 12, Ind AS 17, Ind AS 19, Ind AS 39, Ind AS 103 and Ind AS 104.

3) Provision:

a. Meaning: Provisions are liabilities of uncertain timing and amount.

b. Characteristics:

i. Provision is a liability

ii. A liability is present obligation

iii. Settlement of a liability result in an outflow from entity resources.

iv. A liability is result of obligating event and

v. There is not realistic alternative settlement of that obligating event.

c. Provisions for onerous contracts:

i. Onerous contract is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be recovered under it.

ii. Present obligation under this contract should be measured and recognized as provision.

d. Recognition: Provision should be recognized if the following conditions are satisfied.

i. An entity has a present obligation (legal or constructive) as a result of a past event

ii. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

iii. A reliable estimate can be made of the amount of the obligation.

e. Changes in Provisions:

i. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

ii. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

iii. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as borrowing cost.

f. Use of Provision: A provision shall be used only for expenditures for which the provision was originally recognized.

g. Accounting:

i. Provision should be debited to statement of profit and loss account.

ii. Outstanding provision should be shown as liability in the balance sheet.

4) Contingent Liabilities:

a. Meaning: It is a possible obligation that arises from past event and existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

b. Conditions: A contingent liability should satisfy the following conditions:

i. Possible obligation as a result of past events

ii. Existence of which will be confirmed only by the occurrence or non- occurrence of future event.

iii. Future event not wholly within the control of the entity.

c. Disclosure:

i. An entity should not recognize a contingent liability. ii. An entity is required to disclose it in the financial statements.

ii. Amount of a contingent liability should be based on best estimate.

5) Contingent Assets:

a. Meaning: It is a possible asset that arises from past events the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

b. Conditions: The following conditions must be satisfy to consider as contingent asset.

i. Possible asset as a result of past events.

ii. Existence of contingent assets is to be confirmed by occurrence and non-occurrence of one or more future events.

iii. Future event not wholly within the control of the entity.

c. Disclosure:

i. An entity shall not recognize a contingent asset.

ii. An entity shall disclose contingent asset in the financial statements.

iii. The amount of contingent asset should be based on best estimate.

6) Disclosures:

a. For Provisions: For each class of provision, an entity shall disclose.

i. Carrying amounts

ii. Additional provisions made in the period

ii. Amounts used during the period
iv. Unused amounts reversed during the period
v. Brief description of the nature of the obligation and the expected timing.
vi. An indication of the uncertainties about the amount or timing of those outflows.

b. Contingent Liability:
i. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period
1. A brief description of the nature of the contingent liability and
2. Where practicable:
a. An estimate of its financial effect
b. An indication of the uncertainties relating to the amount or timing of any outflow and
c. The possibility of any reimbursement.

c. Contingent Asset: Where an inflow of economic benefits is probable, an entity shall disclose
i. A brief description of the nature of the contingent assets at the end of the reporting period and
ii. Where practicable an estimate of their financial effect measured using the principles set out.

PROBLEMS

Problem No 01:

An entity Sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of ₹ 10,00,000 would result. If major defects were detected in all products sold, repair costs of ₹ 40,00,000 would result. The entity's past experience and future expectations indicate that, tor the coming year 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major detects. Calculate the amount to be provided.

Problem No 02:

An entity has an obligation to restore an asset for the damage it has in the past. It has ₹ 20 lakh cash to pay on 31.03.2024 relating to this liability. The entity considers that 15% is an appropriate discount rate. the time value of money is considered material.
Calculate the amount to be provided as on 31/3/2022.

Problem No 04:

At the end of financial year 2021-22, Padma Ltd finds that there is a law suit outstanding. The possible outcome as estimated by the Board of Directors is as follows:

Particulars	Probability	Loss
Win	60%	0
Lose (Low Damage)	30%	₹ 2,00,000
Lose (High Damage)	10%	₹ 4,00,000

Problem No 05:

At the end of the financial year ending on 31st March 2022, CC Ltd finds that there are twenty law suits outstanding which have not been settled till the date of approval of accounts by the board of directors. The possible out come as estimated by the board is as follows:

Particulars	Probability	Loss
In respect of five cases (win)	100%	0
Next 10 cases		
Win	60%	0
Lose with low damage	30%	₹ 1,20,000
Lose with high damage	10%	₹ 2,00,000
Remaining five cases:		
Win	50%	0
Lose (Low Damage)	30%	₹ 1,00,000
Lose (High Damage)	20%	₹ 2,10,000

Outcome of each case is to be taken as a separate entity. Ascertain the amount of contingent loss and accounting treatment in respect thereof.

Problem No 06:

An engineering goods company provides after sales warranty for 2 years to its customers Based on past experience, the company has the following policy for making provision for warranties on the invoice amount on the remaining balance warranty period:

Less than 1 year - 2% provision

More than 1 year -3% Provision

The company has raised invoices as under:

Invoice date	Amount
19th Jan 2020	40,000
29th Jan 2021	25,000
15th Oct 2021	90,000

Calculate the provision to be made for warranty under Ind AS as on 31st March 2022. Also compute amount to be debited to profit and loss account for the year ended 31st March 2022

Problem No 07:

An entity has an obligation to restore an asset for the damage it has in the past. It has `20 lakh cash to pay on 31.03.2022 relating to this liability. The entity considers that 15% is an appropriate discount rate. the time value of money is considered material. Calculate the amount to be provided.

Problem No 08:

X Ltd. has become subject to an obligating event on 01.04.2021 for which the company is committed to expenditure of `5,00,000 at the end of 10 years. An appropriate discount rate is 10%. Show how the same is to be treated by X Ltd. (Show treatment up to 31.03.2023)

Problem No 09:

KSG Ltd will have a liability for environmental damage, from a Bihar High court case that is still in progress at the balance sheet date. Nobody knows how much it will have to pay. Z Insurance Company offersto settle its case for 30 million. Calculate the amount of provision.

Problem No 10:

There is a GST demand of ` 4.50 crores against the company relating to prior years against which the company has gone on appeal to the appellate authority in the department .The ground of appeal deals with points covering ` 4 crores of the demand. State how the matter will have to be dealt with in the financial account for the year.

Problem No 11:

Board of directors approved the financial account of year 2021-2022 on 31 st July, 2022. The following events occurred before the approval of financial accounts by Board of Directors. State how you would deal with the situation. The wages of the employees are revised retrospectively from Jan 1, 2022.The agreement is signed on July 1, 2022. The negotiations have been going on since Feb1, 2022.Due to this revision extra wages payable from Jan 1, 2022 to March 31, 2022was 777,000.

Problem No 12:

Waste from an XYZ Ltd Co's production process contaminated the groundwater at the Co's plant. In a lawsuit brought against the company, members of the local company seek compensation for damages to their health as a result of the contamination. The Company acknowledges its wrong doing and the court is deciding on the extent of the compensation to be awarded to the members of the local community. It is uncertain when the ruling will take place but the company's lawyers expect it will take place in about two years and they estimate that the compensation awarded by the court will be in the range of ` 15.25 crores to 30.356 crores. How will you treat the above case? And why?

Problem No 13:

K industries Ltd has filed the damages case of ` 2.896 crores against YJN Ltd for not supplying the quantity and quality of raw-material as per order, chances of winning of the case by the K industries Ltd is possible. State whether there is a contingent asset

Problem No 14:

KSD Ltd entered into a contract to supply 3000 Radio sets for 2.3687 Million. An increase in the cost of inputs has resulted into an increase in the cost of sales to 3 Million .The penalty for non-performance of the contract is expected to be ` 0.56 Million. Is the contract onerous and how much provision in this regard is required?

Problem No 15:

Raju Electronics Ltd manufactures and sellsthe TV Sets under the terms of the contract ofsale. The manufacturer undertakes to make good by repairs or replacement, manufacturing defect that become apparent within three years from the date of the sale. By experience it is probable that there will be some claims under the warranties .State whether provision for warranties is required or not.

Problem No 16:

XYZ Industries Ltd has filed the damages case of ` 8 crores against Y Ltd for not supplying the quantity and quality of goods as per order, chances of winning of the case by the XYZ Industries Ltd is probable. Whether there is a contingent asset.

Problem No 17:

A company has a lease on a property at a rental of ` 80,00,000 per year. There are 10 years remaining on the lease. The market rent is 7,00,000 per year. The company no longer occupies the property and it is not used in the business. A Sub lease on the property has been arranged at a rent of ` 700000 per year for the remaining 10 years on the lease .Determine the provision that is required to be provided.

Problem No 18:

A super market has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known. What are your views on the recognition of provision?

Problem No 19:

There is a GST demand of ` 19.50 crores against the company relating to prior years against which the company has gone on appeal to the appellate authority in the department. The ground of appeal deals with points covering ` 19 crores of the demand. State how the matter will have to be dealt with in the financial account for the year.

Problem No 20:

Board of Directors approved the financial account of year 2022-23 on 31 st July, 2023. The following events occurred before the approval of financial accounts by Board of Directors .State how you would deal with this situation : The wages of the employees are revised retrospectively from Jan,1, 2023. The agreement is signed on July 1, 2020. The negotiations have been going on since Feb 1, 2023. Due to this revision extra wages payable from Jan1, 2023 to March 31, 2023 was 900,000.

MCQ

1) The objective of Ind AS I Presentation of Financial Statements is to:

A. Provide basis for presentation of general-purpose financial statements

B. Sets out overall requirements for the presentation of financial statements.

C. Sets out guidelines for financial statements structure

D. All of the above

2) An entity shall apply Ind AS 1 in:

A. preparing and presenting general purpose financial statements in accordance with Indian Accounting Standards (Ind ASs).

B. preparing and presenting financial statements in accordance with Indian Accounting Standards (Ind ASs).

C. preparing and presenting financial statements in accordance with Accounting Standards.

D. preparing and presenting general purpose financial statements in accordance with Accounting Standards.

3) Ind AS 1 "Presentation of financial statements" applies to

A. Consolidated financial statements in accordance with Ind AS 110, Consolidated Financial Statements,

B. Separate financial statements in accordance with Ind AS 27, Separate Financial Statements.

C. Both of the above

D. Only (A)

4) Ind AS 2, Inventories, does not apply to

A. Financial Instruments

B. Biological Assets

C. Both the above

D. (A) but not (B)

5) Cost of inventories does not include

A. Costs of purchase,

B. Costs of conversion

C. Other costs incurred in bringing the inventories to their present location and condition

D. Finance cost

6) Which of the following costs are not excluded from cost of

A. Selling cost inventory?

B. Administrative cost

C. Abnormal loss

D. Carriage and freight inward

7) Which of the following is an employee benefit?

A. Short term employee benefits

B. Long term employee benefits

C. Termination benefits

D. All of the above

8) which of the following is not a part of other long-term benefits

A. long-term disability benefits

B. Retirement benefits

C. Profit-sharing and bonuses

D. Deferred remuneration

9) Short term employee benefits include-

A. Wages

B. Salaries

C. Employer's contribution to P.F

D. All of the above

10) Which of the following is a defined contribution plan?

A. Multi-employer plan

B. State plan

C. Insured benefits

D. All of the above

11) The expected sales value of stock is 20 lakhs and a commission at 10% on sale is payable to the agent. Calculate NRV.

A. 12 lakh

B. 14 lakh

C. 16 lakh

D. 18 lakh

12) 01.04.2020 B Ltd. has 1200 ordinary shares outstanding. On 31.08.2021 it issued 400 ordinary shares for cash. On 31.01.21 it bought back 200 ordinary Calculate weighted average number of shares as on 31.03.21.

A. 1300

B. 1400

C. 1500

D. 1600

13) Fair value before right issue R 20. Theoretical ex-right fair value R 18. Calculate right factor.

A. 1.2

B. 1.15

C. 1.11

D. 1.10

14) Salary payable per day R 1000; Working days 300; leave unutilized during the year 3 days; unutilized leaves are not allowed to carried forward but are settled through payment. What is the expense to be recognized as per Ind AS 19?

A. ₹ 3,00,000

B. ₹ 3,30,000

C. ₹ 3,03,000

D. ₹ 3,000

15) Ordinary shares are 1,00,000 of T 1.00;10% Preference shares are 200000 of ₹ I00 PAT ₹ 10,00,000. Calculate basic EPS.

A. ₹ 9.80

B. ₹ 9.60

C. ₹ 9.40

D. ₹ 9.20

ANSWERS

1. d	2. a	3. c	4. c	5. d	6. d	7. d	8. b	9. d	10. d
11. d	12. b	13. c	14. c	15. a					

TRUE OR FALSE

state whether the following statements are true or false:

1) Abnormal amounts of wasted materials, labor or other production costs are not part of the cost of inventories.
2) Financial statement should normally be prepared assuming going concern.
3) Provisions shall be recognized for future operating losses.
4) Purchased options are dilutive.
5) Under defined contribution plans, the entity's obligation is limited to the amount that it agrees to contribute to the fund.

ANSWERS

1. True	2. True	3. False	4. False	5. True

FILL IN THE BLANKS

1) In case of a company, events after the reporting period are event that occur between the end of the reporting period and ……………………

2) Voluntary retirement scheme is a type of ………… benefits.

3) ………………… earnings per share are calculated when there are potential ordinary shares in capital structure of the entity.

4) An entity shall ………………… the amounts recognized in its financial statements to reflect non-adjusting events after the reporting period.

5) Contingent liabilities do not have any …………………… obligation.

ANSWERS

1. date of approval of the financial statements	2. termination	3. Diluted
4. not adjust	5. present	